

Dated 9 December 2014

The Secretary of State for Transport

and

Inter City Railways Limited

and

East Coast Main Line Company Limited¹

FRANCHISE AGREEMENT – INTERCITY EAST COAST

**Relating to the services for the carriage of passengers by railway to be
provided by East Coast Main Line Company Limited**

¹ Pursuant to a deed of adherence dated 1 March 2015, ECML became a party to the Franchise Agreement

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THIS AGREEMENT is dated **9 December** 2014 **BETWEEN:**

- (1) **THE SECRETARY OF STATE FOR TRANSPORT**, whose principal address is at 33 Horseferry Road, London SW1P 4DR (the **Secretary of State**);
- (2) **INTER CITY RAILWAYS LIMITED** (Company Number 08753471), whose registered office is at Friars Bridge Court, 41-45 Blackfriars Road, London SE1 8NZ (the **Franchisee**); and
- (3) **EAST COAST MAIN LINE COMPANY LIMITED** whose registered number is **04659708** and registered office is at **4th Floor, Chancery Lane, London EC4A 1BL** (the **Franchise Operator**)².

WHEREAS

- (A) East Coast Main Line Company Limited (the **Franchise Operator**) currently provides railway passenger services pursuant to a Services Agreement between the Franchise Operator, Directly Operated Railways Limited and the Secretary of State. On the Start Date the Franchisee will acquire the shares in the Franchise Operator pursuant to the SPA entered into between Directly Operated Railways Limited and the Franchisee, and the Franchise Operator will enter into the Deed of Adherence with the Franchisee and the Secretary of State.
- (B) The Franchisee and the Secretary of State have agreed the terms on which the Franchisee will secure the provision of such services by the Franchise Operator.
- (C) The Secretary of State wishes to appoint a franchisee who will secure the provision of railway passenger services by a franchise operator within the Franchise and the Secretary of State expects each of the Franchisee and Franchise Operator, on the terms of the Franchise Agreement, actively to seek, in all reasonable business ways, greatly improved performance over the Franchise Term from its employees, its Train Fleet and other assets, and from Network Rail and its other suppliers, so as to deliver to the passenger the best railway passenger service that can be obtained from the resources that are available to it.
- (D) Each of the Franchisee and the Franchise Operator intends, on the terms of this Agreement, actively to seek, in all reasonable business ways, greatly improved performance over the Franchise Term from its employees, its Train Fleet and other assets, and from Network Rail and its other suppliers, so as to deliver to the passenger the best railway passenger service that can be obtained from the resources that are available to it.
- (E) The following provisions of this Agreement are intended to reflect and give effect to the matters referred to in Recitals (B), (C) and (D) inclusive.

² Pursuant to a deed of adherence dated 1 March 2015, ECML became a party to this Franchise Agreement

1 INTERPRETATION

1.1 In the Franchise Agreement, except to the extent the context otherwise requires:

- (a) words and expressions defined in Part I of the Act have the same meanings when used therein provided that, except to the extent expressly stated, **railway** shall not have the wider meaning attributed to it by Section 81(2) of the Act;
- (b) words and expressions defined in the Interpretation Act 1978 have the same meanings when used in the Franchise Agreement;
- (c) the words **include**, **including** and **in particular** are to be construed without limitation;
- (d) references to any person include its successors, transferees or assignees;
- (e) the words **subsidiary**, **subsidiary undertaking**, and **parent undertaking** each have the same meaning in the Franchise Agreement as in Section 1162 of the Companies Act 2006;
- (f) references to documents **in the agreed terms** are references to documents initialled by or on behalf of the Secretary of State and the Franchisee. As at the date of this Agreement the documents **in the agreed terms** are as follows:

- (i) **AF** Alliance Framework Agreement
- (ii) **ABD** Annual Benchmark Data;
- (iii) **ARCP** Access Rights Contingency Plan;
- (iv) **ARCPM** ARCP MOIRA Run;
- (v) **CFD** Commuter Fares Document;
- (vi) **CSES** Customer and Stakeholder Engagement Strategy;
- (vii) **DA** Deed of Adherence;
- (viii) **DL** Depot Lease;
- (ix) **DRA** Dispute Resolution Agreement accession letter;
- (x) **ERTMSP** Proposed ERTMS Implementation Plan;
- (xi) **FF** Financial Formats;

| | | |
|----------|---------------|---|
| (xii) | FM | Financial Model; |
| (xiii) | IAC | Innovation Account Charge; ³ |
| (xiv) | IEP IS | IEP Implementation Strategy; |
| (xv) | IS | Innovation Strategy; |
| (xvi) | ISDP | Initial Sustainable Development Plan; |
| (xvii) | MAC | Maintenance Account Charge; ⁴ |
| (xviii) | MOIRA | MOIRA; |
| (xix) | OM | Operational Model; |
| (xx) | PC | Passenger's Charter; |
| (xxi) | PSM | Passenger Survey Methodology; |
| (xxii) | PFD | Protected Fares Document ⁵ ; |
| (xxiii) | POA | Power of Attorney; |
| (xxiv) | ROA | Record of Assumptions; |
| (xxv) | RODA | Relevant Operator Direct Agreement; |
| (xxvi) | SAMP1 | Integrated Station Asset Management Policy; |
| (xxvii) | SAMP2 | Integrated Station Asset Management Plan; |
| (xxviii) | SCM | Station Condition Methodology; |
| (xxix) | SDS | Sustainable Development Strategy; |
| (xxx) | SL | Station Lease; |
| (xxxi) | TARA | Train Availability and Reliability Agreement; |
| (xxxii) | TP | Train Plan; |

³ Replaced by the version attached as Appendix 1 to the letter dated 27 February 2015

⁴ Replaced by the version attached as Appendix 2 to the letter dated 27 February 2015

⁵ Replaced by the version attached as Appendix 3 to the letter dated 27 February 2015

- (xxxiii) **TSR1.1** TSR1.1;
- (xxxiv) **TSR1.2** TSR1.2;
- (xxxv) **TSR2** TSR2;
- (xxxvi) **TSR2 MOIRA** Bid TSR2 MOIRA;
- (xxxvii) **TSR2T** Bid TSR2 Timetable; and
- (xxxviii) **VN** Variation Notice⁶;

- (g) references in any of the agreements comprising the Franchise Agreement to Recitals, clauses, Schedules, Parts, paragraphs and Appendices are to Recitals, clauses, Schedules, Parts of Schedules, paragraphs of Schedules and Appendices of Schedules of that agreement, unless expressly specified to the contrary, and the Schedules and Appendices form part of the agreement in which they appear;
- (h) references in any Schedule in any of the agreements comprising the Franchise Agreement to a Part, paragraph or Appendix are references to a Part, paragraph or Appendix of that Schedule (or the relevant Part of a Schedule), unless expressly specified to the contrary;
- (i) headings and references to headings shall be disregarded in construing the Franchise Agreement;
- (j) references to any enactment include any subordinate legislation made from time to time under such enactment and are to be construed as references to that enactment as for the time being amended or modified or to any enactment for the time being replacing or amending it and references to any subordinate legislation are to be construed as references to that legislation as for the time being amended or modified or to any legislation for the time being replacing or amending it;
- (k) references to an agreement or any other document shall be construed as referring to that agreement or document as from time to time supplemented, varied, replaced, amended, assigned or novated;
- (l) references to any particular provisions of any agreement or any other document shall be construed to include any other provisions of, or incorporated in, that agreement or other document which the Secretary of State reasonably considers have an equivalent effect or are intended to fulfil the same function;

⁶ Replaced by the version attached as Appendix 4 to the letter dated 27 February 2015

- (m) words importing the masculine gender include the feminine and vice-versa, and words in the singular include the plural and vice-versa;
- (n) wherever provision is made for the giving or issuing of any notice, endorsement, consent, approval, waiver, certificate or determination by any person, unless otherwise specified, such notice, endorsement, consent, approval, waiver, certificate or determination shall be in writing and the words “notify”, “endorse”, “consent”, “approve”, “waive”, “certify” or “determine” and other cognate expressions shall be construed accordingly;
- (o) references to materials, information, data and other records shall be to materials, information, data and other records whether stored in electronic, written or other form;
- (p) references to the Franchise Operator bidding for Train Slots or a Timetable shall mean the final action incumbent on the Franchise Operator under the Network Code to confirm to Network Rail its interests in the Train Slots to which that confirmation relates, and “bid” shall be construed accordingly;
- (q) references to the period of validity of any Fare are references to its period of validity excluding any rights of any purchaser thereof to extend such period under the Passenger’s Charter, any equivalent document, or the terms and conditions attaching to such Fare (including any applicable conditions of carriage) in the event of the cancellation or delay of any of the railway passenger services for which such Fare is valid;
- (r) references to stations at which any train calls include stations at which such train commences or terminates its journey;
- (s) references to “railway passenger services” are to be construed subject to Section 40 of the Railways Act 2005;
- (t) references to the provision of railway passenger services include the organisation of the relevant train movements and making the necessary arrangements with Network Rail or any other relevant Facility Owner;
- (u) references in lower case letters to terms defined in clause 2 shall be construed, where relevant, as being references to the terms defined as such in the franchise agreement or relevant agreement made under Section 30 of the Act or Section 6 of the Railways Act 2005 with any other Train Operator;
- (v) amendments to or variations of contracts or arrangements include assignments, novations or other transfers of rights and/or obligations (in whole or in part) under such contracts or arrangements;

- (w) references to sums of money being expended by the Franchise Operator shall be to such sums exclusive of Value Added Tax;
- (x) the words “shall not be liable” are to be construed as meaning that no contravention of the Franchise Agreement and no Event of Default shall arise as a result of the occurrence of the matter to which such words relate;
- (y) references to a **contravention of the Franchise Agreement** (and cognate expressions) are to be construed as meaning a breach of the Franchise Agreement;
- (z) wherever provision is made for the Franchisee and/or the Franchise Operator to **procure** or **ensure** the delivery of an obligation under the Franchise Agreement, unless otherwise specified, that provision shall be construed as a primary obligation on the Franchisee and/or the Franchise Operator to deliver that obligation; and
- (aa) the Secretary of State is acting as part of the Crown.

This Agreement and the Umbrella Deed together constitute a single agreement, which is a **franchise agreement** for the purposes of the Act.

2 DEFINITIONS

2.1 In the Franchise Agreement, except to the extent the context otherwise requires, the following words and expressions have the following meanings:

16 to 25 Railcard means a Discount Card issued under the discount fare scheme referred to in paragraph (a)(ii) of the definition of Discount Fare Scheme;

2010 Nominal Ticket Sales has the meaning given to it in paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values);

2010 Ticket Revenue has the meaning given to it in paragraph 4.1 of Schedule 5.4 (Regulation of Fares Basket Values);

Access Agreement has the meaning given to the term “access agreement” in Section 83(1) of the Act;

Access Rights Contingency Plan means the document in the agreed terms marked **ARCP**;

Account Balance means, at any time, the amounts standing to the credit of Innovation Account, including any interest accrued thereon;

Act means the Railways Act 1993 and any regulations or orders made thereunder;

Actual CaSL Performance Level means, in respect of a Performance Calculation Year, the moving annual average CaSL Figures most recently published by Network Rail for that Performance Calculation Year in relation to the Franchise Operator;

Actual Innovation Cost means, in respect of any Innovation Scheme, the total actual cost to the Franchise Operator of developing and implementing that Innovation Scheme calculated in accordance with paragraph 19.10 of Schedule 13 (Information and Industry Initiatives);

Actual Maintenance Expenditure means expenditure of the Franchise Operator actually and properly incurred on Stations for the purposes of achieving the Standard of Repair excluding for the avoidance of doubt expenditure relating to enhancements;

Actual Operating Costs means:

- (a) the Franchise Operator's total operating expenses for the period being reviewed as stated in its profit and loss account, including any of the following operating expenses that are payable during that period:
 - (i) amounts payable to the Secretary of State (other than amounts payable under clause 10.4 of the SPA and/or clause 2.1(c) of the Taxation Deed) and Network Rail, excluding any NR Received Amount;
 - (ii) taxation;
 - (iii) shareholder distributions including dividends;
 - (iv) interest;
 - (v) capital expenditure (net of grants received); and
 - (vi) lease payments in relation to on-balance sheet leased assets,

but excluding any of the following expenses that are payable in that period:

- (A) interest relating to on-balance sheet leased assets;
- (B) depreciation;
- (C) amortisation;
- (D) bad debt provisions;
- (E) the amount of any Actual Maintenance Expenditure for the period to the extent that (i) such amount is provided for by the opening balance of the Maintenance Account for that period; and (ii) the Franchise Operator is entitled to withdraw

the same from the Maintenance Account in accordance with paragraph 5.12 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions); and

- (F) any Actual Innovation Cost (or part thereof) that the Franchise Operator is entitled to withdraw from the Innovation Account in accordance with paragraph 19.13 of Schedule 13 (Information and Industry Initiatives); and

(b) either:

- (i) plus any reduction in the total amount owing by the Franchise Operator to creditors over that period; or
- (ii) less any increase in the total amount owing by the Franchise Operator to creditors over that period,

where creditors:

- (A) include any persons owed amounts by the Franchise Operator in respect of loans or funding agreements, operating expenses, including the types of expenses set out in paragraphs (a)(i) to (v) inclusive, provisions and deferred income balances; but
- (B) exclude persons owed amounts by the Franchise Operator in respect of season ticket liabilities, lease liabilities in relation to on-balance sheet leased assets and liabilities in relation to grants received for the purchase of fixed assets;

Actual Passenger Demand has the meaning given to it in paragraph 1.1 of Schedule 1.5 (Information about Passengers);

Actual PPM Performance Level means, in respect of a Performance Calculation Year, the moving annual average PPM Figures most recently published by Network Rail for that Performance Calculation Year in relation to the Franchise Operator;

Actuary has the meaning given to it in the Pension Trust;

Additional Expenditure has the meaning given to it in paragraph 2.7 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Additional SoS Variations has the meaning given to it in Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions);

Additional TSR2 TDR Rights has the meaning given to it in paragraph 3.1(a) of Schedule 9.3 (Secretary of State Risk Assumptions);

Administration Fee has the meaning given to it in paragraph 4.3 of Schedule 10.3 (Events of Default and Termination Events);

Advance Purchase Train-specific Fares has the meaning given to it under the Ticketing and Settlement Agreement;

Affected Train Fleet has the meaning given to it in paragraph 4.1(a)(ii)(B) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Affiliate means, in respect of any person, any person by which that person is Controlled or which is Controlled by that person, or any person which is Controlled by any other Affiliate of that person;

Aggregated Qualifying Change means two or more Changes which:

- (a) are notified or agreed (in the case of a Change which is a Variation pursuant to paragraph 1.1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes)); and/or
- (b) a party has become aware of (in the case of any other kind of Change),

in a Franchise Operator Year (the **Aggregation Year**) which individually do not exceed the Threshold Amount for the Aggregation Year taken alone but do exceed it when taken together. For the avoidance of doubt, where the Changes arise in different Franchise Operator Years, for the purposes of determining whether in aggregate they exceed the Threshold Amount:

- (i) the net present value of the adjustment in Franchise Payments which would result from a Run of the Financial Model (where Schedule 9.1 (Financial and Other Consequences of Change) applies) in respect of each Change shall be calculated in accordance with the process described in the definition of Qualifying Change; and
- (ii) there will be an Aggregated Qualifying Change where the aggregate of the net present values of those Changes exceeds the Threshold Amount for the Aggregation Year;

Alliance Agreement has the meaning given to such term in paragraph 11.2 of Schedule 13 (Information and Industry Initiatives);

Alliance Framework Agreement has the meaning given to it in Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Alternative NRPS has the meaning given to such term in paragraph 1.6 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Alternative Scheme means a Committed Obligation proposed by the Franchise Operator in place of a Specimen Scheme in accordance with Schedule 6.1 (Committed Obligations and Related Provisions);

Ancillary Service means any service specified in paragraph 5 of Schedule 1.6 (Franchise Services);

Annual Audited Accounts means the accounts of the Franchise Operator which:

- (a) comply with paragraph 3.11 of Schedule 13 (Information and Industry Initiatives); and
- (b) are delivered to the Secretary of State by the Franchise Operator in accordance with paragraph 3.9(a) of Schedule 13 (Information and Industry Initiatives) and certified by the Franchise Operator's auditors as true and fair;

Annual Benchmark means any of the Annual Cancellations Benchmark, the Annual TOC Minute Delay Benchmark or the Annual Short Formation Benchmark;

Annual Benchmark Table means, in relation to:

- (a) any Annual Cancellations Benchmark, the Annual Cancellations Benchmark Table;
- (b) any Annual TOC Minute Delay Benchmark, the Annual TOC Minute Delay Benchmark Table; and
- (c) any Annual Short Formation Benchmark, the Annual Short Formation Benchmark Table;

Annual Business Plan means the plan to be provided by the Franchise Operator to the Secretary of State in accordance with paragraph 2.3 of Schedule 13 (Information and Industry Initiatives);

Annual Cancellations Benchmark means, for each Performance Calculation Year, each of the benchmarks specified in the Annual Cancellations Benchmark Table for that Performance Calculation Year provided that where a Performance Calculation Year is shorter than 13 Reporting Periods then the Annual Cancellations Benchmark for that Performance Calculation Year shall be as determined pursuant to paragraph **5.1(a)**⁷ of Schedule 7.1 (Performance Benchmarks);

Annual Cancellations Benchmark Table means the table set out in Part 2 (Annual Cancellations Benchmark Table) of Appendix 1 (Cancellations Benchmark and Annual Cancellations Benchmark) of Schedule 7.1 (Performance Benchmarks);

⁷ Cross-reference corrected in letter dated 30 March 2015

Annual Cap Performance Level means, in relation to an Annual Benchmark for any Performance Calculation Year, the number set out in column 2 of the Annual Benchmark Table relating to that Annual Benchmark and in the row of that table for that Performance Calculation Year;

Annual CaSL Target Performance Level means, in respect of a Performance Calculation Year, the number set out in column 5 of the Annual Cancellation Benchmark Table and in the row in that table for that Performance Calculation Year;

Annual Financial Statements means the final draft financial statements of the Franchise Operator which:

- (a) comply with paragraph 3.11 of Schedule 13 (Information and Industry Initiatives); and
- (b) are delivered to the Secretary of State by the Franchise Operator in accordance with paragraph 3.7 of Schedule 13 (Information and Industry Initiatives);

Annual Floor Performance Level means, in relation to an Annual Benchmark for any Performance Calculation Year, the number set out in column 4 of the Annual Benchmark Table relating to that Annual Benchmark and in the row of that table for that Performance Calculation Year;

Annual Franchise Payment Components means the values of FXD, VCRPI, VCAWE, PRPI, ORRPI and PRRPI specified for each Franchise Operator Year in the table set out in the Appendix (Figures for Calculation of Annual Franchise Payments) to Schedule 8.2 (Annual Franchise Payments);

Annual Franchise Payment means, in relation to any Franchise Operator Year, the amount determined in accordance with Schedule 8.2 (Annual Franchise Payments);

Annual Maintenance Amount means, in relation to any Franchise Operator Year, the amount determined in accordance with paragraph **5.12(a)**⁸ of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Annual Management Accounts means the management accounts of the Franchise Operator which:

- (a) comply with paragraph 3.10 of Schedule 13 (Information and Industry Initiatives); and
- (b) are delivered to the Secretary of State by the Franchise Operator in accordance with paragraph 3.6 of Schedule 13 (Information and Industry Initiatives);

⁸ Cross-reference corrected in letter dated 27 February 2015.

Annual PPM Target Performance Level means, in respect of a Performance Calculation Year, the number set out in column 5 of the Annual TOC Minute Delay Benchmark Table and in the row of that table for that Performance Calculation Year;

Annual Season Ticket means a Season Ticket Fare which is valid in Standard Class Accommodation from (and including) the day on which it first comes into effect until (but excluding) the day which falls 12 months after such day;

Annual Short Formation Benchmark means, for each Performance Calculation Year, each of the benchmarks specified in the Annual Short Formation Benchmark Table for that Performance Calculation Year provided that where a Performance Calculation Year is shorter than 13 Reporting Periods then the Annual Short Formation Benchmark for that Performance Calculation Year shall be as determined pursuant to paragraph **5.1(c)**⁹ of Schedule 7.1 (Performance Benchmarks);

Annual Short Formation Benchmark Table means the table set out in Part 2 (Annual Short Formation Benchmark Table) of Appendix 3 (Short Formation Benchmark and Annual Short Formation Benchmark Table) of Schedule 7.1 (Performance Benchmarks);

Annual Target Performance Level means, in relation to an Annual Benchmark for any Performance Calculation Year, the number set out in column 3 of the relevant Annual Benchmark Table relating to that Annual Benchmark and in the row of that table for that Performance Calculation Year;

Annual TOC Minute Delay Benchmark means, for each Performance Calculation Year, each of the benchmarks specified in the Annual TOC Minute Delay Benchmark Table for that Performance Calculation Year, provided that where a Performance Calculation Year is shorter than 13 Reporting Periods then the Annual TOC Minute Delay Benchmark for that Performance Calculation Year shall be as determined pursuant to paragraph 5.1(b) of Schedule 7.1 (Performance Benchmarks);

Annual TOC Minute Delay Benchmark Table means the table set out in Part 2 (Annual TOC Minute Delay Benchmark Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) of Schedule 7.1 (Performance Benchmarks);

Approved CCIF Scheme means a CCIF Scheme approved by the Secretary of State in accordance with paragraph 3.6 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

⁹ Cross-reference corrected in letter dated 30 March 2015.

Approved Innovation Scheme means an Innovation Scheme which is approved by the Secretary of State in accordance with paragraph 19.11 of Schedule 13 (Information and Industry Initiatives);

ARCP MOIRA Run means the MOIRA run based on the timetable included in the Access Rights Contingency Plan in the agreed terms and marked **ARCPM**;

Asset Remaining Life means the amount of the life of a Station Asset remaining before that asset can reasonably be expected to require replacement by a new asset (assessed on the assumption that the asset continues to receive reasonably appropriate repair and maintenance throughout its remaining life);

Assisted Passenger Reservation System means the system known as the Assisted Passenger Reservation System as described in the Code of Practice as published in September 2010 (version 2 – valid from 1 September 2010), as amended from time to time;

Assumed Access Rights means the greater of those access rights (a) assumed to be operated by another train operator in TSR2 and included in MOIRA and (b) held by another train operator as at December 2014 in respect of the routes referred to in Schedule 1.6 (Franchise Services);

ATOC means the Association of Train Operating Companies including any of its successors and assigns;

Average Weekly Earnings means the United Kingdom average weekly earnings measure excluding bonuses as published from time to time by the Office for National Statistics or, if such measure shall cease to be published or if, in the reasonable opinion of the Secretary of State, there is a material change in the basis of such measure, such other alternative index as the Secretary of State may, after consultation with the Franchise Operator, determine to be appropriate in the circumstances;

Background Intellectual Property means Intellectual Property, excluding Innovation Intellectual Property, in existence and belonging to the Franchise Operator prior to the date of notification by the Secretary of State to the Franchise Operator in writing that the Franchise Operator may undertake the relevant Innovation Scheme;

Bank means a person which has a permission under Part 4A of the Financial Services and Markets Act 2000 to carry on regulated activity of accepting deposits provided thereunder and which is reasonably acceptable to the Secretary of State;

Bank Holiday means any day other than a Saturday or Sunday on which banks in the City of London are not open for business;

Benchmark means any of the Cancellations Benchmark, the TOC Minute Delay Benchmark or the Short Formation Benchmark (as the context may require);

Benchmark Table means, in relation to:

- (a) any Cancellations Benchmark, the Cancellations Benchmark Table;
- (b) any TOC Minute Delay Benchmark, the TOC Minute Delay Benchmark Table; and
- (c) any Short Formation Benchmark, the Short Formation Benchmark Table;

Bid Profit Stream means the estimated total operating profit of the Franchise Operator from the date that the Change of Control (pursuant to paragraph 2.3 of Schedule 10.3 (Events of Default and Termination Events)) is to occur until the Expiry Date as shown in the profit and loss forecast in the Initial Business Plan (without taking into account any Annual Business Plan) calculated in real terms as at the date of the Change of Control and applying the prevailing discount rate per annum (in real terms) stated in HM Treasury's Green Book Appraisal Guidelines (such rate being 3.5 per cent per annum (in real terms) as at the date of the Franchise Agreement);

Bid TSR2 MOIRA means the MOIRA run in relation to the Bid TSR2 Timetable in the agreed terms and marked **TSR2 MOIRA**;

Bid TSR2 Timetable means the timetable in the agreed terms and marked **TSR2T**, but for the purpose of Schedule 9.3 (Secretary of State Risk Assumptions) disregarding, in respect of any hour, the Excess Services;

Bond Provider means any person or persons who may provide or be an obligor under a Performance Bond or Season Ticket Bond from time to time and who shall, unless the Secretary of State otherwise agrees, be:

- (a) a Bank; or
- (b) an insurance company,

in each case, with the Relevant Credit Rating;

Bond Year means the period beginning on the Start Date and ending on 31 March 2016 and any subsequent period of 13 Reporting Periods beginning on the day after the end of the preceding Bond Year provided that:

- (a) the Franchise Operator and the Secretary of State may agree to vary the Reporting Period in which a Bond Year ends from time to time; and

- (b) the last Bond Year shall expire on the expiry of the Franchise Period and may be a period of less than 13 Reporting Periods;

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Brand Licence means a licence between the Secretary of State (or any company wholly owned by the Secretary of State) and the Franchise Operator in respect of any registered or unregistered trade marks;

Breach Performance Level means, in relation to a Benchmark for any Reporting Period, the number set out in the relevant column of the Benchmark Table to Schedule 7.1 (Performance Benchmarks) relating to that Benchmark and in the row of that table for that Reporting Period;

British Transport Police means the British Transport Police created pursuant to Section 18 of the Railways and Transport Safety Act 2003 (or any successor or successors to its statutory policing functions);

Business Action Plan means an action plan produced or to be produced by the Franchise Operator in relation to the delivery of any aspect of the Franchise Services (including in respect of any outcome anticipated by its Business Plan, in accordance with paragraph 2.8 of Schedule 13 (Information and Industry Initiatives));

Business Continuity Plan means a business continuity and disaster recovery plan (including a Force Majeure Events recovery plan) required to be produced, maintained and implemented by the Franchise Operator in accordance with paragraph 3 of Schedule 10.4 (Force Majeure);

Business Plan means the Initial Business Plan or any Annual Business Plan, as the context requires, to be delivered in accordance with paragraphs 2.1 and 2.3 of Schedule 13 (Information and Industry Initiatives);

Cancellation means a Passenger Service:

- (a) which is included in the Enforcement Plan of the Day and which is cancelled for reasons attributed to the Franchise Operator pursuant to its Track Access Agreement; or
- (b) which is included in the Enforcement Plan of the Day and which operates less than 50 per cent of its scheduled mileage (as prescribed in the Enforcement Plan of the Day) for reasons attributed to the Franchise Operator pursuant to its Track Access Agreement;

¹⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

Cancellations Benchmark means any of the performance levels in respect of Cancellations and Partial Cancellations set out in the Cancellations Benchmark Table;

Cancellations Benchmark Table means the table set out in Part 1 (Cancellations Benchmark Table) of Appendix 1 (Cancellations Benchmarks and Annual Cancellations Benchmarks) of Schedule 7.1 (Performance Benchmarks);

Cancellations Performance Sum means an amount determined in accordance with paragraph 3.2 of Schedule 7.1 (Performance Benchmarks);

Capacity Mitigation Plan has the meaning given to it in paragraph 8.1(a) of Part A of Schedule 1.1 (Service Development) or paragraph 7 of Part B of Schedule 1.1 (Service Development), as the context may require;

Capital Expenditure has the meaning given to it in paragraph 2.4 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Change);

Cascaded Rolling Stock has the meaning given to it in paragraph 2.5 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

CaSL means the measure of the proportion of trains (expressed as a percentage of Passenger Services which are scheduled to be provided under the Plan of the Day) which are cancelled, or arrive significantly late at their final scheduled destination measured on the basis that for this purpose, “significantly late” means arriving thirty minutes or more after the scheduled public arrival time at destination, as produced and/or published by Network Rail or the Office of Rail Regulation;

CaSL Figures means the moving annual average percentage published by Network Rail in respect of CaSL;

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CCIF Amount means the sum of £500,000 (indexed by the Retail Prices Index in the same way as variable costs are indexed in Schedule 8.2 (Annual Franchise Payments)) per Franchise Operator Year within a CCIF Period (reduced pro-rata in respect of any Franchise Operator Year within a CCIF Period of less than 365 days) as adjusted in accordance with paragraph 3.10(a) of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

CCIF Period means each of the following periods:

¹¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- (a) 1 April 2017 – 31 March 2019;
- (b) 1 April 2019 – 31 March 2021; and
- (c) 1 April 2021 – the Expiry Date;

CCIF Scheme has the meaning given in paragraph 3.3 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

CCIF Scheme Cost means, in respect of any CCIF Scheme, the total cost to the Franchise Operator of developing and implementing that CCIF Scheme;

CCIF Scheme Margin means 5% of the applicable CCIF Scheme Costs;

CCIF Scheme Revenue means, in respect of any CCIF Scheme, the revenue earned by the Franchise Operator from that CCIF Scheme;

CCIF Scheme Shortfall means, in relation to a CCIF Scheme, the amount (if any) by which the CCIF Scheme Revenue is less than the aggregate of the CCIF Scheme Costs and the CCIF Scheme Margin;

CCIF Underspend has the meaning given in paragraph 3.8 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

CEM System has the meaning given to it in paragraph 26.2 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Certificate of Commencement means the certificate to be issued by the Secretary of State pursuant to the Umbrella Deed;

Change means if and whenever any of the following occurs:

- (a) an event set out in any Secretary of State Risk Assumption specified in Schedule 9.3 (Secretary of State Risk Assumptions);
- (b) a Charge Variation;
- (c) a Change of Law (excluding any Change of Law to the extent that it results in an adjustment to the Franchise Payments pursuant to Schedule 8.4 (Track Access Adjustments and Station Charge Adjustments));
- (d) a change to (i) the Train Service Requirement previously in force pursuant to the issue of an amended or new Train Service Requirement in accordance with paragraph 9.4 of Part A of Schedule 1.1 (Service Development) or (ii) the Service Level Commitment previously in force pursuant to the issue of an amended or new Service Level Commitment in

accordance with paragraph 4.12 of Part B of Schedule 1.1 (Service Development), as the context may require;

- (e) not used;
- (f) the Franchise Operator is required to take any action pursuant (i) to paragraph 12.1(a) and/or paragraph 12.1(b) of Part A of Schedule 1.1 (Service Development) or (ii) paragraph 13.1(a) and/or paragraph 13.1(b) of Part B of Schedule 1.1 (Service Development), as the context may require;
- (g) the exercise by the Secretary of State of his rights pursuant to paragraph 17.2 of Schedule 13 (Information and Industry Initiatives);
- (h) not used;
- (i) not used;
- (j) not used;
- (k) the Secretary of State directs the Franchise Operator to enter into a Station Lease in respect of the Station at Dunbar in the circumstances described in paragraph 5.1(d) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);
- (l) the Franchise Operator enters into a 99 year lease in respect of either or both of the Stations at York and Newcastle in the circumstances described in paragraph 5.1(c) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);
- (m) the Secretary of State effects an amendment to a Discount Fare Scheme, introduces a new Discount Fare Scheme or ceases to approve a Discount Fare Scheme for the purposes of Section 28 of the Act;
- (n) the Secretary of State approves an amendment or proposed amendment to an Inter-Operator Scheme, as referred to in paragraph (a) of the definition of Inter-Operator Scheme to the extent and only to the extent that the Franchise Operator makes a saving as a consequence of such amendment or proposed amendment;
- (o) the imposition, subject to the provisions of paragraph 2.6 of Schedule 4 (Persons with Disabilities and Disability Discrimination), of any increased access charges in respect of EA Requirements at Franchise Operator Access Stations;
- (p) the Secretary of State exercises his power pursuant to paragraph 5 of Schedule 5.7 (Changes to Fares and Fares Regulation) to alter the obligations of and restrictions on the Franchise Operator under Schedule 5 (Fares);

- (q) the Franchise Operator is obliged to charge Value Added Tax on a Fare or there is an increase or decrease in the rate of Value Added Tax which it must charge on such Fare, in either case due to a change in the Value Added Tax treatment of the provision of Passenger Services;
- (r) the Secretary of State exercises his rights pursuant to paragraph 19.23 of Schedule 13 (Information and Industry Initiatives);
- (s) the exercise by the Secretary of State of his rights pursuant to paragraph 1.7 of Schedule 7.1¹²(Performance Benchmarks);
- (t) the circumstances set out in paragraph 2.6 of Schedule 2.2 (Security of Access, Rolling Stock Leases, Station and Depot Leases) occur;
- (u) a Variation to the terms of the Franchise Agreement pursuant to paragraph 1.1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes);
- (v) any of the circumstances set out in paragraphs 2.10, 2.12, 3.2, 4.1 or 4.3 (as the case may be) of Schedule 6.3 (The IEP Provisions) occurs;
- (w) the Start Date is a date that is later than 0200 on 1 March 2015 for reasons solely attributable to any act or omission by the Secretary of State except where:
 - (i) the Secretary of State exercises his rights pursuant to Clauses 11.2 or 11.3 of the Umbrella Deed to alter such Start Date; or
 - (ii) the relevant acts or omissions of the Secretary of State arise as a result of or in connection with any failure by the Franchise Operator to satisfy any of the conditions precedent set out in the Umbrella Deed;
- (x) any of the SoS Variations and/or the Additional SoS Variations proceed and have an impact on the Set Availability Payment or require a capital or other payment to be made by the Franchise Operator;
- (y) the Secretary of State does not proceed with any of the SoS Variations;
- (z) the Secretary of State proceeds with any variations with the TSP in relation to passenger count variations as described in paragraph 7.8(a) of Schedule 6.3 (The IEP Provisions); or

¹² Cross-reference corrected in letter dated 30 March 2015.

- (aa) any two or more of the foregoing that the Secretary of State groups together in accordance with any procedures issued by him pursuant to paragraph 1.4 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes) occur;

Change of Control has the meaning given to it in paragraph 2.3 of Schedule 10.3 (Events of Default and Termination Events);

Change of Law means the coming into effect after the date of the Franchise Agreement of:

- (a) Legislation; or
- (b) any applicable judgment of a court of Law which changes a binding precedent, the terms of which apply only to the railway industry, a particular section of the railway industry or the provision of services to the railway industry and not to other transport modes or to industries other than the railway industry, and without limitation:
- (i) excluding any changes in Taxation;
 - (ii) excluding any changes which were foreseeable at the date of the Franchise Agreement, and for this purpose, but without limitation, there shall be regarded as foreseeable any Legislation which on the date of the Franchise Agreement has been published:
 - (A) in a draft parliamentary bill as part of a government departmental consultation paper;
 - (B) in a parliamentary bill;
 - (C) in a draft statutory instrument; or
 - (D) as a proposal in the Official Journal of the European Union except to the extent that such proposal is intended to apply solely within member states other than the United Kingdom,

to the extent that the same is subsequently enacted in substantially the same form as the form in which it was previously so published. In relation to the application of this sub paragraph (ii), each TSI shall be considered separately.

Change of Law (1) includes any Legislation, which only applies to the railway industry, which is made under the Health and Safety at Work etc. Act 1974 and which is not excluded under (i) and (ii) (a Specifically Included Change of Law), but (2) excludes any Legislation (other than a Specifically Included Change of Law) which is made with the intention or effect of specifically applying to (or disapplying in relation to) the railway industry any other Legislation which does not apply only to the railway industry;

Charge Variation means a variation:

- (a) to a Relevant Agreement; and
- (b) which is effected as a result of a Charging Review (including any variation in connection with an Incremental Output Statement Charge);

Charging Review means:

- (a) the exercise by the ORR of its powers under:
 - (i) Part 7 of Schedule 7 of the Track Access Agreement to which the Franchise Operator is a party on the Start Date or any Replacement Agreement which is or is deemed to be a Relevant Agreement in accordance with the definition of that term;
 - (ii) Condition F11.5 of the Station Access Conditions in relation to any station which is not an Independent Station; or
 - (iii) Condition 42.5 of the Independent Station Access Conditions in relation to any station which is an Independent Station;
- (b) the following by the ORR of the procedure in Schedule 4A of the Act;
- (c) the exercise by the ORR of any of its powers or the following of any other procedure, which, in the Secretary of State's reasonable opinion:
 - (i) has an equivalent effect to; or
 - (ii) is intended to fulfil the same function as,

any of the powers referred to in paragraphs (a) or (b) in relation to any Relevant Agreement provided that, without limitation, the exercise by ORR of any of its approval rights under Condition F12 of the Station Access Conditions shall not be considered to have an equivalent effect to or fulfil the same function as any of the powers referred to in paragraphs (a) or (b). For this purpose, Relevant Agreement includes any Relevant Agreement which is not the subject of any previous Charging Review; or
- (d) any amendment to a Relevant Agreement, or entry into a new Relevant Agreement which is approved by the ORR to the extent that it relates to an Incremental Output Statement Charge or a scheme to which that charge relates;

Charter Service means a railway passenger service, whether operated on the same routes as the Passenger Services or not:

- (a) which is not reflected in the Timetable;

- (b) which does not conform to the pattern of railway passenger services normally provided by the Franchise Operator;
- (c) for which the advance booking or booking arrangements for seats on the relevant service are, in the reasonable opinion of the Secretary of State, materially different from those generally applicable to the Passenger Services;
- (d) for which tickets are available on a restricted basis or on terms and conditions which, in the reasonable opinion of the Secretary of State, are materially different from those generally applicable to the Passenger Services; and/or
- (e) for which the departure time, journey time and calling pattern are, in the reasonable opinion of the Secretary of State, materially different from those of the Passenger Services,

and which, in the opinion of the Secretary of State, is not a railway passenger service provided by the Franchise Operator as part of the Passenger Services;

Child Price means, in relation to any Fare, the amount charged or chargeable to a person under the age of 16 in respect of such Fare;

Closed Scheme Employees has the meaning given to it in paragraph 2.2 of Schedule 16 (Pensions);

Closure means a discontinuance or closure under Part 4 of the Railways Act 2005 of any of the Passenger Services or of any network on which the Passenger Services may be operated or of any of the Stations or of any part of such network or Station;

Code of Practice means the code of practice for protecting the interests of users of railway passenger services or station services who have disabilities, as prepared, revised from time to time and published by the Secretary of State pursuant to Section 71B of the Act;

Collateral Agreement means an agreement which is required to be entered into by the Franchise Operator with Network Rail or any other Franchise Operator as a condition to any Access Agreement of which the Franchise Operator is the beneficiary;

Commercial Return a CCIF Scheme will have a Commercial Return where the CCIF Scheme Return equals or exceeds the aggregate of the CCIF Scheme Costs and the CCIF Scheme Margin;

Committed Obligations means any of the Franchise Operator's obligations listed in Part 1 (List of Committed Obligations) to Schedule 6.1 (Committed Obligations and Related Provisions);

Community Rail Partnership means any not-for-profit organisation of the same name that has an interest in the development of responsive and good quality railway passenger services;

Community Rail Route means any Route in respect of which the Secretary of State determines that any relevant Community Rail Partnership has an interest;

Commuter Fare means any:

- (a) Weekly Season Ticket, Monthly Season Ticket, Quarterly Season Ticket and Annual Season Ticket (and their equivalent ITSO products) between each London Station and any other such station or other station;
- (b) unrestricted Single Fare and unrestricted Return Fare (and their equivalent ITSO products) between each London Station;
- (c) unrestricted Single Fare and unrestricted Return Fare (and their equivalent ITSO products) from each Suburban Station to each London Station (but not in the other direction);
- (d) PAYG Peak Fare or PAYG Off-Peak Fare (and their equivalent ITSO products) between each London Station and any other such station (and if and when CPAY is introduced, the CPAY equivalent Peak and Off-Peak fares); and
- (e) any Flexi Season Ticket that may be offered for unlimited travel between each London Station and any other such station or other station but which has restrictions on the permitted times of use or the volume of travel allowed. These restrictions may include permitting travel only on fewer than five days a week or outside Peak hours,

for which the Franchise Operator is entitled to be allocated all or part of the revenue therefrom pursuant to the Ticketing and Settlement Agreement;

Commuter Fares Basket means the grouping of Commuter Fares:

- (a) determined by the Secretary of State pursuant to Schedule 5.3 (Allocation of Fares to Fares Baskets);
- (b) for the purposes of regulating aggregate Prices or Child Prices, as the case may be, in accordance with Schedule 5.4 (Regulation of Fares Basket Values);
- (c) amended by the Secretary of State from time to time in accordance with Schedule 5.7 (Changes to Fares and Fares Regulation); and
- (d) set out in the Commuter Fares Document;

Commuter Fares Document means the document in the agreed terms marked **CFD** as the same may be amended from time to time in accordance with Schedule 5.7 (Changes to Fares and Fares Regulation);

Compulsory Inter-available Flow has the meaning given to it in the Ticketing and Settlement Agreement;

Computer System means computer hardware and computer software, including licensed third party software and data protocols;

Confidential Information has the meaning given to it in paragraph 1 of Schedule 17 (Confidentiality and Freedom of Information);

Connection means a connection (however described) between any of the Passenger Services provided by the Franchise Operator and any other railway passenger service provided by it or any other Train Operator or any bus, ferry or shipping service and cognate phrases shall be construed accordingly;

Connection Agreement means any agreement entered into by the Franchise Operator and Network Rail on or before the Start Date relating to the connection of a Depot to the relevant part of the network;

Contingency Plan has the meaning given to it in paragraph 1(a)(iv) of Schedule 10.4 (Force Majeure);

Contingent Stock has the meaning given to it in Table 3 of Schedule 1.7 (the Train Fleet);

Contract Manager means a person appointed from time to time by the Franchise Operator to fulfil certain duties including to manage the Franchise Agreement on behalf of the Franchise Operator and to facilitate the performance by the Franchise Operator of its obligations under the Franchise Agreement;

Control means, in respect of a person, that another person (whether alone or with others and whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise):

- (a) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that person or of any other person which Controls that person;
- (b) controls or has the power to control the affairs and policies of that person or of any other person which Controls that person;
- (c) is the parent undertaking of that person or of any other person which Controls that person;
or
- (d) possesses or is, or will be at a future date, entitled to acquire:

- (i) 30 per cent or more of the share capital or issued share capital of, or of the voting power in, that person or any other person which Controls that person;
- (ii) such part of the issued share capital of that person or any other person which controls that person as would, if the whole of the income of such person were distributed, entitle him to receive 30 per cent or more of the amount so distributed;
or
- (iii) such rights as would, in the event of the winding-up of that person or any other person which controls that person or in any other circumstances, entitle him to receive 30 per cent or more of the assets of such person which would then be available for distribution;

CPAY means an arrangement operated by TfL under which contactless payment cards can be used by passengers to obtain access to public transport services in London without the requirement for purchase of a separate ticket or permission to travel;

Creating has the meaning given to it in the Ticketing and Settlement Agreement and cognate expressions shall be construed accordingly;

CRM Data means Personal Data (including any or all of name, address, e-mail address and ticket purchasing history, credit and debit card details) collected by or on behalf of the Franchise Operator relating to persons travelling on or purchasing tickets for travel on the Passenger Services or other services for the carriage of passengers by railway;

CRM Data Processor means any Data Processor who, from time to time, is processing or has processed CRM Data on behalf of the Franchise Operator;

CRM System means any system (whether a Computer System or otherwise) for the collection of CRM Data and/or onto which CRM Data is input, processed and/or held as such system may be amended or altered from time to time;

Current Franchise Operator Year has the meaning given to it in paragraph 3.4(a) of Schedule 8.1 (Franchise Payments);

Customer and Stakeholder Engagement Strategy means the Customer and Stakeholder Engagement Strategy in the agreed terms marked **CSES** and any replacement Customer and Stakeholder Engagement Strategy revised in accordance with paragraph 3.11 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Customer Report means a report in the format and providing the information specified in the Customer and Stakeholder Engagement Strategy and published in accordance with paragraph

3.2 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Data Controller has the same meaning as in the Data Protection Act;

Data Processor has the same meaning as in the Data Protection Act;

Data Protection Act means the Data Protection Act 1998 and any guidance issued from time to time by the Information Commissioner's Office;

Data Site Information has the meaning given to it in paragraph 2.2(e) of Schedule 15.1 (Reletting Provisions);

Data Subject has the same meaning as in the Data Protection Act;

Dataset means the data specified in Appendix 1 (Environmental Impact Monitoring Dataset) to Schedule 13 (Information and Industry Initiatives) as the same may be amended from time to time by the Secretary of State (acting reasonably);

Deed of Adherence means the deed of adherence in the agreed terms between the Secretary of State, the Franchisee and the Franchise Operator, and marked **DA**;

Default Performance Level means, in relation to a Benchmark for any Reporting Period, the number set out in column 4 of the Benchmark Table relating to that Benchmark and in the row of that Benchmark Table for that Reporting Period;

Delayed Cascade Mitigation Plan has the meaning given to it in paragraph 2.7(c) of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

Departure Station has the meaning given to it in paragraph 2(b) of Appendix 2 (Alternative Transport) to Schedule 4 (Persons with Disabilities and Disability Discrimination);

Depot means a depot in respect of which the Franchise Operator has entered into a Depot Lease;

Depot Lease means:

- (a) any lease of a depot to which the Franchise Operator is a party as at the Start Date; or
- (b) any other lease of a depot in relation to which the Franchise Operator becomes the Facility Owner at any time during the Franchise Period;

Designated Employer has the meaning given to it in the Pension Trust;

Destination Station has the meaning given to it in paragraph 2(b) of Appendix 2 (Alternative Transport) to Schedule 4 (Persons with Disabilities and Disability Discrimination);

Direct Agreement means any agreement made, or to be made, from time to time between the Secretary of State and the counterparty of a Key Contract in relation to such Key Contract, including any agreement entered into by the Secretary of State under Schedule 14.3 (Key Contracts);

Disabled People's Protection Policy means the Franchise Operator's policy for the protection of persons with disabilities which the Franchise Operator is required to establish and review from time to time in accordance with the conditions of its Licences in respect of the operation of railway passenger services and/or stations;

Disabled Person is a reference to a person who has a disability in the EA;

Disaster means, other than those specified in paragraphs 1(a) or 1(b) of Schedule 10.4 (Force Majeure), any unplanned interruption or event which significantly prevents or impairs the ability of the Franchise Operator to provide the Franchise Services (in whole or in part) or the ability of the Franchise Operator to operate systems or equipment relevant to the provision of the Franchise Services (in whole or in part);

Discount Card has the meaning given to it in the Ticketing and Settlement Agreement;

Discount Fare Scheme means:

- (a) each of the following discount fare schemes:
 - (i) ATOC Disabled Persons Railcard Scheme dated 23 July 1993 between the participants therein;
 - (ii) ATOC Young Persons Railcard Scheme dated 23 July 1993 between the participants therein; and
 - (iii) ATOC Senior Railcard Scheme dated 23 July 1993 between the participants therein;
or
- (b) any other discount fare scheme approved from time to time by the Secretary of State for the purposes of Section 28 of the Act,

in each case until such time as it may cease to be approved by the Secretary of State for the purposes of Section 28 of the Act;

Dispute Resolution Rules means the procedures for the resolution of disputes known as "The Railway Industry Dispute Resolution Rules", as amended from time to time in accordance with the terms thereof;

Disputed Cancellation means a Passenger Service:

- (a) which is included in the Enforcement Plan of the Day and which is cancelled; or
- (b) which is included in the Enforcement Plan of the Day and which operates less than 50 per cent of its scheduled mileage (as prescribed in the Enforcement Plan of the Day),

in either case, in circumstances where attribution of responsibility for the same is, at the relevant time, in dispute between Network Rail and the Franchise Operator pursuant to the Track Access Agreement;

Disputed Partial Cancellation means a Passenger Service:

- (a) which misses a stop; or
- (b) completes 50 per cent or more, but less than 100 per cent of its scheduled mileage (as prescribed in the Enforcement Plan of the Day),

in either case, in circumstances where attribution of responsibility for the same is, at the relevant time, in dispute between Network Rail and the Franchise Operator pursuant to the Track Access Agreement;

Disputes Secretary means the person appointed as disputes secretary from time to time in accordance with the Dispute Resolution Rules;

DRACAS has the meaning given to it in paragraph 10.7 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

EA means the Equality Act 2010;

EA Claim has the meaning given to it in paragraph 3.1 of Schedule 4 (Persons with Disabilities and Disability Discrimination);

EA Requirements means the duties of a provider of services under Sections 20(3), 20(5) and Sections 20(9)(a) and 20(9)(b) in relation to Section 20(4), of the EA;

ECMA has the meaning given to it in paragraph 4.3 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

ECML Industry Plan has the meaning given to it in paragraph 8.5 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Emergency Event has the meaning given to it in paragraph 1.2(e) of Schedule 10.4 (Force Majeure);

EMV means contactless payment cards that conform to the international standards issued by EMVCo (owned by American Express, Discover, JCB, MasterCard, UnionPay and Visa) which manages, maintains and enhances the EMV1 integrated circuit card specifications;

Enforcement Plan of the Day means the Plan of the Day excluding any:

- (a) additions to such Plan of the Day of any railway passenger services which are not included in the Timetable;
- (b) omissions from such Plan of the Day of any Passenger Services included in the Timetable; and/or
- (c) rescheduling in such Plan of the Day of any Passenger Services from their scheduling in the Timetable,

in each case:

- (i) as proposed by the Franchise Operator in breach of its obligations in paragraph 4 of Part A of Schedule 1.2 (Operating Obligations) or paragraph 5 of Part B of Schedule 1.2 (Operating Obligations); or
- (ii) as agreed by the Franchise Operator in breach of its obligations in paragraph 3 of Part A of Schedule 1.2 (Operating Obligations) or paragraph 4 of Part B of Schedule 1.2 (Operating Obligations);

Enhanced Compensation means (at the passenger's choice) either, two free journeys anywhere on the Franchise valid for not less than 12 months or National Rail Travel Vouchers to the value of a Single Fare for a journey between the Stations for which the relevant passenger's Season Ticket Fare is valid;

Environmental Data Implementation Plan has the meaning given to it in paragraph 17.1(c) of Schedule 13 (Information and Industry Initiatives);

Environmental Information Regulations means the Environmental Information Regulations 2004;

Equipment means any Equipment (as such term is defined in the Station Access Conditions) that the Franchise Operator is required to maintain, repair and renew under the Station Access Conditions;

Equivalent Fare has the meaning given to it in paragraph 6.1 of Schedule 5.7 (Changes to Fares and Fares Regulation);

Equivalent Flow has the meaning given to it in paragraph 6.1(b) of Schedule 5.7 (Changes to Fares and Fares Regulation);

Equivalent TSR2 TDR Rights has the meaning given to it in paragraph 3.2 of Schedule 9.3 (Secretary of State Risk Assumptions);

ERTMS means the European Rail Traffic Management System;

ERTMS Enabled Network has the meaning given to such term in paragraph 4.1(a)(iv) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

ERTMS Programme means the implementation of ERTMS on the routes specified in the Proposed ERTMS Implementation Plan;

Escrow Documents means those documents and other items referred to in paragraph 1.1 of Schedule 9.2 (Identity of the Financial Model etc.);

Estimated Profit Stream means estimated total operating profit of the Franchise Operator from the date that the Change of Control (pursuant to paragraph 2.3 of Schedule 10.3 (Events of Default and Termination Sum)) is to occur until the Expiry Date as reasonably determined by the Secretary of State. In reasonably determining the Estimated Profit Stream the Secretary of State shall:

- (a) take into account all relevant circumstances and have due regard to the Financial Model, the profit and loss forecast in the Initial Business Plan and the most recent Annual Business Plan and the assumptions in the Record of Assumptions;
- (b) use the accounting policies and standards set out in the Record of Assumptions and applied through the Financial Model;
- (c) estimate profit:
 - (i) before taking into account:
 - (A) interest, finance income and finance charges (other than finance items recognised in respect of retirement benefits) and dividends and other distributions of profit;
 - (B) any taxation on profits including corporation tax;
 - (C) shares of the profit of any Affiliate of the Franchise Operator, except dividends received in cash;

- (D) non cash entries in respect of the Franchise Sections and any other pension schemes to the extent connected with the Franchise, excluding accruals or prepayments of any normal pension contributions due;
 - (E) any NR Received Amount; and
- (ii) after taking into account:
- (A) Franchise Payments, including any adjustments pursuant to Schedule 8.5 (GDP Adjustment Payments);
 - (B) all extraordinary and exceptional items, as defined under GAAP;
 - (C) the Franchise Operator's normal pension contributions in relation to the Franchise Operator Sections and any other pension schemes to the extent connected with the Franchise;
 - (D) any payments to Affiliates of the Franchise Operator (including management fees and royalty fees) except to the extent that such payments exceed the amount determined in accordance with the formula set out in paragraph (a)(v) of the definition of Relevant Profit in paragraph 3.1 of Schedule 8.1 (Franchise Payments); and
 - (E) any sums capitalised in relation to maintenance expenditure on rolling stock or other capital equipment; and
- (d) calculate amounts in real terms as at the date of the Change of Control and apply the prevailing discount rate per annum (in real terms) stated in HM Treasury's "Green Book Appraisal Guidelines" (such rate being as at the date of the Franchise Agreement 3.5 per cent per annum (in real terms));

Estimated Revisions has the meaning given to it in paragraph 9 of Schedule 9.1 (Financial and Other Consequences of Change);

Estimated Turnover means, in respect of each Innovation Year, an amount equal to the estimated Turnover for that Innovation Year calculated by reference to the Franchise Operator's Business Plan and Financial Model as determined by the Secretary of State and as set out in Appendix 4 (Estimated Turnover) to Schedule 13 (Information and Industry Initiations);

Evening Peak means, in relation to any Passenger Service, the period between 1600 and 1859 (inclusive) during a Weekday or such other continuous three hour period between 1200 and 2359 (inclusive) as the Secretary of State may specify from time to time;

Event of Default means any of the events set out in paragraph 2 of Schedule 10.3 (Events of Default and Termination Events);

Excess Services means:

- (a) in each hour of each TSR2 Time Band (other than the TSR2B Time Band between 07:00 and 09:59), the number of services in that hour which are in excess of:
 - (i) two trains from London King's Cross to Edinburgh;
 - (ii) two trains from Edinburgh to London King's Cross;
 - (iii) one train from London King's Cross to Newcastle (or Middlesbrough to the extent that TSR2 permits services to Middlesbrough to replace services to Newcastle) (in addition to the services specified in paragraph (a)(i));
 - (iv) one train from Newcastle (or Middlesbrough to the extent that TSR2 permits services from Middlesbrough to replace services from Newcastle) to London King's Cross (in addition to the services specified in paragraph (a)(ii));
 - (v) two trains from London King's Cross to Leeds (in addition to the services specified in paragraphs (a)(i) and (iii));
 - (vi) two trains from Leeds to London King's Cross (in addition to the services specified in (a)(ii) and (iv));
 - (vii) one train from London King's Cross to Newark North Gate or a station north of Newark North Gate (in addition to the services specified in paragraphs (a)(i), (iii) and (v));
 - (viii) one train from Newark North Gate or a station north of Newark North Gate to London King's Cross (in addition to the services specified in paragraphs (a)(ii), (iv) and (vi)),(in each case regardless of whether Edinburgh, Newcastle, Middlesbrough, Leeds or Newark North Gate is the origin of or final destination for that service); and
- (b) in the TSR2B Time Band between 07:00 and 09:59, the number of services which are in excess of:
 - (i) zero trains between 07:00 and 07:59, zero trains between 08:00 and 08:59 and two trains between 09:00 and 09:59, in each case from Edinburgh to London King's Cross;

- (ii) one train between 07:00 and 07:59, two trains between 08:00 and 08:59 and one train between 09:00 and 09:59, in each case from Newcastle to London King's Cross (in addition to the services specified in paragraph (b)(i));
- (iii) two trains between 07:00 and 07:59, two trains between 08:00 and 08:59 and two trains between 09:00 and 09:59, in each case from Leeds to London King's Cross (in addition to the services specified in paragraphs (b)(i) and (ii));
- (iv) three trains between 07:00 and 07:59, two trains between 08:00 and 08:59 and one train between 09:00 and 09:59, in each case from Newark North Gate or a station north of Newark North Gate to London King's Cross, in addition to the services specified in paragraphs (b)(i) to (iii) (inclusive),

(in each case regardless of whether Edinburgh, Newcastle, Middlesbrough, Leeds or Newark North Gate is the origin of that service),

and, for the purposes of this definition and Schedule 9.3 (Secretary of State Risk Assumptions):

- (A) an hour shall start at 00 past the hour and end at 59 minutes past the hour and shall be measured at London King's Cross; and
- (B) references to Newark North Gate shall be deemed to include a reference to Peterborough and/or Grantham, as the case may be, where the exception specified in paragraph 4.1 of the 'General Provisions' of TSR2 applies;

Excluded Data has the meaning given to it in paragraph 17.1(a) of Schedule 13 (Information and Industry Initiatives);

Existing Expenditure has the meaning given to it in paragraph **2.7(c)(ii)**¹³ of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Expiry Date means the later of:

- (a) 0159 on 31 March 2023; or
- (b) the time and date to which the Franchise Agreement is continued in accordance with paragraph 1.2 of Schedule 18 (Additional Reporting Periods);

Facilitation Fee has the meaning given to it in paragraph 4.2 of Schedule 10.3 (Events of Default and Termination Events);

¹³ Cross-reference corrected in letter dated 30 March 2015.

Facility Owner has the meaning given to the term facility owner in Section 17(6) of the Act;

Fare means:

- (a) the right, exercisable against one or more Train Operators, subject to any applicable rights or restrictions and the payment of the relevant price, to make one or more journeys on the network or to carry on such a journey an item of luggage or an animal (where this right does not arise under the relevant conditions of carriage except on the payment of a fee) and, where applicable, to obtain goods or services from a person; and
- (b) for the purposes only of Schedules 5.3 (Allocation of Fares to Fares Baskets) to 5.8 (Fares Regulation Information and Monitoring) (inclusive) and the definitions of Commuter Fare, Protected Fare, Return Fare, Single Fare, Protected Weekly Season Ticket, Protected Return Fare and paragraph (b) of the definition of Season Ticket Fare, a Fare as defined under paragraph (a) that is:
 - (i) valid for a journey or journeys on the Passenger Services included in the Timetable or other railway passenger services which are required to be included in another relevant Train Operator's passenger timetable by the Secretary of State;
 - (ii) sold under the Travelcard Agreement; and
 - (iii) a Cross London Ticket (as defined in the Through Ticketing (Non Travelcard) Agreement); or
- (c) sold under the Pay As You Go Agreement utilising TTL Smartmedia as defined in that agreement;

Fare Year means the period from 1 January in any year to 31 December in the same year;

Fares Basket means either the Commuter Fares Basket or the Protected Fares Basket;

Fares Document means any of the Commuter Fares Document and the Protected Fares Document;

Fares Setting Round has the meaning given to it in the Ticketing and Settlement Agreement;

Financial Action Plan means any action plan produced by the Franchise Operator pursuant to paragraph 3.3(f) of Schedule 13 (Information and Industry Initiatives), where the level of its financial performance specified in the Management Accounts is worse than forecast by the Franchise Operator in its current Business Plan;

Financial Conduct Authority means the UK Financial Conduct Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS with Company Registered number 01920623 or such other regulatory body which may succeed or replace it from time to time;

Financial Model means the Franchise Operator's financial model in the agreed terms marked **FM** deposited with the Secretary of State on the date of the Franchise Agreement in accordance with Schedule 9.2 (Identity of the Financial Model etc.), as may be subsequently revised in accordance with Schedule 9.1 (Financial and Other Consequences of Change) and Schedule 9.2 (Identity of the Financial Model etc.);

First Expenditure Franchise Operator Year has the meaning given to it in paragraph **2.7(c)(ii)**¹⁴ of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

First in Class Unit has the meaning given to it in paragraph 4.1(a)(i) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

First Profit Share Threshold has the meaning given to it in paragraph 3.1 of Schedule 8.1 (Franchise Payments);

Fitment has the meaning given to in paragraph 1.1(a) of Schedule 9.3 (Secretary of State Risk Assumptions);

Fitment Costs means the following costs incurred by the Franchise Operator:

- (a) the cost of the Fitment;
- (b) any costs associated with any requirement under any Rolling Stock Lease to obtain approval from a relevant rolling stock lessor to carry out the Fitment;
- (c) the reasonable costs properly incurred by the Franchise Operator in respect of staff training in relation to the Fitment; and/or
- (d) the reasonable cost of leasing additional rolling stock during the Fitment in order to comply with the Train Service Requirement or Service Level Commitment (as the case may be) in circumstances where the Franchise Operator would otherwise be unable to comply with the Train Service Requirement or Service Level Commitment (as the case may be) solely as a result of the Fitment;

Flow has the meaning given to it in the Ticketing and Settlement Agreement;

¹⁴ Cross-reference corrected in letter dated 30 March 2015.

Force Majeure Event means any of the events described as such in paragraph 1 of Schedule 10.4 (Force Majeure) where the conditions specified in paragraph 2 of Schedule 10.4 (Force Majeure) are satisfied;

Forecast Modified Revenue means, in relation to any Reporting Period, the items specified in the definition of Modified Revenue, as most recently forecast for that Reporting Period pursuant to paragraph 3.4 of Schedule 13 (Information and Industry Initiatives);

Forecast Operating Costs means, in relation to any Reporting Period, the items specified in the definition of Actual Operating Costs, as most recently forecast for that Reporting Period pursuant to paragraph 3.4 of Schedule 13 (Information and Industry Initiatives);

Forecast Passenger Demand means the forecast by the Franchise Operator prepared pursuant to paragraph 5.2 of Part A of Schedule 1.1 (Service Development) or paragraph 4.2 of Part B of Schedule 1.1 (Service Development), as the case may be, of:

- (a) the number of passengers travelling in each class of accommodation:
 - (i) on each Passenger Service;
 - (ii) on each Route; and/or
 - (iii) at any stations or between any stations; and

- (b) the times of day, week or year at which passengers travel,

for the period in respect of which the next Timetable is to apply;

Franchise means the rights tendered by the Secretary of State in March 2014 to operate railway passenger services over the routes prescribed in paragraph 2.2 of Schedule 1.6 (Franchise Services);

Franchise Agreement means this Agreement and the Umbrella Deed which together constitute a single agreement which is a “franchise agreement” for the purposes of the Act;

Franchise Assets means the property, rights and liabilities designated as such pursuant to paragraph 1 of Schedule 14.4 (Designation of Franchise Assets) but excluding such property, rights or liabilities as shall, in accordance with the terms of the Franchise Agreement, cease to be so designated;

Franchise Documents means:

- (a) the Franchise Agreement, Funding Deed, Umbrella Deed and the SPA; and

- (b) any other agreements signed as part of the award of the Franchise and any agreement entered into or provided to the Secretary of State in accordance with the Umbrella Deed;

Franchise Employee means:

- (a) any employee of the Franchise Operator from time to time; and
- (b) any other person who is an employee of any of its Affiliates or is an employee of any party to whom the Franchise Services or services which are in support of or ancillary to the Franchise Services have been subcontracted (at any tier) or delegated by the Franchise Operator; and
- (c) in the case of (a) or (b), whose contract of employment would (subject to the exercise of such person's right to object to the transfer) be transferred to a Successor Operator following the expiry of the Franchise Period by virtue of the operation of Law (including the Transfer of Undertakings (Protection of Employment) Regulations 2006) or in respect of whom liabilities arising from a contract of employment or employment relationship may be so transferred;

Franchise Letting Process Agreement means the agreement so entitled dated in or around November 2013 between the Secretary of State and the Franchisee entered into by the Franchisee as part of its proposal to secure the provision and operation of the Franchise Services by the Franchise Operator;

Franchise Manager means a person appointed from time to time by the Secretary of State to fulfil certain duties, including to manage the Franchise Agreement on behalf of the Secretary of State and to monitor the Franchise Operator's performance of its obligations under the Franchise Agreement;

Franchise Network means those routes referred to in paragraph 2.2 of Schedule 1.6 (Franchise Services);

Franchise Operator Access Station means any station at which the Passenger Services call (other than any Station);

Franchise Operator ERTMS Plan has the meaning given to it in paragraph 4.1(a)(ii) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Franchise Operator Year means any period of 12 months during the Franchise Period, beginning on 1 April and ending on 31 March, except that the first and last Franchise Operator Years may be for a period of less than 12 months and the first Franchise Operator Year shall begin on the Start Date and the last Franchise Operator Year shall end on the last day of the Franchise Period;

Franchise Payment means, in relation to any Reporting Period, the amount determined in accordance with paragraph 1.1 of Schedule 8.1 (Franchise Payments);

Franchise Performance Meeting means a meeting between the Secretary of State and the Franchise Operator to be held in accordance with paragraph 4 of Schedule 11 (Agreement Management Provisions);

Franchise Period means the period commencing on the Start Date and ending on the Expiry Date or, if earlier, the date of termination of the Franchise Agreement pursuant to Clauses 4.2(b) or 4.3(b) of the Umbrella Deed or Schedule 10 (Remedies, Termination and Expiry);

Franchise Sections has the meaning given to it in paragraph 1 of Schedule 16 (Pensions);

Franchise Services means such of the Passenger Services, the Station Services and the Ancillary Services as the Franchise Operator may provide or operate from time to time, including any of such services as the Franchise Operator may delegate or subcontract or otherwise secure through any other person from time to time in accordance with the Franchise Agreement;

Franchise Term means the period commencing on the Start Date and expiring on the Expiry Date;

Freedom of Information Act means the Freedom of Information Act 2000;

Funding Deed means the deed made between the Secretary for State, the Franchise Operator and the Guarantor dated on or about the date of the Franchise Agreement specifying arrangements relating to the funding of the Franchise Operator by the Guarantor and giving rights to the Secretary of State in relation to such funding;

GAAP means generally accepted accounting principles in the United Kingdom, as derived from and including the accounting requirements of the Companies Act 2006, 'Statements of Standard Accounting Practice', 'Financial Reporting Standards', abstracts issued by the Urgent Issues Task Force of the Accounting Standards Board and, where appropriate, International Financial Reporting Standards and the listing rules of the Financial Conduct Authority, in each case, as amended from time to time;

GDPA has the meaning given to it in Schedule 8.5 (GDP Adjustment Payments);

GDPR₁ has the meaning given to it in Schedule 8.5 (GDP Adjustment Payments);

GDPR₂ has the meaning given to it in Schedule 8.5 (GDP Adjustment Payments);

GDP (ABMI) Figures has the meaning given to it in paragraph 2.1 of Schedule 8.5 (GDP Adjustment Payments);

Gross Revenue means, in relation to any period and any Fare, the gross revenue to the Franchise Operator (or any relevant predecessor of the Franchise Operator) attributable to such Fare over the relevant period, excluding any applicable Value Added Tax, costs, commissions or other expenses which may be paid or incurred in connection with such Fare;

Guarantor means Stagecoach Group plc (Company No. SC100764);

Handover Package means a package containing the information and objects specified in the Appendix (Form of Handover Package) to Schedule 15.3 (Handover Package) and such other information and objects as the Secretary of State may reasonably specify from time to time;

Hot Standby means any rolling stock vehicle specified in the Train Plan which:

- (a) is operationally ready to provide the Passenger Services in the Timetable;
- (b) is not already assigned to the delivery of any Passenger Service in the Timetable; and
- (c) will only be used to deliver such Passenger Services if:
 - (i) a rolling stock vehicle scheduled to deliver such Passenger Services is unable to so deliver; and
 - (ii) Actual Passenger Demand could only be met by the deployment in service of such rolling stock vehicle;

IEP Implementation Strategy means the strategy in the agreed terms marked **IEP IS**;

Incremental Output Statement Charge means the charge to which that description is commonly given, first introduced into Relevant Agreements in April 2001;

Independent Station has the meaning given to it in paragraph 2.7 of Schedule 8.4 (Track Access Adjustments and Station Charge Adjustments);

Independent Station Access Conditions has the meaning given to it in the Access Agreement to which it relates;

Indexation Sum means, in respect of each Innovation Year, an amount equal to the Innovation Year Underspend indexed by the Retail Prices Index in the same way as variable costs are indexed in Schedule 8.2 (Annual Franchise Payments) less the Innovation Year Underspend;

Individual Station Charge Adjustment has the meaning given to it in paragraph 2.2 of Schedule 8.4 (Track Access Adjustments and Station Charge Adjustments);

Industrial Action has the meaning given to it in paragraph 1.2(f) of Schedule 10.4 (Force Majeure);

Industry Schemes has meaning given to it in paragraph 10 of Schedule 13 (Information and Industry Initiatives);

Initial Business Plan means the business plan to be provided by the Franchise Operator to the Secretary of State as described in paragraph 2.1 of Schedule 13 (Information and Industry Initiatives);

Initial Dataset has the meaning given to it in paragraph 17.1 of Schedule 13 (Information and Industry Initiatives);

Initial Performance Bond means the performance bond issued or to be issued on or prior to the date of this Franchise Agreement by a Bond Provider to the Secretary of State which complies with the requirements of paragraph 4.2 of Schedule 12 (Financial Obligations and Covenants);

Initial Period has the meaning given to it in paragraph 7.5 of Schedule 9.1 (Financial and Other Consequences of Change);

Initial Permanent Fare has the meaning given to it in the Ticketing and Settlement Agreement;

Initial Sustainable Development Plan means the initial sustainable development plan in the agreed terms marked **ISDP**;

Innovation Account means an account in the name of the Franchise Operator charged in favour of the Secretary of State, as more particularly defined in the Innovation Account Charge;

Innovation Account Charge means the charge granted by the Franchise Operator in favour of the Secretary of State in respect of the Innovation Account and in the agreed terms marked **IAC**;

Innovation Board means the board from time to time nominated by the Rail Delivery Group Operations Steering Group to review Innovation Proposal in accordance with guidance issued by the Secretary of State from time to time or such other substitute board or person as the Secretary of State may nominate from time to time;

Innovation Deliverables means all software or other documentation or materials in any form produced by or on behalf of Franchise Operator in connection with any Innovation Scheme;

Innovation Guidelines means the guidelines issued by the Secretary of State to the Innovation Board (with a copy to the Franchise Operator) from time to time;

Innovation Implementation Plan means the plan to be provided by the Franchise Operator to the Secretary of State in accordance with paragraph 19.1 of Schedule 13 (Information and Industry Initiative) in accordance with its Innovation Strategy;

Innovation Intellectual Property means Intellectual Property which is created or developed by or on behalf of the Franchise Operator in connection with any Innovation Scheme;

Innovation Period means a period of three years commencing on 1 April 2015 and ending on 31 March 2018, unless extended in accordance with paragraph 19.23 of Schedule 13 (Information and Industry Initiatives);

Innovation Scheme has the meaning given to it in paragraph 19.6 of Schedule 13 (Information and Industry Initiatives);

Innovation Scheme Underspend means, in respect of any Innovation Scheme where the Actual Innovation Cost is less than the Projected Innovation Cost, the amount by which the Actual Innovation Cost was less than the Projected Innovation Cost;

Innovation Strategy means the Innovation Strategy in the agreed terms marked **IS**;

Innovation Year means each of the following years:

- (a) 1 April 2015 – 31 March 2016;
- (b) 1 April 2016 – 31 March 2017; and
- (c) 1 April 2017 – 31 March 2018,

and where the Innovation Period is extended in accordance with paragraph 19.23 of Schedule 13 (Information and Industry Initiatives), each year or part year within such extended period;

Innovation Year Underspend means, in respect of each Innovation Year, any portion of the Annual Innovation Account Contribution for that Innovation Year which has not been spent or committed to an Innovation Scheme by the end of that Innovation Year;

Integrated Station Asset Management Policy means the document which in relation to Stations:

- (a) describes the Franchise Operator's general maintenance and renewals principles and procedures that it shall apply;
- (b) contains clear and appropriate rules for when intervention works and actions shall be triggered specified by reference to station asset condition and levels of user satisfaction; and
- (c) contains an appropriate and effective approach for dealing with exceptional station asset renewals including those arising out of latent defects or exceptional adverse weather, environmental contamination or damage caused by third parties,

set out in the agreed terms marked **SAMP1** as this may be revised and amended pursuant to paragraph 5.9¹⁵ of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Integrated Station Asset Management Plan means the document which sets out in relation to Stations:

- (a) an initial priced Station maintenance and renewal plan in relation to each Franchise Operator Year distinguishing between reactive and planned maintenance;
- (b) plans specifying how any other proposed enhancements will be delivered with milestones and a breakdown of costs;
- (c) an estimate of how the implementation of such plans will affect the condition of each Station in each Franchise Operator Year;
- (d) details of how the Franchise Operator shall efficiently maintain and update Station asset data (including condition measures) and hand over relevant policies, plans and records to a Successor Operator; and
- (e) details of the Franchise Operator's plans for the management and handover of the Stations and related assets at the end of the Franchise Period including how the Franchise Operator will work with Network Rail and a Successor Operator to ensure the continuity of its maintenance and renewals policy,

set out in the agreed terms marked **SAMP2** as this may be revised and amended pursuant to paragraph 5.9¹⁶ of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Integrated Transport Schemes means those schemes which relate to the integration of any form of transport with the Franchise Services;

Intellectual Property means all copyrights (including rights in computer software), patents, design rights, database rights, rights in undisclosed or confidential information (such as know-how, trade secrets and inventions (whether or not patentable)) and all other intellectual property or similar rights of whatever nature (whether registered or not and including applications to register or rights to apply for registration);

Intercity Express Project means the programme for delivering new rolling stock for use by the Franchise Operator pursuant to the provisions of the Train Availability and Reliability Agreement and the MARA;

¹⁵ Cross-reference corrected in letter dated 30 March 2015.

¹⁶ Cross-reference corrected in letter dated 30 March 2015.

Interest Rate means a rate equivalent to two per cent per annum above the base lending rate published by Royal Bank of Scotland plc (or such other bank as the Secretary of State may, after consultation with the Franchise Operator, determine from time to time) during any period in which an amount payable under the Franchise Agreement remains unpaid;

Inter-Operator Schemes means:

- (a) each of the following schemes which relate to arrangements between the Franchise Operator and other participants in the railway industry:
 - (i) ATOC Staff Travel Scheme dated 23 July 1993 between the participants named therein;
 - (ii) Ticketing and Settlement Agreement;
 - (iii) ATOC LRT Scheme dated 23 July 1993 between the participants named therein;
 - (iv) Travelcard Agreement dated 15 October 1995 between London Regional Transport and the parties named therein;
 - (v) Through Ticketing (Non-Travelcard) between London Regional Transport and the parties named therein;
 - (vi) National Rail Enquiry Scheme dated 11 June 1996 between the participants named therein; and
 - (vii) the Pay As You Go Agreement;
- (b) any other scheme, agreement and/or contract of a similar or equivalent nature as may from time to time during the Franchise Period amend, replace or substitute, in whole or in part, any of such schemes, agreements and/or contracts; and
- (c) any Discount Fare Scheme;

Investment Asset means the Franchise Assets designated as such pursuant to paragraph 2.2 of Schedule 14.4 (Designation of Franchise Assets);

Investment Asset Request Date means each anniversary of the Start Date provided that the final Investment Asset Request Date shall be the date 13 months prior to the end of the Franchise Term and there shall not be an Investment Asset Request Date on the anniversary of the Start Date where this would occur within 12 months of such final Investment Asset Request Date;

Invitation to Tender means the Invitation to Tender issued by the Secretary of State as part of the procurement process pursuant to which the Franchise Agreement was entered into;

IOP means ITSO on Prestige;

IOP Agreement means an agreement between the Secretary of State and TfL for the acceptance of ITSO Certified Smartmedia;

ITSO means (as the context may require) both:

- (a) the non-profit distributing organisation run by its members for the benefit of members and users of smartcards, supported by the Department for Transport (DfT); and
- (b) the common specification it has created to enable the use of interoperable smart cards in transport and other areas;

ITSO Certified Smartmedia means the contactless smartcards, devices or other media designed to hold fare and travel information with the monetary or other value encoded which have been fully certified by ITSO;

Key Contacts List means the list which contains the name, address, home, office and mobile telephone numbers, and a brief description of the person's role and responsibilities in the business in respect of all directors (statutory or otherwise) and the managers with responsibility for a department/function within the Franchise Operator's business (and in particular managers in the operations, commercial, personnel and public affairs departments (or in each case their nearest equivalents));

Key Contract means:

- (a) each agreement and contract listed in the Appendix (List of Key Contracts) to Schedule 14.3 (Key Contracts) as at the date of the Franchise Agreement; and
- (b) any other agreement, contract, licence or other arrangement to which the Franchise Operator is a party or under which the Franchise Operator is the beneficiary from time to time which is designated as such pursuant to Schedule 14.3 (Key Contracts),

but excluding any such agreement, contract, licence or other arrangement which ceases, in accordance with the terms of the Franchise Agreement, to be designated as a Key Contract;

Key Personnel means those persons identified by the Franchise Operator in accordance with paragraph 2.1 of Schedule 11 (Agreement Management Provisions);

Latent Defects Liability means a defect in the structure or fabric of a station building which exists before the Start Date but which is not apparent from any documentation relating to the state and condition of the Stations on the data site provided by the Secretary of State in relation to the franchise letting process, would not be apparent from a reasonable inspection of the relevant station and is not otherwise within the actual or constructive knowledge of the Franchisee and in

respect of which there is no provision incorporated into the Franchisee's maintenance proposals contained in the tender it submitted in response to the Invitation to Tender;

Law includes any enactment, subordinate legislation, rule, regulation, order, directive or other provision, including those of the European Community, and any judicial or administrative interpretation or application thereof, which has, in each case, the force of law in the United Kingdom or any part of it (including the Act, the Transport Act, the Transport Safety Act 2003 and the Railways Act 2005);

Lead Operator has the meaning given to it in the Ticketing and Settlement Agreement;

Legislation means any enactment or subordinate legislation, rule, regulation, order, directive or other provision including those of the European Community, which has, in each case, the force of Law in the United Kingdom or any part of it, but excluding any order under Section 1 of the Transport and Works Act 1992;

Licences means such licences and/or statements of national regulatory provisions granted or to be granted under applicable law as the Franchise Operator may be required from time to time to hold under the Act or under the Railway (Licensing of Railway Undertakings) Regulations 2005 in order to provide or operate the Franchise Services;

Light Maintenance Service means any service specified in paragraph 4 of Schedule 1.6 (Franchise Services) which may be provided by the Franchise Operator at the Depots and Stations;

Local Authority means:

- (a) in England, a county council, a district council, a unitary authority, a passenger transport executive, a London borough council, the common council of the City of London, or a council which is established under the Local Government Act 1992 and which is either an authority responsible for expenditure on public passenger transport services within the meaning of Section 88 of the Transport Act 1985 or a local authority for the purposes of Section 93 of the Transport Act 1985;
- (b) in Wales, a county council, a district council or a council which is established under the Local Government Act 1972 or the Local Government (Wales) Act 1994;
- (c) in Scotland, the Strathclyde Passenger Transport Executive, or a district council or a unitary authority which is established under the Local Government (Scotland) Act 1973 or the Local Government, etc. (Scotland) Act 1994;
- (d) in London, the Mayor of London and Transport for London established under the Greater London Authority Act 1999;

- (e) any other body or council replacing any of the above from time to time; and
- (f) any other body or instrument of local or regional government specified by the Secretary of State from time to time;

Lock-up Period has the meaning given to it in paragraph 3.2 of Schedule 12 (Financial Obligations and Covenants);

London Station means any station served by the Railway Passenger Services in the Zones and any Zone to or from which a passenger may travel from or to such station;

Maintenance Account means an account in the name of the Franchise Operator charged in favour of the Secretary of State, as more particularly defined in the Maintenance Account Charge;

Maintenance Account Charge means the charge granted by the Franchise Operator in favour of the Secretary of State in respect of the Maintenance Account and in the agreed terms marked **MAC**;

Maintenance Amount means, in relation to any Reporting Period, the amount determined in accordance with paragraph 5.12(a) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Maintenance Contract means any contract or arrangement to which the Franchise Operator is a party, which includes the carrying out for the Franchise Operator of any maintenance work (including light maintenance services) or service provision in respect of rolling stock vehicles used by the Franchise Operator in the provision of the Passenger Services or for the enforcement of warranties or other rights against a manufacturer in respect of any such rolling stock vehicles;

Maintenance Cost Savings means any cost savings made by the Franchise Operator where such costs savings have been realised solely or substantially due to the Franchise Operator carrying out its obligations under paragraph 5.13 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions) in a more efficient and cost effective manner without adversely affecting compliance with such obligations in relation to cleaning, decoration, maintenance, repair and renewal of Stations;

Maintenance Fund means the sums standing to the credit of the Maintenance Account from time to time;

Major Development means any proposal which if implemented would involve the carrying out of works of construction, reconstruction, development, redevelopment or refurbishment of or to a Station or any part of it or would in the reasonable opinion of the Secretary of State be likely to have a materially adverse effect on the ability of a Successor Operator to operate the Franchise in succession to the Franchise Operator;

Major Flow Operator has the meaning given to it in the Ticketing and Settlement Agreement;

Managed Station means London King's Cross or any other station used in connection with the provision of the Franchise Services where Network Rail becomes the Facility Owner during the Franchise Period;

Managed Station Area means the premises comprising part or parts of a Managed Station to be occupied by the Franchise Operator on or after the Start Date and to be used for or in connection with the provision of the Franchise Services;

Management Accounts means, in relation to any Reporting Period, the Franchise Operator's management accounts which:

- (a) comply with paragraph 3.10 of Schedule 13 (Information and Industry Initiatives); and
- (b) are required to be delivered to the Secretary of State by the Franchise Operator in accordance with paragraphs 3.2 and 3.3 of Schedule 13 (Information and Industry Initiatives);

Mandatory Modification means a modification or addition to any rolling stock vehicle which is required to be made under any applicable Law or any directive of the Rail Safety and Standards Board or any government authority;

MARA has the meaning given to such term in paragraph 2.1 of Schedule 6.3 (The IEP Provisions);

Marks means such trade marks as the Franchise Operator may apply to any Primary Franchise Asset or other asset used by it under a Key Contract, which are applied on the expiry of the Franchise Period and are not the subject of a Brand Licence;

Minimum Asset Remaining Life means the minimum average length (as a percentage) of Station Assets set out in the Minimum Asset Remaining Life Table;

Minimum Asset Remaining Life Table means the table in Appendix 2 (Minimum Asset Remaining Life Table) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Minimum Balance means the amount of any interest accrued on the Maintenance Account but not yet drawn by the Franchise Operator pursuant to paragraph 5.12 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions) plus all accrued but undrawn Maintenance Cost Savings;

Minor Works has the meaning given to it in paragraph 2.7(a) of Schedule 4 (Persons with Disabilities and Disability Discrimination);

Minor Works' Budget means £300,000 for each Franchise Operator Year allocated by the Franchise Operator for the purpose of facilitating Minor Works at Stations to improve accessibility of the Stations to persons with disabilities, save that:

- (a) for any Franchise Operator Year which is shorter than 12 months, the amount shall be reduced pro rata; and
- (b) for each Franchise Operator Year after the first Franchise Operator Year, the amount shall be subject to adjustment as follows:

Minor Works' Budget x RPI

where RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments);

Minor Works' Programme means the Franchise Operator's programme of Minor Works at Stations to improve accessibility of the Stations to persons with disabilities, developed prior to the start of each Franchise Operator Year pursuant to paragraph 2.7(b) of Schedule 4 (Persons with Disabilities and Disability Discrimination);

Minutes Delay means the minutes of delay to the Passenger Services that are attributed to the Franchise Operator or Network Rail (as the case may be) pursuant to the Track Access Agreement and disregarding any minutes of delay that are attributed to Passenger Services that were cancelled;

Model Changes has the meaning given in paragraph 4.3 of Schedule 9.1 (Financial and Other Consequences of Change);

Modified Revenue means:

- (a) the sum of:
 - (i) the Franchise Operator's total revenue for the period being reviewed as stated in its profit and loss account:
 - (A) including any amounts receivable from the Secretary of State, Network Rail (other than any NR Received Amount) and any interest; but
 - (B) excluding the proportion of income recognised in the profit and loss account in relation to grants received in respect of capital expenditure; and
 - (ii) the opening cash balance for the period being reviewed, excluding:
 - (A) any cash held for the exclusive purpose of the provision of the Performance Bond; and

- (B) the amount equivalent to:
- (1) any cash that is held pursuant to any restrictive terms under any agreement and that, consequently, cannot be used for general operating purposes (including funds held in the Maintenance Account or the Innovation Account);
 - (2) any cash capable of being drawn down but not actually received,
- including, in both cases, under any loan or funding agreement or arrangements (including the Funding Deed) entered into with an Affiliate of the Franchise Operator; and
- (C) the amount of the opening season ticket liabilities which relate to Passenger Services yet to be delivered; and

(b) either:

- (i) plus any reduction in total debtors over that period; or
- (ii) less any increase in total debtors over that period,

where total debtors exclude any bad debts provision or write off and any capital-related debtors;

MOIRA is the model in the agreed terms marked **MOIRA** which comprises the timetable/revenue tool used to provide inputs into the revenue model;

Monthly Season Ticket means a Season Ticket Fare which is valid in Standard Class Accommodation from (and including) the day it first comes into effect until (but excluding) the day which falls one month after such day;

Morning Peak means, in relation to any Passenger Service, the period between 0700 and 0959 (inclusive) during a Weekday or such other continuous three hour period as the Secretary of State may specify from time to time;

NARPE has the meaning given to it in paragraph 25.2 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

National Rail Enquiry Scheme means the telephone information scheme run by ATOC, providing information to callers regarding rail journeys throughout the country;

National Rail Passenger Survey means a passenger satisfaction survey in respect of the Franchise Services to be carried out by the Passengers' Council as described in paragraph 1 of

Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund) and shall include any Alternative NRPS as referred to in paragraph 1.6 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

National Rail Timetable means the passenger timetable published by Network Rail (currently twice per annum) specifying the timings and stopping patterns of all passenger railway services in Great Britain;

Network Change Compensation Claims has the meaning given to it in paragraph 4.4(a) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Network Code means the document known as the Network Code and formerly known as the Railtrack Track Access Conditions 1995 (as subsequently replaced or amended from time to time) or any equivalent code or agreement;

Network Rail means in respect of:

- (a) the network or any relevant facility:
 - (i) Network Rail Infrastructure Limited, a company registered in England with registered number 02904587 whose registered office is at **1 Eversholt Street London, NW1 2DN¹⁷**; and
 - (ii) any successor in title to the network or any relevant railway facility; or
- (b) any new or other sections of network or any relevant new or other railway facilities, the owner (if different);

Network Rail Cancellation means a Passenger Service:

- (a) which is included in the Enforcement Plan of the Day and which is cancelled; or
- (b) which is included in the Enforcement Plan of the Day and which operates less than 50 per cent of its scheduled mileage (as prescribed in the Enforcement Plan of the Day),

in either case in circumstances where responsibility for the same is attributed to Network Rail pursuant to the Track Access Agreement;

Network Rail Claim means the claims for sustained poor performance initiated by the Franchise Operator against Network Rail pursuant to paragraph 18 of Schedule 8 of the Track Access Agreement (as such claim is more particularly described in the letter issued by the Franchise Operator to Network Rail dated 23 December 2013) and any other claim for sustained poor

¹⁷ Definition amended in letter dated 30 March 2015.

performance as may be initiated by the Franchise Operator under its Track Access Agreement to the extent that any such other claim for sustained poor performance relates to the period prior to the Start Date;

Network Rail Partial Cancellation means a Passenger Service which is included in the Enforcement Plan of the Day and which:

- (a) misses a stop; or***
- (b) completes 50 per cent or more, but less than 100 per cent of its scheduled journey as prescribed in the Enforcement Plan of the Day,***

in circumstances where responsibility for the same is attributed to Network Rail pursuant to the Track Access Agreement.¹⁸

New Insurance Arrangements shall have the meaning given to it in paragraph 2.2(b) of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

New Results means, in relation to any Change, the following as restated in accordance with Schedule 9.1 (Financial and Other Consequences of Change) following a Run of the Financial Model in relation to that Change: the restated values of FXD, VCRPI, VCAWE, PRPI, ORRPI, PRRPI to be specified for each Franchise Operator Year in the Appendix (Figures for Calculation of Annual Franchise Payments) to Schedule 8.2 (Annual Franchise Payments) and FPST, SPST and TPST to be specified for each Franchise Operator Year in Appendix 1 (Profit Share Thresholds) to Schedule 8.1 (Franchise Payments);

New Station means:

- (a)** a station not served by railway passenger services as at February 2003, but which has since that time been, or is subsequently, served by railway passenger services which have been, or are subsequently to be, included in the Timetable or in another relevant Train Operator's timetable; and/or
- (b)** if the Secretary of State requires, a station, other than a Station, at which, with the consent of the Secretary of State (whether by amendment to the Franchise Agreement or otherwise), railway passenger services operated by the Franchise Operator call;

Non-Fares Basket Fare means a Fare that is designated as such by the Secretary of State pursuant to paragraph 2.1 of Schedule 5.3 (Allocation of Fares to Fares Baskets) and which has

¹⁸ Replaced in the letter dated 27 February 2015

not been de-designated as such pursuant to paragraph 1.1 of Schedule 5.7 (Changes to Fares and Fares Regulation);

NR Received Amount has the meaning given to it in paragraph 7 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

NRPS Benchmark means in relation to any Franchise Operator Year, each of the benchmarks relating to each NRPS Measure as set out in the relevant columns of the NRPS Benchmark Table;

NRPS Benchmark Table means the table set out in Appendix 1 (NRPS Benchmark Table) of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

NRPS Measure means each of the factors set out in the Passenger Survey Methodology and grouped as Stations, Train Services, Train Facilities and Customer Services;

Off-Peak means, in relation to any Passenger Service, the period of time outside of the Peak;

Off-Peak Passenger Services means Passenger Services or parts of Passenger Services which are not Peak Passenger Services;

Old Results means in relation to any Change, the following as produced in accordance with Schedule 9.1 (Financial and Other Consequences of Change) by or following the Run of the Financial Model in respect of the immediately preceding Change (or, in relation to the first Change only, the following as at the date hereof: the values of FXD, VCRPI, VCAWE, PRPI, ORRPI and PRRPI specified for each Franchise Operator Year in the Appendix (Figures for Calculation of Annual Franchise Payments) to Schedule 8.2 (Annual Franchise Payments) and FPST, SPST and TPST specified for each Franchise Operator Year in Appendix 1 (Profit Share Thresholds) to Schedule 8.1 (Franchise Payments));

Operating Assets has the meaning given to it in paragraph 1.1 of Schedule 14.2 (Maintenance of Operating Assets);

Operational Model means the following models in the agreed terms marked **OM**:

- (a) the revenue model;
- (b) the performance model;
- (c) all cost models; and
- (d) any other relevant models that have generated input to the Financial Model;

Operational Readiness Group has the meaning given to it in paragraph 8.4 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

ORR means the Office of Rail Regulation established by Section 15 of the Railways and Transport Safety Act 2003 and having duties and obligations as set out in the Act;

Parent means Stagecoach Group plc (Company No. SC100764);

Partial Cancellation means a Passenger Service which is included in the Enforcement Plan of the Day and which Passenger Service:

- (a) misses a stop; or
- (b) completes 50 per cent or more, but less than 100 per cent of its scheduled journey as prescribed in the Enforcement Plan of the Day;

in each case, for reasons which are attributed to the Franchise Operator pursuant to its Track Access Agreement;

Participating Employer has the meaning given to it in the Pension Trust;

Passenger Carrying Capacity means, in relation to a Passenger Service, the capacity of the rolling stock vehicles (as stated in Schedule 1.7 (The Train Fleet) or determined by the Secretary of State in accordance with paragraph 2.4¹⁹ of Schedule 1.7 (The Train Fleet)) from which the Passenger Service is formed;

Passenger Change Date means a date upon which significant changes may be made to the Timetable in accordance with or by virtue of the Network Code;

Passenger Journeys means travel by a passenger from the station where such passenger joins the Passenger Services to the station where such passenger exits the Passenger Services as derived from 'Lennon' or such other industry systems as the Secretary of State may from time to time reasonably determine;

Passenger Services means the Franchise Operator's railway passenger services as specified in any Timetable and/or Plan of the Day including those railway passenger services which the Franchise Operator may delegate or subcontract or otherwise secure through any other person from time to time in accordance with the Franchise Agreement;

¹⁹ Cross-reference corrected in letter dated 30 March 2015.

Passenger Survey Methodology has the meaning given to such term in paragraph 1.4 of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Passenger's Charter means the Franchise Operator's service commitments to its passengers in the agreed terms marked **PC**, as amended or replaced from time to time with the prior written consent of the Secretary of State in accordance with paragraph 4 of Schedule 1.4 (Passenger Facing Obligations);

Passengers' Council means the passengers' council established under Section 19 of the Railways Act 2005;

Pay As You Go Agreement means an agreement dated 16 October 2009 between Transport Trading Limited and train operators operating in London enabling joint ticketing and the acceptance of each other's tickets using smartmedia technology under the name Pay as You Go;

PAYG Off-Peak Fare means a Fare which is a Permanent Fare and which entitles the purchaser to make a single journey under the Pay As You Go Agreement in Standard Class Accommodation between and within the PAYG Zones for which the fare is valid, at any time on Saturdays and Sundays and at such times as the Franchise Operator may designate on Mondays to Fridays (where such Fare need not be valid between 6.30am and 9.30am or between 4.00pm and 7.00pm but must be valid at all other times) and which may take into account the different directions of travel;

PAYG Peak Fare means a Fare which is a Permanent Fare and which entitles the purchaser to make a single journey under the Pay As You Go Agreement in Standard Class Accommodation between and within the PAYG Zones for which the fare is valid, at any time;

PAYG Zone shall have the same meaning as **Zone** with the addition of the following stations:

Rickmansworth;

Carpenders Park;

Chorleywood;

Chalfont and Latimer;

Amersham;

Bushey;

Watford Junction; and

Watford High Street;

Payment Date means the date for the payment of Franchise Payments in accordance with paragraph 2.3 of Schedule 8.1 (Franchise Payments);

Peak means the Morning Peak and the Evening Peak;

Peak Passenger Service means a Passenger Service or any part of a Passenger Service operated which:

- (a) arrives at a Station during the Morning Peak; or
- (b) departs from a Station during the Evening Peak;

Pensions Committee has the meaning given to it in the Railways Pension Scheme;

Pension Trust means the pension trust governing the Railways Pension Scheme;

Performance Sum Adjustment Date means in the case of each Cancellations Performance Sum or TOC Minute Delay Performance Sum determined pursuant to paragraph 3 of Schedule 7.1 (Performance Benchmarks) and payable by the Secretary of State, the first Payment Date falling no less than seven days after that determination;

Performance Bond means the Initial Performance Bond and any Replacement Performance Bond, which in each case, shall comply with the requirements of paragraph 4.2 of Schedule 12 (Financial Obligations and Covenants);

Performance Calculation Year means:

- (a) the period of 13 Reporting Periods starting on (i) 1 April 2015 (that day inclusive) in respect of the Cancellations Benchmark and the TOC Minute Delay Benchmark and (ii) 1 April 2018 (that day inclusive) in respect of the Short Formations Benchmark; or
- (b) each subsequent and non-overlapping period of 13 Reporting Periods during the Franchise Period commencing on the day after the last day of the preceding Performance Calculation Year,

provided that the last such period may be shorter than 13 Reporting Periods and shall end on the last day of the Franchise Period;

Performance Strategy Plan means has the meaning given to it in the Network Code;

Period of Sustained Poor Performance means any Reporting Period during which passengers are entitled to claim compensation under the Passenger's Charter following a delay to their journey of more than 30 minutes, in respect of 12 or more days;

Permanent Fare has the meaning given to it in the Ticketing and Settlement Agreement;

Permitted Aggregate Increase has the meaning given to it in paragraph 4.2 of Schedule 5.4 (Regulation of Fares Basket Values);

Permitted Individual Increase has the meaning given to it in paragraph 2.2 of Schedule 5.5 (Regulation of Individual Fares);

Personal Data has the same meaning as in the Data Protection Act and includes Sensitive Personal Data as defined therein;

Personal Data Legislation has the meaning given to it in paragraph 5.1 of Schedule 1.5 (Information about Passengers);

Placed in Escrow means:

- (a) in respect of the Financial Model, delivery of the Financial Model:
 - (i) dated the date of the Franchise Agreement; and
 - (ii) adjusted to the extent necessary to reflect any time elapsed between the actual Start Date and the date assumed to be the Start Date in the Initial Business Plan; and
 - (iii) where Schedules 9.1 (Financial and Other Consequences of Change) and 9.2 (Identity of the Financial Models etc.) applies, audited following a Run of the Financial Model and updated with any Revised Inputs; and
- (b) in respect of the Operational Model, delivery of:
 - (i) the Operational Model dated the date of the Franchise Agreement;
 - (ii) the Operational Model adjusted to the extent necessary to reflect any time elapsed between the actual Start Date and the date assumed to be the Start Date in the Initial Business Plan; and
 - (iii) where Schedules 9.1 (Financial and Other Consequences of Change) and 9.2 (Identity of the Financial Models etc.) applies, the inputs to the Financial Model derived therefrom following an audit of a Run of the Financial Model; and
- (c) in respect of the Record of Assumptions, delivery thereof,

each in accordance with Schedule 9.2 (Identity of the Financial Model etc.);

Plan of the Day means, in relation to each day during the Franchise Term, the Passenger Services scheduled to be operated on that day through specification in the Timetable or as notified

to the Franchise Operator by Network Rail from time to time prior to 2200 hours on the previous day;

PPM means the public performance measure as produced and/or published by Network Rail or the Office of Rail Regulation;

PPM Figures means the moving annual average percentage published by Network Rail or the Office of Rail Regulation in respect of PPM, rounded to one decimal place;

Power of Attorney means the power of attorney granted by the Franchise Operator in favour of the Secretary of State in the agreed terms marked **POA**;

Preceding 13 Reporting Periods has the meaning given to it in paragraph 2.1²⁰ of Schedule 12 (Financial Obligations and Covenants);

Preceding Year Ticket Price has the meaning given to it in paragraph 2.1(b) of Schedule 5.5 (Regulation of Individual Fares);

Previous Franchise Agreement means any agreement under which services equivalent to the Franchise Services (or a material proportion thereof) were provided by a Train Operator on or about the day prior to the Start Date;

Previous Passenger Services means:

- (a) any railway passenger service operated under a Previous Franchise Agreement that is the same or substantially the same as any Passenger Service in terms of departure and arrival times and stopping patterns; and
- (b) if no such railway passenger service is found under paragraph (a) such other railway passenger service operated under a Previous Franchise Agreement which is similar in terms of departure and arrival times and stopping patterns to the Passenger Services as the Secretary of State may reasonably determine;

Previous Performance Level means the level of performance actually achieved in relation to the Previous Passenger Services;

Price means, in respect of any Fare, the price of such Fare before the deduction of any applicable discount to which a purchaser may be entitled, as notified to RSP in accordance with Schedule 5 to the Ticketing and Settlement Agreement;

Primary Franchise Assets means:

²⁰ Cross-reference corrected in letter dated 30 March 2015.

- (a) the property, rights and liabilities of the Franchise Operator listed in the Appendix (List of Primary Franchise Assets) to Schedule 14.4 (Designation of Franchise Assets); and
- (b) any other property, rights and liabilities of the Franchise Operator which is or are designated as such pursuant to Schedule 14.4 (Designation of Franchise Assets),

but excluding such property, rights or liabilities as may, in accordance with the terms of the Franchise Agreement, cease to be so designated;

Prior Train Operator has the meaning given to it in paragraph 2.5 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

Process has the same meaning as in the Data Protection Act 1998;

Profit means profit before corporation tax, determined in accordance with GAAP;

Projected Innovation Cost means, in respect of any Innovation Scheme, the total projected cost to the Franchise Operator of developing and implementing that Innovation Scheme calculated in accordance with paragraph 19.10 of Schedule 13 (Information and Industry Initiatives);

Projected Revenue means the revenue in any Fare Year which is projected to be attributable to any Fare, determined in accordance with paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values);

Property Lease means any Depot Lease, Managed Station Area Lease, any lease in respect of Shared Facilities or Station Lease and any agreement or lease of a similar or equivalent nature (whether in respect of any such facility or otherwise) which the Franchise Operator may enter into with a person who has an interest in a network or a railway facility which is to be used for or in connection with the provision or operation of the Franchise Services;

Proposed ERTMS Implementation Plan means Network Rail's plans for the implementation of the ERTMS Programme as more particularly described in the document in agreed terms marked **ERTMSP**;

Protected Fare means a Protected Return Fare or a Protected Weekly Season Ticket;

Protected Fares Basket means the grouping of Protected Fares:

- (a) determined by the Secretary of State pursuant to Schedule 5.3 (Allocation of Fares to Fares Baskets);
- (b) for the purposes of regulating their aggregate Prices or Child Prices, as the case may be, in accordance with Schedule 5.4 (Regulation of Fares Basket Values);

- (c) amended by the Secretary of State from time to time in accordance with Schedule 5.7 (Changes to Fares and Fares Regulation); and
- (d) set out in the Protected Fares Document;

Protected Fares Document means the document in the agreed terms marked **PFD**, as the same may be amended from time to time in accordance with Schedule 5.7 (Changes to Fares and Fares Regulation);

Protected Proposal has the meaning given to it in paragraph 1.8 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes);

Protected Return Fare means in respect of a Fare for a Flow:

- (a) for which there was a Saver Return Fare in February 2003, a Return Fare for each such Flow in respect of which the Franchise Operator is entitled or obliged from time to time to set the Price or Child Price under the Ticketing and Settlement Agreement, subject to the following additional rights and restrictions:
 - (i) it shall be valid for no less than one month;
 - (ii) it shall be valid all day on a Saturday or Sunday and from no later than 1030 on any other day;
 - (iii) it need not be valid for any journey:
 - (A) beginning between 1500 and 1900 on any day other than a Saturday or Sunday;
 - (B) where such journey begins from a London Station or any station between any London Station and Reading station, Watford station, Luton station, or Stevenage station (inclusively); and
 - (C) which is in a direction away from London; or
- (b) for which there was no Saver Return Fare in February 2003, a Return Fare for each such Flow in respect of which the Franchise Operator is entitled or obliged from time to time to set the Price or Child Price under the Ticketing and Settlement Agreement,

except in each case to the extent that a Return Fare for any such Flow is a Commuter Fare;

Protected Weekly Season Ticket means a Weekly Season Ticket for any Flow for which there was a weekly season ticket in the fares manuals and systems of the RSP in February 2003 and in respect of which the Franchise Operator is entitled or obliged, from time to time, to set the Price

or Child Price of under the Ticketing and Settlement Agreement except to the extent that a Weekly Season Ticket for any such Flow is a Commuter Fare;

PTP has the meaning given to it in paragraph 17.1 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Public Sector Operator means any person (other than a Franchise Operator or franchise operator in relation to the services provided or operated under its franchise agreement) who provides railway passenger services or operates any station or light maintenance depot pursuant to or under Section 30 of the Act or Section 6 of the Railways Act 2005;

Qualifying Change means a Change which:

- (a) following a Run of the Financial Model (where Schedule 9.1 (Financial and Other Consequences of Change) applies) in accordance with Schedule 9 (Changes), results in adjustments in Franchise Payments over the remaining life of the Franchise Agreement that have a net present value, as at the date of the Change, in excess of the Threshold Amount for the Franchise Operator Year during which the relevant Change arises. For the purposes of ascertaining a net present value of the amount of any adjustment in any Franchise Payment, the amount of the adjustment shall be discounted at the prevailing discount rate per annum (in real terms) stated in HM Treasury's "Green Book Appraisal Guidelines", counting back from the date of receipt of that adjusted Franchise Payment to the date of the Change. As at the date of the Franchise Agreement that rate is 3.5%; or
- (b) the Franchise Agreement expressly provides shall be a Qualifying Change.

Quarterly Season Ticket means a Season Ticket Fare which is valid in Standard Class Accommodation from (and including) the day it first comes into effect until (but excluding) the day which falls three months after such day;

Railway Group means the committee responsible for cross industry co-ordination in respect of rail safety legislation and industry safety standards chaired by the Rail Safety and Standards Board;

Railway Operational Code has the meaning given to it in Condition H of the Network Code;

Railway Passenger Services means, for the purposes of Schedule 5 (Fares) only, services for the carriage of passengers by railway which are provided by a person who is bound by the Ticketing and Settlement Agreement, or any part of it, and including the Franchise Operator and any other Train Operator from time to time;

Railways Pension Scheme means the pension scheme established by the Railways Pension Scheme Order 1994 (No. 1433);

Rail Safety and Standards Board means Rail Safety and Standards Board Limited, a company registered in England with registered number 04655675 whose registered office is at Block 2, Angel Square, 1 Torrens Street, London EC1V 1NY;

Reconciliation Amount has the meaning given to it in paragraph 9.9 of Schedule 9.1 (Financial and Other Consequences of Change);

Record of Assumptions means a document in the agreed terms marked **ROA** prepared by the Franchise Operator (and/or, where Schedule 9.1 (Financial and Other Consequences of Change) applies) applies, as may be revised in accordance with Schedule 9 (Changes)) and Placed in Escrow providing:

- (a) detailed assumptions, explanations of assumptions and parameters underlying the Financial Model;
- (b) details of how Franchise Payments have been calculated (including by reference to a defined annual profit margin);
- (c) a description of the functionality, operation and structure of the Financial Model; and
- (d) a description of each input cell, its requirements and its inter-relationship with the Financial Model;

Reference Fare has the meaning given to it in paragraph 6.1(a) of Schedule 5.7 (Changes to Fares and Fares Regulation);

Reference Flow has the meaning given to it in paragraph 6.1(a) of Schedule 5.7 (Changes to Fares and Fares Regulation);

Reference Revenue means the aggregate Gross Revenue recorded by RSP as attributable to sales of all Commuter Fares or Protected Fares for the period of 12 months which ended 31 March 2010 or such other reference period as the Secretary of State may require pursuant to paragraph 3.1(a) of Schedule 5.7 (Changes to Fares and Fares Regulation);

Regulated Child Price means the Child Price that is permitted to be charged by the Franchise Operator in respect of any Fare in any Fare Year, determined in accordance with paragraph 2.1 of Schedule 5.5 (Regulation of Individual Fares);

Regulated Price means the Price that is permitted to be charged by the Franchise Operator in respect of any Fare in any Fare Year, determined in accordance with paragraph 2.1 of Schedule 5.5 (Regulation of Individual Fares);

Regulated Value means the Value of any Fares Basket that is permitted in any Fare Year, determined in accordance with paragraph 4.1 of Schedule 5.4 (Regulation of Fares Basket Values);

Reinstatement Cost means the direct costs agreed (or on failure to agree as reasonably determined by the Secretary of State) by the Secretary of State and the Franchise Operator as being the reasonable and proper costs to be incurred by the Franchise Operator for the purposes of carrying out the Reinstatement Works;

Reinstatement Works has the meaning given to it in paragraph 5.4(a) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Relevant Agreement means any Property Lease or Access Agreement in relation to any stations or network which may be used from time to time by the Franchise Operator in connection with the Franchise Services, as replaced or amended from time to time. If and to the extent that:

- (a) following the effective date of any Charge Variation, the Franchise Operator enters into any Replacement Agreement;
- (b) the effect of that Charge Variation is reflected in the terms of the Replacement Agreement; and
- (c) the Secretary of State has consented to such Replacement Agreement being entered into and constituting a Replacement Agreement for the purposes of this definition,

then the Replacement Agreement shall be deemed to be a Relevant Agreement;

Relevant Credit Rating means a credit rating of:

- (a) A - (or better) by Standard and Poor's Corporation or Fitch Ratings Limited in respect of long term senior debt; or
- (b) A3 (or better) by Moody's Investors Service Inc. in respect of long term senior debt; or
- (c) if any credit rating specified in paragraph (a) or (b) ceases to be published or made available or there is a material change in the basis of any such credit rating, such other rating or standard as the Secretary of State may, after consultation with the Franchise Operator, determine to be appropriate in the circumstances.

Relevant Delay has the meaning given to it in paragraph 2.5 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

Relevant Operator Direct Agreement means the direct agreement in relation to the MARA to be entered into in accordance with the Umbrella Deed;

Relevant Profit has the meaning given to it in paragraph 3.1 of Schedule 8.1 (Franchise Payments);

Relevant Reporting Period has, for the purposes of paragraph 5.3 of Schedule 12 (Financial Obligations and Covenants) only, the meaning given to it in that paragraph;

Relevant Rolling Stock has the meaning given to it in paragraph 2.5 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);

Relevant Term has the meaning given to it in paragraph 1.2(a) of Schedule 10.1 (Remedial Plans and Remedial Agreements);

Remedial Agreement has the meaning given to it in paragraph 1.5 of Schedule 10.1 (Remedial Plans and Remedial Agreements);

Remedial Plan has the meaning given to it in paragraph 1.2 of Schedule 10.1 (Remedial Plans and Remedial Agreements);

Remedial Plan Notice has the meaning given to it in paragraph 1.1 of Schedule 10.1 (Remedial Plans and Remedial Agreements);

Replacement Agreement means an agreement entered into as a replacement for any Relevant Agreement;

Replacement Copy has the meaning given to it in paragraph 2.2(b) of Schedule 9.2 (Identity of the Financial Model etc.);

Replacement Performance Bond means any performance bond issued or to be issued following the issue of the Initial Performance Bond by a Bond Provider to the Secretary of State which complies with the requirements of paragraph 4.2 of Schedule 12 (Financial Obligations and Covenants);

Report has the meaning given to it in paragraph 4.4 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Reporting Period means:

- (a) for the purposes of the Season Ticket Bond, any consecutive seven-day period or any other period, each within a Reporting Period (as defined in paragraph (b)) agreed in accordance with paragraph 5.12 of Schedule 12 (Financial Obligations and Covenants); or
- (b) for all other purposes, a period of 28 days, provided that:

- (i) the first such period during the Franchise Period shall exclude any days up to but not including the Start Date;
 - (ii) the first and last such period in any Reporting Year may be varied by up to seven days by notice from the Secretary of State to the Franchise Operator;
 - (iii) each such period shall start on the day following the last day of the preceding such period; and
- (c) the last such period during the Franchise Period shall end at the end of the Franchise Period;

Reporting Year means a period normally commencing on 1 April in each calendar year, comprising 13 consecutive Reporting Periods;

Request for Information means a request for information or an apparent request under the Freedom of Information Act or the Environmental Information Regulations;

Required Improvement has the meaning given to it in paragraph 2.7²¹ of Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);

Required Performance Improvement has the meaning given to it in paragraph 3.7 of Schedule 7.1 (Performance Benchmarks);²²

Retail Prices Index means the retail prices index for the whole economy of the United Kingdom and for all items as published from time to time by the Office for National Statistics as RPI or, if such index shall cease to be published or there is, in the reasonable opinion of the Secretary of State, a material change in the basis of the index or if, at any relevant time, there is a delay in the publication of the index, such other retail prices index as the Secretary of State may, after consultation with the Franchise Operator, determine to be appropriate in the circumstances;

Return Fare means a Fare which entitles the purchaser to make, without further restrictions as to the time of day for which the Fare is valid, a journey in each direction in Standard Class Accommodation between the stations and/or the zones for which such Fare is valid and which expires no earlier than 0200 hours on the day after the day of the outward journey or, if later, the time the relevant return journey may be completed if commenced before 0200 hours;

Review Date means:

- (a) 15 December 2014;

²¹ Cross-reference corrected in letter dated 30 March 2015.

²² Cross-reference corrected in letter dated 30 March 2015.

(b) such later date as may be notified to the Franchise Operator by the Secretary of State pursuant to Clause 11.2 or Clause 11.3 of the Umbrella Deed;

Revised Inputs has the meaning given to it in paragraph 4.2 of Schedule 9.1 (Financial and Other Consequences of Change);

Rolling Stock Lease means any agreement for the leasing of rolling stock vehicles to which the Franchise Operator is a party as at the Start Date and any agreement of a similar or equivalent nature (including, any agreement or arrangement for the subleasing, hiring, licensing or other use of rolling stock vehicles) to which the Franchise Operator is a party from time to time during the Franchise Term whether in addition to, or replacement or substitution for, in whole or in part, any such agreement provided that the Train Availability and Reliability Agreement shall not be a Rolling Stock Lease for the purposes of the Franchise Agreement;

Rolling Stock Related Contract means any Rolling Stock Lease, Maintenance Contract or Technical Support Contract;

Rolling Stock Unit means the smallest number of rolling stock vehicles which are normally comprised in a train used by the Franchise Operator in the provision of the Passenger Services;

Route means any route specified in the Timetable which the Franchise Operator has permission to operate the Passenger Services over pursuant to any Track Access Agreement;

Route Efficiency Benefit Share Mechanism or REBS means the route-level efficiency benefit sharing mechanism introduced by the ORR in its determination for the control period commencing on 1 April 2014 or any similar arrangement under which the benefits of any outperformance (or downsides of failure to achieve efficiency targets) are to be shared between Network Rail and Train Operators at route level;

RSP means Rail Settlement Plan Limited;

RSPS3002 means the RSP document with reference RSPS3002, version 02.00 published June 2013 which specifies standards for issuing, checking and validating rail products on ITSO Certified Smartmedia and defines the rail specific rules required to ensure interoperability across the rail network;

Run of the Financial Model means an operation of the Financial Model with the Revised Inputs and which complies with the requirements of Schedule 9.1 (Financial and Other Consequences of Change);

Safety Authorisation means the authorisation issued by the ORR under the Safety Regulations authorising the Franchise Operator's safety management system (as defined in those regulations) and the provisions adopted by the Franchise Operator to meet the requirements that are

necessary to ensure safe design, maintenance and operation of the relevant infrastructure on the Routes;

Safety Certificate means the certificate issued by the ORR under the Safety Regulations, certifying its acceptance of the Franchise Operator's safety management system (as defined in those regulations) and the provisions adopted by the Franchise Operator to meet the requirements that are necessary to ensure safe operation on the Routes;

Safety Regulations means The Railways and Other Guided Transport Systems (Safety) Regulations 2006;

Saver Return Fare means a return fare which is shown as a saver fare in the fares manuals and systems of the RSP as at the date of such manuals;

Season Ticket Bond means the season ticket bond to be provided to the Secretary of State in respect of the Franchise Operator's liabilities under certain Fares and Season Ticket Fares in the form set out in Appendix 2 (Form of the Season Ticket Bond) to Schedule 12 (Financial Obligations and Covenants) and such other bond as may replace it from time to time under Schedule 12 (Financial Obligations and Covenants);

Season Ticket Fare means:

- (a) for the purposes of Schedule 12 (Financial Obligations and Covenants) and the definition of Season Ticket Bond only, a Fare which entitles the purchaser to make an unlimited number of journeys in any direction during the period for which, and between the stations and/or the zones for which, such Fare is valid; and
- (b) for all other purposes, a Fare which entitles the purchaser to make, without further restriction except as to class of accommodation, an unlimited number of journeys in any direction during the period for which, and between the stations and/or the zones for which, such Fare is valid;

Second Profit Share Threshold has the meaning given to it in paragraph 3.1²³ of Schedule 8.1 (Franchise Payments);

Secretary of State Risk Assumptions means those assumptions set out in Schedule 9.3 (Secretary of State Risk Assumptions);

Security Breach has the meaning given to it in paragraph 5.3(c)(i) of Schedule 1.5 (Information about Passengers);

²³ Cross-reference corrected in letter dated 30 March 2015.

Security Interest means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance or any other agreement or arrangement having substantially the same economic effect;

SEFT has the meaning given to it in paragraph 30.2 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Services Agreement means the agreement between the Franchise Operator, Directly Operated Railways Limited and the Secretary of State;

Service Group has the meaning given to it in the Passenger's Charter when used in relation to the Passenger's Charter, and when used in the Franchise Agreement it has the meaning given to it in the Track Access Agreement, or as specified by the Secretary of State from time to time;

Service Level Commitment means the service level commitment agreed or determined in accordance with paragraph 3.5 of Schedule 9.3 (Secretary of State Risk Assumptions) as it may subsequently be amended or replaced in accordance with Part B of Schedule 1.1 (Service Development);

Service Recovery Plan means, in the event of a prevention or restriction of access to the track or a section of the track (howsoever caused) which results in any Cancellation, Partial Cancellation, and/or any Passenger Service being operated with less Passenger Carrying Capacity than the Passenger Carrying Capacity specified for such Passenger Service in the Train Plan, a plan implemented by the Franchise Operator:

- (a) to minimise the disruption arising from such prevention or restriction of access by operating, during such period of disruption, the best possible level of service given such disruption, including by:
 - (i) keeping service intervals to reasonable durations;
 - (ii) keeping extended journey times to reasonable durations; and
 - (iii) managing any resulting overcrowding;
- (b) to:
 - (i) return the level of service to that level specified in the Timetable as soon as reasonably practicable; and
 - (ii) prior to the attainment of the level of service specified in paragraph (b)(i), operate any reduced level of service agreed with Network Rail for the purpose of minimising such disruption pursuant to paragraph (a);

- (c) in accordance with the principles of service recovery set out in the ATOC “Approved Code of Practice: Contingency Planning for Train Service Recovery – Service Recovery 2009” or any document of a similar or equivalent nature; and
- (d) where the particulars of such plan in relation to the requirements of paragraphs (a) and (b) have been:
 - (i) agreed at an initial and, where required, subsequent telephone conference between the Franchise Operator, Network Rail and any other affected Train Operator; and
 - (ii) on each occasion, recorded in an official control log by the relevant Region Control Manager of Network Rail,

and prevention or restriction of access to the track or a section of the track shall have the meaning given to that term in paragraph 1(a)(i) of Schedule 10.4 (Force Majeure);

Settlement Proposal has the meaning given to it in paragraph 3.2 of Schedule 4 (Persons with Disabilities and Disability Discrimination);

Shared Facilities means those facilities in respect of which the Franchise Operator and Network Rail carry out their respective activities concurrently;

Short Formation Benchmark means, for each Performance Calculation Year, each of the benchmarks in respect of a Short Formation set out in the Short Formation Benchmark Table for that Performance Calculation Year;

Short Formation Benchmark Table means the table set out in part 1 of Appendix 3 (Short Formation Benchmark and Annual Short Formation Benchmark Table) to Schedule 7.1 (Performance Benchmarks);

Short Formation Performance Sum means an amount determined in accordance with paragraph 3.4 of Schedule 7.1 (Performance Benchmarks);

Significant Alterations shall, in relation to any proposed new or amended Timetable, include alterations from the then current Timetable which result in, or are likely to result in:

- (a) the addition or removal of railway passenger services;
- (b) changes to stopping patterns or destinations or origin;
- (c) changes of timings for first/last trains by more than ten minutes;
- (d) changes to clockface (or near clockface) service patterns (meaning the provision of railway passenger services at a specified time or times relative to the hour); and/or

- (e) significant changes to journey times and/or key connections at the Station or at other stations at which relevant railway passenger services call;

Single Fare means a Fare which entitles the purchaser to make, without further restrictions as to the time of day for which the Fare is valid, on any one day, one journey in Standard Class Accommodation between the stations and/or the zones for which the Fare is valid;

SLC Timetable means any Timetable developed by the Franchise Operator following a Service Level Commitment being agreed or determined in accordance with paragraph 3.5 of Schedule 9.3 (Secretary of State Risk Assumptions) following a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change or an SLC Trigger, and which may include a timetable for weekday services and separate timetables for Saturday and Sunday services;

SLC Trigger has the meaning given to it paragraph 3.3 of Schedule 9.3 (Secretary of State Risk Assumptions);

Small and Medium-sized Enterprises (SMEs) means any individual micro, small or medium sized enterprise meeting the requirements set out in EU Recommendation 2003/36 and broadly falling into one of three categories, based on a combination of:

- (a) the number of employees; and
 (b) either its turnover or its balance sheet total.

The three categories are:

| Company category | Employees | Turnover or | Balance sheet total |
|------------------|-----------|-------------|---------------------|
| Medium | <250 | ≤ €50m | ≤ €43m |
| Small | <50 | ≤ €10m | ≤ €10m |
| Micro | <10 | ≤ €2m | ≤ €2m |

SoS Variations has the meaning given to it in Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions);

SPA means the sale and purchase agreement entered into between Directly Operated Railways Limited, the Secretary of State, the Franchisee and the Guarantor for the sale and purchase of shares in the Franchise Operator and dated on or about the date of the Franchise Agreement;

Spares means parts and components of rolling stock vehicles which are available for the purpose of carrying out maintenance services on rolling stock vehicles;

Special Event has the meaning given to it in paragraph 5.4²⁴ of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Specifically Included Change of Law has the meaning given to it in the definition of Change of Law;

Specimen Scheme means the Committed Obligations set out in paragraphs 7.2, 7.4, 7.6 and 9.2 of Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions);

Specimen Scheme Output means, for each Specimen Scheme, the output intended to be achieved by that Specimen Scheme, as set out in the relevant paragraph of Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions);

Stakeholder means the Passengers' Council and any relevant Local Authority and organisations who can reasonably be considered to have a legitimate and proper interest in the Passenger Services including Community Rail Partnerships representing Community Rail Routes designated as such by the Secretary of State;

Standard Class Accommodation means, in respect of any train or service, accommodation which is available to the purchaser of any Fare which, taking into account any rights or restrictions relating to that Fare (other than restrictions relating to accommodation on that train or service), entitles such purchaser to make a journey on that train or service (provided that any accommodation on such train which may have been reserved by such purchaser shall be deemed to have been made so available if, had it not been so reserved, it would have been available for use by such purchaser);

Standard of Repair has the meaning given to such term in paragraph 5.10(a) of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Start Date means the time and date stated in the Certificate of Commencement as being the time and date on which the Franchise Operator is to commence operating the Franchise Services, which shall either be:

- (a) 0200 hours on 1 March 2015; or
- (b) such later time and date as may be notified to the Franchisee and the Franchise Operator by the Secretary of State pursuant to Clause 11.2 or Clause 11.3 of the Umbrella Deed;

Station means:

- (a) any station in respect of which the Franchise Operator has entered into a Station Lease; or

²⁴ Cross-reference corrected in letter dated 30 March 2015.

(b) any New Station at which the Franchise Operator becomes the Facility Owner;

Station Access Conditions has the meaning given to it in the relevant Access Agreement to which it relates;

Station Asset means each platform, footbridge, canopy or building located at a Station;

Station Charge Adjustment means any adjustment to payments under an Access Agreement determined in accordance with paragraph 2 of Schedule 8.4 (Track Access Adjustments and Station Charge Adjustments);

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Stations Conditions Methodology has the meaning given to such term in paragraph 5.11(a)²⁶ of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);

Station Lease means:

- (a) any lease of a station that the Franchise Operator is a party to as at the Start Date;
- (b) any lease of a station that the Franchise Operator enters into pursuant to paragraph 5 of Schedule 6.2 (Intercity East Coast Specific Provisions); or
- (c) a lease of any other station to which the Franchise Operator becomes the Facility Owner at any time during the Franchise Period;

Station Maintenance Obligations means the obligations set out in paragraph 5.10 and paragraph 5.14(b) of Schedule 6.2 (Intercity East Coast Specific Provisions) which are to be performed by the Franchise Operator;

Station Service means any service specified in paragraph 3 of Schedule 1.6 (Franchise Services) which may be provided by the Franchise Operator at the Stations;

Station Stewardship Measure means the measure for the calculation of station condition provided to the Franchise Operator by ORR from time to time such measure at the Start Date being contained in Network Rail standard NR/ARM/M17PR;

Station Sublease means a lease or sub lease of premises comprising part or parts of a Station exclusively occupied by another Train Operator;

²⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁶ Cross-reference corrected in letter dated 30 March 2015.

Stored Credit Balance means any monetary amount held by the Franchise Operator which a passenger can apply at a future date to the purchase of a Fare (and stored in any medium);

STP has the meaning given to it in paragraph 18.1 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);

Subsidiary Change Date has the meaning given to it in Part D of the Network Code;

Suburban Station means any station which is not a London Station and which is listed below or which is closer to London than (and on the same line as) the following stations:

Shoeburyness, Southend, Victoria, Southminster, Marks Tey (excluding Sudbury branch), Audley End (but not including Stansted Airport), Ashwell & Morden, Arlesey, Harlington, Bletchley (excluding Bedford branch), Aylesbury, Haddenham & Thame Parkway, Twyford (including Henley branch), Earley, Fleet, Alton, Whitley, Christ's Hospital, Brighton (excluding Coastway), Windsor & Eton Riverside, East Grinstead, Crowborough, Wadhurst, Paddock Wood (including the line between Strood and Paddock Wood), Maidstone East, Canterbury East, Margate;

Successor Operator means a Train Operator succeeding or intended by the Secretary of State to succeed (and whose identity is notified to the Franchise Operator by the Secretary of State) the Franchise Operator in the provision or operation of all or any of the Franchise Services including, where the context so admits, the Franchise Operator where it is to continue to provide or operate the Franchise Services following termination of the Franchise Agreement;

Successor Operator Timetable has the meaning given to it in paragraph 8(a) of Schedule 14.1 (Maintenance of Franchise);

Supplemental Agreement means a supplemental agreement between the Franchise Operator and a Successor Operator to be entered into pursuant to a Transfer Scheme, being substantially in the form of Appendix 2 (Form of Supplemental Agreement) to Schedule 15.4 (Provisions Applying on and after Termination), but subject to such amendments as the Secretary of State may reasonably make thereto as a result of any change of circumstances (including any Change of Law) affecting such supplemental agreement between the date of the Franchise Agreement and the date on which the relevant Transfer Scheme is made and subject further to paragraph 3.2 of Schedule 15.4 (Provisions Applying on and after Termination);

Sustainable Development Plan means the sustainable development plan agreed or determined in accordance with paragraph 18.3 of Schedule 13 (Information and Industry Initiatives), as the same may be updated in accordance with paragraph **18.4²⁷** of Schedule 13 (Information and Industry Initiatives);

²⁷ Cross-reference corrected in letter dated 30 March 2015.

Sustainable Development Strategy means the Sustainable Development Strategy in the agreed terms marked **SDS**;

TARA Operator Default has the same meaning as is given to the term Operator Default under the Train Availability and Reliability Agreement;

Target Passenger Demand means the higher of Actual Passenger Demand and Forecast Passenger Demand or any other level of passenger demand specified by the Secretary of State not being greater than the higher of Actual Passenger Demand or Forecast Passenger Demand;

Taxation means any kind of tax, duty, levy or other charge whether or not similar to any in force at the date of the Franchise Agreement and whether imposed by a local, governmental or other competent authority in the United Kingdom or elsewhere;

Taxation Deed means the taxation deed in the agreed form entered into between the Secretary of State, Directly Operated Railways Limited and the Franchisee;

Technical Support Contract means a contract for technical support to which the Franchise Operator is a party, relating to the rolling stock vehicles used in the provision of the Passenger Services;

Tendering/Reletting Process means either of the processes described in paragraph 1.1 and 1.2 of Schedule 15.1 (Reletting Provisions);

Termination Event has the meaning given to it in paragraph 3 of Schedule 10.3 (Events of Default and Termination Events);

Termination Notice means a notice from the Secretary of State to the Franchise Operator terminating the Franchise Agreement following an Event of Default or a Termination Event in accordance with Schedule 10.2 (Termination and Expiry);

Third Profit Share Threshold has the meaning given to it in paragraph 3.1 of Schedule 8.1 (Franchise Payments);

Threshold Amount means £1,000,000 subject to indexation as follows:

£1,000,000 x RPI

Where:

RPI is ascertained as follows:

CRPI

ORPI

where:

CRPI means the Retail Prices Index published in the January immediately preceding the commencement of that Franchise Operator Year; and

ORPI means the Retail Prices Index for January 2014, provided that, for the first Franchise Operator Year, RPI shall be one;

Through Ticketing (Non-Travelcard) Agreement means the agreement of that name referred to in paragraph (a)(v) of the definition of Inter-Operator Schemes;

Ticketing and Settlement Agreement means the Ticketing and Settlement Agreement dated 23 July 1995 between RSP, the Franchise Operator and the other Train Operators named therein, as amended from time to time with the approval of the Secretary of State;

Timetable means the timetable which reflects the working timetable issued by Network Rail at the conclusion of its timetable development process, containing the departure and arrival times of:

- (a) all Passenger Services which call at Stations and Franchise Operator Access Stations; and
- (b) principal Connections at those stations and other stations;

Timetable Development Rights means all or any of the rights of the Franchise Operator under any Track Access Agreement to:

- (a) operate Passenger Services and ancillary movements by virtue of that Track Access Agreement;
- (b) deliver any required notification and/or declaration to Network Rail in respect of its intention to exercise any rights;
- (c) make or refrain from making any bids for Train Slots, in each case before any relevant priority dates provided for in, and in accordance with, the Network Code;
- (d) surrender any Train Slots allocated to the Franchise Operator by Network Rail in accordance with the Network Code;
- (e) object to, make representations, appeal or withhold consent in respect of any actual or proposed act or omission by Network Rail; and
- (f) seek from Network Rail additional benefits as a condition to granting any consent to any actual or proposed act or omission by Network Rail;

Timetable Planning Rules has the meaning given to it in the Network Code;

Timetabling and Train Planning Compliance Investigation has the meaning set out in paragraph 2.1 of Part A of Schedule 1.2 (Operating Obligations) or paragraph 3.1 of Part B of Schedule 1.2 (Operating Obligations), as the context may require;

TOC Minute Delay Benchmark means any of the performance levels in respect of Minutes Delay attributable to the Franchise Operator set out in the TOC Minute Delay Benchmark Table;

TOC Minute Delay Benchmark Table means the table set out in Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to Schedule 7.1 (Performance Benchmarks);

TOC Minute Delay Performance Sum means an amount determined in accordance with paragraph 3.3 of Schedule 7.1 (Performance Benchmarks);

Total Actual Operating Costs means the sum of the Actual Operating Costs for the relevant Reporting Period and each of the 12 preceding Reporting Periods during the Franchise Term (or the sum of the Actual Operating Costs for the relevant Reporting Period and all of the Reporting Periods that have elapsed since the Start Date where insufficient Reporting Periods have elapsed to enable the former calculation to be made);

Total Forecast Modified Revenue means the sum of the Forecast Modified Revenue for each of the 13 Reporting Periods following the relevant Reporting Period (or, where there are less than 13 Reporting Periods remaining in the Franchise Term, the remaining Reporting Periods);

Total Forecast Operating Cost means the sum of the Forecast Operating Cost for each of the 13 Reporting Periods following the relevant Reporting Period (or, where there are less than 13 Reporting Periods remaining in the Franchise Term, the remaining Reporting Periods);

Total Modified Revenue means the sum of the Modified Revenue for the relevant Reporting Period and each of the 12 preceding Reporting Periods during the Franchise Term (or the sum of the Modified Revenue for the relevant Reporting Period and all of the Reporting Periods that have elapsed since the Start Date where insufficient Reporting Periods have elapsed to enable the former calculation to be made);

Track Access Adjustment means any adjustment to payments under a Track Access Agreement determined in accordance with paragraph 1 of Schedule 8.4 (Track Access Adjustments and Station Charge Adjustments);

Track Access Agreement means each Access Agreement between Network Rail and the Franchise Operator which permits the Franchise Operator to provide the Passenger Services on track operated by Network Rail;

Train Availability and Reliability Agreement means the train service availability and reliability agreement to be entered into in accordance with the Umbrella Deed;

Train Fleet means:

- (a) the rolling stock vehicles described in or required by Schedule 1.7 (The Train Fleet); and
- (b) any other rolling stock vehicles the Secretary of State consents to in accordance with paragraph 2 of Schedule 1.7 (the Train Fleet) from time to time;

Train Mileage means, in relation to any period, the aggregate train mileage covered during such period by each train used in the provision of the Passenger Services (excluding, any train mileage covered as a result of positioning or other movements of rolling stock vehicles outside the Timetable) and Train Miles shall be construed accordingly;

Train Operator means a franchisee or franchise operator, either of which operate railway passenger services pursuant to a franchise agreement or a Public Sector Operator;

Train Plan means the plan and/or diagram of the Franchise Operator for the operation of trains and train formations under the Timetable set out in the document in the agreed terms marked **TP** and any other Train Plan developed in accordance with Part A or Part B of Schedule 1.1 (Service Development), except that when used in Schedule 7.1 (Performance Benchmarks), it shall have the meaning given to it in paragraph 2.19 of Schedule 7.1 (Performance Benchmarks);

Train Service Requirement means the train service requirement referred to in paragraph 1.1 of Part A of Schedule 1.1 (Service Development) as such train service requirement may subsequently be amended or replaced in accordance with Part A of Schedule 1.1 (Service Development);

Train Slots shall have the meaning given to it in the Network Code;

Transfer Scheme means a transfer scheme made by the Secretary of State under Section 12 and Schedule 2 of the Railways Act 2005 (or equivalent statutory provision) pursuant to paragraph 3.1 of Schedule 15.4 (Provisions Applying on and after Termination), being substantially in the form of Appendix 1 (Form of Transfer Scheme) to Schedule 15.4 (Provisions Applying on and after Termination), but subject to such amendments as the Secretary of State may make thereto as a result of any change of Law affecting such transfer scheme or other change of circumstances between the date of the Franchise Agreement and the date on which such scheme is made;

Transport Act means the Transport Act 2000;

Transport Direct means the website offering free information for door to door travel for both public transport and car journeys around Great Britain;

Transport for London or **TfL** means Transport for London as established under the Greater London Authority Act 1999;

Transport Trading Limited or **TTL** means Transport Trading Limited (registered number 03914810) a wholly owned subsidiary of Transport for London;

Travelcard Agreement means the agreement of that name referred to in paragraph (a)(iv) of the definition of Inter-Operator Schemes;

Traveline means the telephone enquiry service providing information on all public transport across the United Kingdom;

Trustee has the meaning given to it in paragraph 3.1 of Schedule 16 (Pensions);

TSI means any Technical Standard for Interoperability with which the Franchise Operator is required to comply pursuant to Directives EU 96/48 and EU 2001/16 and related legislation;

TSP means Agility Trains East Limited (company number 07930598), a company incorporated in England and Wales and whose registered address is at 4th Floor, 4 Copthall Avenue, London EC2R 7DA;

TSR (TDR) Amendment has the meaning given to it in paragraph 5.7 of Part A of Schedule 1.1 (Service Development);

TSR Trigger has the meaning given to it in paragraph 3.1 of Schedule 9.3 (Secretary of State Risk Assumptions);

TSR1.1 has the meaning given to it in paragraph 1.2(a) of Part A of Schedule 1.1 (Service Development);

TSR1.2 has the meaning given to it in paragraph 1.2(b) of Part A of Schedule 1.1 (Service Development);

TSR2 has the meaning given to it in paragraph 1.2(c) of Part A of Schedule 1.1 (Service Development);

TSR2 Time Bands means the TSR2A Time Bands and the TSR2B Time Bands;

TSR2A Time Band means each period of time specified in the headings of columns H, I and J of Table 2A of TSR2 and **TSR2A Time Bands** shall be construed accordingly;

TSR2B Time Band means each period of time specified in the headings of columns F, G and H of Table 2B of TSR2 and **TSR2B Time Bands** shall be construed accordingly;

TSR2 Date means the Subsidiary Change Date in May 2020;

TSR2 Key Services means, the following railway passenger services (Monday to Friday only) in respect of:

- (a) each hour of each TSR2A Time Band:
 - (i) two trains departing from London King's Cross to Edinburgh;
 - (ii) one train departing from London King's Cross to Newcastle (or Middlesbrough to the extent that TSR2 permits services to Middlesbrough to replace services to Newcastle) in addition to the services specified in paragraph (a)(i) above;
 - (iii) two trains departing from London King's Cross to Leeds, in addition to the services specified in paragraphs (a)(i) and (ii) above; and
 - (iv) one train, in addition to the services specified in paragraphs (i) to (iii) (inclusive) above, departing from London King's Cross to Newark North Gate or a station north of Newark North Gate,

in each case in that hour of that TSR2A Time Band and regardless of whether Edinburgh, Newcastle, Middlesbrough, Leeds or Newark North Gate or a station beyond such destination is the final destination for that service; and

- (b) the TSR2B Time Band occurring between the hours of 07:00 and 09:59 an aggregate number of:
 - (i) two trains from Edinburgh arriving at London King's Cross;
 - (ii) four trains from Newcastle arriving at London King's Cross, in addition to the services specified in paragraph (b)(i) above;
 - (iii) six trains from Leeds arriving at London King's Cross, in addition to the services specified in paragraphs (b)(i) and (ii) above;
 - (iv) six trains from Newark North Gate or a station north of Newark North Gate arriving at London King's Cross, in addition to the services specified in paragraphs (b)(i) to (iii) (inclusive) above; and

in each case, in that TSR2B Time Band and regardless of whether Edinburgh, Newcastle, Leeds, Newark North Gate or a station beyond such destination is the origin of that service; and

- (c) each hour in the TSR2B Time Bands occurring between the hours of 10:00 and 20:59:
 - (i) two trains from Edinburgh arriving at London King's Cross;

- (ii) one train in aggregate from Newcastle (or Middlesbrough to the extent that TSR2 permits services from Middlesbrough to replace services from Newcastle) arriving at London King's Cross, in addition to the services specified in paragraph (c)(i);
- (iii) two trains from Leeds arriving at London King's Cross in addition to the services specified in paragraphs (c)(i) and (ii); and
- (iv) one train from Newark North Gate or a station north of Newark North Gate arriving at London King's Cross, in addition to the services specified in paragraphs (c)(i) to (iii) (inclusive),

in each case, in that TSR2 Time Band and regardless of whether Edinburgh, Newcastle, Middlesbrough, Leeds, Newark North Gate, or a station beyond such destination is the origin of that service,

and references to Newark North Gate in this definition of TSR2 Key Services shall be deemed to include a reference to Peterborough and/or Grantham, as the case may be, where the exception specified in paragraph 4.1 of the 'General Provisions' of TSR2 applies;

Turnaround Time means the time specified in the Train Plan between the completion of a Passenger Service in accordance with the Timetable and the commencement of the next Passenger Service in accordance with the Timetable on the same day using some or all of the same rolling stock vehicles;

Turnover means, in relation to any period, the aggregate revenue (excluding any applicable Value Added Tax) accruing to the Franchise Operator from the sale of Fares and the receipt of Franchise Payments during such period but excluding any NR Received Amount received during such period;

Umbrella Deed means the deed between the Secretary of State, the Franchise Operator, the Franchisee, the Guarantor, Directly Operated Railways Limited and Norton Rose Fulbright LLP of even date herewith specifying certain conditions to be satisfied or waived by the Secretary of State prior to the issue of a Certificate of Commencement;

Underspend has the meaning given to it in paragraph 11 of Part 2 (Miscellaneous) of Schedule 6.1 (Committed Obligations and Related Provisions);

Uninsured Event means, any event that does not fall within the insurance required to be taken out by the Franchise Operator pursuant to Condition E1 of the Station Access Conditions either because the:

- (a) insurance is not available to the Franchise Operator in respect of the risk in the rail industry market in the United Kingdom with an insurer who is a member of the Association of British

Insurers (other than where the predominant cause of the insurance not being available is any act(s) or omission(s) of the Franchise Operator or an Affiliate of the Franchise Operator); or

- (b) the insurance premium payable for insuring that risk is at such a level that the risk is not generally being insured in the rail industry market in the United Kingdom by a reasonable and prudent Train Operator in the railway industry;

Unspecified Additional Rolling Stock has the meaning given to it in paragraph 1.3 of Schedule 1.7 (The Train Fleet);

Value means at any time the aggregate of the Projected Revenue of each Fare in a Fares Basket at that time;

Value Added Tax means value added tax as provided for in the Value Added Tax Act 1994;

Variation means a variation to the terms of the Franchise Agreement pursuant to paragraph 1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes);

Variation Notice means the variation notice to be issued as a “Contemplated Variation Notice” under the MARA in the agreed terms marked **VN**;

Weekday means any day other than a Saturday, a Sunday or a Bank Holiday;

Weekly Season Ticket means a Season Ticket Fare which is valid in Standard Class Accommodation from (and including) the day it first comes into effect until (but excluding) the day which falls seven days after such day;

Yield Management Data means data collected by or on behalf of the Franchise Operator for the purpose of or in connection with managing or setting the prices at which any tickets for travel on the Passenger Services are sold and/or any quotas and/or restrictions applying to such tickets including:

- (a) the number of passengers travelling upon any particular Passenger Service;
- (b) the ticket types held by such passengers;
- (c) the prices paid by such passengers for such tickets; and
- (d) the dates and/or times between which such tickets were made available to purchase at such prices;

Yield Management System means any system (whether a Computer System or otherwise) for the collection of Yield Management Data and/or onto which Yield Management Data is input, processed and/or held as such system may be amended or altered from time to time; and

Zone means a zone set out in the map in Schedule 2 of the Travelcard Agreement on the date such agreement came into effect or as amended by agreement with the Secretary of State.

3 COMMENCEMENT

3.1 The clauses of this Agreement and the following Schedules of this Agreement shall take effect and be binding upon each of the Secretary of State and the Franchisee immediately upon signature of this Agreement:

- (a) paragraph 2 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases);
- (b) paragraph 2 of Schedule 2.3 (Third Party Delivery of Passenger Services and Other Franchise Operators);
- (c) paragraph 4.3 of Schedule 4 (Persons with Disabilities and Disability Discrimination);
- (d) Schedule 5.1 (Purpose, Structure and Construction);
- (e) Schedule 5.3 (Allocation of Fares to Fares Baskets);
- (f) Schedule 5.7 (Changes to Fares and Fares Regulation);
- (g) paragraphs 4.1, 4.3, 12.9, 12.11 and 29.2 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions);
- (h) paragraph 7 of Schedule 6.3 (The IEP Provisions);
- (i) Schedule 9 (Changes);
- (j) Schedule 10 (Remedies, Termination and Expiry);
- (k) paragraph 2 of Schedule 11 (Agreement Management Provisions);
- (l) paragraph 4 of Schedule 12 (Financial Obligations and Covenants);
- (m) paragraphs 1, 5, 6, 7 and 8 of Schedule 13 (Information and Industry Initiatives);
- (n) Schedule 14.3 (Key Contracts);
- (o) Schedule 17 (Confidentiality and Freedom of Information); and

(p) Schedule 19 (Other Provisions).

3.2 The other provisions of this Agreement shall take effect and become binding upon the parties and the Franchise Operator on the Start Date (subject to execution of the Deed of Adherence), as stated in the Certificate of Commencement issued pursuant to the Umbrella Deed.

4 TERM

This Agreement shall terminate on the Expiry Date or on the date of any earlier termination pursuant to Clauses 11.2(b) or 11.3(b) of the Umbrella Deed or pursuant to Schedule 10 (Remedies, Termination and Expiry).

5 GENERAL OBLIGATIONS

5.1 Each of the Franchisee and the Franchise Operator shall perform its obligations under the Franchise Agreement in accordance with its terms and with the degree of skill, diligence, prudence and foresight which would be expected of a skilled and experienced Train Operator.

5.2 Any obligation on the part of either or both of the Franchisee and the Franchise Operator to use all reasonable endeavours shall extend to consequent obligations adequately to plan and resource its activities, and to implement those plans and resources, with all due efficiency and economy.

5.3 Each of the Franchisee and the Franchise Operator shall co-operate with the Secretary of State and act reasonably and in good faith in and about the performance of its obligations and the exercise of its rights pursuant to the Franchise Agreement.

5.4 The Secretary of State shall act reasonably and in good faith in and about the performance of his obligations and the exercise of his rights pursuant to the Franchise Agreement.

5.5 The Franchisee undertakes to secure that the Franchise Operator provides the Passenger Services subject to and in accordance with the terms and conditions of this Franchise Agreement and otherwise complies with its obligations, duties and undertakings under this Franchise Agreement.

6 COMPLIANCE WITH LAWS

The Franchise Operator shall at all times perform the Franchise Services, and each of the Franchisee and the Franchise Operator shall at all times perform its obligations under the Franchise Agreement, in each case in accordance with all applicable Laws. This clause shall survive the termination of this Agreement.

7 ENTIRE AGREEMENT

- 7.1 This Agreement, the Deed of Adherence and the Umbrella Deed contain the entire agreement between the parties in relation to the subject matter of the Franchise Agreement and supersede all prior agreements and arrangements between the parties other than any confidentiality agreements or undertakings which the Franchise Operator may have entered into with the Secretary of State in connection with his proposal to secure the provision of the Passenger Services under the Franchise Agreement.
- 7.2 Each of the Franchisee and the Franchise Operator hereby acknowledges that it is not entering into any of this Agreement, the Deed of Adherence or the Umbrella Deed in reliance on any warranties, representations or undertakings howsoever or to whomsoever made except in so far as such warranties, representations or undertakings are contained in the Franchise Agreement.
- 7.3 Each of the Franchisee and the Franchise Operator hereby acknowledges and agrees with the Secretary of State (for himself and as trustee for each of the other persons referred to therein) to the disclaimer of liability which is contained in the section entitled "Important Notice" contained in any document supplied by or on behalf of the Secretary of State in connection with the Franchise Agreement, the process leading to the entering into of the Franchise Agreement, or the Franchise Services (including section 3 of any Invitation to Tender issued in connection therewith).
- 7.4 Each of the Franchisee and the Franchise Operator irrevocably and unconditionally waives any right which it may otherwise have to claim damages in respect of and/or to rescind this Agreement, the Deed of Adherence and the Umbrella Deed on the basis of any warranty, representation (whether negligent or otherwise, and whether made prior to and/or in this Agreement or the Umbrella Deed) or undertaking howsoever or to whomsoever made unless and to the extent that such warranty, representation or undertaking was made fraudulently.

8 GOVERNING LAW

The Franchise Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by and construed in accordance with the laws of England and Wales and the parties irrevocably agree that the courts of England and Wales are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Franchise Agreement, except as expressly set out in the Franchise Agreement.

IN WITNESS whereof the parties hereto have executed this Agreement the day and year first before written:

THE CORPORATE SEAL OF)
THE SECRETARY OF STATE FOR TRANSPORT)
is hereunto affixed:)

.....
Authenticated by authority of the
Secretary of State for Transport

SIGNED FOR AND ON BEHALF OF)
INTER CITY RAILWAYS LIMITED)

Schedule 1
Passenger Service Obligations

| | |
|---------------|------------------------------|
| Schedule 1.1 | Service Development |
| Schedule 1.2 | Operating Obligations |
| Schedule 1.3: | Not Used |
| Schedule 1.4 | Passenger Facing Obligations |
| Schedule 1.5 | Information about Passengers |
| Schedule 1.6 | Franchise Services |
| Schedule 1.7 | Train Fleet |

SCHEDULE 1.1 Service Development

Part A – Train Service Requirement

This Part A of Schedule 1.1 (Service Development) shall apply unless a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change has occurred, in which case Part B of this Schedule 1.1 (Service Development) shall apply.

1 Train Service Requirement

- 1.1 A Train Service Requirement is a minimum specification of Passenger Services to be provided by the Franchise Operator.
- 1.2 Unless and until amended pursuant to this Part A of Schedule 1.1 (Service Development), the Train Service Requirement to apply:
- (a) as at the date of the Franchise Agreement is in the agreed terms marked **TSR1.1** and shall remain in force until but excluding the Subsidiary Change Date in May 2019 save that where the Franchise Operator is operating (or has secured the rights to operate) under a Timetable pursuant to the Previous Franchise Agreement as at the Start Date, such Timetable may remain in place until the timetable change in December 2015;
 - (b) from and including the Subsidiary Change Date in May 2019 is in the agreed terms marked **TSR1.2** and shall remain in force until but excluding the Subsidiary Change Date in May 2020;
 - (c) save where a TSR Trigger has occurred, from and including the Subsidiary Change Date in May 2020 is in the agreed terms marked **TSR2** and shall remain in force until and including the Expiry Date.
- 1.3 The Train Service Requirement does not in any way limit the Franchise Operator's obligations pursuant to paragraph 7 of this Schedule.
- 1.4 A Train Service Requirement may be expressed in whole or in part at any level of generality or to any level of detail the Secretary of State considers appropriate.

2 Train Plan

- 2.1 A Train Plan is the plan or diagram of the Franchise Operator for the operation of trains and train formations under the Timetable.
- 2.2 The Franchise Operator shall submit to the Secretary of State a Train Plan in respect of each Timetable in accordance with this Part A of Schedule 1.1 (Service Development).

- 2.3 In preparing any Train Plan, the Franchise Operator shall do so by reference to the timetable that it envisages operating in order to comply with the Train Service Requirement and paragraph 7 of this Part A of Schedule 1.1 (Service Development).
- 2.4 The Train Plan for the Timetable as at the Start Date is in the agreed terms marked **TP**.
- 2.5 Each Train Plan is to set out for each railway passenger service in the Timetable to which it relates:
- (a) its start point and departure time;
 - (b) its terminating point and arrival time;
 - (c) the number and class of rolling stock vehicles allocated to each such railway passenger service;
 - (d) the Passenger Carrying Capacity that each such railway passenger service, as formed, is to have; and
 - (e) its Forecast Passenger Demand and where this has been requested by the Secretary of State and is capable of calculation Actual Passenger Demand.
- 2.6 A Train Plan shall be in any format that the Secretary of State may reasonably specify for this purpose.

3 Not used

4 Consultation on Significant Alterations to the Timetable

- 4.1 Notwithstanding any consultation the Secretary of State might separately undertake in respect of any amended or new draft Train Service Requirement issued pursuant to paragraph 9, the Franchise Operator shall where:
- (a) it intends that any future Timetable shall contain Significant Alterations compared to the Timetable then in force; and
 - (b) such Significant Alterations are likely to have, in the reasonable opinion of the Franchise Operator, a materially adverse effect on:
 - (i) the ability of passengers using any station served by the Passenger Services to make journeys relating to work or education at reasonably convenient times; and/or
 - (ii) the trading prospects of commercial enterprises located in any community in which a station served by the Passenger Services is located in consequence of it being

more difficult for customers or employees to access such commercial enterprises through travel on the Passenger Services,

consult with Stakeholders who would reasonably be expected to be affected by any such Significant Alterations in relation to such proposed future Timetable.

4.2 Accordingly the Franchise Operator shall where the circumstances described in paragraph 4.1 apply:

- (a) as soon as reasonably practicable provide to the Secretary of State and all Stakeholders a comprehensive summary of the proposed changes from the Timetable then in force, specifying the proposed Timetable changes, the reasons for them and the likely impact on passengers;
- (b) carry out the consultation in relation to such proposed changes using a reasonable range of communication channels (taking into account the scale of the proposed changes) and in a manner that can be reasonably expected to encourage responses from a broad range of affected Stakeholders;
- (c) give consultees such time as is reasonable under all the circumstances to respond (it being agreed that it shall normally be reasonable to give at least 12 weeks to respond in relation to major proposed Timetable changes);
- (d) take due account of the responses of consultees;
- (e) within six weeks of the close of the consultation (or such longer period as the Secretary of State may agree, such agreement not to be unreasonably withheld or delayed) publish a report containing a summary of the main issues raised by respondents (including quantitative analysis of the responses received), the reasoned response of the Franchise Operator to them and notification of how the Franchise Operator will now seek to exercise relevant Timetable Development Rights in the context of its obligation to take due account of the results of the consultation;
- (f) ensure that the published report is promptly provided to the Secretary of State and all respondents who submitted written responses to the consultation and published in a widely accessible form; and
- (g) ensure that the relevant Timetable Development Rights to implement the proposed Timetable change are not exercised prior to the publication of the report and exercise such Timetable Development Rights in the manner indicated in the report.

5 Timetable Development Rights

5.1 The Franchise Operator shall use:

- (a) (save in relation to obtaining the Additional TSR2 TDR Rights to which paragraph 5.1(b) shall apply) reasonable endeavours to amend and/or enter into such Access Agreements as may be necessary or desirable from time to time to obtain the timetable development rights that it requires to secure a Timetable that enables it to operate railway passenger services that comply with the Train Service Requirement; and
- (b) best endeavours to amend and/or enter into such Access Agreements as may be necessary or desirable from time to time to obtain the Additional TSR2 TDR Rights;

and, in each case, otherwise comply with its obligations under the Franchise Agreement.

5.2 Prior to exercising any Timetable Development Rights to secure a Timetable the Franchise Operator shall calculate Forecast Passenger Demand and in doing so shall make reasonable assumptions based on robust, comprehensive and accurate empirical evidence and shall make proper use of recognised railway industry systems and forecasting tools as these may develop over the Franchise Period.

5.3 The Franchise Operator shall exercise its Timetable Development Rights so as to secure a Timetable that enables it to operate railway passenger services that comply with the Train Service Requirement and paragraph 7 of this Part A of Schedule 1.1 (Service Development) in accordance with its obligations under paragraph 11.

5.4 Where the Franchise Operator proposes to exercise its Timetable Development Rights so that the Timetable in force after the relevant Passenger Change Date contains Significant Alterations to that in force prior to such Passenger Change Date the Franchise Operator shall (without prejudice to its obligation to consult pursuant to paragraph 4) act reasonably with the intention of obtaining a Timetable which enables paragraphs 7.1(a) and 7.1(b) of this Part A of Schedule 1.1 (Service Development) to be achieved in relation to each Passenger Service in the Timetable to the greatest extent reasonably practicable. It is agreed that in acting reasonably the Franchise Operator shall take full and proper account of its calculation of Forecast Passenger Demand made pursuant to paragraph 5.2.

5.5 Unless the Secretary of State otherwise directs, the Franchise Operator shall, for the purposes of securing a Timetable that complies with the Train Service Requirement and paragraph 7 of this Part A of Schedule 1.1 (Service Development), exercise its rights under the Track Access Agreement (including the Network Code) to object, to make representations and to withhold consent in respect of any actual or proposed act or omission by Network Rail in relation to such agreement in respect of its Timetable Development Rights.

5.6 Subject to the Franchise Operator complying with its obligations under paragraph 5.5, it shall not be liable for any failure to secure a Timetable that enables the Franchise Operator to operate railway passenger services that comply with the Train Service Requirement or paragraph 7 of this Part A of Schedule 1.1 (Service Development), to the extent that such failure is caused by:

- (a) the Franchise Operator's Timetable Development Rights being inadequate to enable it to secure the requisite Train Slots, provided that the Franchise Operator has exercised and, unless otherwise agreed by the Secretary of State, is continuing to exercise (i) all reasonable endeavours to obtain the requisite timetable development rights in accordance with paragraph 5.1(a) or (ii) best endeavours to obtain the Additional TSR2 TDR Rights in accordance with paragraph 5.1(b) in circumstances where a TSR Trigger has not occurred;
- (b) Network Rail exercising its flexing rights from time to time under the Track Access Agreement or the Network Code in respect of such Train Slots;
- (c) Network Rail exercising its other rights from time to time under the Track Access Agreement or the Network Code; or
- (d) the exercise by the ORR of its powers pursuant to Section 22C of the Act.

5.7 Save where a Change arising from a TSR Trigger has occurred which is equal to or above the Threshold Amount for a Qualifying Change, in which case paragraph 3 of Schedule 9.3 (Secretary of State Risk Assumptions) shall apply:

- (a) if and to the extent that the Franchise Operator is not able to secure a Timetable enabling it to operate railway passenger services that comply with the Train Service Requirement as a result of it not being able to obtain the timetable development rights that it requires for that purpose, then the Secretary of State shall (subject to paragraphs 5.7(b) and 5.7(c) below) issue to the Franchise Operator such amendments to the Train Service Requirement (each a **TSR (TDR) Amendment**) as the Secretary of State considers necessary such that the Franchise Operator is able to secure a Timetable in compliance with the Train Service Requirement as amended by the TSR (TDR) Amendments by exercise of the Timetable Development Rights that the Franchise Operator does have;
- (b) the Secretary of State shall have an unfettered discretion as to whether or not to issue a TSR (TDR) Amendment in circumstances where the Franchise Operator:
 - (i) has failed to exercise (A) all reasonable endeavours to obtain the requisite timetable development rights in accordance with paragraph 5.1(a); or (B) best endeavours to obtain the Additional TSR2 TDR Rights in accordance with paragraph 5.1(b) in circumstances where a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change has not occurred; and

- (ii) is not relieved by paragraph 5.6 from liability for such failure to secure a Timetable that enables the Franchise Operator to operate railway passenger services that comply with the Train Service Requirement;
 - (c) where the Secretary of State reasonably considers that the failure to secure a Timetable that enables the Franchise Operator to operate the Train Service Requirement is partly due to the default of the Franchise Operator in not properly complying with its obligations under the Franchise Agreement in relation to securing timetable development rights, any TSR (TDR) Amendment shall not relieve the Franchise Operator of the obligation to comply with the Train Service Requirement to the extent that the Secretary of State determines that the failure is due to such default of the Franchise Operator and the Franchise Operator may be in contravention of the Franchise Agreement accordingly.
- 5.8 Following issue of any TSR (TDR) Amendment pursuant to paragraph 5.7 the Franchise Operator shall, unless otherwise agreed by the Secretary of State, continue to use (A) all reasonable endeavours to amend and/or enter into such Access Agreements as may be necessary or desirable from time to time to obtain the timetable development rights that it requires to secure a Timetable that enables it to operate railway passenger services that comply with the Train Service Requirement without such TSR (TDR) Amendment or (B) best endeavours to obtain the Additional TSR2 TDR Rights in circumstances where a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change has not occurred.
- 5.9 Any TSR (TDR) Amendment issued pursuant to paragraph 5.7 shall unless otherwise required by the Secretary of State, cease to have effect on the date (if any) on which the first Timetable comes into effect after the Franchise Operator has obtained the Timetable Development Rights that it requires to secure a Timetable that enables it to operate railway passenger services that comply with the Train Service Requirement without any such TSR (TDR) Amendment.
- 5.10 With effect from the date on which any TSR (TDR) Amendment ceases to have effect in accordance with paragraph 5.9 the Train Service Requirement without such TSR (TDR) Amendment shall thereafter apply.
- 5.11 Following the occurrence of a TSR Trigger and a Service Level Commitment being agreed or determined in accordance with paragraph 3 of Schedule 9.3 (Secretary of State Risk Assumptions), Part B (Service Level Commitment) of this Schedule 1.1 (Service Development) and Part B (Service Level Commitment) of Schedule 1.2 (Operating Obligations) shall apply in place of this Part A of Schedule 1.1 (Service Development) and Part A of Schedule 1.2 (Operating Obligations).

6 Certification and Notification by Franchise Operator of Exercising Timetable Development Rights

- 6.1 Before exercising any Timetable Development Right to bid for Train Slots, the Franchise Operator shall provide a certificate addressed to the Secretary of State and signed by a statutory director of the Franchise Operator confirming that its proposed exercise of that Timetable Development Right will be compliant with its obligation specified in paragraph 5.3.
- 6.2 If requested by the Secretary of State, the Franchise Operator agrees to demonstrate to the reasonable satisfaction of the Secretary of State that the Franchise Operator's certificate referred to in paragraph 6.1 is a true and accurate confirmation of compliance with its obligation specified in paragraph 5.3.
- 6.3 The Franchise Operator shall:
- (a) keep the Secretary of State fully informed of any discussions with Network Rail and/or ORR in relation to the matters referred to in this Part A of Schedule 1.1 (Service Development) which may, in the reasonable opinion of the Franchise Operator, have a material bearing on the ability of the Franchise Operator to deliver the Train Service Requirement through the Timetable or meet the requirements of paragraph 7 of this Part A of Schedule 1.1 (Service Development) and shall, if required to do so by the Secretary of State, supply copies of any related correspondence to the Secretary of State and any other information required by the Secretary of State; and
 - (b) update any notification under this paragraph 6.3 and/or certification under paragraph 6.1 as soon as reasonably practicable, if at any time it elects or is required to modify any aspect of its exercise of its Timetable Development Rights following Network Rail's proposed or actual rejection or modification of its bid or any part of it or for any other reason.

7 Planning to meet Target Passenger Demand

7.1 Capacity and Timetable Planning

The Franchise Operator shall, in preparing its Timetable and Train Plan, unless the Secretary of State otherwise agrees, use all reasonable endeavours to:

- (a) provide for Passenger Carrying Capacity on each Passenger Service that meets as a minimum the Target Passenger Demand for that Passenger Service;
- (b) provide passengers with a reasonable expectation of a seat:
 - (i) on boarding in respect of any Off-Peak Passenger Service; and

- (ii) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service.

7.2 Allocation of rolling stock where Franchise Operator unable to meet the capacity requirements

If at the time it prepares its Timetable and/or Train Plan, having exercised all reasonable endeavours, the Franchise Operator is unable to prepare a Timetable and/or Train Plan having the Passenger Carrying Capacity and/or meeting the reasonable expectations referred to in paragraphs 7.1(a) and (b), then the Timetable and/or the Train Plan shall specify the best allocation of Passenger Services and rolling stock vehicles to Passenger Services that is reasonably practicable with a view to:

- (a) minimising, so far as is possible, the amount by which Target Passenger Demand exceeds the provision of Passenger Carrying Capacity on the affected Passenger Services;
- (b) ensuring, so far as is possible, that such excess is not unduly concentrated on any particular Route or Passenger Service; and
- (c) minimising, so far as is possible, the extent to which passengers are required to stand:
 - (i) on boarding in the case of any Off-Peak Passenger Service; and
 - (ii) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service.

7.3

- (a) Subject to paragraph 7.3(b) the Franchise Operator shall in preparing its Timetable and its Train Plan take full and proper account of its calculation of Forecast Passenger Demand and use all reasonable endeavours to ensure that the Train Fleet is deployed in an optimal manner for the purposes of complying with its obligations under paragraphs 7.1 and 7.2 above.
- (b) The Franchise Operator shall in preparing its Timetable and Train Plan deploy the entire Train Fleet (excluding reasonable planning requirements for the allocation of Hot Standbys or other rolling stock vehicles to be out of service due to maintenance requirements, Mandatory Modifications or any other reason agreed with the Secretary of State (such agreement not to be unreasonably withheld or delayed)) in delivering the Passenger Services:
 - (i) during each Peak; and

- (ii) at such times during each Off Peak where such deployment of the entire Train Fleet is reasonably required to meet the Franchise Operator's obligations pursuant to paragraphs 7.1 and 7.2 above.

7.4 The Franchise Operator shall submit its proposed Train Plan to the Secretary of State as soon as reasonably practicable after Network Rail has published the working timetable on which the Timetable is to be based.

7.5 The Franchise Operator shall submit its final Train Plan to the Secretary of State prior to the commencement of the Timetable to which it relates. It shall be certified by a statutory director of the Franchise Operator as being true and accurate.

8 Capacity Mitigation Plan

8.1

(a) If at any time the Franchise Operator is unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 7.1 (regardless of whether the Franchise Operator has used all reasonable endeavours to do so), the Secretary of State may serve a notice on the Franchise Operator requiring it to produce a plan to a reasonable specification provided with the notice to remedy or mitigate such inability (**Capacity Mitigation Plan**). Such specification may, without limitation, include measures to be implemented by the Franchise Operator to:

- (i) remedy the circumstances leading to the Franchise Operator being unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 7.1; and/or
- (ii) minimise, so far as is possible, the amount by which Target Passenger Demand exceeds the provision of Passenger Carrying Capacity on the affected Passenger Services; and
- (iii) ensure, so far as is possible, that such excess is not unduly concentrated on any particular Route or Passenger Service; and
- (iv) minimise, so far as is possible, the extent to which passengers are required to stand:
 - (A) on boarding in the case of any Off-Peak Passenger Service; and
 - (B) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service,

in all such cases (unless the Secretary of State specifies to the contrary) taking into account both Actual Passenger Demand and Forecast Passenger Demand. Where the Secretary of State reasonably believes that future circumstances may lead to the Franchise Operator being unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 7.1 at any time within the next four years (including after the end of the Franchise Term) he shall have the right to serve notice on the Franchise Operator specifying those future circumstances and the date that the Franchise Operator should assume that they will arise from and requiring it to produce a Capacity Mitigation Plan to remedy or mitigate such future circumstances on the basis of assumptions provided by the Secretary of State.

- (b) The Capacity Mitigation Plan shall (unless the Secretary of State specifies to the contrary) include the Franchise Operator's informed estimate of Forecast Passenger Demand, in such format and to such level of disaggregation as the Secretary of State may reasonably require. Without limitation such specification may require the Franchise Operator to present options to address relevant issues through:
 - (i) alterations to the Train Service Requirement;
 - (ii) modification of rolling stock or the acquisition of additional or replacement rolling stock;
 - (iii) alterations to Fares; and/or
 - (iv) alterations or enhancements to any track, signalling, station, depot or other relevant railway infrastructure.
- (c) The Capacity Mitigation Plan shall provide a comprehensive analysis backed by relevant data and assumptions of:
 - (i) all cost and revenue and other financial implications of options contained within it including the potential implications for Franchise Payments;
 - (ii) the implications (if any) for the Benchmarks and/or the Annual Benchmarks; and
 - (iii) the likely impact of options within it for existing and future passenger journeys and journey opportunities.
- (d) The Franchise Operator shall meet with the Secretary of State to discuss the Capacity Mitigation Plan and provide such further information or analysis and further iterations of the Capacity Mitigation Plan as the Secretary of State shall reasonably require.

9 Franchise Operator Informed Opinion and new or amended Train Service Requirement

- 9.1 Prior to issuing any amended or new Train Service Requirement the Secretary of State shall provide to the Franchise Operator his draft of any proposed amended or new Train Service Requirement stating the date upon which he proposes that such amended or new Train Service Requirement should take effect along with the Secretary of State's view as to the changes (if any) that he proposes to make to the Benchmarks and/or the Annual Benchmarks. On receipt of any such draft of a proposed amended or new Train Service Requirement the Franchise Operator shall provide to the Secretary of State if so requested its informed opinion:
- (a) with supporting reasons as to the impact of the proposed amended or new Train Service Requirement on the delivery of an optimal range of railway passenger services patterns relative to Target Passenger Demand and compliance with paragraph 7.1 of this Part A of Schedule 1.1 (Service Development);
 - (b) with supporting reasons as to the changes to resources and adjustment to Franchise Payments (if any) which would be required in consequence of the proposed amended or new Train Service Requirement;
 - (c) with supporting reasons as to changes (if any) to the Benchmarks and/or the Annual Benchmarks;
 - (d) of the process to be required to implement the proposed amendment to the Train Service Requirement together with a plan for the implementation of the amendment to the Train Service Requirement (including all steps required to ensure that the Franchise Operator can deliver a Timetable compliant with such amended or new Train Service Requirement) prepared in accordance with procedural arrangements specified by the Secretary of State pursuant to paragraph 10; and
 - (e) with supporting reasons of the likely impact of the proposed amended or new Train Service Requirement on existing and future passenger journeys and journey opportunities.
- 9.2 There may be iterations of drafts of the proposed amended or new Train Service Requirement and the Franchise Operator shall to the extent required by the Secretary of State have the obligations described in this paragraph 9 in respect of all such iterations.
- 9.3 Processes contained in this paragraph 9 and paragraph 8 shall take place in accordance with procedural arrangements and timescales stipulated by the Secretary of State pursuant to paragraph 10.2.

- 9.4 The Secretary of State may, in accordance with any stipulation made under paragraph 10.2, issue to the Franchise Operator any amended or new Train Service Requirement that he requires the Franchise Operator to operate and notice of the changes (if any) to the Benchmarks and/or the Annual Benchmarks. Such amended or new Train Service Requirement will be issued prior to the commencement of the timetable development process of Network Rail for the Timetable in respect of which it is proposed to implement the change to Passenger Services arising from the amended or new Train Service Requirement. In the absence of the Secretary of State issuing any amended or new Train Service Requirement the existing Train Service Requirement will remain in full force and effect. The degree of variation from any Train Service Requirement specified when the Franchise Agreement was entered into in respect of any particular period and brought about by any amended or new Train Service Requirement issued pursuant to this paragraph 9.4 shall (where relevant) be of a magnitude no greater than that contemplated in the Invitation to Tender.
- 9.5 At the same time as the Secretary of State provides the Franchise Operator with a draft of any proposed amended or new Train Service Requirement pursuant to paragraph 9.1, the Secretary of State shall also provide to the Franchise Operator his opinion of any changes (if any) that are required to the Benchmarks and/or the Annual Benchmarks.

10 Procedure

- 10.1 The Franchise Operator agrees that the effective operation of the provisions of this Part A of Schedule 1.1 (Service Development), and of provisions addressing the same or similar matters in other franchise agreements, will require certain procedural arrangements and timescales to be followed to a common timescale by the Secretary of State, the Franchise Operator and others.
- 10.2 The Franchise Operator agrees that the Secretary of State may stipulate any reasonable procedural arrangements and timescales that are to be followed by the Secretary of State and the Franchise Operator for these purposes (which shall be consistent with any relevant standard railway industry processes for timetable development) and that the Secretary of State may amend any such stipulation from time to time.
- 10.3 The Secretary of State agrees to consult the Franchise Operator as far as reasonably practicable prior to stipulating or amending any such procedural arrangements and timescales in accordance with paragraph 9.2.
- 10.4 Any stipulation by the Secretary of State pursuant to paragraph 9.2:
- (a) shall be at the reasonable discretion of the Secretary of State;
 - (b) may contain procedural arrangements and timescales to be followed by the Franchise Operator in relation to other changes to the Franchise Services (pursuant to paragraph 1

of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes)) in conjunction with the Train Service Requirement; and

- (c) may provide for iterations of drafts of any amended or new Train Service Requirement, Train Plan or Timetable.

10.5 Any procedural arrangements and timescales stipulated by the Secretary of State pursuant to paragraph 10.2 shall have contractual effect between the Franchise Operator and the Secretary of State in accordance with the terms of such stipulation.

11 Obligations in relation to other Train Operators

Subject to the terms of the Licences and any applicable Law, the Franchise Operator shall co-operate with other Train Operators in respect of their timetable development rights where such other Train Operators provide railway passenger services meeting common or displaced passenger demand, with a view to ensuring that:

- (a) the levels of overcrowding over the Routes or other relevant routes are minimised and not unduly concentrated on particular railway passenger services, Routes or other relevant routes;
- (b) the stopping patterns of such railway passenger services are placed at approximately evenly-spaced intervals throughout each relevant hour, taking into account the reasonable needs of passengers and the different types of railway passenger services provided by other Train Operators and the Franchise Operator; and
- (c) a reasonable pattern of railway passenger service is provided on the relevant route(s) to enable passengers to make Connections (particularly where low frequency railway passenger services are operated or last trains are involved, taking account of seasonal fluctuations in passenger demand and the time needed to make any such Connection).

12 Provisions relating to Access Agreements and Property Leases

12.1 Where the Secretary of State considers it requisite for the purposes of better securing the delivery of railway passenger services under the Franchise Agreement, or any other franchise agreement or the better achievement by him of any of his duties, functions and powers in relation to railways, the Secretary of State may require the Franchise Operator:

- (a) to exercise or refrain from exercising any or all of its rights under any Access Agreement or any Property Lease, or any related rights under such other agreements as the Secretary of State may specify; and/or

- (b) subject to the consent of the counterparty thereto, to assign, novate or surrender its rights under any Access Agreement or Property Lease.

12.2 Except to the extent that the Secretary of State otherwise indicates from time to time, the Franchise Operator shall notify the Secretary of State of its intention to enter into or amend any Access Agreement:

- (a) where the approval of the ORR is required under the Act, not less than 10 business days before the submission to the ORR; and
- (b) where no such approval is required, not less than 10 business days prior to entering into such amendment or Access Agreement.

12.3 The Franchise Operator shall comply with its obligations under any Access Agreement or any Property Lease to which it is a party from time to time:

- (a) to notify or consult with the Secretary of State on any matter or proposal relating to that Access Agreement or Property Lease; and
- (b) which are contingent on a particular course of action being taken by the Secretary of State or which are otherwise expressly included in that Access Agreement or Property Lease for the benefit of the Secretary of State.

12.4 If and to the extent that:

- (a) the Secretary of State exercises his rights pursuant to paragraph 12.1;
 - (b) the Franchise Operator's compliance with the Secretary of State's requirements pursuant to paragraph 12.1 would lead to the unavoidable consequence of the Franchise Operator contravening any other terms of the Franchise Agreement or the occurrence of an Event of Default; and
 - (c) the Franchise Operator duly complies with such requirements,
- no such contravention of the Franchise Agreement or Event of Default shall have occurred.

13 Not used

14 The Timetable and the Working Timetable

14.1 Any specification of railway passenger services in a Train Service Requirement shall (unless the Secretary of State states to the contrary) be regarded as relating to how those services are to be provided for in the National Rail Timetable that Network Rail publishes for passengers, and not

how they are to be provided for in the working timetable that Network Rail issues to industry parties at the conclusion of its timetable development process.

- 14.2 Accordingly, the Franchise Operator's obligations specified in paragraph 5.3 shall be construed as an obligation to secure the requisite Train Slots in the working timetable to be issued by Network Rail at the conclusion of its timetable development process that will permit the Franchise Operator to operate railway passenger services that comply with the Train Service Requirement provided for in the relevant Timetable.
- 14.3 The Franchise Operator shall ensure, for each period between two consecutive Passenger Change Dates during the Franchise Term, that the Timetable for such period is, in its reasonable opinion, not materially different from the relevant working timetable issued by Network Rail at the conclusion of its timetable development process.

Part B – Service Level Commitment

This Part B of Schedule 1.1 (Service Development) shall apply following a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change in place of the provisions of Part A (Train Service Requirement) of Schedule 1.1 (Service Development).

1 Service Level Commitment - Purpose And Responsibility

- 1.1 A Service Level Commitment is the specification of Passenger Services to be provided by the Franchise Operator. No Passenger Services shall be provided in addition to those Passenger Services which are required to be run in order to comply with the Service Level Commitment.
- 1.2 The Service Level Commitment will be determined in accordance with paragraph 3.5 of Schedule 9.3 (Secretary of State Risk Assumptions). Such Service Level Commitment shall remain in force unless and until amended or replaced pursuant to this Part B of Schedule 1.1 (Service Development) or paragraph 3.4 of Schedule 9.3 (Secretary of State Risk Assumptions).
- 1.3 A Service Level Commitment may be expressed in whole or in part at any level of generality or to any level of detail the Secretary of State considers appropriate.

2 Train Plan - Purpose And Responsibility

- 2.1 A Train Plan is the plan or diagram of the Franchise Operator for the operation of trains and train formations under the Timetable.
- 2.2 The Franchise Operator shall submit to the Secretary of State a Train Plan in respect of:
 - (a) the Service Level Commitment; and
 - (b) subsequently, each Timetable in accordance with this Part B of Schedule 1.1 (Service Development).
- 2.3 In preparing any Train Plan, the Franchise Operator shall do so by reference to the timetable that it envisages operating in order to comply with the Service Level Commitment to which it relates.
- 2.4 Each Train Plan is to set out for each railway passenger service in the Timetable to which it relates:
 - (a) its start point and departure time;
 - (b) its terminating point and arrival time;

- (c) the number and class of rolling stock vehicles allocated to each such railway passenger service;
- (d) the Passenger Carrying Capacity that each such railway passenger service, as formed, is to have;
- (e) its Actual Passenger Demand most recently determined in accordance with Schedule 1.5 (Information about Passengers); and
- (f) its Forecast Passenger Demand.

2.5 A Train Plan shall be in any format that the Secretary of State may reasonably specify for this purpose.

3 Not used

4 Franchise Operator Opinions, Amended and New Service Level Commitment

4.1 This paragraph 4 shall be without prejudice to the provisions of paragraph 3 of Schedule 9.3 (Secretary of State Risk Assumptions).

4.2 As and when required, whether for the purposes of considering alterations to the Service Level Commitment or otherwise, the Franchise Operator shall provide to the Secretary of State:

- (a) its informed estimate of Forecast Passenger Demand, in such format and to such level of disaggregation as the Secretary of State may reasonably require in order to assist the Secretary of State's decision making on future service level commitments, infrastructure, station and rolling stock vehicle investment, the best use of the network and the alleviation of overcrowding;
- (b) its informed opinion as to any changes to the current Service Level Commitment which:
 - (i) should be made in order to deliver an optimal range of railway passenger service patterns relative to Target Passenger Demand; and
 - (ii) could be implemented and operated without additional resources or an adjustment to the Franchise Payments;
- (c) its informed opinion as to any changes to the current Service Level Commitment which:
 - (i) would deliver an optimal range of railway passenger service patterns relative to Target Passenger Demand; and

(ii) could only be implemented and operated with additional resources and/or an adjustment to the Franchise Payments, together with an explanation as to:

(A) what additional resources and/or adjustments are necessary to make such changes; and

(B) why such additional resources and/or adjustments are necessary;

(d) a draft of the Train Plan that it considers that each set of proposed changes would require.

4.3 The Franchise Operator may at any time (and, if requested to do so by the Secretary of State, shall as soon as reasonably practicable after such request) propose amendment to the then current Service Level Commitment for the purpose of optimising the delivery of railway passenger service patterns relative to Target Passenger Demand (or, where the proposed amendment to the then current Service Level Commitment is requested by the Secretary of State, for such other purpose as the Secretary of State may specify in such request). Any such proposal shall be provided with:

(a) the Franchise Operator's reasons why it believes that the proposed amendment would optimise the delivery of railway passenger services relative to Target Passenger Demand or meet such other purpose as the Secretary of State may have specified in accordance with paragraph 4.2 (as applicable) and, unless the date is specified by the Secretary of State, the date upon which it proposes that such amended Service Level Commitment should take effect;

(b) its informed opinion with supporting reasons as to the changes to resources and adjustment to Franchise Payments (if any) which would be required in consequence of the proposed amendments;

(c) a draft of the Train Plan that it considers that the proposed amendment would require;

(d) its informed opinion as to the process required to implement the proposed amendment to the Service Level Commitment together with a plan for the implementation of the amendment to the Service Level Commitment (including all steps required to ensure that the Franchise Operator can deliver a Timetable compliant with such Service Level Commitment) prepared in accordance with procedural arrangements specified by the Secretary of State pursuant to paragraph 5.

4.4 The Secretary of State shall be permitted to carry out indicative Runs of the Financial Model for the purposes of considering the effects of amendments to the Service Level Commitment proposed by the Franchise Operator.

- 4.5 The Secretary of State will give consideration to proposals made by the Franchise Operator but shall be under no obligation to make any change to the Service Level Commitment in consequence. If the Secretary of State agrees the proposed amendment he shall issue an amended Service Level Commitment pursuant to paragraph 4.12. The Secretary of State shall be permitted to incorporate amendments to the Service Level Commitment suggested by the Franchise Operator in any amended or new Service Level Commitment that he may subsequently propose.
- 4.6 The Franchise Operator agrees to cooperate with the Secretary of State in developing any amended or new Service Level Commitment in accordance with this Part B of Schedule 1.1 (Service Development).
- 4.7 Prior to issuing any amended or new Service Level Commitment the Secretary of State shall provide to the Franchise Operator his draft of any proposed amended or new Service Level Commitment stating the date upon which he proposes that such amended or new Service Level Commitment should take effect.

On receipt of any such draft of a proposed amended or new Service Level Commitment the Franchise Operator shall provide to the Secretary of State if so requested:

- (a) its informed opinion with supporting reasons as to the impact of the proposed amended or new Service Level Commitment on the delivery of an optimal range of railway passenger services patterns relative to Target Passenger Demand;
 - (b) its informed opinion with supporting reasons as to the changes to resources and adjustment to Franchise Payments (if any) which would be required in consequence of the proposed amended or new Service Level Commitment;
 - (c) a draft of the Train Plan that it considers that the proposed amended or new Service Level Commitment would require; and
 - (d) its informed opinion of the process to be required to implement the proposed amendment to the Service Level Commitment together with a plan for the implementation of the amendment to the Service Level Commitment (including all steps required to ensure that the Franchise Operator can deliver a Timetable compliant with such amended or new Service Level Commitment) prepared in accordance with procedural arrangements specified by the Secretary of State pursuant to paragraph 5.
- 4.8 There may be iterations of drafts of the proposed amended or new Service Level Commitment and the Franchise Operator shall to the extent required by the Secretary of State have the obligations described in this paragraph 4 in respect of all such iterations.

- 4.9 The Secretary of State shall be permitted to carry out indicative Runs of the Financial Model for the purposes of considering the effects of his proposed amended or new Service Level Commitment.
- 4.10 Processes contained in this paragraph 4 shall take place in accordance with procedural arrangements and timescales stipulated by the Secretary of State pursuant to paragraph 5.2.
- 4.11 If and to the extent that the Franchise Operator reasonably considers that any Service Level Commitment issued by the Secretary of State pursuant to this Part B of Schedule 1.1 (Service Development) contains insufficient information to enable it to perform its obligations under this Part B of Schedule 1.1 (Service Development) it shall promptly notify the Secretary of State and the Secretary of State shall provide such further information as is reasonably required.
- 4.12 The Secretary of State may, in accordance with any stipulation made under paragraph 5.2, issue to the Franchise Operator any amended or new Service Level Commitment that he requires the Franchise Operator to operate. Such amended or new Service Level Commitment will be issued within a reasonable period prior to the commencement of the timetable development process of Network Rail for the Timetable in respect of which it is proposed to implement the change to Passenger Services arising from the amended or new Service Level Commitment.
- 4.13 At the same time as the Secretary of State provides the Franchise Operator with a draft of any proposed amended or new Service Level Commitment pursuant to paragraph 4.5, the Secretary of State shall also provide to the Franchise Operator his opinion on any changes that he reasonably considers are required to the Train Plan for such Train Plan:
- (a) to satisfy the capacity requirements referred to in paragraph 6.1; or
 - (b) to satisfy the capacity requirements referred to in paragraphs 6.2 and 6.3 if he reasonably considers that the capacity requirements referred to in paragraph 6.1 cannot be met.

5 Procedure

- 5.1 The Franchise Operator agrees that the effective operation of the provisions of this Part B of Schedule 1.1 (Service Development), and of provisions addressing the same or similar matters in other franchise agreements, will require certain procedural arrangements and timescales to be followed to a common timescale by the Secretary of State, the Franchise Operator and others.
- 5.2 The Franchise Operator agrees that the Secretary of State may stipulate any reasonable procedural arrangements and timescales that are to be followed by the Secretary of State and the Franchise Operator for these purposes (which shall be consistent with any relevant standard railway industry processes for timetable development) and that the Secretary of State may amend any such stipulation from time to time.

- 5.3 The Secretary of State agrees to consult the Franchise Operator as far as reasonably practicable prior to stipulating or amending any such procedural arrangements and timescales in accordance with paragraph 5.2.
- 5.4 Any stipulation by the Secretary of State pursuant to paragraph 5.2:
- (a) shall be at the reasonable discretion of the Secretary of State;
 - (b) may contain procedural arrangements and timescales to be followed by the Franchise Operator in relation to other changes to the Franchise Services (pursuant to paragraph 1 of Schedule 9.5 (Variations and Incentivising Beneficial Changes)) in conjunction with the Service Level Commitment; and
 - (c) may provide for iterations of drafts of any amended or new Service Level Commitment, Train Plan or Timetable and for indicative Runs of the Financial Model in relation thereto.
- 5.5 Any procedural arrangements and timescales stipulated by the Secretary of State pursuant to paragraph 5.2 shall have contractual effect between the Franchise Operator and the Secretary of State in accordance with the terms of such stipulation.

6 Planning

6.1 Capacity and Timetable Planning

The Franchise Operator shall, in preparing its Timetable and Train Plan, use all reasonable endeavours to:

- (a) provide for Passenger Carrying Capacity on each Passenger Service that meets as a minimum the Target Passenger Demand for that Passenger Service;
 - (b) provide passengers with a reasonable expectation of a seat:
 - (i) on boarding in respect of any Off-Peak Passenger Service; and
 - (ii) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service.
- 6.2 Allocation of rolling stock where Franchise Operator unable to meet the capacity requirements

If at the time it prepares its Timetable and/or Train Plan, having exercised all reasonable endeavours, the Franchise Operator is unable to prepare a Timetable and/or Train Plan having the Passenger Carrying Capacity and/or meeting the reasonable expectations referred to in paragraphs 6.1(a) and (b), then the Timetable and/or the Train Plan shall specify the best

allocation of Passenger Services and rolling stock vehicles to Passenger Services that is reasonably practicable with a view to:

- (a) minimising, so far as is possible, the amount by which Target Passenger Demand exceeds the provision of Passenger Carrying Capacity on the affected Passenger Services;
- (b) ensuring, so far as is possible, that such excess is not unduly concentrated on any particular Route or Passenger Service; and
- (c) minimising, so far as is possible, the extent to which passengers are required to stand:
 - (i) on boarding in the case of any Off-Peak Passenger Service; and
 - (ii) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service.

6.3

- (a) Subject to paragraph 6.3(b) the Franchise Operator shall in preparing its Timetable and its Train Plan take full and proper account of its calculation of Forecast Passenger Demand and use all reasonable endeavours to ensure that the Train Fleet is deployed in an optimal manner for the purposes of complying with its obligations under paragraphs 6.1 and 6.2 above.
- (b) The Franchise Operator shall in preparing its Timetable and Train Plan deploy the entire Train Fleet (excluding reasonable planning requirements for the allocation of Hot Standbys or other rolling stock vehicles to be out of service due to maintenance requirements, Mandatory Modifications or any other reason agreed with the Secretary of State (such agreement not to be unreasonably withheld or delayed)) in delivering the Passenger Services at such times where such deployment of the entire Train Fleet is reasonably required to meet the Franchise Operator's obligations pursuant to paragraphs 6.1 and 6.2 above.

7 Capacity Mitigation Plan

- 7.1 If at any time the Franchise Operator is unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 6.1 (regardless of whether the Franchise Operator has used all reasonable endeavours to do so), the Secretary of State may serve a notice on the Franchise Operator requiring it to produce a plan to a reasonable specification provided with the notice to remedy or mitigate such inability (**Capacity Mitigation Plan**). Such specification may, without limitation, include measures to be implemented by the Franchise Operator to:

- (a) remedy the circumstances leading to the Franchise Operator being unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 6.1; and/or
- (b) minimise, so far as is possible, the amount by which Target Passenger Demand exceeds the provision of Passenger Carrying Capacity on the affected Passenger Services; and
- (c) ensure, so far as is possible, that such excess is not unduly concentrated on any particular Route or Passenger Service; and
- (d) minimise, so far as is possible, the extent to which passengers are required to stand:
 - (i) on boarding in the case of any Off-Peak Passenger Service; and
 - (ii) 20 minutes after boarding (or such other time period as the Secretary of State may stipulate) in respect of any Peak Passenger Service,

in all such cases (unless the Secretary of State specifies to the contrary) taking into account both Actual Passenger Demand and Forecast Passenger Demand. Where the Secretary of State reasonably believes that future circumstances may lead to the Franchise Operator being unable to prepare a Timetable and/or a Train Plan which meets the requirements of paragraph 6.1 at any time within the next four years (including after the end of the Franchise Term) he shall have the right to serve notice on the Franchise Operator specifying those future circumstances and the date that the Franchise Operator should assume that they will arise from and requiring it to produce a Capacity Mitigation Plan to remedy or mitigate such future circumstances on the basis of assumptions provided by the Secretary of State.

7.2 The Capacity Mitigation Plan shall (unless the Secretary of State specifies to the contrary) include the Franchise Operator's informed estimate of Forecast Passenger Demand, in such format and to such level of disaggregation as the Secretary of State may reasonably require. Without limitation such specification may require the Franchise Operator to present options to address relevant issues through:

- (a) alterations to the Service Level Commitment;
- (b) modification of rolling stock or the acquisition of additional or replacement rolling stock;
- (c) alterations to Fares; and/or
- (d) alterations or enhancements to any track, signalling, station, depot or other relevant railway infrastructure.

7.3 The Capacity Mitigation Plan shall provide a comprehensive analysis backed by relevant data and assumptions of:

- (a) all cost and revenue and other financial implications of options contained within it including the potential implications for Franchise Payments;
- (b) the implications (if any) for the Benchmarks and/or the Annual Benchmarks; and
- (c) the likely impact of options within it for existing and future passenger journeys and journey opportunities.

7.4 The Franchise Operator shall meet with the Secretary of State to discuss the Capacity Mitigation Plan and provide such further information or analysis and further iterations of the Capacity Mitigation Plan as the Secretary of State shall reasonably require.

8 Indicative Timetable and Consultation

8.1 The Franchise Operator shall, as and when required pursuant to any stipulation made under paragraph 5.2, provide the Secretary of State with a summary (in such form as the Secretary of State may specify) of any material changes that it would expect there to be to the Passenger Services from the then current Timetable if any of the following were implemented:

- (a) the Secretary of State's Service Level Commitment issued pursuant to paragraph 4.5 or 4.12 and the Franchise Operator's proposed Train Plan; and/or
- (b) any amended Service Level Commitment proposed by the Franchise Operator pursuant to paragraph 4.3.

8.2 Notwithstanding any consultation the Secretary of State might separately undertake in respect of any amended or new draft Service Level Commitment issued pursuant to paragraph 4, the Franchise Operator shall in respect of changes to the Passenger Services proposed in any Timetable:

- (a) as soon as reasonably practicable after:
 - (i) first providing a summary to the Secretary of State, give all Stakeholders notice and consult them in respect of the changes to the Passenger Services specified in such summary; and
 - (ii) sending or receiving any correspondence in respect of such notice or consultation, provide the Secretary of State with copies of such correspondence;
- (b) take due account of such Stakeholders' views that are submitted to the Franchise Operator in accordance with the procedural stipulations pursuant to paragraph 5.2 and the guidance referred to in paragraph 8.2(d);

- (c) inform the Secretary of State of any material changes that it would expect there to be to the Passenger Services and/or Additional Passenger Services if the views of such Stakeholders' were accommodated; and
- (d) comply with such reasonable requirements and guidance as the Secretary of State may notify to it from time to time in respect of giving notice to and consulting such Stakeholders in accordance with this paragraph 8.2.

9 Timetable Development Rights

9.1 The Franchise Operator shall use:

- (a) (save in relation to obtaining the Additional TSR2 TDR Rights to which paragraph 9.1(b) shall apply) reasonable endeavours to amend and/or enter into such Access Agreements as may be necessary or desirable from time to time to obtain the timetable development rights that it requires to secure a Timetable that enables it to operate railway passenger services that comply with the Service Level Commitment; and
 - (b) best endeavours to amend and/or enter into such Access Agreements as may be necessary or desirable from time to time to obtain the Additional TSR2 TDR Rights;
- and, in each case, otherwise comply with its obligations under the Franchise Agreement

9.2 The Franchise Operator shall exercise its Timetable Development Rights so as to secure a Timetable that enables it to operate railway passenger services that comply with the Service Level Commitment in accordance with its obligations under paragraph 10.

9.3 Unless the Secretary of State otherwise directs, the Franchise Operator shall, for the purposes of securing a Timetable that complies with the Service Level Commitment, exercise its rights under the Track Access Agreement (including the Network Code) to object, to make representations and to withhold consent in respect of any actual or proposed act or omission by Network Rail in relation to such agreement in respect of its Timetable Development Rights.

9.4 Subject to the Franchise Operator complying with its obligations under paragraph 9.3, it shall not be liable for any failure to secure a Timetable that enables the Franchise Operator to operate railway passenger services that comply with the Service Level Commitment, to the extent that such failure is caused by:

- (a) the Franchise Operator's Timetable Development Rights being inadequate to enable it to secure the requisite Train Slots, provided that the Franchise Operator has exercised and, unless otherwise agreed by the Secretary of State, is continuing to exercise all reasonable endeavours to obtain the requisite timetable development rights in accordance with

paragraph 9.1(a) or best endeavours to obtain the Additional TSR2 TDR Rights in accordance with 9.1(b);

- (b) Network Rail exercising its flexing rights from time to time under the Track Access Agreement or the Network Code in respect of such Train Slots;
- (c) Network Rail exercising its other rights from time to time under the Track Access Agreement or the Network Code; or
- (d) the exercise by the ORR of its powers pursuant to Section 22C of the Act.

9.5 If the Secretary of State does not consider that the Franchise Operator has taken sufficient steps under paragraph 9.3, he may require the Franchise Operator to exercise its rights referred to in paragraph 9.3 in such manner as he reasonably considers appropriate in the circumstances.

9.6 The Secretary of State shall, to the extent reasonably practicable, allow the Franchise Operator a reasonable opportunity to make representations to him concerning the exercise by the Franchise Operator of any of its rights referred to in paragraph 9.3 before requiring the Franchise Operator to take any action referred to in paragraph 9.5.

10 Certification and Notification by Franchise Operator of Exercising Timetable Development Rights

10.1 Before exercising any Timetable Development Right to bid for Train Slots, the Franchise Operator shall provide a certificate addressed to the Secretary of State and signed by a statutory director of the Franchise Operator confirming that its proposed exercise of that Timetable Development Right will be compliant with its obligation specified in paragraph 9.2.

10.2 If requested by the Secretary of State, the Franchise Operator agrees to demonstrate to the reasonable satisfaction of the Secretary of State that the Franchise Operator's certificate referred to in paragraph 10.1 is a true and accurate confirmation of compliance with its obligation specified in paragraph 9.2.

10.3 The Franchise Operator shall:

- (a) keep the Secretary of State fully informed of any discussions with Network Rail in relation to the matters referred to in this Part B of Schedule 1.1 (Service Development) which may, in the reasonable opinion of the Franchise Operator, have a material bearing on the ability of the Franchise Operator to deliver the Service Level Commitment or meet the requirements of paragraph 6 through the Timetable and shall, if required to do so by the Secretary of State, supply copies of any related correspondence to the Secretary of State; and

- (b) update any notification under this paragraph 10.3 and/or certification under paragraph 10.1 as soon as reasonably practicable, if at any time it elects or is required to modify any aspect of its exercise of its Timetable Development Rights following Network Rail's proposed or actual rejection or modification of its bid or any part of it or for any other reason.

11 Obligations in relation to other Train Operators

Subject to the terms of the Licences and any applicable Law, the Franchise Operator shall co-operate with other Train Operators in respect of their timetable development rights where such other Train Operators provide railway passenger services meeting common or displaced passenger demand, with a view to ensuring that:

- (a) the levels of overcrowding over the Routes or other relevant routes are minimised and not unduly concentrated on particular railway passenger services, Routes or other relevant routes;
- (b) the stopping patterns of such railway passenger services are placed at approximately evenly spaced intervals throughout each relevant hour, taking into account the reasonable needs of passengers and the different types of railway passenger services provided by other Train Operators and the Franchise Operator; and
- (c) a reasonable pattern of railway passenger service is provided on the relevant route(s) to enable passengers to make Connections (particularly where low frequency railway passenger services are operated or last trains are involved, taking account of seasonal fluctuations in passenger demand and the time needed to make any such Connection).

12 Finalising the Train Plan

12.1 The Franchise Operator shall submit its Train Plan to the Secretary of State as soon as reasonably practicable after Network Rail has published the working timetable on which the Timetable is to be based.

12.2 The Secretary of State may notify the Franchise Operator of:

- (a) any respect in which he considers that the Train Plan does not comply with the requirements of this Part B of Schedule 1.1 (Service Development); and
- (b) any revisions that he requires to address such non compliance,

and the Franchise Operator shall revise the Train Plan in accordance with the Secretary of State's requirements.

- 12.3 If the Franchise Operator considers that any of the revisions that the Secretary of State requires pursuant to paragraph 12.2(b) are not required for the Train Plan to comply with this Part B of Schedule 1.1 (Service Development) then:
- (a) it shall nevertheless make such revisions;
 - (b) it may subsequently refer the question as to whether such revisions were so required for resolution in accordance with such dispute resolution procedure as the parties may agree or, in the absence of agreement, in accordance with the Dispute Resolution Rules; and
 - (c) following determination of any such dispute, the parties shall take such steps as are required to give effect to such determination.

13 Provisions relating to Access Agreements and Property Leases

- 13.1 Where the Secretary of State considers it requisite for the purposes of better securing the delivery of railway passenger services under the Franchise Agreement, or any other franchise agreement, or for the better achievement by him of any of his duties, functions and powers in relation to railways the Secretary of State may require the Franchise Operator:
- (a) to exercise or refrain from exercising any or all of its rights under any Access Agreement or any Property Lease, or any related rights under such other agreements as the Secretary of State may specify; and/or
 - (b) subject to the consent of the counterparty thereto, to assign, novate or surrender its rights under any Access Agreement or Property Lease.
- 13.2 Except to the extent that the Secretary of State otherwise indicates from time to time, the Franchise Operator shall notify the Secretary of State of its intention to enter into or amend any Access Agreement:
- (a) where the approval of the ORR is required under the Act, not less than 10 business days before the submission to the ORR; and
 - (b) where no such approval is required, not less than 10 business days prior to entering into such amendment or Access Agreement.
- 13.3 The Franchise Operator shall comply with its obligations under any Access Agreement or any Property Lease to which it is a party from time to time:
- (a) to notify or consult with the Secretary of State on any matter or proposal relating to that Access Agreement or Property Lease; and

- (b) which are contingent on a particular course of action being taken by the Secretary of State or which are otherwise expressly included in that Access Agreement or Property Lease for the benefit of the Secretary of State.

13.4 If and to the extent that:

- (a) the Secretary of State exercises his rights pursuant to paragraph 12.2;
- (b) the Franchise Operator's compliance with the Secretary of State's requirements pursuant to paragraph 12.2 would lead to the unavoidable consequence of the Franchise Operator contravening any other terms of the Franchise Agreement or the occurrence of an Event of Default; and
- (c) the Franchise Operator duly complies with such requirements,

no such contravention of the Franchise Agreement or Event of Default shall have occurred.

14 The Timetable and the Working Timetable

- 14.1 Any specification of railway passenger services in a Service Level Commitment shall (unless the Secretary of State states to the contrary) be regarded as relating to how those services are to be provided for in the National Rail Timetable that Network Rail publishes for passengers, and not how they are to be provided for in the working timetable that Network Rail issues to industry parties at the conclusion of its timetable development process.
- 14.2 Accordingly, the Franchise Operator's obligations specified in paragraph 9.2 shall be construed as an obligation to secure the requisite Train Slots in the working timetable to be issued by Network Rail at the conclusion of its timetable development process that will permit the Franchise Operator to operate railway passenger services that comply with the Service Level Commitment provided for in the relevant Timetable.
- 14.3 The Franchise Operator shall ensure, for each period between two consecutive Passenger Change Dates during the Franchise Term, that the Timetable for such period is in its reasonable opinion not materially different from the relevant working timetable issued by Network Rail at the conclusion of its timetable development process.

SCHEDULE 1.2 Operating Obligations

Part A – Train Service Requirement

This Part A of Schedule 1.2 (Operating Obligations) shall apply unless a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change has occurred, in which case Part B (Service Level Commitment) of this Schedule 1.2 (Operating Obligations) shall apply.

1 Daily Operating Obligations

- 1.1 The Franchise Operator agrees to use all reasonable endeavours to operate on each day of the Franchise Term each of its Passenger Services as are set out in the Plan of the Day for that day and with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service. The Franchise Operator shall notify the Secretary of State as soon as reasonably practicable if it has on any day of the Franchise Term failed to operate to a material extent each of its Passenger Services as are set out in the Plan of the Day for that day and with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service.
- 1.2 The Franchise Operator shall ensure that its performance in each Reporting Period, calculated as a moving annual average in accordance with Schedule 7.1 (Performance Benchmarks), does not exceed (that is, is neither equal to or worse than) each Breach Performance Level in respect of that Reporting Period. It shall be a contravention by the Franchise Operator of the terms of the Franchise Agreement if its performance exceeds (that is, is equal to or worse than) any Breach Performance Level in any Reporting Period.

2 Train Service Requirement and Capacity Compliance

- 2.1 If the Secretary of State considers that the Franchise Operator may have breached any of its obligations under paragraphs 5.1, 5.3, 5.4, 5.5, 7.1 and 7.2 of Part A (Train Service Requirement) of Schedule 1.1 (Service Development) or paragraph 1.1 of this Part A of Schedule 1.2 (Operating Obligations), he shall (in addition to his right to obtain further information pursuant to paragraph 1.1 of Schedule 1.5 (Information about Passengers) and without prejudice to any other rights of the Secretary of State under the Franchise Agreement or otherwise) have the right, by serving notice on the Franchise Operator, to instigate an investigation of the Franchise Operator's compliance with its obligations under paragraphs 5.1, 5.3, 5.4, 5.5, 7.1 and 7.2 of Part A (Train Service Requirement) of Schedule 1.1 (Service Development) and paragraph 1.1 of this Part A of Schedule 1.2 (**Timetabling and Train Planning Compliance Investigation**).
- 2.2 Following the service of such a notice the Franchise Operator shall:
- (a) provide such information as the Secretary of State may reasonably require for the purposes of determining if the Franchise Operator has complied with its obligations under

paragraphs 5.1, 5.3, 5.4, 5.5, 7.1 and 7.2 of Part A of Schedule 1.1 (Service Development) and paragraph 1.1 of this Part A of Schedule 1.2 (Operating Obligations) including:

- (i) evidence of the steps taken by the Franchise Operator to amend and/or enter into Access Agreements, exercise Timetable Development Rights and exercise its rights under the Track Access Agreement to object, to make representations and to withhold consent in respect of any actual or proposed act or omission by Network Rail in relation to such agreement in respect of its Timetable Development Rights;
 - (ii) evidence of the extent to which the Franchise Operator has operated on each day of the relevant Reporting Period each of its Passenger Services as are set out in the Plan of the Day for that day and with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service;
 - (iii) Forecast Passenger Demand and the way that it was calculated including all evidence taken into account and assumptions used (including any divergences from then existing industry modelling standards and the reasons for such divergences); and
 - (iv) the alternative solutions considered by the Franchise Operator before finalising the Timetable and Train Plan and the reasons why any such alternative solutions were not adopted.
- (b) permit the Secretary of State to carry out an audit of the extent to which the Timetable and Train Plan enables the Franchise Operator to operate railway passenger services that comply with the Train Service Requirement and fully co-operate with and provide all information needed to facilitate such audit.

2.3

- (a) The Franchise Operator shall be in contravention of the Franchise Agreement if following the completion by the Secretary of State of the Timetabling and Train Planning Compliance Investigation he concludes that the Franchise Operator breached any of its obligations under paragraphs 5.1, 5.3, 5.4, 5.5 and 7.1 and 7.2 of Part A of Schedule 1.1 (Service Development) and paragraph 1.1 of this Part A of Schedule 1.2 (Operating Obligations) including where the Franchise Operator:
- (i) failed to act reasonably in calculating Forecast Passenger Demand because it unreasonably assumed that there would be differences between Forecast Passenger Demand and Actual Passenger Demand at the time that the Forecast Passenger Demand calculation was made; or

(ii) made unreasonable assumptions about the timetables likely to be operated by other Train Operators serving some or all of the same stations as the Franchise Operator.

(b) Where the Secretary of State does conclude pursuant to paragraph (a) above that the Franchise Operator has breached any relevant obligation the Franchise Operator shall pay to the Secretary of State the costs incurred by him in undertaking the Timetabling and Train Planning Compliance Investigation (including any audit pursuant to paragraph 2.2(b)).

2.4 The Secretary of State shall notify the Franchise Operator if he concludes pursuant to paragraph 2.3 that the Franchise Operator is in contravention of the Franchise Agreement and he may at his discretion, and entirely without prejudice to his other rights consequent upon the relevant contravention, serve a Remedial Plan Notice pursuant to paragraph 1.1 of Schedule 10.1 (Remedial Plans and Remedial Agreements.)

3 Timetable changes proposed by Network Rail

3.1 The Franchise Operator shall notify the Secretary of State promptly after being notified by Network Rail that Network Rail has decided or proposes to:

- (a) omit from the Plan of the Day Passenger Services that are included in the Timetable; or
- (b) reschedule in the Plan of the Day Passenger Services from their scheduling in the Timetable,

3.2 To the extent that any such decision or proposal may, in the reasonable opinion of the Franchise Operator, materially (having regard to both duration and scale) prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in the Train Plan the Franchise Operator shall explain in such notification the way in which, in its reasonable opinion, such omission or rescheduling may materially prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in the Train Plan.

3.3 The Franchise Operator agrees to supply to the Secretary of State from time to time, in the format required by the Secretary of State, such details of any actual or proposed omission or rescheduling of Passenger Services by Network Rail as the Secretary of State may reasonably require, including details of the steps which the Franchise Operator proposes to take pursuant to paragraph 3.4.

3.4 Where the actual or proposed omission or rescheduling of Passenger Services is one which may, in the reasonable opinion of the Secretary of State or the Franchise Operator, materially prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in the Train Plan, the Franchise Operator agrees (unless the Secretary of State specifically agrees otherwise) to exercise its rights under the Track Access Agreement (including the Network Code) to:

- (a) object (including submitting its objection to any relevant dispute resolution arrangements or procedures and appealing against any award or determination under such arrangements or procedures, including to the ORR);
- (b) make representations; and
- (c) withhold consent,

in respect of any actual or proposed omission or rescheduling of Passenger Services by Network Rail.

3.5 The provisions of this paragraph 3 shall apply to any actual or proposed omission or rescheduling of Passenger Services that originates from any person other than Network Rail, as those provisions apply to Network Rail.

4 Timetable changes proposed by the Franchise Operator

4.1 The Franchise Operator agrees, subject to paragraph 4.2, not to propose to Network Rail:

- (a) the addition to the Plan of the Day of any railway passenger services which are not included in the Timetable;
- (b) the omission from the Plan of the Day of any Passenger Services included in the Timetable; or
- (c) the rescheduling in the Plan of the Day of any Passenger Services from their scheduling in the Timetable,

without the Secretary of State's prior consent.

4.2 The Franchise Operator shall use all reasonable endeavours to operate adequate railway passenger services to or from any special events which are not already provided for in the Plan of the Day to meet the passenger demand that is reasonably likely to arise from such special events and from the operation of such railway passenger services including through additions and omissions to the Plan of the Day or rescheduling in the Plan of the Day where appropriate.

5 Timetable changes requested by the Secretary of State

The Franchise Operator agrees, as and when requested by the Secretary of State, to use all reasonable endeavours to seek and to obtain:

- (a) the addition to the Plan of the Day of any railway passenger services that are not included in the Timetable;

- (b) the omission from the Plan of the Day of any Passenger Services that are included in the Timetable; and/or
- (c) the rescheduling in the Plan of the Day of any Passenger Services from their scheduling in the Timetable.

6 Obligations of the Franchise Operator in the event of disruption to railway passenger services

6.1 In the event of any planned or unplanned disruption to railway passenger services operated on the Routes, or on other parts of the network which are reasonably local to the Routes, the Franchise Operator shall:

- (a) without prejudice to any other provision of this Part A of Schedule 1.2 (Operating Obligations), notify the Secretary of State promptly where such disruption would materially (having regard to both duration and scale) prejudice the Franchise Operator's ability to deliver the Timetable or deliver the Timetable in accordance with the Train Plan;
- (b) co-operate with Network Rail and other Train Operators to act in the overall interests of passengers using such railway passenger services, including using all reasonable endeavours to ensure that such disruption is not concentrated on a particular part of the network, except where such concentration either:
 - (i) would be in the overall interests of passengers using such Passenger Services or railway passenger services and would not result in disproportionate inconvenience to any group of passengers; or
 - (ii) is reasonably necessary as a result of the cause or the location of the disruption; and
- (c) use all reasonable endeavours to provide or secure the provision of alternative transport arrangements in accordance with paragraph 6.2.

6.2 The Franchise Operator shall use all reasonable endeavours to provide or secure the provision of alternative transport arrangements to enable passengers affected by any disruption referred to in paragraph 6.1 to complete their intended journeys in accordance with this paragraph 6.2. In particular, the Franchise Operator shall use all reasonable endeavours to:

- (a) ensure that such alternative transport arrangements are of reasonable quality, of a reasonably similar frequency to the Passenger Services included in the Timetable which such arrangements replace and reasonably fit for the purpose of the journey to be undertaken;

- (b) transport passengers to, or as near as reasonably practicable to, the end of their intended journey on such Passenger Services, having particular regard to the needs of any disabled persons and, where appropriate, making additional arrangements for such disabled persons to complete their intended journey;
- (c) provide adequate and prominent publicity of such alternative transport arrangements in advance, subject, in the case of unplanned disruption, to the Franchise Operator having sufficient notice of such disruption to enable it to provide such publicity;
- (d) provide sufficient alternative transport capacity for the reasonably foreseeable demand for the disrupted Passenger Services; and
- (e) ensure, if any planned disruption overruns, that there is a reasonable contingency arrangement for such alternative transport arrangements to continue for the duration of such overrun.

7 Obligation to use all reasonable endeavours

7.1 Any obligation in this Part A of Schedule 1.2 (Operating Obligations) on the part of the Franchise Operator to use all reasonable endeavours to operate railway passenger services shall include an obligation to:

- (a) ensure (so far as it is able to do so) the provision of the Passenger Services as set out in the Plan of the Day in accordance with the Train Plan in ordinary operating conditions;
- (b) take reasonable measures to avoid and/or reduce the impact of any disruption to the Franchise Services having regard to all the circumstances, including the reasonably foreseeable risks arising from the matters referred to in paragraph 7.2; and
- (c) actively manage the performance by Network Rail of its contractual relationship with the Franchise Operator (and provide appropriate management resources for this purpose) so as to secure the best performance reasonably obtainable from Network Rail by these means (including taking the steps referred to in paragraph 7.4), having regard to all the circumstances.

7.2 The matters to which the Franchise Operator is to have regard pursuant to paragraph 7.1(b) shall include:

- (a) variations in weather and operating conditions (including Network Rail's infrastructure not being available for any reason), which may in either case include seasonal variations;
- (b) default by, or restrictions imposed by, suppliers to the Franchise Operator;
- (c) shortages of appropriately skilled or qualified Franchise Employees;

- (d) disputes with Franchise Employees;
- (e) the availability of the Train Fleet, having regard to maintenance requirements and any Mandatory Modifications;
- (f) establishing reasonable Turnaround Time allowances for enabling or disabling (as appropriate) any part of a train, the rostering of any train crew and the servicing or cleaning of any rolling stock vehicles; and
- (g) failures of rolling stock vehicles in service and contingency arrangements (including Hot Standbys and rescue traction).

7.3 For the purpose of taking measures in respect of any disruption to the Franchise Services in accordance with paragraph 7.1(b) and assessing the extent of any risk referred to in paragraph 7.1(b) and any such risk's reasonable foreseeability, regard shall be had both:

- (a) to the historical levels of incidence of disruption in the operation of:
 - (i) the Franchise Services;
 - (ii) similar services both by the Franchise Operator and/or its predecessors; and
 - (iii) other services of a type similar to the Franchise Services; and
- (b) to potential changes in circumstances which may affect those levels.

7.4 The steps to which paragraph 7.1(c) refers include:

- (a) co-operating with Network Rail in the development, agreement and implementation of:
 - (i) a 5-year (rolling) Performance Strategy Plan; and
 - (ii) recovery plans in response to failures to achieve the performance levels specified in any Performance Strategy Plan;
- (b) co-operating with Network Rail in adopting the principles set out in any Service Recovery Plans agreed between Network Rail and the Franchise Operator from time to time;
- (c) undertaking regular reviews of:
 - (i) the most common and most detrimental causes of PPM attrition and delay to the Passenger Services; and
 - (ii) the causes of the ten delays to the Passenger Services with the longest duration (to the extent not already reviewed in accordance with paragraph 7.4(c)(i)),

which have occurred during a defined review period (e.g. weekly/four weekly/quarterly) and which have been caused by the Franchise Operator, any other Train Operator or Network Rail;

- (d) undertaking with Network Rail a review of the time taken to recover the Passenger Services following the occurrence of any of the events specified in paragraphs 7.4(c)(i) and (c)(ii) and seeking to identify and implement actions that reduce the delay effect of such events;
- (e) setting up and holding regular and effective performance review meetings with Network Rail, evidenced by meeting minutes and the closure of actions agreed between the parties;
- (f) regularly monitoring (at least every Reporting Period) the delivery of local output commitments made by Network Rail in the Performance Strategy Plan and derived delivery plans and using reasonable endeavours to specify and develop such delivery plans;
- (g) as and when required by Network Rail, co-operating with Network Rail in improving the accuracy of future timetables by providing access to trains (and data collected from train systems), other facilities and/or information;
- (h) co-operating with Network Rail in other delay management initiatives and ongoing quarterly reviews of the Performance Strategy Plan;
- (i) regularly reviewing (at least every Reporting Period) the imposition and clearance of temporary speed restrictions;
- (j) regularly reviewing (at least every Reporting Period) the timely and efficient handover and hand-back of possessions; and
- (k) where appropriate and where Network Rail fails to perform its obligations under the Track Access Agreement, enforcing the Franchise Operator's rights under such Track Access Agreement.

7.5 The Franchise Operator undertakes to reasonably co-operate with Network Rail with regard to Network Rail's management of the network, including in relation to the establishment of up to date Timetable Planning Rules.

7.6 To the extent not already provided for in the Franchise Agreement, the Franchise Operator shall use all reasonable endeavours to ensure the performance by Network Rail of its obligations under any relevant agreement including, where appropriate or where requested by the Secretary of State, enforcing its rights against Network Rail under any such agreement.

7.7 When and to the extent reasonably requested by the Secretary of State, the Franchise Operator shall provide to the Secretary of State evidence of the steps taken by it in order to comply with its obligations under this paragraph 7.

Part B – Service Level Commitment

This Part B of Schedule 1.2 (Operating Obligations) shall apply following a Change arising from a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change in place of the provisions of Part A (Train Service Requirement) of Schedule 1.2 (Operating Obligations).

1 Daily Operating Obligations

- 1.1 The Franchise Operator agrees to use all reasonable endeavours to operate on each day of the Franchise Term each of its Passenger Services as are set out in the Plan of the Day for that day, with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service. The Franchise Operator shall notify the Secretary of State as soon as reasonably practicable if it has on any day of the Franchise Term failed to operate to a material extent each of its Passenger Services as set out in the Plan of the Day for that day and with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service.
- 1.2 The Franchise Operator shall ensure that its performance in each Reporting Period, calculated as a moving annual average in accordance with Schedule 7.1 (Performance Benchmarks), does not exceed (that is, is neither equal to or worse than) each Breach Performance Level in respect of that Reporting Period. It shall be a contravention by the Franchise Operator of the terms of the Franchise Agreement if its performance exceeds (that is, is equal to or worse than) any Breach Performance Level in any Reporting Period.

2 Not Used

3 Capacity Compliance

- 3.1 If the Secretary of State considers that the Franchise Operator may have breached any of its obligations under paragraphs 6.1, 6.2, 9.1, 9.2 and 9.3 of Part B (Service Level Commitment) of Schedule 1.1 (Service Development) or paragraph 1.1 of this Part B of Schedule 1.2 (Operating Obligations), he shall (in addition to his right to obtain further information pursuant to paragraph 1.1 of Schedule 1.5 (Information about Passengers) and without prejudice to any other rights of the Secretary of State under the Franchise Agreement or otherwise) have the right, by serving notice on the Franchise Operator, to instigate an investigation of the Franchise Operator's compliance with its obligations under paragraphs 6.1, 6.2, 9.1, 9.2 and 9.3 of Part B (Service Level Commitment) of Schedule 1.1 (Service Development) and paragraph 1.1 of this Part B of Schedule 1.2 (**Timetabling and Train Planning Compliance Investigation**).
- 3.2 Following the service of such a notice the Franchise Operator shall:
- (a) provide such information as the Secretary of State may reasonably require for the purposes of determining if the Franchise Operator has complied with its obligations under paragraphs

6.1, 6.2, 9.1, 9.2 and 9.3 of Part B (Service Level Commitment) of Schedule 1.1 (Service Development) and paragraph 1.1 of this Part B of Schedule 1.2 including:

- (i) evidence of the steps taken by the Franchise Operator to amend and/or enter into Access Agreements, exercise Timetable Development Rights and exercise its rights under the Track Access Agreement to object, to make representations and to withhold consent in respect of any actual or proposed act or omission by Network Rail in relation to such agreement in respect of its Timetable Development Rights;
 - (ii) evidence of the extent to which the Franchise Operator has operated on each day of the relevant Reporting Period each of its Passenger Services as are set out in the Plan of the Day for that day and with at least the Passenger Carrying Capacity specified in the Train Plan for that Passenger Service; and
 - (iii) Forecast Passenger Demand and the way that it was calculated including all evidence taken into account and assumptions used (including any divergences from then existing industry modelling standards and the reasons for such divergences);
- (b) the alternative solutions considered by the Franchise Operator before finalising the Timetable and Train Plan and the reasons why any such alternative solutions were not adopted; and
- (c) permit the Secretary of State to carry out an audit of the extent to which the Timetable and Train Plan enables the Franchise Operator to operate railway passenger services that comply with the Train Service Requirement and paragraph 7 of Schedule 1.1 (Service Development) and fully co-operate with and provide all information needed to facilitate such audit.

3.3

- (a) The Franchise Operator shall be in contravention of the Franchise Agreement if following the completion by the Secretary of State of the Timetabling and Train Planning Compliance Investigation he concludes that the Franchise Operator breached any of its obligations under paragraphs 6.1, 6.2, 9.1, 9.2 and 9.3 of Part B (Service Level Commitment) of Schedule 1.1 (Service Development) or paragraph 1.1 of this Part B of Schedule 1.2 (Operating Obligations) including where the Franchise Operator:
- (i) failed to act reasonably in calculating Forecast Passenger Demand because it unreasonably assumed that there would be differences between Forecast Passenger Demand and Actual Passenger Demand at the time that the Forecast Passenger Demand calculation was made; or

- (ii) made unreasonable assumptions about the timetables likely to be operated by other Train Operators serving some or all of the same stations as the Franchise Operator.
 - (b) Where the Secretary of State does conclude pursuant to paragraph 3.2(a) above that the Franchise Operator has breached any relevant obligation the Franchise Operator shall pay to the Secretary of State the costs incurred by him in undertaking any Timetabling and Train Planning Compliance Investigation (including any audit pursuant to paragraph 3.2(c)).
- 3.4 The Secretary of State shall notify the Franchise Operator if he concludes pursuant to paragraph 3.2 that the Franchise Operator is in contravention of the Franchise Agreement and he may at his discretion, and entirely without prejudice to his other rights consequent upon the relevant contravention, serve a Remedial Plan Notice pursuant to paragraph 1.1 of Schedule 10.1 (Remedial Plans and Remedial Agreements.)

4 Timetable changes proposed by Network Rail

- 4.1 The Franchise Operator shall notify the Secretary of State promptly after being notified by Network Rail that Network Rail has decided or proposes to:
- (a) omit from the Plan of the Day Passenger Services that are included in the Timetable; or
 - (b) reschedule in the Plan of the Day Passenger Services from their scheduling in the Timetable,
- 4.2 To the extent that any such decision or proposal may in the reasonable opinion of the Franchise Operator materially (having regard to both duration and scale) prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in a Train Plan, the Franchise Operator shall explain in such notification the way in which, in its opinion, such omission or rescheduling may materially prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in a Train Plan.
- 4.3 The Franchise Operator agrees to supply to the Secretary of State from time to time, in the format required by the Secretary of State, such details of any actual or proposed omission or rescheduling of Passenger Services by Network Rail as the Secretary of State may reasonably require, including details of the steps which the Franchise Operator proposes to take pursuant to paragraph 4.4.
- 4.4 Where the actual or proposed omission or rescheduling of Passenger Services is one which may in the reasonable opinion of the Secretary of State or the Franchise Operator materially prejudice the Franchise Operator's ability to deliver the Timetable with the Passenger Carrying Capacity stipulated in a Train Plan which satisfies the capacity requirements of paragraphs 3.1 and 3.3, the Franchise Operator agrees (unless the Secretary of State specifically agrees otherwise) to exercise its rights under the relevant Track Access Agreement (including the Network Code) to:

- (a) object (including submitting its objection to any relevant dispute resolution arrangements or procedures and appealing against any award or determination under such arrangements or procedures, including to the ORR);
- (b) make representations; and
- (c) withhold consent,

in respect of any actual or proposed omission or rescheduling of Passenger Services by Network Rail.

4.5 If the Secretary of State does not consider that the Franchise Operator has taken sufficient steps under paragraph 4.4, the Secretary of State may require the Franchise Operator to exercise its rights referred to in paragraph 4.4 in such manner as the Secretary of State may consider appropriate in the circumstances, including:

- (a) disputing any actual or proposed act or omission by Network Rail in respect of any Timetable Development Rights; and
- (b) submitting such dispute to any relevant dispute resolution arrangements or procedures and appealing against any award or determination under such arrangements or procedures, including to the ORR.

4.6 The Secretary of State shall, to the extent reasonably practicable, allow the Franchise Operator a reasonable opportunity to make representations to the Secretary of State concerning the exercise of any of its rights referred to in paragraph 4.4 before requiring the Franchise Operator to take any action referred to in paragraph 4.5.

4.7 The provisions of this paragraph 4 shall apply to any actual or proposed omission or rescheduling of Passenger Services that originates from any person other than Network Rail, as those provisions apply to the Network Rail.

5 Timetable changes proposed by the Franchise Operator

5.1 The Franchise Operator agrees not to propose to Network Rail:

- (a) the addition to the Plan of the Day of any railway passenger services which are not included in the Timetable;
- (b) the omission from the Plan of the Day of any Passenger Services included in the Timetable;
or
- (c) the rescheduling in the Plan of the Day of any Passenger Services from their scheduling in the Timetable,

without the Secretary of State's prior consent.

- 5.2 The Franchise Operator shall use all reasonable endeavours to operate adequate railway passenger services to or from any special events which are not already provided for in the Plan of the Day to meet the passenger demand that is reasonably likely to arise from such special events and from the operation of such railway passenger services including through additions and omissions to the Plan of the Day or rescheduling in the Plan of the Day where appropriate.

6 Timetable changes requested by the Secretary of State

- 6.1 The Franchise Operator agrees, as and when requested by the Secretary of State, to use all reasonable endeavours to seek and to obtain:
- (a) the addition to the Plan of the Day of any railway passenger services that are not included in the Timetable. The Franchise Operator shall, following a request by the Secretary of State to operate additional railway passenger services under this paragraph 6.1(a), provide to the Secretary of State a train plan which complies with the requirements of paragraph 2.4 and 2.5 of Part B (Service Level Commitment) of Schedule 1.1 (Service Development);
 - (b) the omission from the Plan of the Day of any Passenger Services that are included in the Timetable; and/or
 - (c) the rescheduling in the Plan of the Day of any Passenger Services from their scheduling in the Timetable.

7 Additional Railway Passenger Services

- 7.1 The Franchise Operator agrees not to operate any railway passenger services other than those:
- (a) required or permitted pursuant to this Part B (Service Level Commitment) of Schedule 1.2 (Operating Obligations); or
 - (b) operated on behalf of any other Train Operator where the Secretary of State has approved the subcontracting of the operation of such railway passenger services to the Franchise Operator.

8 Obligations of the Franchise Operator in the event of disruption to railway passenger services

- 8.1 In the event of any planned or unplanned disruption to railway passenger services operated on the Routes, or on other parts of the network which are reasonably local to the Routes, the Franchise Operator shall:

- (a) without prejudice to any other provision of this Part B of Schedule 1.2 (Operating Obligations), notify the Secretary of State promptly where such disruption would materially (having regard to both duration and scale) prejudice the Franchise Operator's ability to deliver the Timetable or deliver the Timetable in accordance with the Train Plan;
- (b) co operate with Network Rail and other Train Operators to act in the overall interests of passengers using such railway passenger services, including using all reasonable endeavours to ensure that such disruption is not concentrated on a particular part of the network, except where such concentration either:
 - (i) would be in the overall interests of passengers using such Passenger Services or railway passenger services and would not result in disproportionate inconvenience to any group of passengers; or
 - (ii) is reasonably necessary as a result of the cause or the location of the disruption; and
- (c) use all reasonable endeavours to provide or secure the provision of alternative transport arrangements in accordance with paragraph 8.2.

8.2 The Franchise Operator shall use all reasonable endeavours to provide or secure the provision of alternative transport arrangements to enable passengers affected by any disruption referred to in paragraph 8.1 to complete their intended journeys in accordance with this paragraph 8.2. In particular, the Franchise Operator shall use all reasonable endeavours to:

- (a) ensure that such alternative transport arrangements are of reasonable quality, of a reasonably similar frequency to the Passenger Services included in the Timetable which such arrangements replace and reasonably fit for the purpose of the journey to be undertaken;
- (b) transport passengers to, or as near as reasonably practicable to, the end of their intended journey on such Passenger Services, having particular regard to the needs of any disabled persons and, where appropriate, making additional arrangements for such disabled persons to complete their intended journey;
- (c) provide adequate and prominent publicity of such alternative transport arrangements in advance, subject, in the case of unplanned disruption, to the Franchise Operator having sufficient notice of such disruption to enable it to provide such publicity;
- (d) provide sufficient alternative transport capacity for the reasonably foreseeable demand for the disrupted Passenger Services; and

- (e) ensure, if any planned disruption overruns, that there is a reasonable contingency arrangement for such alternative transport arrangements to continue for the duration of such overrun.

9 Obligation to use all reasonable endeavours

9.1 Any obligation in this Part B of Schedule 1.2 on the part of the Franchise Operator to use all reasonable endeavours to operate railway passenger services shall include an obligation to:

- (a) ensure (so far as it is able to do so) the provision of the Passenger Services as set out in the Plan of the Day in accordance with the Train Plan in ordinary operating conditions;
- (b) take reasonable measures to avoid and/or reduce the impact of any disruption to the Franchise Services having regard to all the circumstances, including the reasonably foreseeable risks arising from the matters referred to in paragraph 9.2; and
- (c) actively manage the performance by Network Rail of its contractual relationship with the Franchise Operator (and provide appropriate management resources for this purpose) so as to secure the best performance reasonably obtainable from Network Rail by these means (including taking the steps referred to in paragraph 9.4), having regard to all the circumstances.

9.2 The matters to which the Franchise Operator is to have regard pursuant to paragraph 9.1(b) shall include:

- (a) variations in weather and operating conditions (including Network Rail's infrastructure not being available for any reason), which may in either case include seasonal variations;
- (b) default by, or restrictions imposed by, suppliers to the Franchise Operator;
- (c) shortages of appropriately skilled or qualified Franchise Employees;
- (d) disputes with Franchise Employees;
- (e) the availability of the Train Fleet, having regard to maintenance requirements and any Mandatory Modifications;
- (f) establishing reasonable Turnaround Time allowances for enabling or disabling (as appropriate) any part of a train, the rostering of any train crew and the servicing or cleaning of any rolling stock vehicles; and
- (g) failures of rolling stock vehicles in service and contingency arrangements (including Hot Standbys and rescue traction).

9.3 For the purpose of taking measures in respect of any disruption to the Franchise Services in accordance with paragraph 9.1(b) and assessing the extent of any risk referred to in paragraph 9.1(b) and any such risk's reasonable foreseeability, regard shall be had both:

- (a) to the historical levels of incidence of disruption in the operation of:
 - (i) the Franchise Services;
 - (ii) similar services both by the Franchise Operator and/or its predecessors; and
 - (iii) other services of a type similar to the Franchise Services; and
- (b) to potential changes in circumstances which may affect those levels.

9.4 The steps to which paragraph 9.1(c) refers include:

- (a) co-operating with Network Rail in the development, agreement and implementation of:
 - (i) a 5-year (rolling) Performance Strategy Plan; and
 - (ii) recovery plans in response to failures to achieve the performance levels specified in any Performance Strategy Plan;
- (b) co-operating with Network Rail in adopting the principles set out in any Service Recovery Plans agreed between Network Rail and the Franchise Operator from time to time;
- (c) undertaking regular reviews of:
 - (i) the most common and most detrimental causes of PPM attrition and delay to the Passenger Services; and
 - (ii) the causes of the ten delays to the Passenger Services with the longest duration (to the extent not already reviewed in accordance with paragraph 9.4(c)(i)),

which have occurred during a defined review period (e.g. weekly/four weekly/quarterly) and which have been caused by the Franchise Operator, any other Train Operator or Network Rail;

- (d) undertaking with Network Rail a review of the time taken to recover the Passenger Services following the occurrence of any of the events specified in paragraphs 9.4(c)(i) and (c)(ii) and seeking to identify and implement actions that reduce the delay effect of such events;
- (e) setting up and holding regular and effective performance review meetings with Network Rail, evidenced by meeting minutes and the closure of actions agreed between the parties;

- (f) regularly monitoring (at least every Reporting Period) the delivery of commitments made by Network Rail in the Performance Strategy Plan and derived delivery plans and using reasonable endeavours to specify and develop such delivery plans;
 - (g) as and when required by Network Rail, co-operating with Network Rail in improving the accuracy of future timetables by providing access to trains (and data collected from train systems), other facilities and/or information;
 - (h) co-operating with Network Rail in other delay management initiatives, and ongoing quarterly reviews of the Performance Strategy Plan;
 - (i) regularly reviewing (at least every Reporting Period) the imposition and clearance of temporary speed restrictions;
 - (j) regularly reviewing (at least every Reporting Period) the timely and efficient handover and hand-back of possessions; and
 - (k) where appropriate and where Network Rail fails to perform its obligations under the Track Access Agreement, enforcing the Franchise Operator's rights under such Track Access Agreement.
- 9.5 The Franchise Operator undertakes to reasonably co-operate with Network Rail with regard to Network Rail's management of the network, including in relation to the establishment of up to date Timetable Planning Rules.
- 9.6 To the extent not already provided for in the Franchise Agreement, the Franchise Operator shall use all reasonable endeavours to ensure the performance by Network Rail of its obligations under any relevant agreement including, where appropriate or where requested by the Secretary of State, enforcing its rights against Network Rail under any such agreement.
- 9.7 When and to the extent reasonably requested by the Secretary of State, the Franchise Operator shall provide to the Secretary of State evidence of the steps taken by it in order to comply with its obligations under this paragraph 9.

SCHEDULE 1.3
Not Used

SCHEDULE 1.4 Passenger Facing Obligations

1 Publishing the Timetable

1.1 The First Timetable

The Franchise Operator shall publish on the Start Date:

- (a) the Timetable:
 - (i) at each staffed Station, by making the relevant information available upon request and free of charge in one or more booklets or in other similar form;
 - (ii) at each Station, by displaying the relevant information on information displays;
 - (iii) at each Franchise Operator Access Station, by providing to the operator of each such station the departure and arrival times of the Passenger Services that call at each such station and the principal Connections to any other transport services relevant to each such station in the same forms as are specified in paragraphs 1.1(a)(i) and (a)(ii); and
 - (iv) on the Franchise Operator's website; and
- (b) the timetables of other Train Operators at Stations, in accordance with paragraph 1.4.

1.2 Timetable Revisions and Alterations

The Franchise Operator shall publish updates or replacements to the Timetable at the locations specified in paragraph 1.1 to the extent necessary to reflect any changes which come into effect on a Passenger Change Date:

- (a) in the case of booklets, at least four weeks before the changes come into effect;
- (b) in the case of information displays, no later than the day before the changes come into effect;
- (c) in the case of information provided to the operators of Franchise Operator Access Stations, in sufficient time for such information to be published by such operators within the time limits provided for in this paragraph 1.2; and
- (d) in the case of the Franchise Operator's website, at least four weeks before the changes come into effect.

1.3 In addition, the Franchise Operator shall:

- (a) subject to paragraph 1.4, display posters at each Station advising passengers of all significant alterations between any two Passenger Change Dates to railway passenger services calling at that Station, no later than four weeks in advance of the date on which the alterations come into effect; and
- (b) provide posters to the operators of Franchise Operator Access Stations, advising passengers of all significant alterations between any two Passenger Change Dates to the Passenger Services which call at such Franchise Operator Access Stations, in sufficient time for such information to be published by such operators within the time limit provided for in paragraph 1.3(a).

1.4 Other Train Operators' Timetables

The Franchise Operator shall also comply with the requirements of paragraphs 1.1 to 1.3 inclusive by making available booklets and displaying information in information displays and otherwise displaying posters in respect of any other Train Operator's timetable at each Station where the railway passenger services of such other Train Operator are scheduled to call:

- (a) within the time limits specified in paragraphs 1.2 and 1.3 where and to the extent that such other Train Operator delivers to the Franchise Operator the relevant information and materials in sufficient time for the Franchise Operator to so publish; and
- (b) as soon as reasonably practicable thereafter where and to the extent that such other Train Operator delivers the relevant information and materials late to the Franchise Operator.

1.5 National Rail Timetable and National Rail Enquiry Scheme

The Franchise Operator shall use all reasonable endeavours to procure (including by virtue of any arrangements made from time to time between Network Rail and RSP) that the National Rail Timetable (or any replacement), which Network Rail is responsible for publishing from time to time in relation to the Passenger Services, incorporates or is consistent with its Timetable from time to time.

1.6 The Franchise Operator shall use all reasonable endeavours to procure that information in relation to:

- (a) the Timetable; and
- (b) any significant alterations to the Timetable to take effect between any two Passenger Change Dates,

is available to passengers through the National Rail Enquiry Scheme (or any replacement) not less than four weeks prior to coming into effect.

2 Late Timetable Changes

- 2.1 Save in respect of significant alterations, for which the provisions of paragraphs 1.3 and 1.6 shall apply, the Franchise Operator shall inform passengers, so far as possible on not less than seven days' prior notice, if it will be unable to operate its trains in accordance with the Timetable. Such information shall include any revised Timetable or travelling arrangements.
- 2.2 Such information shall be provided by:
- (a) revising or adding to the information displays referred to in paragraph 1.1;
 - (b) notifying the operators of the Franchise Operator Access Stations, as appropriate, including by providing such operators with revised posters; and
 - (c) updating the Franchise Operator's website.
- 2.3 The Franchise Operator shall revise or add to the information displays at the Stations promptly on receipt of any equivalent information relating to the railway passenger services of other Train Operators whose services call at the Stations.
- 2.4 Where the Franchise Operator is unable to provide the information specified in paragraph 2.1 because the relevant revisions are made on an emergency basis, the Franchise Operator shall notify passengers and publish the relevant revisions by way of the means contemplated by paragraph 2.2 as soon as reasonably practicable.
- 2.5 The Franchise Operator shall ensure that, so far as reasonably practicable (including by communication of the relevant information to persons likely to receive enquiries), passengers making enquiries regarding the Passenger Services are informed of the revised Timetable and any revised travel arrangements of the Franchise Operator as far in advance as is reasonably practicable.

3 Fares Selling Restrictions

3.1 Restrictions on Sales

The Franchise Operator shall ensure that the purchaser of any Commuter Fare or Protected Fare:

- (a) shall be entitled, without further charge, to such rights of access and egress and other similar rights at the commencement and end of the relevant intended journey or journeys as may be reasonably necessary for such purchaser to travel on the Passenger Services;
- (b) shall not be required to incur any cost or take any action beyond the payment of an amount equal to the Price or Child Price (as the case may be) of such Commuter Fare or Protected Fare (as the case may be) and, in relation to the issue of a Season Ticket Fare, the completion of such identity card as the Franchise Operator may reasonably require; and
- (c) shall not be required to pay an amount in respect of a seat reservation or other similar right which it may be compulsory for such purchaser to have in order to make a journey with such Commuter Fare or Protected Fare (as the case may be) on a Passenger Service.

3.2 The Franchise Operator shall procure that for any:

- (a) Protected Return Fare, Single Fare which is a Commuter Fare or Return Fare which is a Commuter Fare, each such Fare shall be offered for sale wherever and whenever any other Fare (not being a Season Ticket Fare) for a journey between the same origin and destination stations is offered for sale; and
- (b) Protected Weekly Season Ticket or Season Ticket Fare which is a Commuter Fare, each such Fare shall be offered for sale at all staffed ticket offices at which Fares for a journey between the same origin and destination stations are sold and otherwise wherever and whenever any Season Ticket Fare is offered for sale,

in each case, either by it or its agents (except persons acting in such capacity by virtue of having been appointed under Parts II to VI of Chapter 9 of the Ticketing and Settlement Agreement or by being party to the Ticketing and Settlement Agreement).

3.3 Where the Franchise Operator sets a limit on the number of Commuter Fares or Protected Fares that may be used on any particular train, such limit shall be the greater of:

- (a) the number of seats in Standard Class Accommodation on such train; and
- (b) the capacity of Standard Class Accommodation of the rolling stock vehicles comprising such train according to the tables set out in Schedule 1.7 (The Train Fleet).

3.4 The Franchise Operator shall not sell or offer to sell:

- (a) any Fare in respect of which the:

- (i) Prices are regulated under Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares), at prices that are greater than the Prices set for such Fares from time to time in accordance with Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares); and
 - (ii) Child Prices are regulated under Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares), at prices that are greater than the Child Prices set for such Fares from time to time in accordance with Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares);
- (b) any Fare or Discount Card which has a validity of 13 or more months, except to the extent required to do so under the terms of the Ticketing and Settlement Agreement.

3.5 Agents of the Franchise Operator

The Franchise Operator shall procure that all persons selling or offering to sell Fares on its behalf (whether under the terms of the Ticketing and Settlement Agreement, as its agents or otherwise):

- (a) for Fares in respect of which the:
 - (i) Prices are regulated under Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares), sell or offer to sell at prices no greater than the Prices set for such Fares from time to time in accordance with Schedule 5.4 (Regulation of Fares Basket Values) and Schedule 5.5 (Regulation of Individual Fares); and
 - (ii) Child Prices are regulated under Schedule 5.4 (Regulation of Fares Basket Values) and Schedule 5.5 (Regulation of Individual Fares), sell or offer to sell at prices no greater than the Child Prices set for such Fares from time to time in accordance with Schedules 5.4 (Regulation of Fares Basket Values) and Schedule 5.5 (Regulation of Individual Fares);
- (b) for Fares in respect of which the Child Price has been set pursuant to paragraph 2.1 of Schedule 5.2 (Franchise Operator's Obligation to Create Fares), sell or offer to sell such Fares to any person under the age of 16 for an amount which is no greater than the lowest amount that would be paid if that person were the holder of a 16 to 25 Railcard with no minimum fare (as amended or replaced from time to time) and whose purchase was made without condition; and

- (c) for all Fares:

- (i) do not sell or offer to sell any Fare or Discount Card with a validity of 13 or more months without the consent of the Secretary of State (such consent not to be unreasonably withheld); and
- (ii) comply with the provisions of paragraph 3 of Schedule 15.2 (Last 12 or 13 Months of Franchise Period and Other Conduct of Business Provisions) to the extent they apply to the selling of Fares by the Franchise Operator.

3.6 Additional Ancillary Services

The Franchise Operator shall, subject to this paragraph 3, be entitled to charge a purchaser of any Commuter Fare or Protected Fare for any additional services:

- (a) which are ancillary to the railway passenger service for which such Commuter Fare or Protected Fare (as the case may be) was purchased (including, charges in respect of car parking or catering services); and
- (b) which such purchaser is not obliged to purchase.

3.7 Sale of Fares for travel on Bank Holidays

The Franchise Operator shall ensure that, for any Fare in respect of travel on a Bank Holiday, it only offers for sale (and shall procure that any person authorised to sell Fares on its behalf only offers for sale) such Fare that has the same rights and restrictions as a Fare which is valid for travel on a Saturday or Sunday.

3.8 Not used

4 Passenger's Charter

4.1 Content

The Franchise Operator shall:

- (a) publish its Passenger's Charter:
 - (i) in substantially the same form as the document in agreed terms marked **PC²⁸**; and

²⁸ In the letter dated 27 February 2015 it was agreed that the PC published on the Start Date can omit the facility to provide proof at a ticket office (in the context of mislaid or forgotten tickets) and instead can refer to the passenger having 10 days to contact the Franchise Operator to provide the necessary proof, provided that the next edition of the PC (to be published no later than 1 September 2015) will include specific provision to include attending a ticket office as one method of contacting the Franchise Operator to provide proof that the passenger held a valid ticket.

- (ii) in accordance with the requirements specified in paragraph 4.3;
 - (b) review the need for changes to the Passenger's Charter at least every three years, in consultation with the Passengers' Council, and shall submit a draft of any revisions to the Passenger's Charter that it wishes to propose, together with proof of such consultation, to the Secretary of State;
 - (c) state the date of publication clearly on the front cover of the Passenger's Charter; and
 - (d) ensure that its Passenger's Charter provides for Enhanced Compensation for holders of Season Ticket Fares as a result of a Period of Sustained Poor Performance.
- 4.2 The Franchise Operator may not change the Passenger's Charter without the Secretary of State's prior written consent (which is not to be unreasonably withheld).

4.3 Publishing the Passenger's Charter

The Franchise Operator shall publicise its Passenger's Charter by:

- (a) providing copies to the Secretary of State and the Passengers' Council at least seven days before it comes into effect;
- (b) providing copies to passengers, free of charge, at each staffed Station and, in the case of any revision thereto, providing such copies at least seven days before such revision comes into effect;
- (c) sending a copy, free of charge, to any person who requests it; and
- (d) displaying it on its website at all times and, in the case of any revision thereto, at least seven days before such revision comes into effect,

save in respect of the Passenger's Charter which is effective on the Start Date, in which case the Franchise Operator shall publicise such Passenger's Charter in the manner contemplated by this paragraph 4.3 on and from the Start Date.

- 4.4 The Franchise Operator shall also provide at each staffed Station the then current passenger's charter of any other Train Operator whose trains call there, subject to the provision of such passenger's charter to the Franchise Operator by such other Train Operator.
- 4.5 The Franchise Operator shall provide copies of its Passenger's Charter to the operators of Franchise Operator Access Stations to enable such operators to publish it.
- 4.6 Passenger's Charter Payments and Other Obligations

The Franchise Operator shall:

- (a) make all payments and provide all Enhanced Compensation which passengers may reasonably expect to be made or provided from time to time under the terms of the Passenger's Charter (whether or not the Franchise Operator is legally obliged to do so); and
- (b) use all reasonable endeavours to make passengers aware of their right to claim compensation pursuant to the Passenger's Charter when the circumstances giving rise to that right arise including by making appropriate announcements to passengers on trains and at stations and making compensation claim forms readily available to passengers,

4.7 The Franchise Operator shall use all reasonable endeavours:

- (a) to comply with any other obligations, statements and representations; and
- (b) to meet any other standards or targets of performance,

as are comprised in its Passenger's Charter from time to time.

5 Cycles

The Franchise Operator shall have due regard to the desirability of acting in a manner which facilitates end to end journeys that involve travel by all transport modes (including cycles). The Franchise Operator shall permit the carriage of folding cycles on all Passenger Services and non folding cycles wherever reasonably practicable.

6 Not Used

7 Statutory Notices

If requested by the Secretary of State, the Franchise Operator shall publish and display at the Stations (and shall use all reasonable endeavours to procure the publication and display at Franchise Operator Access Stations of) such statutory notices as the Secretary of State may wish to publish from time to time in the exercise of his functions (including in relation to Closures or any enforcement or penalty orders).

SCHEDULE 1.5

Information about Passengers

1 Passenger Numbers Information

1.1 The Franchise Operator shall, as and when reasonably requested by the Secretary of State, provide information to the Secretary of State on the extent of the use by passengers of the Passenger Services. In particular and when so requested, the Franchise Operator shall provide information relating to:

(a) the number of passengers travelling in each class of accommodation:

(i) on each Passenger Service;

(ii) on each Route; and/or

(iii) at any station or between any stations;

(b) the times of the day, week or year at which passengers travel; and

(c) the type of Rolling Stock Unit used in each case,

(together, **Actual Passenger Demand**).

1.2 The Franchise Operator shall obtain the information specified in paragraph 1.1:

(a) on each Passenger Service;

(b) on each Route; and

(c) at any station or between any stations,

by using the technology specified in paragraph 1.6. The Franchise Operator shall ensure that any technology for determining the number of passengers travelling in each class of accommodation that is fitted on the Train Fleet remains operational and in good working order from the date that it is fitted throughout the Franchise Period. The Secretary of State acting reasonably shall have the right to obtain such other information that the Franchise Operator has which may provide a more detailed or accurate view of the extent of use by passengers of the Passenger Services including information about ingress and egress of passengers at ticket gates at Stations.

1.3 The Franchise Operator shall provide to the Secretary of State all of the information generated by the technology specified in paragraph 1.6 including the information specified in paragraph 1.1:

- (a) using such systems, in such a format and to such level of disaggregation as the Secretary of State may reasonably require including by directly inputting data into a database maintained by the Secretary of State;
- (b) at a frequency and within timescales that the Secretary of State may reasonably request pursuant to paragraph 1.1;
- (c) to the extent required by the Secretary of State, by providing the Secretary of State with direct remote access to the system used by the Franchise Operator to collect such information such that the Secretary of State is able to download such information; and
- (d) such information may be used by the Secretary of State for such purposes as he may reasonably require including for the purposes of assisting his decision making on future train service requirements, infrastructure, station and rolling stock investment, the best use of the network and the alleviation of overcrowding.

1.4 At the same time as the Franchise Operator provides any information in accordance with paragraph 1.1, it shall (if the Secretary of State requests it to do so):

- (a) update any Forecast Passenger Demand accordingly in the same format and to the same level of disaggregation as the Secretary of State required pursuant to paragraph 1.3(a); and
- (b) notify the Secretary of State of any such update.

1.5 Manual Passenger Counts

- (a) The Secretary of State shall have the right to require the Franchise Operator to carry out manual counts in relation to some or all of the Passenger Services at such times as may be required and in such manner (including as to levels of accuracy and the number of days) as may be specified from time to time by the Secretary of State.
- (b) The Franchise Operator shall supply the details of any such counts undertaken to the Secretary of State, as soon as reasonably practicable but within 6 weeks from the date of completion of such counts, in such form as the Secretary of State may stipulate including by directly inputting data into a database maintained by the Secretary of State.
- (c) The Secretary of State shall be entitled to audit such counts (whether by specimen checks at the time of such counts, verification of proper compliance with the manner approved by him or otherwise). In the event that such audit reveals, in the reasonable opinion of the Secretary of State, a material error, or a reasonable likelihood of material error, in such counts, the Secretary of State may require the counts to be repeated or the results adjusted

as he considers appropriate, and in these circumstances the Franchise Operator shall pay to the Secretary of State the costs of any such audits.

1.6 Technology for Obtaining the Information Referred to in Paragraph 1.2

- (a) The technology to be used for the purpose of paragraph 1.2 shall be:
 - (i) the infrared measurement system fitted to the rolling stock specified in Table 4 of Schedule 1.7 (The Train Fleet); and
 - (ii) deployed by the Franchise Operator on each Passenger Service (for the entire duration to be operated by the rolling stock specified in Table 4 of Schedule 1.7 (The Train Fleet) of that Passenger Service) at least twice on each day, twice on a Saturday and twice on a Sunday (or such less frequent requirement as may be stipulated by the Secretary of State) in each period of not less than 12 weeks as the Secretary of State may from time to time specify for this purpose. This means that, for example, in relation to any individual Passenger Service, the passenger counting technology must have been deployed on that Passenger Service at least twice on a Monday, at least twice on a Tuesday and so on and so forth during the relevant period.
- (b) The Franchise Operator shall comply with its obligation under this paragraph 1.6 from the date on which the rolling stock referred to in Table 4 of Schedule 1.7 (The Train Fleet) is introduced into passenger service.

1.7 The Parties acknowledge that the information supplied under paragraph 1.1 above, may constitute Confidential Information to which Schedule 17 (Confidentiality and Freedom of Information) applies.

2 Not Used

3 CRM Data

3.1 The Franchise Operator shall ensure that any CRM System is the property of the Franchise Operator or is licensed to the Franchise Operator on terms which have been approved by the Secretary of State (such approval not to be unreasonably withheld or delayed) and that any CRM Data obtained by or on behalf of the Franchise Operator shall be:

- (a) obtained on terms such that the Franchise Operator shall be the Data Controller of such data; and
- (b) the property of the Franchise Operator.

- 3.2 In relation to any CRM Data obtained by or on behalf of the Franchise Operator, the Franchise Operator shall ensure or procure that at the same time as the Franchise Operator seeks consent to Process such CRM Data, the consent of the Data Subject is also sought to such CRM Data being disclosed to any Successor Operator and/or the Secretary of State and Processed by any Successor Operator for the same purposes as the Franchise Operator sought consent to Process such CRM Data.
- 3.3 Any consent referred to in paragraph 3.2 shall be sought in such manner as shall from time to time be approved by the Secretary of State (such approval not to be unreasonably withheld or delayed) and shall be on terms such as shall permit, in each case in compliance with the Data Protection Act:
- (a) the Franchise Operator to disclose such CRM Data to any Successor Operator and/or the Secretary of State; and
 - (b) any such Successor Operator to process such CRM Data in the manner contemplated by paragraph 3.2.
- 3.4 The Franchise Operator shall not be required to:
- (a) disclose, publish, share or otherwise provide or make available any Personal Data (including CRM Data) to any person (including a Successor Operator or any participant involved with the re-letting of the Franchise); or
 - (b) provide access to any CRM System,
- in each case pursuant to the terms of the Franchise Agreement (together, the **CRM Obligations**) if and to the extent that the Franchise Operator demonstrates to the satisfaction of the Secretary of State that compliance with such CRM Obligations would put the Franchise Operator, acting as a Data Controller, in contravention of its duties and/or obligations under any Personal Data Legislation.

4 Yield Management Data

- 4.1 The Franchise Operator shall ensure that any Yield Management Data and Yield Management System are the property of the Franchise Operator or are licensed to the Franchise Operator on terms which have been approved by the Secretary of State (such approval not to be unreasonably withheld or delayed).

- 4.2 If and to the extent that the collection, use and/or processing of any Yield Management Data is subject to the Data Protection Act then paragraphs 3.1(a), 3.2, 3.3, 3.4 and 5 of this Schedule 1.5 shall apply in respect of Yield Management Data in the same way as they apply to CRM Data.

5 Personal Data - General Provisions

- 5.1 In respect of any Personal Data processed by the Franchise Operator, including CRM Data, the Franchise Operator agrees that it shall (i) comply with the Data Protection Act and all other legislation relating to the protection and use of personal information (including the Privacy and Electronic Communications (EC Directive) Regulations 2003) (all such legislation collectively being the **Personal Data Legislation**) to the extent that such legislation applies to it and (ii) procure that its agents or sub-contractors shall do the same to the extent that such legislation applies to any of them.
- 5.2 Pursuant to paragraph 5.1, the Franchise Operator agrees to comply with the Personal Data Legislation in respect of its Processing of CRM Data and in particular, but without limitation, the Franchise Operator shall:
- (a) ensure that CRM Data is Processed fairly and lawfully (in accordance with part 1 of Schedule 1 of the Data Protection Act);
 - (b) ensure that CRM Data is obtained only for one or more specified and lawful purposes, and shall not be further Processed in any manner incompatible with that purpose or those purposes (in accordance with part 2 of Schedule 1 of the Data Protection Act); and
 - (c) obtain and maintain all appropriate notifications as required under the Data Protection Act.
- 5.3 In accordance with its capacity as Data Controller of CRM Data and in accordance with the ensuing obligations under the Data Protection Act:
- (a) the Franchise Operator shall procure that any CRM Data Processor which it appoints shall:
 - (i) prior to any disclosure of CRM Data to the CRM Data Processor, enter into written terms between itself and the Franchise Operator which are equivalent to those contained in this paragraph 5.3; and
 - (ii) process CRM Data only on behalf of the Franchise Operator, only for the purpose(s) as defined by the Franchise Operator and only in accordance with instructions received from the Franchise Operator from time to time;
 - (b) the Franchise Operator shall, and shall procure that any CRM Data Processor which it appoints shall, at all times have in place appropriate technical and organisational measures

against unauthorised or unlawful processing of CRM Data and against accidental loss or destruction of, or damage to, CRM Data and that such measures shall:

- (i) reflect the level of harm, damage and/or distress that might be suffered by the Data Subject to whom the CRM Data relates in the event of a breach of the measures as set out herein; and
 - (ii) ensure that only authorised personnel have access to CRM Data and that any persons authorised to have access to CRM Data will respect and maintain all due confidentiality;
 - (iii) (in the case of the CRM Data Processor) include compliance with a schedule of minimum security measures pursuant to the written terms between the Franchise Operator and the CRM Data Processor;
- (c) the Franchise Operator shall procure that any CRM Data Processor which it appoints shall:
- (i) promptly notify the Franchise Operator of any actual or suspected, threatened or 'near miss' incident of accidental or unlawful destruction or accidental loss, alteration, unauthorised or accidental disclosure of or access to the CRM Data or other breach of this paragraph 5.3(c) (**Security Breach**) and, pursuant to this the Franchise Operator shall promptly notify the Secretary of State of all Security Breaches by itself or by the CRM Data Processor (the Franchise Operator hereby acknowledges that whilst the Secretary of State is not Data Controller in respect of the CRM Data, the Secretary of State's legitimate interests given its duties under the Act may be affected in the event of a Security Breach and as such the Secretary of State wishes to be notified of the same);
 - (ii) promptly provide the Franchise Operator on request with all reasonable information, assistance and co-operation in relation to its use of the CRM Data, including in relation to any audit by the Franchise Operator or by any person appointed on its behalf to permit an accurate and complete assessment of compliance with this paragraph 5;
- (d) the Franchise Operator shall, and shall procure that any CRM Data Processor which it appoints shall, at all times take reasonable steps to ensure the reliability of its/their personnel who have access to the CRM Data and ensure they are aware of the obligations of the Franchise Operator or the CRM Data Processor (as appropriate) in relation to the same;

- (e) the Franchise Operator shall, and shall procure that any CRM Data Processor which it appoints shall, not cause or permit the CRM Data to be transferred to any location outside the European Economic Area (as defined in the Data Protection Act or otherwise as appropriate) without the prior written permission of:
 - (i) (in the case of the Franchise Operator) the Secretary of State; or
 - (ii) (in the case of any Data Processor appointed by the Franchise Operator) the Franchise Operator provided that the Franchise Operator shall not give any such consent without the prior written permission of the Secretary of State;

and in any case without first executing as between the Data Controller and the relevant Data Processor outside the EEA the Standard Contractual Clauses for Data Processors established in Third Countries pursuant to the Commission Decision (2010/87/EU) of 5 February 2010 under the EU Directive (95/46/EC).

SCHEDULE 1.6 Franchise Services

1 Franchise Services

The Franchise Operator may at all times during the Franchise Term provide and operate the Franchise Services specified in this Schedule 1.6 and the Passenger Services.

2 Restrictions relating to Franchise Services

- 2.1 The Franchise Operator shall not directly or indirectly, without the prior written consent of the Secretary of State, carry on any business or activity other than the provision and operation of the Franchise Services.
- 2.2 The Franchise Operator shall not without the prior written consent of the Secretary of State operate Passenger Services which are not Charter Services or movements to or from maintenance facilities other than on the following routes (and in the event of disruption, any reasonable diversionary route):
- (a) between London King's Cross and Glasgow Central Station via Welwyn, Sandy, Grantham, Newark, Retford, Doncaster, main line between Templehirst and Hambleton (Yorks), York, Darlington, Durham, Newcastle, Berwick, Edinburgh, Carstairs, Motherwell and Uddingston;
 - (b) between Edinburgh and Inverness via Polmont, Stirling, Perth and Aviemore;
 - (c) between Edinburgh and Aberdeen via Inverkeithing, Leuchars and Dundee;
 - (d) between Doncaster and Hull via Selby and Goole;
 - (e) between Doncaster and Bradford Forster Square via Sandal & Agbrigg, Outwood, Leeds and Shipley, or via Hambleton South Junction, Hambleton West Junction, Cross Gates, Leeds and Shipley;
 - (f) between Leeds and Harrogate via Horsforth;
 - (g) between Leeds and Shipton via Keighley and Shipley;
 - (h) between Leeds and York via Micklefield and Colton Junction;
 - (i) between Newark North Gate and Lincoln;
 - (j) between York and Scarborough via Malton;

- (k) between Northallerton and Middlesbrough via Yarm;
- (l) between York and Harrogate via Knaresborough;
- (m) between Leeds and Huddersfield via Dewsbury; and
- (n) between Newcastle and Sunderland;

and, for diversionary purposes only:

- (o) between Alexandra Palace and Stevenage via Hertford North;
- (p) between Doncaster and York via Askern, Ferrybridge, Milford, Church Fenton and Colton Junction; and
- (q) between Doncaster and Leeds via Knottingley, Pontefract, Crofton, Oakenshaw Junction, Turners Lane Junction, Altofts Junction and Methley Junction.

2.3 The Secretary of State may impose such conditions to his consent as he considers appropriate for the purpose of securing the continuity of the provision of the Franchise Services at the end of the Franchise Term.

2.4 The Franchise Operator shall not during the Franchise Term, without the consent of the Secretary of State:

- (a) provide or operate any railway passenger services other than the Passenger Services or Charter Services;
- (b) operate any stations or light maintenance depots other than the Stations and Depots; or
- (c) hold shares, participations or any other interest in any other company or body corporate unless such company or body corporate is:
 - (i) Network Rail; or
 - (ii) owned directly or indirectly by another participant in the railway industry and the holding is incidental to the Franchise Operator's participation in an Inter-Operator Scheme or any other arrangement designed to ensure or facilitate co-operation between such participants or between any such participants and any other person.

2.5 The Franchise Operator shall not engage any Franchise Employee in any activity or business which it may not conduct or engage in under this paragraph 2.

3 Station Services

3.1 The Station Services shall comprise:

- (a) the provision of any services to persons at Stations or to Train Operators whose trains call at such Stations, provided that such services:
 - (i) are made available only or principally to passengers alighting from or joining trains calling at such Stations and to such Train Operators;
 - (ii) are provided in connection with the calling of trains at such Stations and are not designed to encourage passengers or other persons to use such Station Services other than in connection with a journey on a train calling at such Stations;
 - (iii) exclude the sale or issue (for a charge) of any goods other than passenger timetables and any items included in the price of a Fare; and
 - (iv) may include the provision of car parking spaces; and
- (b) the provision of access to any person under an Access Agreement at any Station.

3.2 The Station Services shall include the provision of any service which the Franchise Operator may provide, or may be required to provide, under any Access Agreement in effect on the Start Date or as lawfully directed by the ORR from time to time.

4 Light Maintenance Services

4.1 Light Maintenance Services shall comprise:

- (a) the provision of access to any other person under an Access Agreement;
- (b) the carrying out of inspections of rolling stock vehicles;
- (c) the carrying out of maintenance work on rolling stock vehicles of a kind which is normally carried out at regular intervals of 12 months or less;
- (d) replacement of failed components and consumables on rolling stock vehicles;
- (e) the preparation of rolling stock vehicles for service;
- (f) the stabling or other temporary holding of rolling stock vehicles;
- (g) the refuelling of rolling stock vehicles;

- (h) the replenishment of water tanks; and
- (i) the cleaning of the exterior or the interior of rolling stock vehicles,

in each case for itself and/or other Train Operators, at any Station or Depot.

4.2 Light Maintenance Services shall include the provision of any service which the Franchise Operator may provide, or may be required to provide, under any Access Agreement in effect on the Start Date or as lawfully directed by the ORR from time to time.

5 Ancillary Services

The Franchise Operator may carry out the following Ancillary Services:

- (a) the selling, lending or hiring of any goods or rights and the provision of any services (whether for a charge or not) on any train used in the provision of the Passenger Services where such goods or services are sold or provided principally for consumption or use on the relevant train, including the sale of any Fares, meals, light refreshments, newspapers, magazines, books, entertainment materials or phone cards;
- (b) the provision of any service at any station which, if provided on a train used in the provision of the Passenger Services, would fall within paragraph 5(a) or which, if provided at a Station, would fall within paragraph 3 and which, in each case, is made available only or principally to persons at such stations who either are about to travel or have recently travelled on a train used in the provision of the Passenger Services;
- (c) in any Reporting Period, the subleasing, hiring or licensing of up to ten per cent of the rolling stock vehicles used in the provision of the Passenger Services (such percentage to be determined by reference to the aggregate period of time for which such rolling stock vehicles are sub-let, hired or licensed and the aggregate period of time for which they are used in the provision of the Passenger Services);
- (d) the lending, seconding, hiring or contracting out during any Reporting Period to another person or persons (whether for a charge or not) of:
 - (i) up to 1 per cent of the number of Franchise Employees as at the Start Date, for over 90 per cent of their normal working hours during such Reporting Period (including on a full-time basis); and
 - (ii) 1 per cent of any other Franchise Employees as at the Start Date,

provided that this paragraph shall not apply to any employee lent, seconded, hired or contracted out under any of paragraphs 5(a) to (c) inclusive and (e) to (p) inclusive, or engaged in any other activity which is permitted under this Schedule 1.6 (Franchise Services);

- (e) any heavy maintenance of rolling stock vehicles, carried out on behalf of any other person at the following Depot(s), subject to the number of persons engaged or employed in such activity not exceeding by more than ten per cent the number so engaged or employed on the Start Date:
 - (i) Aberdeen (Clayhills);
 - (ii) Edinburgh (Craigentinny);
 - (iii) London (Bounds Green)
 - (iv) London (Ferme Park); and
 - (v) Leeds (Neville Hill);
- (f) the selling at any location of any Fare which is valid, in whole or in part, on the Passenger Services and the selling of any other Fare at any location where such Fares may be purchased from the Franchise Operator on or before the date of the Franchise Agreement or at any other location, provided that the majority of Fares sold at any such other location shall be Fares which are valid, in whole or in part, on the Passenger Services;
- (g) the selling, in conjunction with any Fare, of any other rights which entitle the purchaser thereof to:
 - (i) travel on any other train or light rail service;
 - (ii) travel on any aircraft;
 - (iii) travel on any shipping or ferry service;
 - (iv) travel on any bus; or
 - (v) attend any event or attraction or enter any location;
- (h) the lending, seconding, hiring or contracting out of Franchise Employees to other Train Operators in order to enable such Train Operators to provide services at the Stations to passengers travelling on any such operator's trains;

- (i) the provision of telephone information relating to railway passenger services within Great Britain to passengers;
- (j) the supervision, management and training of train crew of other Train Operators provided such activity is necessarily incidental to the provision of the Passenger Services and could not reasonably be carried out by or through an Affiliate of the Franchise Operator;
- (k) the subleasing, hiring, licensing, lending, selling of any rolling stock vehicles or other assets of the Franchise Operator or the lending, hiring or contracting out of any employees of the Franchise Operator or the provision of any other services to Network Rail or any other Train Operator on an emergency basis;
- (l) the licensing or permitting of any other person (including an Affiliate of the Franchise Operator) to carry out any activity or business, in connection with the provision of the Franchise Services, or otherwise, on any rolling stock vehicle operated by the Franchise Operator, at any station served by the Passenger Services, at any Depot, or otherwise (including the letting, leasing or licensing (on an exclusive basis or otherwise) of any part or all of a Station or Depot to such other person);
- (m) such other activity or business as may be reasonably necessary for the purpose of providing any other Franchise Services or complying with the Franchise Agreement, provided that it could not reasonably be carried out by or through an Affiliate of the Franchise Operator;
- (n) the subleasing to any other person of the following property which is not comprised in a Station or Depot:
 - (i) East Coast House, 25 Skeldergate House, York, North Yorkshire, YO1 6DH;
- (o) the provision or operation of Charter Services, subject to the Train Mileage of such Charter Services not exceeding in any Reporting Period two per cent of the scheduled Train Mileage of Passenger Services provided by the Franchise Operator in such Reporting Period;
- (p) the provision of consultancy services reasonably ancillary to the provision of the other Franchise Services; and
- (q) any services or activity not falling within paragraphs 3, 4 or 5(a) to (p), subject to the gross value of any such services or activity (excluding any attribution of costs) not exceeding £25,000 per annum in each Franchise Operator Year, per item and in aggregate, £250,000 per annum in each Franchise Operator Year provided that in the second and each

subsequent Franchise Operator Year, these amounts will be increased by RPI, and RPI shall have the meaning given to it in Schedule 8.2 (Annual Franchise Payments).

6 Affiliates of the Franchise Operator

Nothing in this Schedule 1.6 shall restrict any Affiliate of the Franchise Operator from having an interest in or participating in any business or activity.

SCHEDULE 1.7 The Train Fleet

1 The Composition of the Train Fleet

1.1 The Train Fleet consists of:

- (a) the rolling stock vehicles set out in Table 1 (**Original Rolling Stock**) with the capacity characteristics specified in column 3 of Table 1, until the lease expiry dates specified in column 5 of Table 1;
- (b) from the lease start dates set out in column 1 of Table 2, the rolling stock vehicles (**Specified Additional Rolling Stock**) set out in Table 2, with the capacity characteristics specified in column 4 of Table 2, until the lease expiry dates specified in column 6 of Table 2;
- (c) following any lease expiry on the lease expiry dates referred to in paragraph 1.1(a) or 1.1(b), substitute rolling stock vehicles having (unless otherwise agreed by the Secretary of State and subject to compliance with all other relevant provisions of this Agreement including in relation to Rolling Stock Related Contracts):
 - (i) at least the capacity specified in respect of the rolling stock vehicles replaced by such substitute vehicles;
 - (ii) reliability, capability and quality that is at least equal to the reliability, capability and quality of the rolling stock vehicles being replaced by such substitute vehicles; and
 - (iii) an aggregate total capacity which is at least equal to the aggregate total capacity of the rolling stock vehicles being substituted or such higher amount of aggregate capacity as is specified by this Agreement;
- (d) Unspecified Additional Rolling Stock; and
- (e) in respect of each train set out in column 2 of Table 4, the maximum available Sets (as such term is defined in Schedule 6.3 (The IEP Provisions) of this Franchise Agreement) set out in column 1 of such table, with the capacity characteristics referred to in column 3 of such table and in respect of the first train in class by the dates referred to in column 4 of such table (as such dates may be amended to reflect any extension to the relevant Scheduled Acceptance Dates (as such term is defined under the MARA) pursuant to paragraph 1.7 of Part B of Schedule 2 of the MARA).

1.2 In addition to paragraph 1.1(c), the Franchise Operator may at any time substitute rolling stock vehicles for any additional rolling stock provided that any such substitute rolling stock vehicles comply (unless otherwise agreed by the Secretary of State and subject to compliance with all other relevant provisions of this Agreement including in relation to Rolling Stock Related Contracts) with paragraphs 1.1(c)(i), (ii) and (iii).

1.3 The Franchise Operator shall by no later than:

- (a) each date specified in column 1 of Table 3, introduce into revenue earning passenger service; and
- (b) the date which is 12 months prior to each such date, enter into Rolling Stock Leases (subject to compliance with all other relevant provisions of this Agreement including in relation to Rolling Stock Related Contracts) in respect of,

the quantum of rolling stock specified in column 2 of Table 3 and which (unless otherwise agreed by the Secretary of State) provides at least the minimum capacity specified in column 3 of Table 3 and has at least the minimum reliability, capability and quality characteristics referred to in column 4 of Table 3 (**Unspecified Additional Rolling Stock**).

1.4 The Passenger Carrying Capacity of any rolling stock vehicles shall be as set out in Tables 1 to 4 or as determined by the Secretary of State in accordance with paragraph 2.4²⁹.

Table 1 (Original Rolling Stock)

| Column 1 | Column 2 | Column 3 | | | Column 4 | Column 5 |
|------------------|---|---------------------------|-------------|-------|----------------|----------------------|
| Class of vehicle | Number of vehicles and unit configuration | Seating Capacity of units | | | Owner/ Lessor | Lease expiry date(s) |
| | | Standard Class | First Class | Total | | |
| IC225 | 30 sets comprising: | 398 | 128 | 526 | Eversholt Rail | 31 March 2020 |
| | 31 x Class 91 | | | | | |
| | 271 x Mk.IV | | | | | |

²⁹ Cross-reference corrected in the letter dated 30 March 2015.

| Column 1 | Column 2 | Column 3 | | | Column 4 | Column 5 |
|----------|---------------------|----------|-----|-----|--------------|------------------|
| | 31 x Mk.IV DVT | | | | | |
| | | | | | | |
| HST | 10 sets comprising: | 431 | 112 | 543 | Angel Trains | 31 December 2018 |
| | 23 x Class 43 | | | | | |
| | 93 x Mk. III HST | | | | | |
| | | | | | | |
| HST | 3 sets comprising: | 431 | 112 | 543 | Porterbrook | 31 December 2018 |
| | 7 x Class 43 | | | | | |
| | 29 x Mk.III HST | | | | | |
| | | | | | | |
| HST | 1 set comprising: | 443 | 111 | 554 | Porterbrook | 31 December 2018 |
| | 2 x Class 43 | | | | | |
| | 9 x Mk.III HST | | | | | |

Table 2 (Specified Additional Rolling Stock)

| Column 1 | Column 2 | Column 3 | Column 4 | | | Column 5 | Column 6 |
|---------------------|------------------|---|---------------------------|--------------------|--------------|---------------|----------------------|
| Lease start date(s) | Class of vehicle | Number of vehicles and unit configuration | Seating Capacity of units | | | Owner/ Lessor | Lease expiry date(s) |
| | | | Standard Class | First Class | Total | | |
| 01/03/15 | HST | 1 set comprising: | 367 | 111 | 478 | Porterbrook | 31/12/18 |

| Column 1 | Column 2 | Column 3 | Column 4 | | | Column 5 | Column 6 |
|----------|----------|----------------|----------|--|--|----------|----------|
| | | 2 x Class 43 | | | | | |
| | | 8 x Mk.III HST | | | | | |

Table 3 (Unspecified Additional Rolling Stock)

| Column 1 | Column 2 | Column 3 | | | Column 4 |
|--|--------------------|--|-------------|-------|---|
| Date of introduction into revenue earning passenger service | Number of vehicles | Seating Capacity of Units ⁶ | | | Characteristics |
| | | Standard Class | First Class | Total | |
| Contingent rolling stock - The rolling stock referred to below is the Contingent Stock for the purposes of Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions) | | | | | |
| 01/01/2020* | 54 forming 6 Sets | 322 | 87 | 409 | 125 mph capability Equivalent to refreshed IC225 / HST or better Reliability that meets Schedule 7.1 benchmarks |

*Subject to paragraph 11.1 of Part 1 (List of Committed Obligations) of Schedule 6.1 (Committed Obligations and Related Provisions)

Table 4 (IEP Rolling Stock)

| Column 1 | Column 2 | Column 3 | | | Column 4 |
|------------------------|----------------|------------------|----------------|-------|---|
| Maximum available sets | Type | Seating Capacity | | | First train in class' scheduled acceptance date |
| | | First Class | Standard Class | Total | |
| 10 | 9-car bi-mode | 101 | 510 | 611 | 23 August 2018 |
| 10 | 5-car electric | 45 | 258 | 303 | 22 November 2018 |
| 8 | 5-car bi-mode | 45 | 258 | 303 | 21 February 2019 |
| 26 | 9-car electric | 101 | 510 | 611 | 23 May 2019 |

2 Changes to the Train Fleet

Except to the extent permitted by paragraph 1.1(c) or 1.2, the Franchise Operator shall maintain the composition of the Train Fleet during the Franchise Term, unless the Secretary of State otherwise agrees, such that there are no changes to the Train Fleet, including changes:

- (a) to the classes or types;

- (b) to the interior configurations; or
 - (c) which may reduce the journey time capabilities,
- of any rolling stock vehicles specified in the Train Fleet.

- 2.2 The Franchise Operator shall procure that the rolling stock vehicles described in the Tables contained in this Schedule 1.7 (The Train Fleet), with the capacity and other characteristics referred to there, are available for deployment in the provision of the Passenger Services to the extent required by the Timetable and Train Plan during the periods referred to there.
- 2.3 During the Franchise Term, the Franchise Operator shall advise the Secretary of State of any rolling stock vehicles damaged beyond economic repair or likely to be unavailable for service for a period of three consecutive Reporting Periods or more.
- 2.4 If any change is made to the Train Fleet in accordance with this Schedule, the Secretary of State may, after consulting the Franchise Operator, notify the Franchise Operator of the Passenger Carrying Capacity of any rolling stock vehicles or class of rolling stock vehicles comprising the Train Fleet following such change.

Schedule 2

Assets, Leases, Third Parties, Other Franchise Operations And Schemes

| | |
|--------------|---|
| Schedule 2.1 | Asset Vesting and Transfer |
| Schedule 2.2 | Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases |
| Schedule 2.3 | Third Party Delivery of Passenger Services and Other Franchisees |
| Schedule 2.4 | Other Franchise Operations |
| Schedule 2.5 | Transport, Travel and Other Schemes |

SCHEDULE 2.1 Asset Vesting and Transfer

Part 1

1 Vesting of Property Leases

- 1.1 The Franchise Operator shall not without the prior written consent of the Secretary of State (such consent not to be unreasonably withheld), whether generally or on a case-by-case basis:
- (a) enter into any new Property Lease; or
 - (b) effect any amendment to any Property Lease, except to the extent that the Franchise Operator is required to do so by virtue of any station or depot access conditions to which it is a party.
- 1.2 In respect of the new Property Leases specified in paragraph 1.1 or any other new Property Lease with Network Rail, the Franchise Operator shall enter into such Property Leases:
- (a) with the intent that Section 31 of the Act shall apply to such leases; and
 - (b) in **substantially**³⁰ the agreed terms marked **SL** and **DL** (as appropriate).
- 1.3 The Franchise Operator shall enter into the following leases with Network Rail:
- (a) a lease of each Station, on or before the expiry of the Station Lease relating to each such Station (each such lease, once granted, shall be a Station Lease for the purposes of the Franchise Agreement);
 - (b) a lease of each Depot, on or before the expiry of the Depot Lease relating to each such Depot (each such lease, once granted, shall be a Depot Lease for the purposes of the Franchise Agreement);
 - (c) a supplemental lease relating to any Station or Depot, as soon as practicable following the successful completion of any procedure (including obtaining any requisite approval from the ORR) for including additional land within the demise of such Station or Depot (as the case may be) and each such supplemental lease, once granted, shall be a Station Lease or a Depot Lease (as the case may be) for the purposes of the Franchise Agreement; and
 - (d) a lease of any Network Rail owned station or depot, which:

³⁰ Included in manuscript in original Franchise Agreement on the date of signature.

- (i) the Secretary of State consents to or requires the Franchise Operator to be a party to; and
- (ii) the Franchise Operator was not a party to on the date hereof, but which has been contemplated by the Franchise Agreement,

and the Franchise Operator shall enter into such lease as soon as practicable after its terms and form have been agreed and all applicable preconditions to its granting have been satisfied or waived (including obtaining any requisite approval of the ORR). Any such supplemental lease, once granted, shall be a Station Lease or a Depot Lease (as the case may be) for the purposes of the Franchise Agreement and any such station or depot (as the case may be) shall be a Station or Depot for the purposes of the Franchise Agreement.

- 1.4 The Franchise Operator shall not be in contravention of paragraph 1.3 if and to the extent that Network Rail refuses to enter into any leases specified therein.
- 1.5 In respect of any assignment or amendment of any Property Lease to which Section 31 of the Act applied on its grant, each of the Secretary of State and the Franchise Operator acknowledges that it is their intention that Section 31 of the Act shall continue to apply to such assigned or amended lease.

SCHEDULE 2.2
Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases

1 Novation of Access Agreements during the Franchise Term

1.1 The Franchise Operator shall, to the extent so requested by the Secretary of State (other than on termination of the Franchise Agreement, for which the provisions of paragraph 1 of Schedule 15.4 (Provisions Applying on and after Termination) apply):

- (a) following receipt of a notice purporting to terminate any Access Agreement to which it is a party, in relation to such Access Agreement; or
- (b) following receipt of a notice purporting to terminate a Station Lease or Depot Lease in whole or in part or on becoming aware of any proceedings or any other steps having or purporting to have similar effect, in relation to any Access Agreement under which it is a Facility Owner by virtue of such Station Lease or Depot Lease,

novate its interest under any such relevant Access Agreement (and any related Collateral Agreement) to the Secretary of State or as he may direct.

1.2 Such obligation to novate shall be subject to the agreement of any counterparty to such Access Agreement or Collateral Agreement and, to the extent applicable, the ORR.

1.3 Such novation shall be on such terms as the Secretary of State may reasonably require, including:

- (a) that the Franchise Operator shall not be released from any accrued but unperformed obligation, the consequences of any breach of the relevant agreement which is the subject of arbitration or litigation between the parties thereto or any liability in respect of any act or omission under or in relation to the relevant agreement prior to, or as at the date of, any such novation (except to the extent that the Secretary of State or his nominee agrees to assume responsibility for such unperformed obligation, such liability or the consequences of such breach in connection with the relevant novation); and
- (b) that neither the Secretary of State nor his nominee shall be obliged, in connection with the novation, to agree to assume responsibility for any unperformed obligation, liability or consequences of a breach referred to in paragraph 1.3(a),

but shall not, unless the Franchise Operator otherwise agrees, be on terms which release any counterparty to the relevant agreement from any liability to the Franchise Operator arising prior to the date of such novation.

- 1.4 The Franchise Operator shall, on the occurrence of any of the circumstances specified in paragraph 1.1 in relation to any other Train Operator who is a party to an Access Agreement to which the Franchise Operator is also party, agree to the novation of the relevant Train Operator's interest under the relevant Access Agreement to the Secretary of State or as he may direct, subject, to the extent applicable, to the consent of the ORR. The provisions of paragraph 1.3 shall apply to any such novation.
- 1.5 The Franchise Operator shall notify the Secretary of State on becoming aware of any circumstances which might lead to the Secretary of State being able to require the Franchise Operator to novate its interest or agree to the novation of another Train Operator's interest under this paragraph 1.

2 Rolling Stock Related Contracts and insurance arrangements

2.1 The Franchise Operator shall not:

- (a) execute any Rolling Stock Related Contract;
- (b) exercise any option or other discretion in any Rolling Stock Related Contract that would result in any increased payment or delay in delivery being made by or to the Franchise Operator or the relevant counterparty or which may result in it being reasonably likely to be unable to comply with the terms of the Franchise Agreement; or
- (c) amend or waive the terms of any Rolling Stock Related Contract,

without, in each case, the prior written consent of the Secretary of State (not to be unreasonably withheld).

2.1A The Franchise Operator shall supply to the Secretary of State a copy of all draft and, immediately following execution, all executed Rolling Stock Related Contracts (including any agreement amending any Rolling Stock Related Contract) together with:

- (a) such other information or documentation relating to such Rolling Stock Related Contract and/or the relevant rolling stock as the Secretary of State may request (which may include offer letters (original and final));
- (b) the terms proposed by any person providing finance in relation to the relevant rolling stock (including cash flows);

- (c) any agreement (in whatever form) to which the Franchise Operator (or an Affiliate of the Franchise Operator) is a party and which relates to the relevant rolling stock;
- (d) information relating to capital allowances, details of any changes in the terms (including rentals) on which the relevant rolling stock is proposed to be leased compared to the terms on which such rolling stock was previously leased; and
- (e) a detailed justification of the Franchise Operator's proposed maintenance strategy for the relevant rolling stock and/or the Franchise Operator's analysis of the whole life costs of the relevant rolling stock.

2.1B Where the information or documentation so requested by the Secretary of State is not held by the Franchise Operator, the Franchise Operator shall use reasonable endeavours to obtain the relevant information or documentation from a third party (including any person from whom the Franchise Operator leases rolling stock).

2.2 The Franchise Operator shall not, without the prior written consent of the Secretary of State:

- (a) amend the terms of any insurance arrangements which relate to rolling stock vehicles used by it in the provision of the Passenger Services to which it is a party on the Start Date; or
- (b) enter into any new insurance arrangements after the Start Date which relate to rolling stock vehicles used or to be used by it in the provision of the Passenger Services (**New Insurance Arrangements**).

2.3 Not used.

2.4 The Franchise Operator shall, in addition, if it enters into any New Insurance Arrangements, use all reasonable endeavours to ensure that the relevant insurers waive their rights of subrogation against any Train Operator which may have equivalent insurance arrangements providing for a similar waiver of rights of subrogation against the Franchise Operator, whether on a reciprocal basis or otherwise.

2.5 Without limiting paragraph 2.1, where the rolling stock to be leased by the Franchise Operator under any Rolling Stock Lease is Cascaded Rolling Stock the Secretary of State may:

- (a) as a condition of giving his consent to the Franchise Operator executing such Rolling Stock Lease, require that such Rolling Stock Lease contains a provision whereby, in the event of a Relevant Delay, the Secretary of State may require that such Cascaded Rolling Stock can continue to be used by the Prior Train Operator during such period as the Secretary of State shall specify. Without limitation this may include the Franchise Operator subleasing the Cascaded Rolling Stock back to the Prior Train Operator and/or a delay to the date on

which the Cascaded Rolling Stock is required to be delivered to the Franchise Operator under such Rolling Stock Lease; and

- (b) where the Secretary of State requires such a provision to be included in the relevant Rolling Stock Lease, if a Relevant Delay occurs, require the Franchise Operator to make the Cascaded Rolling Stock available for use by the Prior Train Operator during such period as the Secretary of State may require.

For the purpose of this paragraph 2.5, paragraph 2.6 and paragraph 2.7:

Cascaded Rolling Stock means rolling stock proposed to be used by the Franchise Operator in the provision of the Passenger Services the availability of which is, in the opinion of the Secretary of State, directly or indirectly dependent upon the successful introduction into service of any Relevant Rolling Stock by any other Train Operator;

Prior Train Operator means the Train Operator which used or is using the Cascaded Rolling Stock immediately prior to its proposed use by the Franchise Operator;

Relevant Delay means any delay to the successful introduction into service of any Relevant Rolling Stock; and

Relevant Rolling Stock means rolling stock to be acquired by another Train Operator which, when acquired, will initiate the “cascade” of rolling stock that directly or indirectly makes the Cascaded Rolling Stock available for use by the Franchise Operator.

2.6

- (a) Where the Secretary of State exercises his right pursuant to paragraph 2.5(b) to make Cascaded Rolling Stock available for use by the Prior Train Operator during a specified period there shall be a Change and where this is a Qualifying Change, it shall be assumed that the period that the Prior Train Operator retains any Cascaded Rolling Stock shall not exceed ninety days and the only Revised Inputs shall be in relation to the difference between each of the rolling stock lease costs and variable track usage charge for the Cascaded Rolling Stock and the rolling stock lease costs and variable track usage charge applicable in relation to whatever rolling stock is to be used by the Franchise Operator in place of the Cascaded Rolling Stock.
- (b) Where there is a Change pursuant to paragraph 2.6(a) and the period that the Prior Train Operator retains any Cascaded Rolling Stock is more than ninety days there shall be a further Change. Where such Change is a Qualifying Change the modifications to the methodology for calculating Revised Inputs provided for in paragraph 2.6(a) shall not apply.

- (c) Where there is a Change pursuant to paragraphs 2.6(a) or 2.6(b) and any such Change is a Qualifying Change there shall be a further Change (which shall be a Qualifying Change irrespective of whether such Change meets the requirements of the definition of Qualifying Change) on the date that the last Cascaded Rolling Stock ceases to be retained by the Prior Train Operator.

2.7

- (a) Where the Secretary of State exercises his right pursuant to paragraph 2.5(b) to require the Franchise Operator to make the Cascaded Rolling Stock available for use by the Prior Train Operator during a specified period, the Franchise Operator shall not be liable for any failure to comply with its obligations under the Franchise Agreement to the extent that:
 - (i) such failure to comply arises directly as a result of the Franchise Operator being unable to use the Cascaded Rolling Stock; and
 - (ii) the Franchise Operator uses all reasonable endeavours to comply with the relevant obligations notwithstanding the unavailability of the Cascaded Rolling Stock.
- (b) The Franchise Operator shall notify the Secretary of State as soon as reasonably practicable if it becomes aware of any material risk that a Relevant Delay will occur. If a Relevant Delay does occur the Franchise Operator shall use all reasonable endeavours to mitigate the impact on the delivery of the Franchise Services of the unavailability of the Cascaded Rolling Stock at the expected time including by identifying and proposing value for money alternative sources of replacement rolling stock.
- (c) If a Relevant Delay has occurred or the Secretary of State believes that there is a material risk that a Relevant Delay will occur he may serve a notice on the Franchise Operator requiring it to produce a plan to a reasonable specification provided with the notice to remedy or mitigate the impact of the delayed availability of the Cascaded Rolling Stock (**Delayed Cascade Mitigation Plan**). Such specification may include measures to be implemented by the Franchise Operator to mitigate the direct or indirect impact of the Relevant Delay on the Prior Train Operator or any other affected Train Operator. The Delayed Cascade Mitigation Plan shall provide a comprehensive analysis backed by relevant data and assumptions of:
 - (i) all cost and revenue and other financial implications of options contained within it including the potential implications for Franchise Payments;
 - (ii) the implications (if any) for Benchmarks; and

- (iii) the likely impact of options within it for existing and future passenger journeys and journey opportunities.

The Franchise Operator shall meet with the Secretary of State to discuss the Delayed Cascade Mitigation Plan and provide such further information or analysis and further iterations of the Delayed Cascade Mitigation Plan as the Secretary of State shall reasonably require.

3 Assignment of Property Leases during the Franchise Term

- 3.1 The Franchise Operator shall (other than on termination of the Franchise Agreement, for which the provisions of paragraph 4.5 of Schedule 15.4 (Provisions Applying on and after Termination) shall apply) following receipt of a notice purporting to terminate a Property Lease or on becoming aware of any proceedings or any other steps having or purporting to have similar effect, if requested by the Secretary of State, assign its interest under all or any Property Leases to the Secretary of State or as he may direct, subject where applicable to the agreement of any other party to such Property Lease or the ORR.
- 3.2 Such assignment shall be on such terms as the Secretary of State may reasonably require, including:
 - (a) that the Franchise Operator shall not be released from any accrued but unperformed obligation, the consequences of any antecedent breach of a covenant or obligation in the Property Leases or any liability in respect of any act or omission under or in relation to the Property Lease prior to, or as at the date of, any such assignment (except to the extent that the Secretary of State or his nominee agrees to assume responsibility for such unperformed obligation, such liability or the consequences of such breach in connection with the relevant assignment); and
 - (b) that neither the Secretary of State nor his nominee shall be obliged, in connection with such assignment, to agree to assume responsibility for any unperformed obligation, liability or consequences of a breach referred to in paragraph 3.2(a), and the Franchise Operator shall indemnify the Secretary of State or his nominee, as the case may be, on an after-tax basis against any costs, losses, liabilities or expenses suffered or incurred in relation thereto.
- 3.3 The Franchise Operator shall, on the occurrence of any of the circumstances specified in paragraph 3.1 in relation to any other Train Operator who is a party to a Property Lease to which the Franchise Operator is also party, agree to the assignment of such Train Operator's interest under the relevant Property Lease to the Secretary of State or as he may direct, subject, where applicable, to the consent of Network Rail. The provisions of paragraph 3.2 shall apply to any such assignment.

- 3.4 The Franchise Operator shall notify the Secretary of State on becoming aware of any circumstances which might lead to the Secretary of State being able to require the Franchise Operator to assign its interest or agree to the assignment of another Train Operator's interest under this paragraph 3.

4 Station and Depot Leases

- 4.1 The Franchise Operator shall at all times enforce its rights under each Station Lease and Depot Lease.

- 4.2 The Franchise Operator shall not:

- (a) terminate or agree to terminate in whole or in part, or take or omit to take any other action which might result in the termination of any Station Lease or Depot Lease;
- (b) assign all or part of its interest under any Station Lease or Depot Lease; or
- (c) sublet the whole or substantially the whole of the property comprised in any Station Lease or Depot Lease,

except to the extent that the Secretary of State may otherwise agree from time to time (such agreement not to be unreasonably withheld if the Franchise Operator has made arrangements, reasonably satisfactory to the Secretary of State, for the continued operation of such Station or Depot (as the case may be) for the remainder of the Franchise Term or if consent to the Closure of the relevant Station or Depot has been granted).

5 Station Subleases

- 5.1 Unless the Secretary of State agrees otherwise, the Franchise Operator shall not sublet to any of its Affiliates any part of the property comprised in any Property Lease except on terms that any such subletting:

- (a) (other than any subletting to an Affiliate which is a Train Operator) is terminable without compensation immediately upon the termination of the Franchise Agreement; and
- (b) is excluded from the provisions of Part II of the Landlord and Tenant Act 1954 and the Tenancy of Shops (Scotland) Act 1949.

- 5.2 If so requested by the Secretary of State, the Franchise Operator shall:

- (a) extend each Station Sublease on the same terms for such period as the Secretary of State may request (including a period equivalent to the franchise term of the Train Operator who is the lessee under such Station Sublease); and
- (b) if such Station Sublease terminates (which for the purposes of this paragraph 5.2(b) shall include the termination, at or around the time of termination of the Previous Franchise Agreement, of a station sublease in respect of which the Franchise Operator was the lessor), grant a new Station Sublease on the same terms to such Train Operator and for such period as the Secretary of State may request (including a period equivalent to the franchise term of the Train Operator who is the lessee under such Station Sublease),

subject, where required, to the consent of Network Rail (and, if required, the relevant sub-lessee) and to the duration of the relevant Station Lease.

- 5.3 The Franchise Operator shall notify the Secretary of State immediately on it becoming aware of any event which might give the Franchise Operator a right to forfeit or terminate any Station Sublease. The Franchise Operator shall notify the Secretary of State if it wishes to forfeit or terminate any such Station Sublease but shall not (without the Secretary of State's prior written consent) effect such forfeiture or termination until the date which occurs three months after the date of such notice.

SCHEDULE 2.3

Third Party Delivery of Passenger Services and Other Franchise Operators

1 Subcontracting any Passenger Services

- 1.1 Subject to paragraph 1.2, the Franchise Operator may not subcontract or delegate the provision of the Passenger Services without the prior written consent of the Secretary of State.
- 1.2 The Franchise Operator may subcontract or delegate the provision of the Passenger Services, provided that:
- (a) the Secretary of State receives prior written notice of any such subcontracting or delegation;
 - (b) the Franchise Operator continues to be party to all Access Agreements and Property Leases necessary to provide such Passenger Services and to enjoy all relevant access and operational rights thereunder;
 - (c) the Franchise Operator continues to specify and control the terms and conditions (subject to the requirements of the Inter-Operator Schemes) on which such Passenger Services are to be provided, including the determination of the Price or Child Price (as the case may be) of any Fares;
 - (d) the Train Mileage of the Passenger Services so delegated or subcontracted does not exceed 5 per cent of the aggregate scheduled Train Mileage of the Franchise Operator in any Reporting Period; and
 - (e) the Franchise Operator continues to perform its obligations under Part A or Part B, as the case may be, of Schedule 1.1 (Service Development) in respect of any subcontracted or delegated services.
- 1.3 Any such subcontracting or delegation shall not relieve the Franchise Operator from any of its obligations under the Franchise Agreement, including its obligations under this paragraph 1 and Schedule 14 (Preservation of Assets).

2 Other Franchisees

- 2.1 If the franchise agreement of another franchisee terminates or a railway administration order is made in respect of another franchisee, the Franchisee and/or the Franchise Operator shall co-operate with any reasonable request of the Secretary of State to ensure:

- (a) that the services provided or operated by such other franchisee may continue to be provided or operated by any successor Train Operator or the railway administrator; and
 - (b) that the benefit of any arrangements between the Franchisee and/or Franchise Operator and such other franchisee which were designated as a key contract under such franchise agreement immediately prior to its termination or to a railway administration order being made will continue to be provided to any successor Train Operator or to the railway administrator.
- 2.2 The benefit of any arrangements of the type referred to in paragraph 2.1(b) shall be provided on substantially the same terms as previously obtained by the relevant franchisee, subject to paragraph 9 of Schedule 19 (Other Provisions) and paragraph 2.3, provided that the Secretary of State may exclude or modify any terms agreed or amended by such franchisee in the 12 months preceding the date on which such franchisee's franchise agreement was terminated or the date on which the relevant railway administration order was made which were, in the Secretary of State's reasonable opinion, to the material detriment of such franchisee's business. The benefit of such arrangements shall be provided for such period as the Secretary of State may reasonably require to allow the relevant Train Operator or railway administrator to renegotiate such arrangements or make alternative arrangements.
- 2.3 The Franchisee and/or Franchise Operator shall notify the Secretary of State of its intention to terminate any contract with any other Train Operator which is designated as a "Key Contract" under that Train Operator's franchise agreement and shall give that Train Operator sufficient notice to enable it to make suitable alternative arrangements for its passengers without causing disruption to the railway passenger services provided by such Train Operator.
- 2.4 If the franchise agreement of another franchisee terminates in contemplation of the entry into or entry into effect of a new franchise agreement with the same franchisee in respect of all or a material part of the relevant railway passenger services, the Franchisee and/or Franchise Operator shall waive any event of default or other right it may have to terminate any agreement with such franchisee arising out of such termination, provided that the entry into or entry into effect of such new franchise agreement takes place.
- 2.5 References in this paragraph 2 to a franchisee include references to any franchise operator of that franchisee.

SCHEDULE 2.4 Other Franchise Operations

1 Rolling Stock Testing and Commissioning

- 1.1 The Franchise Operator shall, to the extent reasonably requested by the Secretary of State and subject to payment of the Franchise Operator's reasonable costs by the relevant third party, co-operate with any third party which the Secretary of State may specify (including a Successor Operator, a rolling stock vehicle manufacturer, Network Rail or the Secretary of State) in connection with the testing and commissioning of new rolling stock vehicles or any new equipment to be fitted to rolling stock vehicles (whether such rolling stock vehicles are new or otherwise). Such co-operation shall not unreasonably disrupt the provision and operation of the Franchise Services and may include:
- (a) the movement of test trains within and around depots;
 - (b) making available suitably qualified personnel to operate test trains along the Routes and provide information on the Routes;
 - (c) making Train Slots available for such purposes;
 - (d) granting or procuring the grant of access to the third party and its representatives to any relevant facilities; and
 - (e) the delivery of rolling stock vehicles to specific locations.

2 Restrictions on Closures of Railway Passenger Services or Railway Facilities

- 2.1 Except to the extent that the Secretary of State agrees otherwise, the Franchise Operator shall not:
- (a) cease to operate;
 - (b) cease to secure the operation of; or
 - (c) propose to terminate the use of,
- any Station (or part of a Station) or any railway passenger service over a Route where such cessation or proposal might result in a Closure.
- 2.2 If any procedures are commenced under Part 4 of the Railways Act 2005 in relation to a Closure, the Franchise Operator shall, at its own cost and to the extent so requested by the Secretary of State, take such action as the Secretary of State may require in order to enable the Secretary of

State to comply with any duty imposed on him under Part 4 of the Railways Act 2005 in relation to such Closure.

3 Not Used

4 Royal Train

- 4.1 The Franchise Operator shall, if and to the extent requested by any person (including Rail Express Systems Limited) and subject to the payment by such person of any reasonable costs of the Franchise Operator, co-operate in the provision by such person of railway passenger services for Her Majesty Queen Elizabeth II or any successor head of state or members of the family or representatives of either of them.
- 4.2 The provision of railway services for Her Majesty Queen Elizabeth II or any successor head of state or members of the family or representatives of either of them may include:
- (a) running a “sweeper” train in front of the royal train;
 - (b) having spare locomotives on standby as rescue traction; and/or
 - (c) carrying out security requirements or co-operating with other persons in ensuring that security requirements are carried out prior to calling at any station on the Routes.

SCHEDULE 2.5
Transport, Travel and Other Schemes

1 Not Used

2 Local Authority Concessionary Travel Schemes

2.1 The Franchise Operator shall:

- (a) subject to paragraph 2.2, participate in and comply with its obligations under:
 - (i) the concessionary travel schemes listed in the Appendix to this Schedule 2.5; and
 - (ii) any other concessionary travel scheme which the Franchise Operator is required to participate in during the Franchise Term pursuant to paragraph 2.1(b); and
- (b) subject to paragraph 2.3, if so requested by the Secretary of State, participate in and comply with its prospective obligations under:
 - (i) any concessionary travel scheme listed in the Franchise Agreement the terms of which have been amended since the date of the Franchise Agreement; and
 - (ii) such other concessionary travel schemes as any relevant Local Authority may require or request it to participate in.

2.2 Subject to the terms of the relevant concessionary travel scheme, the Franchise Operator shall be entitled to cease to participate in any scheme referred to in paragraph 2.1(a) where, in the reasonable opinion of the Secretary of State:

- (a) the Franchise Operator's continuing participation in such scheme; and/or
- (b) the obligations assumed by the relevant Local Authority in connection therewith,

each pursuant to Part II of the Travel Concession Schemes Regulations 1986 (SI 1986/77) (the Regulations), would fail to leave the Franchise Operator financially no worse off (within the meaning of the Regulations) than it was immediately following the Start Date.

2.3 The Secretary of State shall not require the Franchise Operator to participate in any scheme referred to in paragraph 2.1(b) where the Secretary of State is reasonably satisfied that:

- (a) the reimbursement arrangements with respect to the Franchise Operator's participation in any such scheme; and/or

(b) the obligations to be assumed by such Local Authority in connection therewith,

each pursuant to the Regulations would fail to leave the Franchise Operator financially no worse off (within the meaning of the Regulations) as a result of such participation.

2.4 The Secretary of State shall consult the Franchise Operator before making any request of the Franchise Operator to participate in any amended or new concessionary travel scheme pursuant to paragraph 2.1(b) and shall allow the Franchise Operator a reasonable opportunity to make representations to him with respect to any such participation.

2.5 The Franchise Operator shall supply to the Secretary of State, in respect of any concessionary travel schemes referred to in paragraph 2.1, such information within such period as the Secretary of State may reasonably require for the purposes of determining whether or not the Franchise Operator is or will be financially no worse off (within the meaning of the Regulations) as a consequence of its participation in any such scheme, and/or the obligations assumed by such Local Authority in connection therewith.

2.6 If the Secretary of State and the Franchise Operator are unable to agree whether the Franchise Operator will be financially no worse off (within the meaning of the Regulations), the Secretary of State and the Franchise Operator may resolve such dispute in accordance with the Dispute Resolution Rules.

3 Not used.

4 Discount Fare Schemes

4.1 If the Secretary of State:

- (a) effects, or proposes to effect, an amendment to a Discount Fare Scheme;
- (b) introduces any new Discount Fare Scheme; or
- (c) ceases to approve a Discount Fare Scheme,

for the purposes of Section 28 of the Act, such amendment, intended amendment, introduction or cessation of approval shall be a Change.

4.2 The Secretary of State shall provide a reasonable opportunity to the Franchise Operator to make representations to him before amending, introducing or ceasing to approve a Discount Fare Scheme pursuant to paragraph 4.1.

4.3 The Franchise Operator shall supply to the Secretary of State, in respect of any Discount Fare Scheme referred to in paragraph 4.1, such information within such period as the Secretary of State may reasonably require for the purposes of determining the financial effect of any such amendment, intended amendment, introduction or cessation of approval.

5 Inter-Operator Schemes

5.1 The Franchise Operator shall participate in and comply with its obligations under the terms of each of the Inter-Operator Schemes.

5.2 Without limiting paragraphs 5.1 and 5.3, the Franchise Operator agrees to be bound by Parts IV and V of Chapter 4 of the Ticketing and Settlement Agreement and shall not amend, or agree or propose to amend, the Ticketing and Settlement Agreement without the prior written consent of the Secretary of State.

5.3 The Franchise Operator shall not amend, or agree or propose to amend, any Inter-Operator Scheme other than in accordance with its terms.

5.4 The Franchise Operator shall:

(a) provide reasonable notice to the Secretary of State of any proposal to amend any Inter-Operator Scheme which it intends to make or of which it receives notification and which, in its opinion, is reasonably likely materially to affect the provision of the Franchise Services; and

(b) have regard to the Secretary of State's views in respect of any such proposal.

5.5 If an amendment is effected or proposed to be effected to an Inter-Operator Scheme which requires the consent or approval of the Secretary of State in accordance with the terms thereof, such amendment shall be treated as a Change to the extent and only to the extent that the Franchise Operator makes a saving as a consequence of such amendment or proposed amendment.

APPENDIX 1 TO SCHEDULE 2.5

- 1 The prescribed concessionary travel schemes for the purpose of paragraph 2.1(a) of Schedule 2.5 (Transport, Travel and Other Schemes) are as follows:

Scotland

- (i) Perth & Kinross Council

Journeys between Perth - Gleneagles/Blair Atholl and journeys from these stations to Dunblane, Stirling & Dundee.

- (ii) Angus Council

Journeys between Arbroath - Montrose and journeys from these stations to/from Dundee.

- (iii) Fife Council

Journeys between Inverkeithing and Kirkcaldy inclusive and journeys from these stations to Perth, Dundee and Edinburgh and between Dundee and Edinburgh/Haymarket.

- (iv) East Lothian Council

Journeys between Dunbar and Edinburgh/Haymarket.

- (v) Edinburgh City Council

Journeys between Edinburgh, Waverley and Haymarket.

- (vi) Highland Council

Journeys between Inverness and Dalwhinnie inclusive and between these stations to Edinburgh including intermediate stations.

- (vii) Falkirk Council

Journeys between Falkirk and Edinburgh and Falkirk to Perth.

- (viii) Strathclyde PTE

Journeys between Glasgow Central and Motherwell.

England

(i) East Riding of Yorkshire Council

Journeys between Hull/Brough to Doncaster and York via Doncaster.

(ii) West Yorkshire Passenger Transport Authority

Journeys between Keighley/Bradford FS/Leeds/Wakefield.

Schedule 3
NOT USED

Schedule 4

Persons with Disabilities and Disability Discrimination

1 Relationship with other obligations relating to persons with disabilities

1.1 The Franchise Operator acknowledges that its obligations in this Schedule 4 are in addition to and do not limit its obligations to comply with:

- (a) the EA and any regulations imposed by it;
- (b) any applicable condition(s) in any of its Licences (including in respect of persons with disabilities); and
- (c) any other of the requirements of the Franchise Agreement.

1.2 This Schedule 4 sets out:

- (a) specific arrangements which apply in respect of physical alterations to stations to facilitate accessibility and use by Disabled Persons; and
- (b) specific obligations of the Franchise Operator directed at meeting the needs of persons with disabilities.

2 Physical Alterations and Accessibility of Stations

2.1 In respect of physical alteration works at stations to facilitate accessibility and use by Disabled Persons, it is acknowledged by the Franchise Operator that:

- (a) there is limited funding available to the Secretary of State to assist Franchise Operators and/or franchise operators with the carrying out of those works;
- (b) consequently, there is a need for such works to be carried out over a period of time to reflect the availability of funding, and for such works to be prioritised with regard to where there is the greatest need and/or where physical alterations can have the greatest effect; and
- (c) the Secretary of State's national programme of works of physical alterations at stations addresses these issues in a structured way.

2.2 The Franchise Operator shall:

- (a) co-operate reasonably with and assist the Secretary of State in the development and furtherance by the Secretary of State of the programme described in paragraph 2.1(c) by providing to the Secretary of State:
 - (i) information concerning the usage of Stations (including, where and to the extent reasonably practicable, usage of Stations by Disabled Persons); and
 - (ii) advice as to the most economic way in which accessibility for Disabled Persons could, in the Franchise Operator's reasonable opinion, be improved at Stations;
- (b) co-operate reasonably with other Train Operators and/or Network Rail to seek to ensure that, where it would be advantageous to do so, having regard to the needs of Disabled Persons, any planned work on the Stations to facilitate accessibility and use by Disabled Persons is, so far as reasonably practicable, co-ordinated with other work to be carried out at the Stations and/or other parts of the network; and
- (c) use all reasonable endeavours to secure sources of grant funding (other than from itself or an Affiliate) for improving accessibility for Disabled Persons at Stations (in addition to any funding secured through the Secretary of State pursuant to paragraph 2.5, including from Local Authorities, local development agencies and the Lottery Commission. The Franchise Operator shall notify the Secretary of State of:
 - (i) any such additional funding which it secures; and
 - (ii) the terms on which such additional funding has been granted.

2.3 In participating in any multi-modal fares scheme, the Franchise Operator shall use all reasonable endeavours to secure, through the planning and development of such scheme, improvements in disabled access to the entrances of any relevant station, including within and in the immediate proximity of such station.

2.4 If, during the Franchise Term:

- (a) the Franchise Operator has complied with its obligations in Section 20(4) and Section 20(9), as varied by paragraph 2(3) of Schedule 2, of the EA (to take such steps as are reasonable to provide a reasonable alternative method of making services at a Station accessible to a Disabled Person to avoid a Disabled Person being placed at a substantial disadvantage by a physical feature at a Station) and its obligations in paragraph 2.7 concerning Minor Works; and
- (b) notwithstanding such compliance, the Franchise Operator reasonably considers it is still required to carry out or procure physical works of alteration at a Station in order to comply

with the EA Requirements in respect of that Station, and, in so carrying out or procuring, would incur expenditure which it would not otherwise have an obligation to incur,

the Franchise Operator may seek funding from the Secretary of State in respect of that expenditure.

2.5 If the Franchise Operator seeks funding from the Secretary of State under paragraph 2.4, and demonstrates to the Secretary of State's satisfaction that the criteria in paragraph 2.4 have been satisfied, then the Secretary of State may agree to adjust the amount of Franchise Payments in respect of some or all of the works and/or expenditure. In considering his response to any such request, the Secretary of State will have regard to the availability of funding and the priorities set out in the national programme described in paragraph 2.1(c), together with any other available sources of funding described in paragraph 2.2(c). If and to the extent the Secretary of State agrees to adjust Franchise Payments in accordance with this paragraph 2.5 in any Franchise Operator Year:

- (a) the Secretary of State shall make such adjustment to the Franchise Payments; and
- (b) the Franchise Operator shall spend such additional funds:
 - (i) in order to comply with the EA Requirements referred to in paragraph 2.4(b); and
 - (ii) in accordance with any conditions the Secretary of State may notify the Franchise Operator of.

2.6 If and to the extent the Franchise Operator is required to pay any increased access charges as a result of additional expenditure required to be incurred by another station Facility Owner for the purpose of complying with the EA Requirements in respect of a Franchise Operator Access Station, provided that the Franchise Operator:

- (a) notifies the Secretary of State within seven days of becoming aware of any proposal for the increase in such charges (or the works to which they relate); and
- (b) complies with the Secretary of State's reasonable directions regarding the exercise of any rights the Franchise Operator may have in respect thereof,

the imposition of the increased access charges shall be a Change.

2.7 The Franchise Operator shall:

- (a) establish and manage the Minor Works' Budget to fund the carrying out of Minor Works. For the purposes of this paragraph 2.7, Minor Works means small scale physical alterations

or additions to improve accessibility of Stations to Disabled Persons, not involving substantial works of construction or reconstruction. The Minor Works:

- (i) may, but shall not necessarily include, the Minor Works described in Appendix 1 (Minor Works) of this Schedule 4;
 - (ii) shall not include any works which Network Rail, the Franchise Operator or any other person has a separate obligation to carry out, except where:
 - (A) such obligation is an obligation of the Franchise Operator under the EA; or
 - (B) the inclusion of such works would lead to the acceleration of the timescale for their completion and the Secretary of State gives his consent pursuant to paragraph 2.7(a)(iii);
 - (iii) shall only include works other than those permitted by paragraphs 2.7(a)(i) and 2.7(a)(ii) with the prior consent of the Secretary of State; and
 - (iv) must comply with the standards provided for in the Code of Practice, unless otherwise agreed with the prior consent of the Secretary of State;
- (b) as soon as reasonably practicable (and in any event within four months) after the Start Date and thereafter before the start of each Franchise Operator Year:
- (i) develop a Minor Works' Programme and consult with the Disabled Persons Transport Advisory Committee and relevant Passengers' Council in relation thereto;
 - (ii) in conjunction with its activities in paragraph 2.7(b)(i), and, consistent with its obligations under paragraph 2.2(b), liaise with Network Rail and other Train Operators as necessary with regard to the determination and implementation of each Minor Works' Programme; and
 - (iii) following the consultation and liaison described in paragraphs 2.7(b)(i) and (b)(ii), obtain the Secretary of State's prior approval (such approval not to be unreasonably withheld) of each Minor Works' Programme;
- (c) carry out or procure the carrying out of the Minor Works' Programme in each Franchise Operator Year and in doing so, spend at least the amount of the Minor Works' Budget for the relevant Franchise Operator Year in such Franchise Operator Year (unless otherwise agreed by the Secretary of State);

- (d) report progress to the Secretary of State in determining and carrying out the Minor Works' Programme no less than once every three Reporting Periods; and
- (e) co-operate, as the Secretary of State may reasonably require, with Network Rail or any other person seeking to carry out or procure Minor Works at the Stations or any other stations.

3 Dealing with Claims Relating to Stations

- 3.1 If the Franchise Operator receives notification of a claim under the EA in respect of any alleged non-compliance with the EA Requirements or otherwise in respect of any Station (an **EA Claim**) then the Franchise Operator shall:
- (a) notify the Secretary of State within seven days of receiving notification of the EA Claim. The Franchise Operator shall at the same time notify the Secretary of State of any reasonable alternative methods of making services at the Station accessible to Disabled Persons that it has considered and/or put in place pursuant to Section 20(4) and Section 20(9), as varied by paragraph 2(3) of Schedule 2, of the EA;
 - (b) if required by the Secretary of State, defend the EA Claim or any aspect of the EA Claim (which may include appealing the judgment). The Secretary of State will, subject to paragraph 3.4, pay the Franchise Operator's reasonable costs of:
 - (i) any defence or appeal required by the Secretary of State; and/or
 - (ii) compliance with the Secretary of State's instructions in accordance with paragraph 3.1(c); and
 - (c) act in accordance with the reasonable instructions of the Secretary of State to defend the EA Claim (or any aspect of it) as required under paragraph 3.1(b) and shall not (without the prior consent of the Secretary of State) settle or enter into any compromise in relation to the EA Claim (or the relevant aspect of it), including by entering into mediation.
- 3.2 If, in the reasonable opinion of the Franchise Operator, it will be more cost effective to settle the EA Claim rather than act in accordance with the Secretary of State's requirement under paragraph 3.1, it shall produce for the Secretary of State's approval a settlement proposal, setting out the terms of the Franchise Operator's proposals to make an offer to the Disabled Person making the EA Claim and its reasons for making such offer (the **Settlement Proposal**).

- 3.3 If the Secretary of State does not accept the Settlement Proposal and still requires the Franchise Operator to defend the EA Claim (or any aspect of it) then the Franchise Operator shall defend the EA Claim in accordance with paragraph 3.1.
- 3.4 If the Franchise Operator is required to defend an EA Claim where it has submitted a Settlement Proposal to the Secretary of State and an award is made in respect of the EA Claim in favour of the person bringing it which is higher than the figure set out in the Settlement Proposal, then, subject to paragraph 3.5, the Secretary of State shall pay to the Franchise Operator:
- (a) the difference between such an award and the figure set out in the Settlement Proposal; and
 - (b) the further reasonable costs incurred or payable by the Franchise Operator in defending the EA Claim, to the extent that such costs have not already been paid by the Secretary of State under paragraph 3.1(b).
- 3.5 The Secretary of State shall not have any obligation to make the payments described in paragraphs 3.1(b) or 3.4 where it is determined or, if no declaration or determination by the court on this point has been sought or made, the Secretary of State, in his reasonable opinion, considers that the Franchise Operator has not taken such steps as it is reasonable, in all the circumstances of the case, for it to take to provide a reasonable alternative method of making services at the Station accessible to Disabled Persons.

4 Specific additional obligations relating to persons with disabilities

- 4.1 Not used.
- 4.2 The Franchise Operator shall establish and implement procedures necessary to:
- (a) record the making of reservations for seating accommodation for and/or the provision of assistance to, persons with disabilities which are made through the Assisted Passenger Reservation System (or whatever system may replace it from time to time for the purposes of the Secretary of State's Guidance on Disabled People's Protection Policies) and where the Franchise Operator is responsible for making the reservation and/or delivering the seating accommodation or assistance reserved. Any helpline established by the Franchise Operator for the purposes of making reservations for seating accommodation for and/or the provision of assistance to, persons with disabilities shall be provided free of charge;
 - (b) record whether such seating accommodation and/or assistance is actually provided; and
 - (c) provide such records to the Secretary of State on his request.

4.3 Where the Franchise Operator's Disabled People's Protection Policy:

- (a) has been established before the date of the Franchise Agreement; and
- (b) has not been revised and approved by the Secretary of State to take into account the Secretary of State's most recent published Guidance on Disabled People's Protection Policies as at the date of the Franchise Agreement,

the Franchise Operator shall within six months of the date of the Franchise Agreement revise its Disabled People's Protection Policy such that it complies with that guidance, and obtain the Secretary of State's approval of the revised version.

4.4 The Franchise Operator shall comply with the requirements set out in Appendix 2 (Alternative Transport) of this Schedule 4 in respect of the provision of alternative means of transportation for persons with disabilities.

APPENDIX 1 TO SCHEDULE 4 Minor Works

- 1 Providing additional signage, where it does not currently exist, to allow better way finding around the station by Disabled Persons.
- 2 Removing:
 - (a) thresholds (above 15 millimetres) which do not comply with the Code of Practice; or
 - (b) fewer than three steps,from the entrances to booking halls or platforms to enable those facilities to have step-free access.
- 3 Providing contrasting manifestations on glazed areas where contrasting manifestations do not currently exist.
- 4 Providing additional handrails around the station where handrails do not currently exist and where the Franchise Operator reasonably believes they may be required by a Disabled Person.
- 5 Providing new accessible stair nosings where stair nosings do not currently exist.
- 6 Providing new tactile surfaces, including at the top and bottom of flights of steps (but excluding at platform edges) where tactile surfaces do not currently exist.
- 7 Providing additional seating that is accessible to Disabled Persons, but not replacing existing seating.
- 8 Providing induction loops for ticket office windows where induction loops do not currently exist.
- 9 Replacing non-standard fittings with fittings that are compliant with the Code of Practice in existing disabled toilets, which would include replacing non-standard fittings in respect of toilet bowls and sinks, but would not include making major changes to plumbing or to the dimensions of the toilet area.
- 10 Providing dropped kerbs at drop off/set down points or station car parks to enable access/egress thereto where dropped kerbs do not currently exist.
- 11 Marking out existing car-parking bays for use by persons with disabilities which comply with the Code of Practice, where such car parking bays do not currently comply.

APPENDIX 2 TO SCHEDULE 4 Alternative Transport

1 References in this Appendix to passengers are references to passengers with disabilities who are wheelchair users or otherwise severely mobility impaired.

2 Subject to paragraph 4, where:

- (a) a passenger wants to travel on a Passenger Service; and
- (b) the design of the station at which the passenger's journey on such Passenger Service is to start (the **Departure Station**) or finish (the **Destination Station**) prevents the passenger from using that station to access or disembark from that Passenger Service,

the Franchise Operator shall provide alternative transport for that passenger in accordance with paragraph 3.

3 The Franchise Operator shall provide alternative transport for the passenger referred to in paragraph 2:

- (a) from the Departure Station to the next station at which the Passenger Service is scheduled to call and at which it is possible for the passenger to access that Passenger Service;
- (b) to the Destination Station, from the station closest to such station at which the Passenger Service is scheduled to call and which it is possible for the passenger to use to disembark from that Passenger Service; and/or
- (c) to or from such other station as the Franchise Operator may, having regard to the journey and the needs of the passenger, agree,

and, in any case, at no cost additional to the price of the Fare which would otherwise be payable for the passenger's rail journey.

4 The Franchise Operator's obligations under this Appendix are subject to:

- (a) reasonable prior notice of the passenger's requirement for alternative transport; and
- (b) the availability of suitable alternative transport (provided that the Franchise Operator has used all reasonable endeavours to ensure that it has arrangements in place to meet requirements for the provision of such alternative transport).

Schedule 5

Fares

| | |
|--------------|---|
| Schedule 5.1 | Purpose, Structure and Construction |
| Schedule 5.2 | Franchise Operator's Obligation to Create Fares |
| Schedule 5.3 | Allocation of Fares to Fares Baskets |
| Schedule 5.4 | Regulation of Fares Basket Values |
| Schedule 5.5 | Regulation of Individual Fares |
| Schedule 5.6 | Exceeding the Regulated Value, Regulated Price or Regulated Child Price |
| Schedule 5.7 | Changes to Fares and Fares Regulation |
| Schedule 5.8 | Fares Regulation Information and Monitoring |
| Schedule 5.9 | ITSO Certified Smartmedia |

SCHEDULE 5.1

Purpose, Structure and Construction

1 Purpose of Schedule 5

Purpose of provisions relating to Creating Fares

- 1.1 The purpose of Schedule 5.2 (Franchise Operator's Obligation to Create Fares) is to ensure that Commuter Fares and Protected Fares are created in accordance with the Ticketing and Settlement Agreement and appropriate restrictions are placed on the Franchise Operator's ability to Create Fares.

Purpose of Fares Regulation

- 1.2 The purpose of Schedules 5.3 (Allocation of Fares to Fares Baskets) to 5.8 (Fares Regulation Information and Monitoring) (inclusive) is to provide for the regulation of Fares by the Secretary of State pursuant to Section 28 of the Act.
- 1.3 For the purpose of regulating Fares, each Fare that is to be regulated shall be allocated in accordance with this Schedule 5 to one of the following Fares Baskets:
- (a) the Commuter Fares Basket; or
 - (b) the Protected Fares Basket.
- 1.4 The Secretary of State's regulation of Fares places a limit on the Price or Child Price of each Fare that is allocated by the Secretary of State to a Fares Basket. The limit on the Price or Child Price of each Fare is set by reference to:
- (a) the overall increase of the Prices and the Child Prices of all Fares in a Fares Basket; and
 - (b) the individual increase in the Price or the Child Price of each Fare in a Fares Basket.
- 1.5 ***Subject to the more detailed provisions of Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares):***
- (a) ***the overall increase of the Prices and the Child Prices of all Fares in a Fares Basket may not exceed the Retail Prices Index + k per cent per annum in respect of each Fare Year; and***
 - (b) ***the increase in the Price or the Child Price of any individual Fare in a Fares Basket may not exceed the Retail Prices Index + k + f per cent per annum in respect of each Fare Year; and***

- (c) **for the purpose of subparagraph (a) of this paragraph 1.5, k shall have the meaning ascribed to it in paragraph 4.2 of Schedule 5.4; and**
- (d) **for the purpose of subparagraph (b) of this paragraph 1.5, k and f shall have the meaning ascribed to them in paragraph 2.2 of Schedule 5.5.³¹**

1.6 The Secretary of State may alter these limits, and other aspects of the regulation of Fares, in accordance with the more detailed provisions of Schedule 5.7 (Changes to Fares and Fares Regulation).

2 Structure of Schedule 5

2.1 Schedule 5.2 (Franchise Operator's Obligation to Create Fares) sets out or refers to the Franchise Operator's obligations to Create Fares.

2.2 Schedule 5.3 (Allocation of Fares to Fares Baskets) sets out the allocation of Fares to Fares Baskets.

2.3 Schedule 5.4 (Regulation of Fares Basket Values) sets out the limits applicable to the overall increase in Prices and Child Prices of all Fares in a Fares Basket.

2.4 Schedule 5.5 (Regulation of Individual Fares) sets out the limits applicable to the increase in the Price or Child Price of any individual Fare in a Fares Basket.

2.5 Schedule 5.6 (Exceeding the Regulated Value, Regulated Price or Regulated Child Price) sets out the consequences of the Franchise Operator exceeding:

- (a) the Regulated Value of any Fares Basket; or
- (b) the Regulated Price or Regulated Child Price of any Fare.

2.6 Schedule 5.7 (Changes to Fares and Fares Regulation) sets out the Secretary of State's ability to vary the foregoing provisions.

2.7 Schedule 5.8 (Fares Regulation Information and Monitoring) sets out Fares regulation information and monitoring provisions.

2.8 Schedule 5.9 (ITSO Certified Smartmedia) sets out the provisions relating to the introduction of ITSO ticketing and smartmedia technology.

³¹ **Replaced in the letter dated 27 February 2015**

3 Construction

References to Fare

- 3.1 For the purposes of:
- (a) Schedule 5.2 (Franchise Operator's Obligation to Create Fares), Fare shall have the wide meaning given to it in paragraph (a) of that definition; and
 - (b) Schedules 5.3 (Allocation of Fares to Fares Baskets) to 5.8 (Fares Regulation Information and Monitoring) (inclusive), Fare shall have the narrow meaning given to it in paragraph (b) of that definition.
- 3.2 References in this Schedule 5 to a Fare shall, except to the extent the context otherwise requires, be construed as references to the Fare which is or can be Created by the Lead Operator for the Flow to which the Fare relates or, if such Flow is not a Compulsory Inter-available Flow, any Fare which the Franchise Operator has Created or can Create in respect of that Flow as the Secretary of State may specify.

Fares Documents

- 3.3 In the event that, in the Secretary of State's reasonable opinion, there is an immaterial inconsistency between the Fares, the maximum Price or Child Price (as the case may be) for any Fare recorded by RSP in 2010 or the 2010 Nominal Ticket Sales:
- (a) described in or determined in accordance with this Schedule 5; and
 - (b) described in the relevant Fares Document,
- the relevant Fares Document shall prevail.
- 3.4 In the event that, in the Secretary of State's reasonable opinion, there is a material inconsistency between the Fares, the maximum Price or Child Price (as the case may be) for any Fare recorded by RSP in 2010 or the 2010 Nominal Ticket Sales:
- (a) described in or determined in accordance with this Schedule 5; and
 - (b) described in the relevant Fares Document,
- this Schedule 5 shall prevail.

Setting of Child Prices

3.5 Any requirement under this Schedule 5 to set a Child Price in respect of a Fare shall be satisfied by the Franchise Operator Creating either:

- (a) a Fare which is only valid for use by persons under the age of 16; or
- (b) a Fare which is valid for use:
 - (i) by any person at a price; and
 - (ii) by persons under the age of 16 at a discounted price relative to the price set pursuant to paragraph 3.5(b)(i).

New Stations

3.6 Subject to paragraph 3.2, the Secretary of State may include within the definitions of:

- (a) Fares Basket;
- (b) Commuter Fare; and
- (c) Protected Fare,

Fares to or from any New Station, on such basis as he may, after consultation with the Franchise Operator, reasonably determine and references in this Schedule 5 to Fares Basket, Commuter Fare, Protected Fare and Fares and other relevant definitions shall be construed accordingly.

SCHEDULE 5.2
Franchise Operator's Obligation to Create Fares

1 Creation of Commuter Fares and Protected Fares

The Franchise Operator shall ensure that each Commuter Fare and each Protected Fare has been Created, to the extent it is entitled or obliged to do so under the terms of the Ticketing and Settlement Agreement.

2 Restrictions on Creation of Fares

- 2.1 The Franchise Operator shall set the Child Price for any Fare that it Creates so that that Fare may be purchased by or for a person under the age of 16 for an amount which is no greater than the lowest amount that would be paid if that person were the holder of a 16 to 25 Railcard with no minimum fare (as amended or replaced from time to time) and whose purchase was made without condition.
- 2.2 The Franchise Operator shall not Create or agree to Create any Fare or Discount Card with a validity of 13 or more months without the consent of the Secretary of State (such consent not to be unreasonably withheld).

SCHEDULE 5.3
Allocation of Fares to Fares Baskets

1 Allocation of Fares to Fares Baskets

- 1.1 On or prior to the Start Date the Secretary of State shall allocate each Commuter Fare and each Protected Fare to the relevant Fares Basket in accordance with this Schedule 5.3.
- 1.2 Subject to paragraph 2, every Commuter Fare shall be allocated by the Secretary of State to the Commuter Fares Basket and every Protected Fare shall be allocated by the Secretary of State to the Protected Fares Basket.

2 Designation of Non-Fares Basket Fares

- 2.1 On or prior to the Start Date, the Secretary of State shall:
- (a) separately (or in aggregate with other Fares of the same type in the opposite direction or for similar journeys that have the same Price or Child Price as the case may be) rank, in descending order according to their Gross Revenue for the period of 12 months which ended 31 March 2010:
 - (i) all Commuter Fares; and
 - (ii) all Protected Fares;
 - (b) aggregate, following such ranking:
 - (i) those Commuter Fares with the lowest Gross Revenue, until the total of the aggregated Gross Revenue of such fares accounts for up to five per cent of the aggregate Reference Revenue of all Commuter Fares; and
 - (ii) those Protected Fares with the lowest Gross Revenue, until the total of the aggregated Gross Revenue of such fares accounts for up to five per cent of the aggregate Reference Revenue of all Protected Fares; and
 - (c) designate, following such aggregation:
 - (i) those Commuter Fares referred to in paragraph 2.1(b)(i) as Non-Fares Basket Fares; and
 - (ii) those Protected Fares referred to in paragraph 2.1(b)(ii) as Non-Fares Basket Fares.

- 2.2 Without prejudice to the Secretary of State's right to require the content of a Fares Basket to change at any time prior to the Start Date, or, thereafter, prior to the commencement of any Fares Setting Round, pursuant to paragraph 1 of Schedule 5.7 (Changes to Fares and Fares Regulation), any Commuter Fare or Protected Fare that is also designated as a Non-Fares Basket Fare shall not be allocated to the relevant Fares Basket.
- 2.3 The Secretary of State may de-designate any Non-Fares Basket Fare pursuant to paragraph 1.1 of Schedule 5.7 (Changes to Fares and Fares Regulation).

SCHEDULE 5.4
Regulation of Fares Basket Values

1 Value of Fares Basket not to exceed Regulated Value

Subject to paragraph 1.3 of Schedule 5.6 (Exceeding the Regulated Value, Regulated Price or Regulated Child Price) the Franchise Operator shall procure that the Value of a Fares Basket at any time in any Fare Year does not exceed its Regulated Value for that Fare Year.

2 Value

The Value of a Fares Basket at any time shall be the aggregate of the Projected Revenue of each Fare in that Fares Basket at that time.

3 Projected Revenue

The Projected Revenue of any Fare at any time shall be an amount equal to:

$P \times 2010 \text{ Nominal Ticket Sales}$

where:

P is the Price or Child Price (as the case may be) of that Fare at that time; and

2010 Nominal Ticket Sales is the number of nominal ticket sales of that Fare for 2010, ascertained as follows:

$$\frac{A}{B}$$

where:

A is the aggregate Gross Revenue recorded by RSP as attributable to sales of that Fare and any other Fare with which it was aggregated under paragraph 2.1(a) of Schedule 5.3 (Allocation of Fares to Fares Baskets) for the period of 12 months which ended 31 March 2010; and

B is the Price or Child Price (as the case may be) for that Fare recorded by RSP in February 2010.

4 Regulated Value

4.1 The Regulated Value of a Fares Basket for any Fare Year shall be an amount equal to:

2010 Ticket Revenue x PPAI

where:

2010 Ticket Revenue

is the aggregate Gross Revenue recorded by RSP as attributable to sales of all Fares in that Fares Basket for the period of 12 months which ended 31 March 2010;

PPAI

is:

(a) in respect of the Fare Year commencing 1 January 2011, the Permitted Aggregate Increase for that Fare Year; and

(b) in respect of each Fare Year commencing on or after 1 January 2012, the product of the Permitted Aggregate Increase for each Fare Year between that Fare Year and the Fare Year which begins on 1 January 2011 (inclusively).

4.2 ³²The Permitted Aggregate Increase in any Fare Year shall be an amount equal to:

$$PAI = \frac{(100 \times RPI) + k}{100}$$

where:

PAI

is the Permitted Aggregate Increase in that Fare Year;

RPI

is an amount equal to:

³² Date of change 01/12/2015

$$\frac{RPI - 1}{RPI - 2}$$

where:

RPI₋₁ is the Retail Prices Index for the July of the calendar year preceding that Fare Year; and

RPI₋₂ is the Retail Prices Index for the July of the calendar year preceding the calendar year referred in the definition of RPI₋₁; and

k is equal to 0 for the Fare Years commencing on 1 January 2014, 1 January 2015, 1 January 2016, 1 January 2017, 1 January 2018, 1 January 2019 and 1 January 2020 and is equal to +1 for any other Fare Year³³.

³³ Replaced by the letter dated 27 February 2015

SCHEDULE 5.5
Regulation of Individual Fares

1 Price or Child Price not to exceed Regulated Price or Regulated Child Price

1.1 The Franchise Operator shall procure that the Price or Child Price (as the case may be) of:

- (a) each Commuter Fare included in the Commuter Fares Basket; and
- (b) each Protected Fare included in the Protected Fares Basket,

in any Fare Year does not exceed the Regulated Price or Regulated Child Price (as the case may be) for such Fare in that Fare Year.

1.2 The Franchise Operator shall procure that the Price or Child Price (as the case may be) of any Season Ticket Fare shall be the same in both directions.

2 Regulated Price

2.1 The Regulated Price or the Regulated Child Price (as the case may be) for any Fare in any Fare Year shall be an amount equal to the greater of:

- (a) Preceding Year Ticket Price + £0.10p; and
- (b) Preceding Year Ticket Price x PII

where:

Preceding Year Ticket Price for the Fare Year commencing 1 January 2011, is the maximum Price or Child Price (as the case may be) for that Fare recorded by RSP in 2010 and, for any subsequent Fare Year, is the maximum Price or Child Price (as the case may be) recorded by RSP in the Fare Year preceding that Fare Year, provided that such maximum Price or Child Price (as the case may be) complied with the requirements of this Schedule 5.5. If such maximum Price or Child Price (as the case may be) did not so comply, then such maximum Price or Child Price (as the case may be) shall be the last Price or Child Price (as the case may be) recorded by RSP which did so comply; and

PII is the Permitted Individual Increase in any Fare Year, as determined in accordance with paragraph 2.2.

2.2 ³⁴The Permitted Individual Increase in any Fare Year shall be determined in accordance with the following formula:

$$PII = \frac{(100 \times RPI) + k + f}{100}$$

where:

PII is the Permitted Individual Increase in that Fare Year;

RPI is an amount equal to:

$$\frac{RPI-1}{RPI-2}$$

where: **RPI - 1** is the Retail Prices Index for the July of the calendar year preceding that Fare Year; and

RPI - 2 is the Retail Prices Index for the July of the calendar year preceding the calendar year referred in the definition of **RPI -1**; and

k is equal to 0 for the Fare Years commencing on 1 January 2014, 1 January 2015, 1 January 2016, 1 January 2017, 1 January 2018, 1 January 2019 and 1 January 2020 and is equal to +1 for any other Fare Year; and

f is equal to 0 for the Fare Year commencing on 1 January 2016.³⁵

2.3 Where:

- (a) the Franchise Operator sets the Price or Child Price (as the case may be) of any Commuter Fare or Protected Fare in any Fare Year; and
- (b) the Secretary of State reasonably determines that the Price or Child Price (as the case may be) of such Commuter Fare or Protected Fare was set solely for the purpose of increasing the value of the Preceding Year Ticket Price in the next Fare Year,

³⁴ Date of change 01/12/2015

³⁵ Replaced in the letter dated 27 February 2015

the Preceding Year Ticket Price for the purposes of determining the Regulated Price or Regulated Child Price (as the case may be) pursuant to paragraph 2.1 in the next Fare Year shall be the maximum Price or Child Price (as the case may be) prior to such setting that complied with the requirements of this Schedule 5.5, as recorded by RSP in the relevant preceding Fare Year.

3 Compulsory Inter-available Flows

Where the Franchise Operator:

- (a) as Lead Operator for a Compulsory Inter-available Flow, is responsible for setting the Price or Child Price (as the case may be) of a Commuter Fare for that Flow; and
- (b) has notified RSP of the Price or Child Price (as the case may be) of that Commuter Fare in any Fares Setting Round,

the Franchise Operator shall not increase the Price or Child Price (as the case may be) of that Commuter Fare in the same Fares Setting Round without the consent of either the Secretary of State or each other Train Operator which provides railway passenger services for such Flow.

SCHEDULE 5.6

Exceeding the Regulated Value, Regulated Price or Regulated Child Price

1 Exceeding the Regulated Value

- 1.1 If the Franchise Operator is in contravention of paragraph 1 of Schedule 5.4 (Regulation of Fares Basket Values) in respect of either the Commuter Fares Basket or the Protected Fares Basket:
- (a) it shall reduce the Price or Child Price of Fares in the relevant Fares Basket at the next available opportunity and, in any event, at the next Fares Setting Round, so as to comply with the requirements of paragraph 1 of Schedule 5.4 (Regulation of Fares Basket Values) from such date; and
 - (b) the Secretary of State may adjust Franchise Payments by an amount equivalent in his opinion to the sum of:
 - (i) any additional gross revenue accruing to the Franchise Operator or any person selling Fares on its behalf as a result of the Value of any Fares Basket exceeding its Regulated Value permitted under Schedule 5.4 (Regulation of Fares Basket Values); and
 - (ii) any costs incurred by the Secretary of State in determining the amount of such additional gross revenue.
- 1.2 Any adjustment to Franchise Payments by the Secretary of State pursuant to paragraph 1.1:
- (a) shall not be treated as a Change; and
 - (b) shall be without prejudice to any other rights or remedies of the Secretary of State under the Act or the Franchise Agreement in respect of such contravention.
- 1.3 It shall not be a contravention of paragraph 1 of Schedule 5.4 (Regulation of Fares Basket Values) if and to the extent that:
- (a) the Value of the Commuter Fares Basket exceeds its Regulated Value in any Fare Year;
 - (b) such excess is caused by the Price or Child Price of any relevant Commuter Fare being set pursuant to the terms of the Ticketing and Settlement Agreement by another person (other than an Affiliate); and
 - (c) the Franchise Operator does not have a reasonable opportunity, under any procedure for consulting or notifying Train Operators of alterations to the Prices and Child Prices of Fares under the Ticketing and Settlement Agreement or otherwise, to alter some or all of the other

Commuter Fares in the Commuter Fares Basket so as to avoid the Value of the Commuter Fares Basket exceeding its Regulated Value.

- 1.4 If and to the extent that the circumstances described in paragraph 1.3 prevail in any Fare Year, the Franchise Operator shall not subsequently increase during that Fare Year, or any subsequent Fare Year, the Price or Child Price of any Commuter Fare in the Commuter Fares Basket which it is entitled to set pursuant to the terms of the Ticketing and Settlement Agreement, unless, following such increase, the Franchise Operator would, otherwise than under paragraph 1.3, comply with the provisions of paragraph 1 of Schedule 5.4 (Regulation of Fares Basket Values) in relation to the Commuter Fares Basket.
- 1.5 Where circumstances described in paragraph 1.3 prevail in any Fare Year, the Franchise Operator shall not be required to reduce the Price or Child Price of any other Commuter Fare at any time during that Fare Year, or any subsequent Fare Year, where such Price or Child Price has previously been set in a Fares Setting Round.

2 Exceeding the Regulated Price or Regulated Child Price

- 2.1 If the Franchise Operator is in contravention of paragraph 1 of Schedule 5.5 (Regulation of Individual Fares):
- (a) it shall reduce the Price or Child Price of any relevant Fare at the next available opportunity and, in any event, at the next Fares Setting Round, so as to comply with the requirements of paragraph 1 of Schedule 5.5 (Regulation of Individual Fares) from such date; and
 - (b) the Secretary of State may adjust Franchise Payments by an amount equivalent in his opinion to the sum of:
 - (i) any additional gross revenue accruing to the Franchise Operator or any person selling Fares on its behalf as a result of the sale of Fares at Prices and/or Child Prices in excess of the relevant amounts permitted under Schedule 5.5 (Regulation of Individual Fares); and
 - (ii) any costs incurred by the Secretary of State in determining the amount of such additional gross revenue.
- 2.2 Any adjustment to Franchise Payments by the Secretary of State pursuant to paragraph 2.1:
- (a) shall not be a Change; and
 - (b) shall be without prejudice to any other rights or remedies of the Secretary of State under the Act or the Franchise Agreement in respect of such contravention.

SCHEDULE 5.7
Changes to Fares and Fares Regulation

1 Changes to Fares Baskets

1.1 The Secretary of State may require the content of the Commuter Fares Basket or the Protected Fares Basket (as the case may be) to change in accordance with the following:

(a) where the Secretary of State is not satisfied that the Price or Child Price of any Non-Fares Basket Fare is reasonably constrained by the Price or Child Price of other Fares which:

(i) have been set in respect of the same, or part of the same, Flow as such Non-Fares Basket Fare, or a Flow which is reasonably proximate to the Flow on which such Non-Fares Basket Fare has been set; and

(ii) have been included in the relevant Fares Basket,

the Secretary of State may de-designate any Non-Fares Basket Fare and include such Non-Fares Basket Fare in the relevant Fares Basket;

(b) where any Commuter Fare for a Flow has been included in the Commuter Fares Basket, the Secretary of State may require the inclusion in the Commuter Fares Basket of any Weekly Season Ticket, Monthly Season Ticket, Quarterly Season Ticket, Annual Season Ticket, unrestricted Single Fare or unrestricted Return Fare that existed on that Flow in February 2010;

(c) where any Protected Fare for a Flow has been included in the Protected Fares Basket, the Secretary of State may require the inclusion in the Protected Fares Basket of any Protected Return Fare or Protected Weekly Season Ticket that existed on that Flow in February 2003; and/or

(d) where the Secretary of State changes the Reference Revenue and/or the Gross Revenue of any Fare pursuant to paragraph 3.1(a) and/or (b) then, in relation to the Fares Basket in which such Fare is or would be included, and without limiting paragraphs 1.1(a) to (c) inclusive, the Secretary of State may also:

(i) make any of the changes to such Fares Basket contemplated by this paragraph 1.1;

(ii) designate any Fare as a Non-Fares Basket Fare in accordance with the provisions (other than the requirement that such designation occurs on or prior to the Start Date) of paragraph 2 of Schedule 5.3 (Allocation of Fares to Fares Baskets); and/or

- (iii) de-designate any Non-Fares Basket Fare and include such Non-Fares Basket Fare in the relevant Fares Basket.

1.2 The Secretary of State shall serve notice in writing on the Franchise Operator:

- (a) at any time prior to the Start Date; and
- (b) thereafter, no later than the commencement of any Fares Setting Round,

to require any Fare to be included in a Fares Basket or to designate any Fare as a Non-Fares Basket Fare pursuant to paragraph 1.1.

2 Changes to the 2010 Nominal Ticket Sales

2.1 The Franchise Operator may, in the event of any significant change to the pattern of travel on the Passenger Services during the Franchise Term, apply to the Secretary of State for the value of factors A and/or B in the formula for determining 2010 Nominal Ticket Sales in paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values) to be adjusted to take account of such changes, such that:

- (a) the value of factor A is re-calculated by using the Gross Revenue in respect of the sales of the relevant Fares for the most recently completed period of 12 months ending 31 March; and/or
- (b) the value of factor B is recalculated by using the Price or Child Price (as the case may be) of the relevant Fares recorded by RSP in the month of February during such period.

2.2 The Secretary of State shall act reasonably in relation to any such application but shall not under any circumstances be obliged to accept any such application in whole or in part. The Secretary of State shall be entitled to impose conditions upon any such acceptance, including conditions requiring that the value of both factors A and B are adjusted and/or are adjusted in respect of any or all Fares in the relevant Fares Basket.

3 Changes to the Reference Revenue, Gross Revenue, 2010 Nominal Ticket Sales and/or 2010 Ticket Revenue

3.1 The Secretary of State may, by notice in writing served on the Franchise Operator no later than the date of commencement of any Fares Setting Round, require:

- (a) the Reference Revenue of any Fares Basket to be calculated by reference to a different reference period for the purpose of paragraph 2 of Schedule 5.3 (Allocation of Fares to Fares Baskets) than the period of 12 months ended 31 March 2010; and/or

- (b) the Gross Revenue of all Commuter Fares and Protected Fares to be re-calculated for the purpose of paragraph 2 of Schedule 5.3 (Allocation of Fares to Fares Baskets) by reference to a different reference period than the period of 12 months ended 31 March 2010; and/or
 - (c) the value of factor A in the formula for determining the 2010 Nominal Ticket Sales in paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values) to be re-calculated in respect of any Fare by reference to a different reference period than the period of 12 months ended 31 March 2010; and/or
 - (d) the value of factor B in the formula for determining the 2010 Nominal Ticket Sales in paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values) to be re-calculated in respect of any Fare by reference to a different reference date other than February 2010; and/or
 - (e) the 2010 Ticket Revenue in respect of any Fares Basket to be re-calculated for the purpose of paragraph 4 of Schedule 5.4 (Regulation of Fares Basket Values) by reference to a different reference period than the period of 12 months ended 31 March 2010.
- 3.2 Where, in accordance with paragraph 3.1(e), the 2010 Ticket Revenue in respect of any Fares Basket is re-calculated by reference to a different reference period, the value of **PPAI** in paragraph 4 of Schedule 5.4 (Regulation of Fares Basket Values) shall be determined solely by reference to the product of the Permitted Aggregate Increase for each Fare Year beginning after the end of such reference period.
- 3.3 Any revision pursuant to paragraph 3.1 or 3.2 shall take effect upon commencement of the next Fare Year to commence after the Fares Setting Round referred to in paragraph 3.1.

4 Changes to Prices

The Franchise Operator may request permission from the Secretary of State from time to time to increase any Prices or Child Prices beyond the levels permitted under Schedules 5.4 (Regulation of Fares Basket Values) and 5.5 (Regulation of Individual Fares) in connection with any proposed or actual improvement in any aspect of the Passenger Services relating to such Fares. The Secretary of State shall act reasonably in relation to any such request but shall not under any circumstances be obliged to accept any such request in whole or in part.

5 Changes to Fares Regulation

The parties agree that the Secretary of State shall have the power at any time and on more than one occasion during the Franchise Term to alter the obligations of, and restrictions on, the Franchise Operator under Schedules 5.1 (Purpose, Structure and Construction) to 5.8 (Fares

Regulation Information and Monitoring) inclusive for any Fare Year, or part thereof (including alteration of the value of k under paragraph 4.2 of Schedule 5.4 (Regulation of Fares Basket Values) and/or paragraph 2.2 of Schedule 5.5 (Regulation of Individual Fares) and/or alteration of the value of f under paragraph 2.2 of Schedule 5.5 (Regulation of Individual Fares)). The exercise by the Secretary of State of his powers under this paragraph 5 shall be a Change.

6 Changes to Compulsory Inter-available Flows

6.1 Where:

- (a) pursuant to Clause 4-7 of the Ticketing and Settlement Agreement, the consent of the Secretary of State is requested for the abolition of a Compulsory Inter-available Flow (the **Reference Flow**) in respect of which any Fare Created would be a Commuter Fare or a Protected Fare (the **Reference Fare**); and
- (b) a Flow exists, which, in the Secretary of State's opinion, is substantially similar to the Reference Flow (the **Equivalent Flow**),

the Secretary of State may, as a condition of granting his consent to the abolition of the Reference Flow, by written notice to the Franchise Operator, require any Fare Created in respect of the Equivalent Flow which has substantially the same characteristics as the Reference Fare to be included in a Fares Basket (the **Equivalent Fare**).

6.2 The Secretary of State shall not issue any such notice in respect of an Equivalent Fare unless the provisions of such notice have first been approved by the Ticketing and Settlement Scheme Council (as defined in the Ticketing and Settlement Agreement) or a delegate of such council.

6.3 The Price and Child Price of any Equivalent Fare in the first Fare Year in which it is to be introduced shall be no greater than the maximum permitted Price or Child Price in that Fare Year of the relevant Reference Fare, as if such Reference Fare had not been abolished.

7 Change of Lead Operator/Major Flow Operator

7.1 The Franchise Operator shall not without the Secretary of State's prior approval, agree to any request under the Ticketing and Settlement Agreement that it cease to be Lead Operator in respect of any Flow.

7.2 The Franchise Operator shall inform the Secretary of State if it becomes the Lead Operator in respect of any Flow. Upon the Franchise Operator becoming the Lead Operator in respect of any Flow, the Secretary of State may without limiting paragraph 3, exercise his rights pursuant to paragraph 3 in relation to the relevant Fares Basket.

7.3 The Franchise Operator shall inform the Secretary of State if it ceases to be a Major Flow Operator in respect of any Flow.

8 Changes to Fares Documents

8.1 Following:

- (a) any allocation of Fares to any Fares Basket pursuant to Schedule 5.3 (Allocation of Fares to Fares Baskets); or
- (b) any subsequent adjustment thereof pursuant to this Schedule 5.7,

the Secretary of State shall set out in the Commuter Fares Document and/or the Protected Fares Document (as the case may be) all Fares then included in the relevant Fares Basket and, as soon as reasonably practicable thereafter, the Secretary of State shall issue or reissue (as the case may be) such Fares Document(s) to the Franchise Operator.

SCHEDULE 5.8
Fares Regulation Information and Monitoring

1 Information

- 1.1 The Franchise Operator shall provide to the Secretary of State by no later than week 12 of each Fares Setting Round, a summary (to such level of detail or generality as the Secretary of State may reasonably require) of the Prices and Child Prices of the Commuter Fares or Protected Fares it is intending to set.
- 1.2 The Franchise Operator shall notify, or procure the notification to, the Secretary of State of any proposed increase to the Price or Child Price of any Commuter Fare or any Protected Fare and shall provide such details of any such proposal at such times (including before and during each Fares Setting Round) and in such form (including by electronic data transfer) as the Secretary of State may reasonably request from time to time.
- 1.3 The Franchise Operator shall make available, or procure that RSP makes available, to the Secretary of State, for any Fares Setting Round during the Franchise Term, such details (including the proposed Prices or Child Prices) of the Initial Permanent Fare of any Commuter Fare or Protected Fare for each such Fares Setting Round as the Secretary of State may reasonably request from time to time.

2 Monitoring

- 2.1 The Franchise Operator shall provide to the Secretary of State:
- (a) such access as the Secretary of State may require to information pertaining to the Prices or Child Prices of Commuter Fares and Protected Fares from time to time; and
 - (b) such further information as the Secretary of State may require for the purpose of determining the Gross Revenue of the Franchise Operator in relation to any particular Fare or Fares or any particular period.
- 2.2 By no later than week 17 of each Fares Setting Round, the Franchise Operator will provide to the Secretary of State written confirmation from a statutory director of the Franchise Operator of whether the Franchise Operator has complied with its obligations under this Schedule 5 (Fares) during each such Fares Setting Round. It shall be a contravention of the Franchise Agreement if any such written confirmation from a statutory director of the Franchise Operator is, in the reasonable opinion of the Secretary of State, in any material respect, untrue, inaccurate and/or misleading.

2.3 The Franchise Operator shall take such action as the Secretary of State may require following receipt of any details from the Franchise Operator pursuant to paragraph 1 in order to ensure that the Franchise Operator will comply with the provisions of Schedule 5.2 (Franchise Operator's Obligation to Create Fares) to this Schedule 5.8 (inclusive).

SCHEDULE 5.9 ITSO Certified Smartmedia

1 Smart Ticketing

- 1.1 The Franchise Operator shall:
- (a) join and comply with any ATOC approved smart ticketing related schemes;
 - (b) develop an approach to the use of smart ticketing to facilitate the roll out of more flexible ticket types and demand management over time;
 - (c) co-operate with Network Rail, other Train Operators, relevant local authorities, passenger transport executives, combined authorities created pursuant to the Local Democracy, Economic Development and Construction Act 2009 and TfL in relation to the provision, maintenance and operation of smart ticketing equipment, and in relation to proposals to:
 - (i) introduce new multi-modal fare schemes; and
 - (ii) convert any multi-modal fare schemes to use smart ticketing.
- 1.2 The Franchise Operator will co-operate with TfL, the Secretary of State and relevant Train Operators in making such reasonable changes to joint ticketing products as are reasonably required to permit TfL to generate sufficient additional revenue to meet the IOP operating and maintenance costs as set out in the IOP Agreement subject to:
- (a) TfL meeting the Franchise Operator's reasonable and demonstrable costs as agreed in advance by the Secretary of State that are directly associated with the changes to such joint ticketing products;
 - (b) any necessary changes to, or derogations from, fares regulation being granted by the Secretary of State; and
 - (c) the Franchise Operator not being obliged to make any payment or transfer of revenue to TfL to cover TfL's IOP operating and maintenance costs as defined in the scope of the IOP Agreement, except in the case of a change where the Franchise Operator has agreed to pay for all or part of TfL's operating and maintenance costs associated with that change.
- 1.3 In relation to any ITSO Certified Smartmedia ticketing scheme, the Franchise Operator shall:
- (a) continue to provide, make available and promote (and where applicable effectively maintain) such a scheme (including any associated equipment and resources) for the Franchise Period; and

- (b) ensure that all scheme components (and any amendment, extension or replacement thereof) inherited, used or introduced by the Franchise Operator (whether on a permanent or a trial basis) are at all times compliant with:
 - (i) version 2.1.4; and
 - (ii) version 02-00 of RSPS3002,

of the ITSO specification and the ITSO operating licence, or such subsequent versions as the Franchise Operator and the Secretary of State may agree; and
 - (c) any ITSO Certified Smartmedia readers introduced by the Franchise Operator (whether on a permanent or temporary basis) shall conform to EMV level 1 certification (hardware) and be capable of being upgraded whilst in operation to EMV level 2 (application).
- 1.4 The Franchise Operator shall undertake such actions as the Secretary of State may reasonably require in connection with the introduction of smart ticketing on the network. The Secretary of State will reimburse the reasonable costs incurred by the Franchise Operator in complying with any such requirement provided that:
- (a) prior to incurring such costs, the Franchise Operator has obtained the Secretary of State's approval of the same; and
 - (b) the Franchise Operator has not already recovered (or is able to recover) such costs through any Franchise Payment, pursuant to any other provision of this Agreement or pursuant to any other agreement between the Franchise Operator and the Secretary of State.
- 1.5 The Franchise Operator shall continue to allow passengers, at least to the same extent as on the Start Date, to print tickets in respect of the Passenger Services remotely.

Schedule 6
Committed Obligations and Franchise Specific Obligations

| | |
|--------------|--|
| Schedule 6.1 | Committed Obligations and Related Provisions |
| Schedule 6.2 | Intercity East Coast Franchise Specific Provisions |
| Schedule 6.3 | The IEP Provisions |

SCHEDULE 6.1
Committed Obligations and Related Provisions

| | |
|--------|-------------------------------|
| Part 1 | List of Committed Obligations |
| Part 2 | Miscellaneous Provisions |

**Part 1 to Schedule 6.1
List of Committed Obligations**

1 Secure Stations Accreditation

1.1 The Franchise Operator shall maintain for so long as it is the Facility Owner of such station the **Secure Stations Accreditation** achieved by the Train Operator under the Previous Franchise Agreement at each of the following stations:

- Berwick-upon-Tweed
- Darlington
- Doncaster
- Dunbar
- Durham
- Grantham
- Newark North Gate
- Newcastle
- Peterborough
- Retford
- Wakefield Westgate
- York

2 Secure Car Park Accreditation

2.1 The Franchise Operator shall maintain for so long as it is the Facility Owner of such Station the secure car park accreditation achieved by the Train Operator under the Previous Franchise Agreement at the car parks located at each of the following Stations:

- Darlington
- Dunbar

- Durham
- Grantham
- Newark North Gate
- Newcastle
- Peterborough
- Retford
- York

3 Working with Network Rail

- 3.1 By 1 January 2016, the Franchise Operator shall use all reasonable endeavours to enter into an "Alliance Framework Agreement" with Network Rail in substantially the same terms as document in the agreed terms and marked **AF** (the **Alliance Framework Agreement**) subject to the approval of the ORR and the Secretary of State. The Franchise Operator shall consult with the Secretary of State on the development of the Alliance Framework Agreement.
- 3.2 By 31 December 2015, the Franchise Operator shall:
- (a) use all reasonable endeavours to integrate its performance activities with Network Rail London and North Eastern Route creating a single performance database and single performance improvement log incorporating (i) the "Bugle Day 1" delay reports, information derived from each fleet defect analysis carried out using the Falcon system (including as to GPS train positioning) and (ii) information as to Network Rail's TRUST delay attribution data; and
 - (b) implement the "Bugle Day 1" reporting tool (or an alternative reporting tool with equivalent capability) across its business, which will enable Franchise Employees to log reports against instances of delay using smart devices.
- 3.3 With effect from 31 December 2018, the Franchise Operator shall share with Network Rail information provided by the "Unattended Geometry Measuring System" and "Unattended Overhead Monitoring System" equipment fitted to the rolling stock specified in Table 4 of Schedule 1.7 (The Train Fleet) in order to enable Network Rail to receive live reporting of such infrastructure monitoring.

3.4 ³⁶

3.5 The Franchise Operator shall incur expenditure by no later than 31 March 2019 in a minimum amount of ³⁷ on expanding Network Rail's 'Suicide Prevention Scheme' and invite other Train Operators whose services interface with the Franchise Operator's business to contribute to the development of the scheme.

4 Stakeholder Management

4.1 By the Start Date, the Franchise Operator shall appoint:

(a) **a "Head of Government Partnership Working", who shall report to the Major Projects Director and shall be responsible for the Franchise Operator's partnerships with the Department for Transport, the Office of Rail Regulation, London Travel Watch, Passenger Focus, the Rail Safety and Standards Board and Transport Scotland,³⁸³⁹⁴⁰ and**

(b) a "Head of Rail Industry Partnership Working", who shall report to the Director of Major Projects and shall be responsible for the Franchise Operator's partnerships with Network Rail, other train operating companies, freight operators, rolling stock companies and the Rail Development Group.

4.2 By 31 July 2015, the Franchise Operator shall appoint two "Media and Stakeholder Managers" (with responsibilities for Northern and Southern England respectively) to engage with stakeholders and the media.

4.3 Prior to the Start Date, the Franchise Operator shall make proposals to the consortium of ECML Authorities (**ECMA**), the purpose of which is to reach an agreement with ECMA which facilitates:

³⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

³⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

³⁸ Replaced in letter dated 27 February 2015

³⁹ In the letter dated 27 February 2015, the Secretary of State agreed to a derogation of three months to the requirement for the "Head of Government Partnership Working" to report to the Commercial Director. For the period of three months from the Start Date (or such shorter period as the Franchisee may notify to the Secretary of State), the Head of Government Partnership Working will report to the Director of Major Projects.

⁴⁰ Date of change 29/05/2015

- (a) the allocation of the Franchise Operator's resources to ECMA; and
- (b) the provision of a dedicated relationship manager at the Franchise Operator responsible for interaction with ECMA,

in both cases from the Start Date.

- 4.4 During the period from ⁴¹, the Franchise Operator shall incur expenditure in a minimum aggregate amount of ⁴² in engaging the Association of Community Rail Partnerships to assist the Franchise Operator to prepare a report on expanding the non-commercial use of Stations in the Franchise Network (the **Report**). The Franchise Operator will publish this Report during the Franchise Term.
- 4.5 The Franchise Operator shall make available, and publicise such availability, the First Class Lounges at intermediate Stations (including Berwick-upon-Tweed, Wakefield Westgate and Doncaster) to local business and community groups from 7pm on each day (other than Bank Holidays) at no cost to such groups.
- 4.6 The Franchise Operator shall offer to staff at pay band 4 and above in the Rail Executive at the Department for Transport or its successor organisation:
- (a) a number of short secondments including front line roles; and
 - (b) access to the Franchise Operator's e-learning and "Next Generation" leadership programmes.

5 Business Processes

- 5.1 By ⁴³, the Franchise Operator shall achieve "BQF Committed to Excellence" certification.

⁴¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- 5.2 As soon as practicable after ⁴⁴ and by no later than 31 March 2023, the Franchise Operator shall obtain a "5* EFQM Recognised for Excellence" rating.
- 5.3 By ⁴⁵, the Franchise Operator shall achieve "Investors in People (IIP)" gold level accreditation.
- 5.4 By 31 March 2018, the Franchise Operator shall achieve BS11000 accreditation.
- 5.5 By ⁴⁶, the Franchise Operator shall obtain accreditation from the British Transport Police under the Railway Safety Accreditation Scheme and shall retain such accreditation for the remainder of the Franchise Term.
- 5.6 By 1 March 2016, the Franchise Operator shall produce a plan demonstrating how it will achieve ISO27001 accreditation during the Franchise Term. The Franchise Operator shall:
- (a) implement the ISO27001 accreditation implementation plan;
 - (b) use all reasonable endeavours to achieve ISO27001 accreditation as soon as practicable after 1 January 2018 and by no later than 31 March 2023; and
 - (c) when so requested by the Secretary of State, report to the Secretary of State on the progress of ISO27001 accreditation implementation.

6 Rolling Stock - standby locomotives

- 6.1 The Franchise Operator shall ensure that, during the period from and including the Start Date to 31 March 2020, it has the use of four (4) C167 standby locomotives, crewed sufficiently to be available for operation between the hours of 0600 and midnight on each day.

⁴⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

6.2 The Franchise Operator shall ensure that, during the period from and including 1 April 2020 to the expiry of the Franchise Term, it has the use of ⁴⁷, crewed sufficiently to be available for operation between the hours of 0600 and midnight on each day.

6.3 ⁴⁸

6.4 ⁴⁹.

7 Train Fleet Refurbishment and Modifications

7.1 Prior to ⁵⁰, the Franchise Operator shall invest, or procure the investment by third parties of, at least ⁵¹ to improve the customer experience.

7.2 In performing the obligation in paragraph 7.1 above, the Franchise Operator shall, as a Specimen Scheme, perform the following modifications:

(a) IC225 interior customer experience refresh and enhancement package:

(i)

(ii)

(iii)

(iv)

(v)

⁴⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴⁸ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁴⁹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

(vi) ⁵²

(b) HST interior customer experience refresh and enhancement package:

(i)

(ii)

(iii)

(iv) ⁵³

7.3 By ⁵⁴, the Franchise Operator shall invest, or procure the investment by third parties of, at least ⁵⁵ in performance and engineering modifications to the ⁵⁶ (The Train Fleet) which comprise:

(a) 31 x Class 91 locomotives;

(b) 271 x MK IV coaches; and

(c) 31 x MK IV DVTs.

7.4 ⁵⁷

(a)

⁵² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- (b)
 - (i)
 - (ii)
 - (iii)
 - (iv)
 - (v)
- (c)
- (d)
- (e)
- (f)
 - (i)
 - (ii)
 - (iii)

7.5 Between ⁵⁸ and ⁵⁹, the Franchise Operator shall invest, or procure the investment by third parties of, at least ⁶⁰ in performance and engineering modifications to the HST rolling stock vehicles identified in Table 1 of paragraph 1.4 of Schedule 1.7 (The Train Fleet).

7.6 In performing the obligation in paragraph 7.5 above, the Franchise Operator shall, as a Specimen Scheme, perform the following modifications:

⁵⁸ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁵⁹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁶⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- (a) HST performance and engineering package including overhauls of the:
 - (i) trailer car brake distributor;
 - (ii) trailer car air coupling;
 - (iii) power car reverser;
 - (iv) power car brake control equipment; and
 - (v) package also includes enhancement of the existing RCM system.

8 ERTMS

8.1 Within the Franchise Operator's "Major Projects" division, the Franchise Operator shall employ, amongst others, suitably qualified professionals in the following roles:

- (a) from the Start Date until ⁶¹:
 - (i) a **Head of ERTMS Project**⁶² accountable for day-to-day management and delivery of the Franchise Operator's obligations under paragraph 4 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions);
 - (ii) an ERTMS Systems Integration Engineer accountable for the system integration of trainborne ETCS with line-side infrastructure; and
 - (iii) a Trainborne Signalling Equipment Engineer accountable for the integration of trainborne ETCS equipment with the rolling stock referred to in Table 4 of Schedule 1.7 (The Train Fleet); and
- (b) from ⁶³ until ⁶⁴, an Operational Integration Manager accountable for developing changes to operational procedures required as a result of ERTMS deployment.

⁶¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁶² Title changed in letter dated 27 February 2015.

⁶³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁶⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- 8.2 The Franchise Operator shall use all reasonable endeavours to work with Network Rail to ensure that for a period of at least 12 months from commencement of the decommissioning of line-side signals within the ETCS level 2 (retaining line-side signalling) geography (King's Cross to Wood Green), the infrastructure retains the capability to return to line-side signal operation.
- 8.3 Subject to paragraph 11 of this Part 1 of Schedule 6.1 (Committed Obligations and Related Provisions), by ⁶⁵, the Franchise Operator shall upgrade the "IC225 Training Simulators" with ⁶⁶ to support driver training and competency refreshment. These upgrades shall support the one day driver conversion training course required to operate the five "IC225 diagrams" from ⁶⁷.
- 8.4 By 31 December 2018, the Franchise Operator shall establish and chair an operational readiness group (**Operational Readiness Group**), in which all train users affected by the East Coast Mainline ERTMS roll out, including other passenger and freight operators shall be invited to attend, in order to:
- (a) ensure low risk service introduction;
 - (b) feed-back material issues to Network Rail and the Secretary of State;
 - (c) lead optioneering; and
 - (d) support problem resolution through the common DRACAS process.
- 8.5 Throughout the Franchise Term, the Franchise Operator shall ensure that the "Major Projects Director" and "ERTMS Project Manager" support, as required, joint working with Network Rail and the Secretary of State to develop an integrated, whole industry plan for the deployments of ERTMS, the rolling stock referred to in table 4 of Schedule 1.7 (The Train Fleet), and other major enhancements and renewal works (the **ECML Industry Plan**), including:
- (a) developing the integrated ECML Industry Plan;

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⁶⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁶⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- (b) identifying and aligning key milestones;
- (c) identifying supporting "Key Performance Indicators" to track progress;
- (d) establishing high-level issues and risk registers; and
- (e) attending cross-industry governance forums.

8.6 The Franchise Operator shall assist the Secretary of State and Network Rail with the "ERTMS Industry Days" when requested by presenting an overview of ETCS level 2 (without line-side signalling) on the East Coast network.

9 Depots

9.1 ⁶⁸, the Franchise Operator shall invest no less than an aggregate amount of ⁶⁹ on improvements to the Depots, including measures to provide the Franchise Operator's engineers with instantaneous, real time mobile access to the relevant maintenance systems and records while undertaking repairs.

9.2 In performing the obligation in paragraph 9.1 above, the Franchise Operator shall, as a Specimen Scheme:

- (a) install a wireless fidelity network (wifi) at each of the Depots at Bounds Green, Ferme Park, Neville Hill, Craigentenny and Clayhills;
- (b) provide a minimum of 250 tablet computer devices for maintenance staff;
- (c) invest in lighting improvements at Ferme Park for the safety and security of staff; and
- (d) replace depot signage to reflect the change of ownership of the Franchise Operator.

9.3 ⁷⁰

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⁷⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

9.4 The Franchise Operator shall:

- (a) apply to the ORR, Network Rail and the Secretary of State to obtain any required approvals, licences or agreements in sufficient time to enable the Franchise Operator, subject to the grant of any such required approvals, licences or agreements, to become the depot facility owner of the Depot at Neville Hill with effect from 31 October 2017 or such date as the Secretary of State shall reasonably require; and
- (b) remain depot facility owner of the Depot at Neville Hill until the end of the Franchise Term.

9.5 ⁷¹

9.6 ⁷²

10 Performance Improvement Measures

10.1 ⁷³By 1 December 2015, the Franchise Operator shall appoint twelve "Service Delivery Managers" at major Stations including, as a minimum, London King's Cross, Leeds and Edinburgh.

10.2 By 31 December 2015, the Franchise Operator shall deploy ⁷⁴ terminals in its train crew mess rooms.

10.3 ⁷⁵

10.4 Without prejudice to the Franchise Operator's obligations under Schedule 10.4 (Force Majeure), the Franchise Operator shall incur no less than ⁷⁶ per annum (in each Franchise Operator Year

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⁷³ Date of change 01/07/2015

⁷⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

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⁷⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

occurring from ⁷⁷) to deliver an overall service delivery overhaul package with, as a minimum, the following elements:

- (a) ⁷⁸;
- (b) overhaul contingency plans for degraded operations, including an overhaul of the control manual to provide full crew and stock working for all degraded operations (including thinning the service, stepping up trains for delayed inbound workings and turning trains short of their destination to avoid a line obstruction) on a train-by-train basis; and
- (c) a review and overhaul of severe weather contingency plans including severe storms and snowfall. To include timetables split into three parts, in broad alignment to Network Rail's infrastructure segmentation: LNE South, LNE North (division at Doncaster) and Scotland, reflecting blanket speed restrictions, Network Rail's "Key Route Strategy", reduced staffing requirements, and the crewing and provision of locomotives for line clearance and route proving duties as required.

10.5 ⁷⁹

- (a)
- (b)
- (c)

10.6 With effect from ⁸⁰, the Franchise Operator shall:

- (a) provide CCTV footage from the Stations to the British Transport Police; and

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⁷⁸ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

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⁸⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

(b) ⁸¹

10.7 By ⁸², the Franchise Operator shall establish a common Defect Reporting and Corrective Action System (**DRACAS**) process for the East Coast network, inviting Network Rail, the TSGN franchisee and other appropriate users of the East Coast network to contribute, in order to:

- (a) help identify and analyse faults across the track-to-train interface;
- (b) provide a common forum for guiding analysis and diagnosis; and
- (c) facilitate a fast acting process for reaching technical agreement on the diagnosis and proposed resolution of integration issues.

The Franchise Operator shall transfer DRACAS to the Successor Operator under the Supplemental Agreement at nil value.

11 TSR

11.1 Provided that the Franchise Operator secures the Timetable Development Rights described in paragraph 6.1 of Part 1 (General Principles) of TSR2 (the **Contingent TDRs**), the Franchise Operator shall:

- (a) operate those services described in paragraph 6.2 of Part 1 (General Principles) of TSR2 (the **Additional Services**) in accordance with TSR2;
- (b) lease the additional rolling stock identified with in Schedule 1.7 (The Train Fleet) as the Contingent Stock.

11.2 ⁸³

- (a)

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(i)

(A)

(B)

(C)

- 11.3 The Franchise Operator shall carry out gauge clearance to/from Stockton Cut Junction to Middlesbrough in sufficient time to facilitate the introduction of Additional Services from the Passenger Change Date in May 2020, save that the Franchise Operator shall be relieved of this obligation if the Franchise Operator fails to obtain the Contingent TDRs other than to the extent specified in paragraph 7 of Schedule 6.3 (The IEP Provisions).

12 Station Enhancements

CCTV

- 12.1 By ⁸⁴, the Franchise Operator shall at all Stations:
- (a) replace all current CCTV station cameras with new digital high-quality Internet Protocol CCTV cameras, which have high-resolution image functionality; and
 - (b) replace all current recording systems for CCTV with new hard drives that have sufficient capacity to retain 31 days of data.
- 12.2 The Franchise Operator shall transfer the CCTV cameras and recording systems referred to in paragraph 12.1 above to the Successor Operator under the Supplemental Agreement at nil value.

TVMs

- 12.3 The Franchise Operator shall:
- (a)
 - (b)

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(c) ⁸⁵

12.4 The Franchise Operator shall transfer the ticket vending machines referred to in paragraph 12.3 above to the Successor Operator under the Supplemental Agreement at nil value.

Customer Zones

12.5 ⁸⁶

(a)

(b)

12.6 By ⁸⁷, the Franchise Operator shall invest at least ⁸⁸ in the deployment of additional information infrastructure at stations. In delivering this obligation the Franchise Operator shall:

(a) introduce coach formation indicators at Doncaster and Peterborough. Information screens shall provide this information to assist passengers in finding the correct part of the train before they board;

(b) install additional operational information screens at all Stations; and

(c) install electronic information posters at all Stations with interactive touchscreens installed at high footfall Stations,

each of which shall be capable of being updated in real time from the York ROC.

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⁸⁸ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- 12.7 By ⁸⁹, the Franchise Operator shall spend not less than ⁹⁰ in addition to any "National Stations Improvement Programme" funding available to the Franchise Operator on improving station facilities across all Stations, including but not limited to installing canopies to cover the majority of the platform at its Peterborough and Newark Northgate Stations on London bound platforms.
- 12.8 By ⁹¹, the Franchise Operator shall spend not less than ⁹² on providing ⁹³ additional car park spaces across all Stations.
- 12.9 **By 1 May 2015⁹⁴**, the Franchise Operator shall have undertaken a station condition survey at all Stations.
- 12.10 By ⁹⁵ the Franchise Operator shall increase the number of Equality Act 2010 compliant seats at all Stations by ⁹⁶.
- 12.11 ⁹⁷

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⁹³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

⁹⁴ The date was changed to 1 May 2015 in the letter dated 27 February 2015.

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⁹⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

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(a)

(b)

12.12 By ⁹⁸, and every two years thereafter until the expiry of the Franchise Term, the Franchise Operator shall provide to the Secretary of State and ORR a report from ⁹⁹, as independent auditor, which shall evaluate the accuracy of the Franchise Operator's calculation of its Station Stewardship Measure and Asset Remaining Life scores based on a sample of station condition reports undertaken by the Franchise Operator's appointed surveyors.

12.13 The Franchise Operator shall provide a fund of ¹⁰⁰ for the provision of electric charging points at Grantham and Peterborough Stations, and shall use all reasonable endeavours to attract third party funding of not less than ¹⁰¹ for this project. If the Franchise Operator obtains third party funding of not less than ¹⁰², the Franchise Operator shall complete the installation of electric charging points at Grantham and Peterborough Stations by the expiry of the Franchise Term.

13 On Board Services

13.1 ¹⁰³

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- 13.2 The Franchise Operator shall, by no later than ¹⁰⁴ provide hot food in Standard Class for at-seat delivery, by ordering from a Customer Service Assistant, on all Anglo-Scot services.
- 13.3 The Franchise Operator shall have introduced the ability for Standard Class passengers on all Anglo-Scot services to pre-order a meal for delivery to their seat via the internet by no later than ¹⁰⁵.
- 13.4 The Franchise Operator will, by no later than ¹⁰⁶, have introduced the ability to order an at seat meal service using wifi, subject to a fixed catering point being installed on each train referred to in Table 4 of Schedule 1.7 (The Train Fleet).
- 13.5 The Franchise Operator shall, by no later than ¹⁰⁷, install bean to cup coffee machines on the trains referred to in Table 1 of Schedule 1.7 (The Train Fleet).
- 13.6 The Franchise Operator shall ensure that by ¹⁰⁸ it offers a freshly cooked breakfast ¹⁰⁹.
- 13.7 The Franchise Operator shall introduce for all Anglo-Scot services First Class pre-ordering a meal via the internet no later than ¹¹⁰.

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13.8 The Franchise Operator shall ensure that a strategy is in place for managing catering supply during times of disruption, from ¹¹¹, including:

- (a) maintaining Emergency Supply Points (ESPs) at selected intermediate stations.
- (b) carrying emergency supplies of water and snacks on-board; and
- (c) producing and keeping under review clear service flow expectations,

and the Franchise Operator shall implement such strategy in times of disruption.

14 Service Standards

14.1 By 30 June 2016, the Franchise Operator shall:

- (a) carry out a six month period of "Net Promoter Scores" benchmarking to better understand NPS performance and to establish a reliable baseline; and
- (b) using this baseline, establish improvement targets for customer experience.

14.2 By 4 January 2016 the Franchise Operator shall introduce an updated Service Quality Management System with the following characteristics:

- (a) a minimum of 50 independent standards audits shall be conducted by an independent internal team across stations and on 100 train journeys per month using audit software on mobile handheld devices; and
- (b) customers shall be recruited by the Franchise Operator to carry out "Customer Experience Visits" on end to end journeys. Such visits will:
 - (i) involve a survey of customers' perceptions of service standards on the services offered by the Franchise Operator;
 - (ii) originate from 14 stations that are manned by the Franchise Operator's staff; and
 - (iii) occur five times a month from each station referred to in paragraph (ii) above.

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- 14.3 By 31 December 2016, handover checks shall be used by ¹¹² on trains to facilitate quick corrective action against key performance areas affecting customers.
- 14.4 By ¹¹³Franchise Operator shall establish a "Customer Experience Board" which will be chaired by the "Customer Experience Director" and attended by senior team members across the business to ensure that NRPS targets are met, steer cross-functional customer experience activities and champion and approve new customer experience investments. The Franchise Operator shall invest ¹¹⁴ in the second Franchise Operator Year and ¹¹⁵ in each subsequent Franchise Operator Year in customer experience innovations. This obligation is in addition to the Franchise Operator's obligations in respect of the CCIF under Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund).

15 Luggage Assistance

- 15.1 Throughout the Franchise Term, the Franchise Operator shall continue to provide ¹¹⁶ to help with customer luggage during peak holiday periods.
- 15.2 With effect from ¹¹⁷, the Franchise Operator shall:
- (a) create "Luggage Hubs" in order to store luggage securely on trains for customers from the originating station to the final destination of the service; and

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(b) ¹¹⁸

16 Passenger Charter

- 16.1 By ¹¹⁹, the Franchise Operator shall provide an automated passenger assist service which allows customers to complete a request form electronically.
- 16.2 The Franchise Operator shall, by no later than ¹²⁰, make available an electronic version of the Passenger Charter available through its customer app.

17 Door to Door Experience

- 17.1 The Franchise Operator shall, by no later than ¹²¹:
- (a) ¹²²
- (b) ensure that customers can plan their home to station journey and station to destination journey by all modes through the Franchise Operator's website and apps; and
- (c) provide ¹²³staff training to customer facing staff at Doncaster and Peterborough to enable such staff to give advice on all transport options available to customers for their door-to-door journey.

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17.2 The Franchise Operator shall:

- (a) ensure that, by ¹²⁴, a dedicated taxi booking website (with the Franchise Operator's branding) is available to customers;
- (b) ensure that, by ¹²⁵, a car sharing website (with the Franchise Operator's branding) will be available to customers which will allow customers to check whether anyone else is making a similar journey to them in order to facilitate car sharing;
- (c) ensure that car club vehicles which can be booked through a website with the Franchise Operator's branding are available at the following stations from the dates specified;

| Stations | Latest date for introductions¹²⁶ |
|---------------------------------------|--|
| Durham, Wakefield Westgate | |
| Peterborough, Doncaster | |
| Darlington, Newark Northgate, Berwick | |
| Grantham, Retford | |

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- (d) by ¹²⁷, install new ¹²⁸ cycle hire facilities at Doncaster and Durham, providing for ¹²⁹ cycles to be available for hire from each facility, and after consultation with Peterborough Council, relocate the existing Brompton Dock at Peterborough station for the purpose of encouraging more use of the facility. The Franchise Operator shall spend not less than ¹³⁰ in delivering the obligations in this paragraph 17.2(d); and
- (e) by ¹³¹:
- (i) install ¹³² additional cycling parking spaces at Peterborough; Grantham; Darlington; Durham; Newark NG; Berwick; Retford; Doncaster; Wakefield WG (provided that these additional cycle spaces shall be either ¹³³ or an equivalent standard of facility (where frame and wheel can be secured in one "lock") or double deck storage); and
 - (ii) install three secure cycle compounds at Peterborough, Darlington and Doncaster, and upgrade the Darlington secure compound to accept the Franchise Operator's smartcard (provided that the new compounds shall have a secure fence, shelter, CCTV and lighting installed and shall contain at least 15% of the additional spaces referred to in paragraph 17.2 (e)(i) above).

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18 Station Travel Plans

- 18.1 By ¹³⁴, the Franchise Operator shall enter into a Station Travel Plan (**STP**) partnership at all stations where the Franchise Operator is the Facility Owner (and by ¹³⁵at Lincoln) and shall produce STPs for all Stations no later than ¹³⁶. In delivering this obligation, the Franchise Operator shall:
- (a) tailor its Station Travel Plans (STPs) on a station by station basis to deliver the most appropriate partnership based on specific local factors and using the main criteria for successful STPs set out in the ATOC toolkit and seeking input from local authorities, PTEs, passenger groups, bus operators, other train operating companies and the British Transport Police;
 - (b) invest not less than ¹³⁷ for each STP (other than the STP in respect of Lincoln where ¹³⁸ will be invested); and
 - (c) publish its reports, survey results, meetings, minutes and action plans in relation to STPs on its website.
- 18.2 The Franchise Operator shall spend not less than ¹³⁹, in addition to the expenditure set out above, to support the development implementation, promotion and review of STPs.

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19 140

19.1 141

(a)

(b)

20 Security

20.1 142

(a)

(b)

(i)

(ii)

20.2 143

20.3 The Franchise Operator shall:

- (a) introduce annual security compliance checks on all Franchise Employees carrying out security responsibilities from ¹⁴⁴;

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- (b) implement a testing regime carried out by an independent organisation to establish if Franchise Employees are conducting searches diligently by ¹⁴⁵; and
- (c) implement a security recovery plan to ensure that any issues arising out of a failure by any Franchise Employees to pass the testing regime referred to in paragraph 20.3(b) above are rectified.

20.4 With effect from the Start Date, the Franchise Operator shall form an Executive Board Safety and Security Committee which shall meet monthly in order to set safety and security policy and strategy, review safety and security reports and provide leadership, governance and oversight. The Safety and Security Committee will be chaired by the Environment and Safety Director and will consist of the Customer Experience Director, Operations Director, Engineering Director, Security & Revenue Protection (RP) Manager and Head of Safety Management Systems & Safety Audit.

20.5 The Franchise Operator shall appoint an independent consultant to provide an assessment of current security priorities and concerns at Stations and in relation to the Franchise Services and shall consult with:

- (a) the British Transport Police;
- (b) Network Rail;
- (c) the Secretary of State;
- (d) security contractors;
- (e) trade unions; and
- (f) Passenger Focus,

during the assessment. The Franchise Operator shall utilise the outputs from the assessment and produce an interim Annual Security Plan for the Franchise by 31 July 2015 which will apply until 31 March 2016.

20.6 By 1 April 2016, the Franchise Operator shall have consulted with the parties listed in paragraphs 20.5(a) to (f) above, other police forces (including the Metropolitan Police, the police forces of

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Cambridgeshire, Lincolnshire, South Yorkshire, West Yorkshire, North Yorkshire, Durham, Northumberland and Police Scotland) and local authorities in relation to the interim Annual Security Plan and shall produce a full year Annual Security Plan applicable from 1 April 2016 which shall complement the British Transport Police's Annual Policing Plan.

21 Staff Development and Training

- 21.1 From 1 April 2015, the Franchise Operator shall invest not less than ¹⁴⁶ in each Franchise Operator Year in the Franchise Operator's "Next Generation Leadership" programme of learning and development and other learning and development programmes in order to assist Franchise Employees to develop management and leadership skills.
- 21.2 ¹⁴⁷
- 21.3 The Franchise Operator by ¹⁴⁸ procure security and crime awareness training (including "Train the Trainer" courses) for all Franchise Employees in front line roles ¹⁴⁹.
- 21.4 From no later than ¹⁵⁰, the Franchise Operator shall ensure that:
- (a) all Franchise Employees based at stations and Franchise Employees working on board the Train Fleet and their team managers receive enhanced Operation Griffin counter-terrorist training (including "Train the Trainer" courses) ¹⁵¹; and

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- (b) all new Franchise Employees receive counter-terrorist training.

21.5 The Franchise Operator shall:

- (a) by ¹⁵² spend at least ¹⁵³ on ensuring that all of its frontline station staff and on-board staff have attended the "Ideal Customer Experience (ICE)" training and development workshop. The workshops will be delivered at locations across the network with support from Ipsos MORI;
- (b) ensure that from ¹⁵⁴ customer service training similar to the training described in paragraph 21.5(a) above is incorporated into the new entrant training programme for all front line new starters joining the Franchise Operator's business;
- (c) by ¹⁵⁵, spend at least ¹⁵⁶ on delivering leadership training to all newly appointed ¹⁵⁷ to ensure that staff are enabled and empowered to deliver continual coaching to frontline colleagues; and
- (d) invest a minimum of ¹⁵⁸ in aggregate on providing the following IEP training:

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- (i) ¹⁵⁹
- (ii) ¹⁶⁰ on-board training for "Customer Service Assistants" (CSA) and chefs; and
- (iii) ¹⁶¹ training for station dispatch staff in respect of the rolling stock referred to in Table 4 of Schedule 1.7 (The Train Fleet) ¹⁶².

22 Staff Wellbeing

- 22.1 From the date of expiry of the Franchise Operator's existing occupational health scheme, the Franchise Operator shall provide occupational health services to all Franchise Employees through directly employed medical professionals.
- 22.2 In performing the obligation in paragraph 22.1 above, the Franchise Operator shall:
- (a) recruit ¹⁶³ nurses and a company doctor, and establish in-house occupational health teams in London, York and Edinburgh;
 - (b) before ¹⁶⁴ spend at least ¹⁶⁵ on refurbishing its medical facilities;

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(c) launch its wellbeing strategy ¹⁶⁶ covering job design, investment in line manager skills, fitness and health and resilience training and present a copy of the strategy to the Secretary of State before the launch; and

(d) ¹⁶⁷

22.3 By no later than ¹⁶⁸, the Franchise Operator shall incur expenditure in a minimum aggregate amount of ¹⁶⁹ in relation to the refurbishment of its staff accommodation.

23 Staff Engagement

23.1 The Franchise Operator shall conduct a staff survey within thirty (30) days of the Start Date and shall conduct such surveys at least once during each subsequent Franchise Operator Year. The Franchise Operator shall provide the Secretary of State with a copy of the results of each such survey, promptly after its completion.

23.2 ¹⁷⁰

24 ¹⁷¹

24.1 ¹⁷²

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24.2 173

(a)

(b)

(c)

24.3 174

24.4 175

(a)

(i)

(ii)

(iii)

(iv)

(v)

(b)

24.5 176

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24.6 177

24.7 The Franchise Operator shall provide to the Secretary of State an annual report which shall include a summary of:

- (a) its progress in delivering a more diverse workforce, reflective of the communities it serves;
and
- (b) its equality and diversity data. This data shall be broken down at least by:
 - (i) its directorate and grade;
 - (ii) gender, race, sexual orientation and working pattern.

The first such report shall be provided no later than ¹⁷⁸.

24.8 179

24.9 180

- (a)
- (b)

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25 Apprenticeships, Traineeship and Graduate placements

- 25.1 With effect from ¹⁸¹, the Franchise Operator shall incur expenditure in a minimum aggregate amount ¹⁸² per annum on apprenticeship schemes including, without limitation, schemes to:
- (a) target 16-24 year olds and those not in employment, education and training, by entering into a partnership with the "Young London Working" programme (Mayor's Fund for London)(to the extent that such scheme is still running), Leeds City Council, Newcastle City Council and Edinburgh City Council to deliver a new approach to resourcing the skills required by the Franchise Operator;
 - (b) deliver a schools partnership, working with education leaders and providers to offer opportunities to young people and develop the skills required by the Franchise Operator, and offering a range of internships over six (6) weeks, targeted at under-represented groups;
 - (c) introduce an extended range of traineeships to 16 and 17 year olds for a period of three (3) to six (6) months;
 - (d) offer job trials for 16-24 year olds who live on the East Coast route;
 - (e) offer three (3) levels of apprenticeship opportunities, matched to the National Level 2, 3 and 4 schemes, including a Customer Service and a Railway Operations apprenticeship;
 - (f) deliver a six (6) week job trials programme for unemployed people selected by the Franchise Operator living on the East Coast route, in a broad range of functions including (without limitation) customer service, operations, engineering and head office departments, offering a guaranteed job interview at the end of the programme;
 - (g) work with "Working Links" to offer a seven (7) day trial programme and a guaranteed job interview to ex-offenders who are graduates of the relevant schemes offered by "Working Links".

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- 25.2 With effect from ¹⁸³, the Franchise Operator shall introduce the "National Academy for Rail Professional Education" (**NARPE**), and shall offer a minimum of ¹⁸⁴ training places per year and spend no less than ¹⁸⁵ on establishing training rooms at (without limitation) London, Derby and York.
- 25.3 ¹⁸⁶
- 25.4 ¹⁸⁷
- 25.5 The Franchise Operator shall reinvest any profit made from NARPE into its leadership training and development programmes.
- 25.6 With effect from 1 September 2018, the Franchise Operator shall introduce and maintain a "Red Track" graduate scheme, and shall offer a minimum of five (5) places on such scheme during each year of the Franchise Term. The Franchise Operator shall ensure that the "Red Track" scheme combines a fixed-term full time contract, study for the BA (Hons) degree in business management at Manchester Metropolitan University (or an equivalent course at another university) and completion of units from the Institute of Railway Operators Certificate Programme.

26 IT Improvements

¹⁸⁸

¹⁸³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

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26.1 189

(a)

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(h)

190

Customer Relationship Systems

26.2 By ¹⁹¹, the Franchise Operator shall implement a CRM System titled the "Customer Experience Management" system (**CEM System**) that can capture, store, analyse and process information to deliver an enhanced customer communications approach.

26.3 By ¹⁹², the Franchise Operator shall ensure that the CEM System includes the following functionality:

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(a) ¹⁹³

(b) creating links to information in separate systems from other sources in the Franchise Operator's business ¹⁹⁴ in order to manage and analyse the data in the CEM System.

The Franchise Operator shall incur expenditure of a minimum aggregate amount of ¹⁹⁵ in delivering and implementing the CEM System by ¹⁹⁶

26.4 ¹⁹⁷

(a)

(b)

26.5 ¹⁹⁸

(a)

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(ii)

(iii)

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(iv)

(A)

(B)

(v)

(A)

(B)

(C)

(D)

(vi)

(vii)

(b)

26.6 199

26.7 200

(a)

(b)

(c)

(d)

26.8 201

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- (a)
- (b)
- (c)
- (d)
- (e)

26.9 202

26.10 203

27 Wi-Fi

27.1 The Franchise Operator shall continue to provide free wifi for First Class customers throughout their journey, and for at least the first 15 minutes of use by Standard Class customers.

27.2 204

27.3 205

27.4 By ²⁰⁶, the Franchise Operator shall deploy improved on-board mobile connectivity (voice and data) on the East Coast main line, contingent on the delivery of Network Rail's Quicksilver

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solution. In delivering this obligation, the Franchise Operator shall ensure that from ²⁰⁷, on board wifi is provided free to all customers.

27.5 By ²⁰⁸, the Franchise Operator shall install customer and operational wifi at all Stations. In this respect, the Franchise Operator shall ensure that:

- (a) wifi will be free to all customers;
- (b) it segregates bandwidth to provide an operationally resilient network for staff.

28 Digital Channels

28.1 By ²⁰⁹, the Franchise Operator shall deploy social media engagement software which allows multiple users access to social media to improve the quality of customer information and support provided by York ROC via social media channels. The Franchise Operator shall display their social media response times on-line.

28.2 The Franchise Operator shall, by no later than ²¹⁰, introduce a new customer website (compliant with Web Content Accessibility Guidelines and RNIB Right Surf), a new mobile optimised website and a mobile application which shall include the following information tools:

- (a) service updates showing train time alterations, engineering works and special events;
- (b) a social media feed ²¹¹;
- (c) live departures capable of being viewed as a list or in the form of a map;

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- (d) ²¹²
- (e) ²¹³; and
- (f) alternative route maps during disruption.

28.3 By ²¹⁴, the Franchise Operator shall introduce a user alert system driven by the CEM System as referred to in paragraph 26.2 capable of sending personalised messages to customer devices. The Franchise Operator shall ensure that customers have the option to receive alerts as emails, text messages or push notifications, including:

- (a) train information changes;
- (b) ticket validity reminders;
- (c) personalised welcomes from train host;
- (d) destination countdowns; and
- (e) delay repay reminders.

29 Marketing

29.1 The Franchise Operator shall incur expenditure of the following amounts on marketing relating to the Franchise during the Franchise Term:

- (a) from 1 April 2015 until 31 March 2019 - a minimum aggregate amount of ²¹⁵ per Franchise Operator Year;

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- (b) from 1 April 2019 until 31 March 2020 - a minimum aggregate amount of ²¹⁶;
- (c) from 1 April 2020 until 31 March 2022 - a minimum aggregate amount of ²¹⁷ per Franchise Operator Year; and
- (d) from 1 April 2022 until the Expiry Date - a minimum aggregate amount of ²¹⁸ per Franchise Operator Year.

Out of the expenditure commitment set out in paragraph (a) above, the Franchise Operator shall spend a minimum amount of ²¹⁹.

29.2 By the Start Date, the Franchise Operator shall implement a loyalty and rewards scheme to its Franchise operations which:

- (a) enables customers to collect "Nectar" points when booking for travel on the Franchise Operator's website and mobile app; and
- (b) enables customers to redeem "Nectar" points against advance tickets purchased through the Franchise Operator's website and mobile app.

29.3 With effect from the Start Date, the Franchise Operator shall:

- (a) enable existing points accrued under the "East Coast Rewards" system to be redeemed up to 6 months after the Franchise Operator stops the accrual of 'East Coast Rewards' points; and
- (b) contact all "East Coast Rewards" customers with any outstanding and/or unused "East Coast Rewards" points and offer to convert such points to "Nectar" points at the rate of one

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"East Coast Rewards" point to six "Nectar" points 6 months after the Franchise Operator stops the accrual of 'East Coast Rewards' points.

- 29.4 By 30 April 2016, the Franchise Operator shall implement the loyalty and rewards scheme described in paragraphs 29.2(a) and (b) above to ticket bookings made on the Franchise Operator's website, mobile app and telesales via the new CBE.
- 29.5 By 31 July 2016, the Franchise Operator shall extend the loyalty and rewards scheme described in paragraphs 29.2(a) and (b) above to ticket bookings made on the Franchise Operator's CBE channels.
- 29.6 The Franchise Operator shall:
- (a) enable customers to collect Virgin Atlantic Flying Club (VAFC) points when buying train tickets through the Franchise Operator's website from the Start Date; and
 - (b) enable customers to collect VAFC points when buying train tickets through the Franchise Operator's web app from 31 January 2016.

30 Fares / Smart Ticketing

- 30.1 In the May 2015 Fares Setting Round, the Franchise Operator shall reduce the cost of the "Standard Any Time" fare on long-distance journeys (from London to north of Peterborough) by 10% (net of any real changes to the price of such fare made by the Franchise Operator between the period from 1 May 2014 to the Start Date). The Franchise Operator shall maintain the reduced price of the "Standard Any Time" fare on long-distance flows until the January 2017 Fares Setting Round at the earliest, provided that the Franchise Operator may make Retail Prices Index increases to the price of such fare.
- 30.2 Provided that the Franchise Operator has entered into a South East Flexible Ticketing (**SEFT**) agreement with the Secretary of State, the Franchise Operator shall:
- (a) enable passengers to purchase and travel on ITSO smartcard rail Season Ticket Fares between Peterborough and London (including London Travelcards) by ²²⁰ (including making the gates at King's Cross and Peterborough ITSO-enabled);

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- (b) incur expenditure of at least ²²¹ on a pilot of ITSO rail Season Ticket Fares between Peterborough and London using a Near Field Communication technology trial by such date as may be agreed with the Secretary of State pursuant to Schedule 5.9 (ITSO Certified Smartmedia) of the Franchise Agreement; and
- (c) be responsible for the operational expenditure for the running of SEFT on the Franchise Network.

31

31.1 ²²²

- (a)
- (b)
- (c)
- (d)

31.2 From 1 July 2017, the Franchise Operator shall increase weekday gateline operating hours to 06:00 to 20:00 at King's Cross, Newcastle and all Stations with automatic ticket gates.

32 Stations

32.1 For the purposes of the Committed Obligations set out in paragraphs 4.4, 10.6, 12.1, 12.6, paragraphs 12.7 to 12.13 and paragraphs 18.1 and 27.5 of this Part 1 to Schedule 6.1, references to "Stations" shall exclude:

- (a) Newcastle station (unless and until the Franchise Operator enters into a 99 year lease of Newcastle station in the circumstances described in paragraph 5.1(c) to Schedule 6.2 (Intercity East Coast Specific Provisions);

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- (b) York station (unless and until the Franchise Operator enters into a 99 year lease of York station in the circumstances described in paragraph 5.1(c) to Schedule 6.2 (Intercity East Coast Specific Provisions)); and
- (c) Dunbar station (unless and until the Secretary of State directs the Franchise Operator to enter into a Station Lease in respect of such station in the circumstances described in paragraph 5.1(d) to Schedule 6.2 (Intercity East Coast Specific Provisions)).

**Part 2 to Schedule 6.1
Miscellaneous Provisions**

1 Application

This Part 2 of this Schedule 6.1 (Committed Obligations and Related Provisions) sets out further terms which apply to the Committed Obligations set out in Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions) and the references to Committed Obligations in this Part 2 of this Schedule 6.1 (Committed Obligations and Related Provisions) are only to the Committed Obligations in Part 1 (List of Committed Obligations) of this Schedule 6.1 (Committed Obligations and Related Provisions).

2 Continuation of Availability

- 2.1 The Franchise Operator shall maintain facilities or activities or other matters established in accordance with its Committed Obligations throughout the remainder of the Franchise Term, regardless of whether or not such Committed Obligation specifically provides for the Franchisee to maintain throughout the Franchise Term the facilities, activities or other matters established in accordance with such Committed Obligation, unless such Committed Obligation expressly provides for the cessation of such maintenance at an earlier date.
- 2.2 The Franchise Operator shall be treated as maintaining the relevant facilities, activities or other matters which are the subject of the Committed Obligations notwithstanding temporary non-availability due to accidental damage or vandalism or maintenance, repair or replacement activities, or temporary staff absence, subject in each case to the Franchise Operator taking all reasonable steps to keep any such period of temporary non-availability to a minimum.
- 2.3 Where Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions) includes a commitment regarding staffing or particular appointments the Franchise Operator plans to make:
- (a) the obligation of the Franchise Operator shall not be regarded as being contravened by:
 - (i) temporary absences (for example for sickness or holiday); or
 - (ii) temporary non-fulfilment of a relevant post whilst the Franchise Operator is recruiting for that post, subject to the Franchise Operator using all reasonable endeavours to keep the duration between appointments as short as reasonably practicable; and
 - (b) the Franchise Operator's rights and obligations in relation to the numbers or deployment of its other staff remain unaffected.

3 Expenditure Commitments

Annual Expenditure

3.1 Where Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions) provides for the expenditure of an annual amount (or an amount over some other period) by the Franchise Operator, that amount:

(a) is assessed net of Value Added Tax; and

(b) is the amount required to be expended by the Franchise Operator itself or procured by the Franchise Operator to be expended.

Expenditure Commitments in real amounts

3.2 All expenditure commitments set out in Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions), to the extent they have not already been incurred by the Franchise Operator, shall be indexed by the Retail Prices Index (in the same way as variable costs are indexed in Schedule 8.2 (Annual Franchise Payments)).

Expenditure by Network Rail

3.3 All amounts which the Franchise Operator has committed (whether unconditionally or otherwise) pursuant to Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions) to expend in connection with improvements to track or Stations shall be in addition to any expenditure made by Network Rail as part of its infrastructure improvements or maintenance programme to the extent such expenditure is not directly funded or reimbursed by the Franchise Operator.

4 Liaison and co-operation

Where the Franchise Operator is committed to liaison and co-operation under Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions), it shall participate actively in the relevant measures including through the application of management time and internal resources, correspondence and attendance at meetings, in each case as the Franchise Operator reasonably considers in all the circumstances to be an appropriate use of its resources and effective to help achieve the relevant objective.

5 Nature of commitment

5.1 Any commitment in terms of Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions) shall be in addition to any obligation of the

Franchise Operator elsewhere in this Agreement and nothing in this Schedule 6.1 (Committed Obligations and Related Provisions) shall limit or restrict an obligation imposed on the Franchise Operator elsewhere in this Agreement.

5.2 Where in Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions), references are made to particular manufacturers or suppliers of equipment or services, the Franchise Operator may fulfil its relevant commitment by using reasonable equivalents.

5.3 Each commitment under this Schedule 6.1 (Committed Obligations and Related Provisions) shall come to an end on expiry of the Franchise Term for whatever reason.

6 Review of compliance

6.1 Progress with Committed Obligations is an agenda item for Franchise Performance Meetings and the Franchise Operator shall ensure that at such meetings, the Secretary of State is given such progress reports as he may reasonably request.

6.2 In addition to its obligation under paragraph 6.1, the Franchise Operator shall from time to time promptly provide such evidence of its compliance with any Committed Obligation as the Secretary of State may reasonably request.

7 Late completion or non-delivery of Committed Obligations

If the Franchise Operator fails to deliver in full a Committed Obligation in accordance with and by the timeframe specified for its delivery in Part 1 (List of Committed Obligations) to this Schedule 6.1 (Committed Obligations and Related Provisions), such late, partial or non-delivery shall constitute a contravention of the Franchise Agreement.

8 Specimen schemes

8.1 The Franchise Operator may propose to undertake an Alternative Scheme in place of a Specimen Scheme. Any such Alternative Scheme must:

- (a) deliver as a minimum the relevant Specimen Scheme Output;
- (b) require the Franchise Operator to incur expenditure of no less than the expenditure which the Franchise Operator is committed to incur in relation to the relevant Specimen Scheme; and
- (c) deliver at least an equivalent level of benefits (whether to passengers, the Secretary of State, the wider rail industry or otherwise) as the Specimen Scheme.

- 8.2 If the Franchise Operator wishes to propose an Alternative Scheme, the Franchise Operator will provide the Secretary of State with such details of the Alternative Scheme as the Secretary of State may reasonably require.
- 8.3 If the Secretary of State approves (such approval not to be unreasonably withheld or delayed) such Alternative Scheme then it shall replace the relevant Specimen Scheme and Part 1 of this Schedule 6.1 shall be amended accordingly.
- 8.4 For the avoidance of doubt, if the Franchise Operator does not propose or the Secretary of State does not approve an Alternative Scheme then the Franchise Operator shall remain obliged to deliver the relevant Specimen Scheme in accordance with Part 1 of this Schedule 6.1.

9 Third Party Consents, Agreement and Conditions

- 9.1 Where, in delivering a Committed Obligation, the Franchise Operator is required to obtain one or more consents or satisfy one or more conditions, the Franchise Operator shall use all reasonable endeavours to obtain such consents and/or satisfy such conditions within such timescales as would enable the Franchise Operator to deliver such Committed Obligation by the delivery date specified in respect of such Committed Obligation. If the Franchise Operator is unable to satisfy the relevant condition and/or obtain the relevant consent or the proposed terms upon which the relevant consent would be granted would, in the reasonable opinion of the Franchise Operator, be likely to prejudice the financial and/or commercial viability of delivering the Committed Obligation, the Franchise Operator may apply to the Secretary of State for the approval referred to in paragraph 9.2. For the purposes of this paragraph 9, the expression "consent" shall mean those approvals, authorisations, consents, derogations, exemptions, licences, permissions, and registrations which are required by Law or any contract to which the Franchise Operator is a party, to be obtained by the Franchise Operator in connection with the delivery of a Committed Obligation.
- 9.2 The Secretary of State's approval for the purposes of this paragraph 9 is his approval for the Franchise Operator to modify the relevant Committed Obligation so as to deliver a scheme which would give rise to benefits to passengers using the Passenger Services similar to (but not necessarily the same as) those benefits which would have arisen if the Franchise Operator delivered the relevant Committed Obligation. The modifications to the relevant Committed Obligation shall be agreed between the Franchise Operator and the Secretary of State or failing such agreement shall be reasonably determined by the Secretary of State. The approval of the Secretary of State may not be unreasonably withheld.
- 9.3 If the Secretary of State gives his approval pursuant to this paragraph 9 in respect of a Committed Obligation, then to the extent that the Franchise Operator delivers the modified Committed

Obligation by the date agreed between the Franchise Operator and the Secretary of State, or failing such agreement by the date reasonably determined by the Secretary of State, the Franchise Operator shall not be in breach of the Franchise Agreement.

10 Reasonable Endeavours

Where in respect of any Committed Obligation the Franchise Operator is obliged to use all reasonable endeavours or reasonable endeavours to do or procure that something is done by a specified date then, without prejudice to any other rights the Secretary of State may have (whether under the Franchise Agreement or otherwise) in respect of any contravention arising if the same is not achieved by such specified date the Franchise Operator shall consult with the Secretary of State and if required by the Secretary of State shall continue to use all reasonable endeavours or reasonable endeavours (as applicable) to do or procure that the relevant thing is done as soon as reasonably practicable thereafter.

11 Underspend

Where in relation to any Committed Obligation that is expressed in terms of a requirement to spend not less than a specified sum in fulfilling its stated objective, the Franchise Operator is able to achieve that stated objective without incurring the full amount referred to in that Committed Obligation, whether because of cost savings or otherwise, the Franchise Operator shall notify the Secretary of State, together with a statement of the costs it has incurred (excluding any third party funding) in delivering the relevant obligations and a reconciliation against the amount it had committed to spend (excluding any third party funding) (**Underspend**).

The Parties shall, acting reasonably, seek to agree an alternative scheme or schemes which would give rise to benefits to passengers using the Passenger Services to be funded using the Underspend and, once agreed, the Franchise Operator shall apply such Underspend in the delivery of the agreed scheme(s). In circumstances only where, despite having used reasonable endeavours the Parties fail to agree an alternative scheme in relation to which the Underspend will be applied, such Underspend shall be repaid to the Secretary of State as soon as reasonably practicable.

SCHEDULE 6.2
Intercity East Coast Franchise Specific Provisions

1 British Transport Police

- 1.1 The Franchise Operator shall give due consideration to any request by the British Transport Police to provide suitable accommodation (including additional or alternative accommodation) or facilities at Stations to enable the British Transport Police to effectively perform the services owed to the Franchise Operator under any contract or arrangement entered into between the British Transport Police and the Franchise Operator.
- 1.2 The Franchise Operator shall:
- (a) work in partnership with the British Transport Police to assess and review regularly the security and crime risk at all Stations and across the franchise generally;
 - (b) work with the British Transport Police to:
 - (i) reduce crime on the railway;
 - (ii) reduce minutes lost to police-related disruption;
 - (iii) increase passenger confidence with personal security on train and on station;
 - (c) co-operate with the British Transport Police to provide the British Transport Police with access to records and/or systems maintained by the Franchise Operator which relate to lost property to enable the British Transport Police to have access to such information when dealing with items reported to them as lost. The Franchise Operator shall consult with the British Transport Police as to its requirements in relation to such records and/or systems and shall ensure that the British Transport Police has access to such records and/or systems within 12 months of the Start Date.
- 1.3 The Franchise Operator shall consult with the British Transport Police in relation to plans to develop any part of the land within a Property Lease which could affect staff or customers and give the British Transport Police an opportunity to advise on and/or provide comments on any opportunities for the enhancement of safety and reduction in crime.

2 Not used.

3 Route Efficiency Benefit Share

- 3.1 The Franchise Operator shall obtain the prior consent of the Secretary of State prior to exercising any rights it may have under the Track Access Agreement or otherwise to opt out from the Route Efficiency Benefit Share Mechanism.
- 3.2 Where a Train Operator under a Previous Franchise Agreement has exercised its right under a track access agreement to opt out from the Route Efficiency Benefit Share Mechanism, the Franchise Operator shall take all steps necessary to ensure that it opts back into the Route Efficiency Benefit Share Mechanism including through agreement of a new Track Access Agreement or a variation of an existing Track Access Agreement.

4 ERTMS Programme

4.1

- (a) The Franchise Operator shall:
- (i) from the Start Date until completion of the implementation of the ERTMS Programme co-operate in good faith with the relevant third parties involved in the implementation of the ERTMS Programme (including Network Rail and the relevant rolling stock providers) with the intention of ensuring its timely, efficient and cost effective completion and, in particular assisting in the development and implementation of the programme for the design and fitment of the relevant ERTMS equipment on the first rolling stock unit of each class of rolling stock comprised in the Train Fleet and used for the purposes of operating the Passenger Services on the ERTMS Enabled Network (**First in Class Unit**) and the testing and commissioning of such equipment on each First in Class Unit. It is acknowledged by the Secretary of State and the Franchise Operator that Network Rail is responsible for the capital costs for the design and fitment of the relevant ERTMS equipment on each First in Class Unit;
 - (ii) prepare a plan and submit a plan to the Secretary of State within six months of the Start Date (and keep such plan under review and provide an updated plan to the Secretary of State on a quarterly basis) which addresses how it will deliver those activities for the implementation of the ERTMS Programme for which it is responsible including:
 - (A) the training of Franchise Employees who are drivers and other relevant Franchise Employees;

- (B) the obtaining of such approvals and consents as may be required for the retrofit of the relevant equipment to the other rolling stock units (other than the First In Class Units) comprised in the Train Fleet as are to be used for the operation of the Passenger Services on the ERTMS Enabled Network (the **Affected Train Fleet**);
- (C) the installation, testing and commissioning of the relevant ERTMS equipment on each unit comprised in the Affected Train Fleet; and
- (D) the maintenance of any such ERTMS equipment fitted on the Affected Fleet and the First in Class Units,

(the **Franchise Operator ERTMS Plan**).

Any Franchise Operator ERTMS Plan prepared by the Franchise Operator pursuant to this paragraph shall be prepared on the basis that is consistent with the Proposed ERTMS Implementation Plan;

- (iii) implement the Franchise Operator ERTMS Plan in accordance with its terms; and
 - (iv) following the implementation of ERTMS on any part of the routes specified in the Proposed ERTMS Implementation Plan (the **ERTMS Enabled Network**) co-operate, in good faith, with Network Rail, the lessors of the Affected Train Fleet and the First in Class Units and other relevant third parties, with a view to ensuring the on-going efficient operation of the Passenger Services operated on the ERTMS Enabled Network including by working together with Network Rail, the lessors of the Affected Train Fleet and the other relevant third parties to resolve any compatibility issues that may arise between the train borne equipment and the trackside equipment.
- (b) If at any time the Secretary of State (acting reasonably) is satisfied that the Franchise Operator has not complied or is not likely to comply with its obligations in this paragraph 4.1 he may at his discretion, and entirely without prejudice to his other rights consequent upon the relevant contravention, serve a Remedial Plan Notice pursuant to paragraph 1.1 of Schedule 10.1 (Remedial Plans and Remedial Agreements).

4.2 The Franchise Operator shall at the request of the Secretary of State provide to him (as soon as reasonably practicable and in any event within five working days following the receipt by the Franchise Operator of any such request) such information (including progress reports and the latest Franchise Operator ERTMS Plan as at the date of such request) as the Secretary of State may reasonably require in relation to the implementation of the ERTMS Programme including for the purposes of:

- (a) satisfying himself that:
 - (i) the Franchise Operator ERTMS Plan is robust and deliverable; and
 - (ii) the implementation of the ERTMS Programme is being undertaken in accordance with the Proposed ERTMS Implementation Plan; and
 - (b) reporting on progress in relation to matters relating to the implementation of the ERTMS Programme (including progress on the implementation of the Franchise Operator ERTMS Plan).
 - (c) The Franchise Operator shall, upon reasonable notice, attend any such meeting as the Secretary of State may reasonably require for the purposes of discussing and explaining the Franchise Operator ERTMS Plan (including progress on the implementation of such plan).
- 4.3 Within one year following the implementation of ERTMS on the ERTMS Enabled Network, the Franchise Operator shall carry out a detailed review of track side failures between the Franchise Operator and Network Rail since the implementation of ERTMS on the ERTMS Enabled Network and submit such report to the Secretary of State in such format as the Secretary of State may (acting reasonably) specify.
- 4.4 The Franchise Operator shall use all reasonable endeavours to ensure that any Track Access Agreement that it enters into with Network Rail reflects the following principles:
- (a) there will be no right for the Franchise Operator to claim compensation from Network Rail under Condition G.2 of the Network Code in relation to the direct or indirect consequences of any and all impacts on the Passenger Services due to the implementation of the ERTMS Programme except in the circumstances provided in paragraph 4.4(b) (**Network Change Compensation Claims**); and
 - (b) the Franchise Operator will have the right to claim under Condition G.2 of the Network Code for any additional costs it incurs where there is a material change to the actual implementation plans (including the relevant timescales for the delivery of such plans) adopted by Network Rail in respect of the ERTMS Programme when compared to the plans as specified in the Proposed ERTMS Implementation Plan except where such material change is wholly attributable to the actions or inactions of the Franchise Operator.
- 4.5 If and to the extent that the Track Access Agreement entered into by the Franchise Operator does not reflect any of the principles set out in paragraph 4.4 including as a result of:
- (a) the Franchise Operator not being able to obtain the ORR's approval to any such terms; or

- (b) the Franchise Operator not complying with its obligations under paragraph 4.3 and entirely without prejudice to the other rights the Secretary of State may have under the Franchise Agreement consequent upon a contravention by the Franchisee of the provisions of paragraph 4.3,

then the Franchise Operator shall immediately pay to the Secretary of State (as a debt), an amount equal to any amounts received by the Franchise Operator from Network Rail in respect of any Network Change Compensation Claim(s) (other than any Network Change Compensation Claim(s) in the circumstances described in paragraph 4.4(b)). Any amounts payable by the Franchisee to the Secretary of State pursuant to this paragraph 4.5 shall be paid on the next Payment Date following receipt by the Franchise Operator of any such amounts from Network Rail or where no such Payment Date exists shall be paid within 30 days of receipt by the Franchise Operator of any such amounts from Network Rail.

5 Station related provisions

5.1 Station Leases

- (a) The Franchise Operator shall, within four months of the Start Date, enter into the Station Leases in **substantially**²²³ the agreed terms in respect of Berwick upon Tweed, Darlington, Doncaster, Durham, Grantham, Newark North Gate, Peterborough, Retford and Wakefield Westgate.
- (b) The Franchise Operator shall use reasonable endeavours to provide such assistance and information as Network Rail may reasonably require to assist Network Rail in preparing its plans in relation to the potential transfer of York and Newcastle Stations to Network Rail (each an **SFO Transfer**) on the expiry of the existing Station Leases in relation to York and Newcastle Stations which, as at the Start Date, are expected to expire on 30 June 2015).
- (c) ***²²⁴If either or both SFO Transfers has not occurred on or before 30 September 2015, the Franchise Operator shall enter into a 99 year lease relating to each such Station in respect of which the SFO Transfer has not occurred as soon as reasonably practicable and in any event within four months of a request by the Secretary of State and it shall be a Change.***
- (d) The Franchise Operator shall, within four months of the Start Date, surrender the Station Lease in respect of Dunbar Station and enter into a station access agreement with the franchisee of the ScotRail franchise, and this shall not constitute a Change. If Dunbar

²²³ Included in manuscript in original Franchise Agreement on the date of signature.

²²⁴ Date of change 24/06/2015

Station has not transferred to the ScotRail franchisee within four months of the Start Date and the Secretary of State directs the Franchise Operator to enter into a Station Lease in relation to Dunbar Station, it shall be a Change.

- (e) ***²²⁵If either or both of the SFO transfers has not occurred on or before the expiry of the existing Station Leases (being 30 June 2015) in respect of York and Newcastle the Franchise Operator shall extend the existing Station Leases, pending either the transfer of one or both of the stations as contemplated by paragraph 5.1(b) or the Franchise Operator entering into a 99 year lease in respect of one or both stations in accordance with paragraph 5.1(c) above.***

5.2 Registration of Title (Station Leases)

The Franchise Operator shall, as soon as reasonably practicable upon receipt of the relevant documentation from Network Rail, lodge or procure the lodging of properly completed applications for registration of the Station Leases at HM Land Registry in accordance with the required time limits for making such applications. The Franchise Operator shall use all reasonable endeavours to ensure that registration of title is obtained in relation to each Station as soon as reasonably practicable to the highest standard reasonably obtainable.

5.3 Development at Stations

The Franchise Operator shall not, without the prior written consent of the Secretary of State, enter into any lease, development agreement or any other agreement or arrangement in relation to any Station which can reasonably be regarded as providing any payment or benefit in any form to the Franchise Operator which can be attributed to the rights granted to the relevant counterparty of the Franchise Operator in respect of any period after the end of the Franchise Term.

From the date that is the earlier of three years from the end of the Franchise Term or the date upon which a Termination Notice is served upon the Franchise Operator, the Franchise Operator shall not, without the prior consent of the Secretary of State, undertake any Major Development at Stations.

5.4 Uninsured Events and Latent Defects Liability

If any Station and/or Equipment comprised in a Station is (1) damaged or destroyed due to the occurrence of an Uninsured Event and/or (2) discovered to contain a Latent Defects Liability (each such event to be known as a **Special Event**) then the Secretary of State:

²²⁵ Date of new insertion 24/06/2015

- (a) shall elect to:
- (i) require the Franchise Operator to undertake the works necessary to repair, reinstate or make good to his satisfaction such Station or Equipment which is the subject of a Special Event (the **Reinstatement Works**). Any such requirement by the Secretary of State to carry out Reinstatement Works shall be a Qualifying Change and in these circumstances:
 - (A) notwithstanding the Qualifying Change, the Franchise Operator shall be liable for the first five hundred thousand pounds (£500,000) of the Reinstatement Cost (the **Franchise Operator Excess Amount**) in respect of each Special Event that occurs at each Station provided that the Franchise Operator's maximum liability in relation to the occurrence of all Special Events at all Stations shall not exceed ten million pounds (£10,000,000) (the **Franchise Operator Excess Amount Cap**) for the duration of the Franchise Term; and
 - (B) where Reinstatement Works or the effects of the Special Event pending completion of the Reinstatement Works result in the Franchise Operator not being able to operate a Station (or part thereof) or provide Passenger Services which call at such Station, any Qualifying Change pursuant to this paragraph 5.4(a) shall take account of any cost savings made by the Franchise Operator as a result of it not being able to provide Passenger Services which call at such Station or operate such Station (or part thereof) (including as a result of it not being required to maintain and repair such Station (or any part thereof) or any Equipment pending its repair, reinstatement or making good (the **Cost Savings**));
 - (C) the Franchise Agreement shall be amended to include obligations on the Franchise Operator to:
 - (1) consult on and agree with the Secretary of State the Reinstatement Works and the programme for the carrying out of the Reinstatement Works; and
 - (2) carry out the Reinstatement Works in accordance with the programme as agreed (or on failing to agree, as reasonably determined by the Secretary of State); and
 - (D) the Franchise Operator shall ensure that the Reinstatement Cost is as low as reasonably practicable; or

- (ii) require the Franchise Operator not to undertake the Reinstatement Works (including because he would require a Successor Operator to undertake such works) and in these circumstances a Qualifying Change shall occur; and
- (b) the Secretary of State may (at his absolute discretion) also elect to:
- (i) require the Franchise Operator to use all reasonable endeavours to secure other sources of grant funding, such as Local Authority grants, for the purposes of carrying out the Reinstatement Works; and/or
 - (ii) seek to utilise other alternative funding mechanisms for the purposes of the release of the funds required for carrying out the Reinstatement Works by:
 - (A) requiring the Franchise Operator to source the funds for carrying out such works through an adjustment to the Franchise Operator's Integrated Station Asset Management Plan; and/or
 - (B) requiring the Franchise Operator not to undertake certain Committed Obligations at Stations such that any capital expenditure allocated to such Committed Obligations can be utilised by the Franchise Operator for the purposes of undertaking the Reinstatement Works. In these circumstances a Qualifying Change shall occur and there shall be an amendment to the Franchise Agreement to reflect the fact that the Franchise Operator would no longer be required to carry out the affected Committed Obligations but would instead be required to utilise any capital expenditure so released in undertaking the Reinstatement Works.

5.5 If the Secretary of State elects that the funding of the Reinstatement Works should be undertaken using any of the alternative funding mechanisms set out in paragraph **5.4(b)**²²⁶ then any such funding shall be on the basis that the Franchise Operator shall be liable for the Franchise Operator Excess Amount after the deduction of any Cost Savings and subject to the Franchise Operator Excess Amount Cap.

5.6 In respect of the second and each subsequent Franchise Operator Year the Franchise Operator Excess Amount and the Franchise Operator Excess Amount Cap shall be adjusted in accordance with the following formula:

FA x RPI

²²⁶ Coss-reference corrected in letter dated 27 February 2015.

Where:

FA is the Franchise Operator Excess Amount or the Franchise Operator Excess Amount Cap (as the case may be); and

RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments).

5.7 Policies and Plans to deliver the Standard of Repair

- (a) The Franchise Operator shall implement and comply with the Integrated Station Asset Management Policy and Integrated Station Asset Management Plan in accordance with their terms (as they may be amended pursuant to paragraph 5.9) including for the purposes of meeting its obligations in relation to the Standard of Repair.
- (b) The Franchise Operator shall maintain appropriate, accurate, readily accessible and transferable information about the Station assets, including their condition and function.
- (c) In preparing and revising the Integrated Station Asset Management Policy and Integrated Station Asset Management Plan, the Franchise Operator shall consult ORR and the Secretary of State.
- (d) The Franchise Operator shall provide to the Secretary of State such information as the Secretary of State may reasonably require for the purposes of monitoring the obligations of the Franchise Operator in relation to Stations.
- (e) Information required to be provided under paragraph 5.7(d) shall be provided in such form and manner and at such times as the Secretary of State may reasonably require.
- (f) The Franchise Operator shall calculate the Station Stewardship Measure (in accordance with standard "NR/ARM/M17PR" or such other standard as may be notified to the Franchise Operator by ORR from time to time) in relation to each Station when ORR may reasonably require and as soon as reasonably practicable thereafter provide such information to ORR (with a copy to the Secretary of State). The Franchise Operator shall co-operate with ORR in developing the Station Stewardship Measure during the Franchise Term.

5.8 Independent audit

At the Secretary of State's request, the Franchise Operator shall commission and pay for an independent audit of any information submitted to the Secretary of State under paragraph 5.7(d) and shall provide a copy of the audit report to the Secretary of State.

5.9 Revisions

- (a) If at any time the Secretary of State considers that an Integrated Station Asset Management Policy does not adequately demonstrate how the Franchise Operator will comply with the obligations in paragraph 5.10(a):
 - (i) the Secretary of State shall issue a notice requiring the Franchise Operator to review and revise the Integrated Station Asset Management Policy and specifying the ways in which he considers it to be deficient; and
 - (ii) the Franchise Operator shall, within one month of the Secretary of State issuing such a notice, review, revise and republish the document in order to correct the deficiency notified.

- (b) ***By 30 June 2015 and not more than three Reporting Periods and not less than one Reporting Period prior to the start of (i) the third Franchise Operator Year and (ii) each subsequent Franchise Operator Year²²⁷*** the Franchise Operator shall deliver to the Secretary of State an updated Integrated Station Asset Management Plan which shall:
 - (i) be in substantially the same form as the immediately preceding Integrated Station Asset Management Plan (or such other form as the Secretary of State approves), revised to include information available to the Franchise Operator as at the date of its delivery, describing the Franchise Operator's planned station asset management activities for each Franchise Operator Year during the remainder of the Franchise Term;
 - (ii) contain a statement of the differences between the updated Integrated Station Asset Management Plan and the immediately preceding Integrated Station Asset Management Plan delivered to the Secretary of State in accordance with the Franchise Agreement, together with an explanation of such differences;
 - (iii) contains a statement from a director that by acting in accordance with the revised Integrated Station Asset Management Plan the Franchise Operator will continue to comply with obligations under paragraph 5.10(a) including by rectifying any identified failure to achieve the Standard of Repair.

5.10 Station Maintenance Obligations

- (a) The Franchise Operator shall ensure that the actual Asset Remaining Life (as a percentage) in relation to each of the Station Assets specified in Column 1 of the Minimum Asset Remaining Life Table is (on a basis aggregated across all relevant assets at all

²²⁷ Amended in letter dated 30 March 2015

Stations) not less than the corresponding Minimum Asset Remaining Life specified in column 2 of the Minimum Asset Remaining Life Table (the **Standard of Repair**).

- (b) Within 30 days of the start of each Franchise Operator Year (other than the **first and second Franchise Operator Years**²²⁸) the Franchise Operator shall deliver a written report to the Secretary of State that complies with the following requirements:
- (i) it has been prepared by a reputable firm of surveyors who have carried out inspections of the Stations for the purposes of the preparation of the report no more than 60 days prior to the end of the previous Franchise Operator Year;
 - (ii) it is addressed to the Secretary of State (but may also be addressed to other parties at the discretion of the Franchise Operator);
 - (iii) it contains a fair summary of the extent to which the Franchise Operator has complied with its obligations to achieve the Standard of Repair during the preceding 12 months;
 - (iv) it contains the calculation of the Franchise Operator (as a percentage) of the aggregate Asset Remaining Life of each Station Asset (in accordance with standard “NR/ARM/M17PR” or such other standard as may be notified to the Franchise Operator by the Secretary of State from time to time);
 - (v) it identifies separately those Stations where any Station Asset has an asset life that is less than:
 - i. 55.3% in relation to platforms;
 - ii. 58.8% in relation to footbridges;
 - iii. 57.8% in relation to canopies; and
 - iv. 57.5% in relation to buildings at Stations;
 - (vi) it contains a copy of the Station Stewardship Measure report issued by the Franchise Operator to ORR and/or Network Rail; and
 - (vii) it contains such other details as may be specified in writing by the Secretary of State from time to time.

²²⁸ Amended in the letter dated 27 February 2015.

- 5.11 It is agreed by the Secretary of State and the Franchise Operator that:
- (a) the methodology to be adopted by the Secretary of State for the purposes of monitoring the Franchise Operator's compliance with its obligations in paragraph 5.10(a) shall, subject to paragraph 5.10(b), be as described in the document in the agreed terms marked **SCM** (the **Stations Conditions Methodology**);
 - (b) the Stations Conditions Methodology can be amended by the Secretary of State; and
 - (c) if, at any time during the Franchise Term, the Stations Conditions Methodology is amended as envisaged under paragraph 5.11(b) and the Secretary of State reasonably determines that it is appropriate to amend the Minimum Asset Remaining Life of any Station Assets to take account of the alteration to the Stations Conditions Methodology then the Secretary of State shall make such amendment to column 2 of the Minimum Asset Remaining Life Table as he reasonably considers appropriate to take account of the alterations to the Stations Conditions Methodology and such amendment shall be a Change.

Maintenance Account

5.12 Maintenance Account

- (a) On each Payment Date, the Franchise Operator shall pay the Maintenance Amount calculated as follows into the Maintenance Account:

$$MA = ((RPD/FYD) \times AMA)$$

where:

MA means the Maintenance Amount for such Reporting Period;

RPD means the number of days in that Reporting Period;

FYD is equal to 365, or if February 29 falls during the Franchise Operator Year in which that Reporting Period falls, 366; and

AMA means the Annual Maintenance Amount for the Franchise Operator Year in which that Reporting Period falls determined as follows:

$$(RA \times RPI)$$

where:

RA is the amount shown in the respect of the relevant Franchise Operator Year in column 2 of the table set out in Appendix 1 (Figures for Calculation of Annual Maintenance Amount) of this Schedule 6.2; and

RPI has the meaning given to such term in Schedule 8.2 (Annual Franchise Payments).

The obligations of the Franchise Operator in relation to maintenance and repair of Stations, whether pursuant to its obligations under the Franchise Agreement or otherwise, are in no way limited by reference to the availability of funds in the Maintenance Fund.

- (b) During the Franchise Period the Franchise Operator may withdraw the funds properly required to meet Actual Maintenance Expenditure that has properly fallen due for payment by the Franchise Operator as set out in the Integrated Station Asset Management Plan and in respect of which funds have not previously been withdrawn from the Maintenance Account without the consent of the Secretary of State PROVIDED THAT
- (i) the Franchise Operator may not make any withdrawal from the Maintenance Account pursuant to this paragraph 5.12(b) that would reduce the Maintenance Fund to less than the Minimum Balance; and
 - (ii) the Franchise Operator shall not make any withdrawal from the Maintenance Account pursuant to this paragraph 5.12(b) where the amount to be withdrawn is in relation to expenditure not provided or planned for under the Integrated Station Asset Management Plan without the prior written consent of the Secretary of State. Where the Franchise Operator requires such consent it shall provide to the Secretary of State with its request for consent a written confirmation from a director of the Franchise Operator certifying that the information provided to the Secretary of State is, in all material respects, true, accurate, complete and not misleading and identifying the amount proposed to be withdrawn, the purpose of the proposed withdrawal from the Maintenance Account and that such proposed expenditure will be properly expended for satisfying the Standard of Repair in respect of the Stations. If requested by the Secretary of State the Franchise Operator agrees to demonstrate to the reasonable satisfaction of the Secretary of State that the written confirmation is true and accurate. It shall be a contravention of the Franchise Agreement if any such written confirmation is, in any material respect, found to be untrue, inaccurate and/or misleading.
- (c) As soon as reasonably practicable after the end of each Reporting Period the Franchise Operator shall provide to the Secretary of State:

- (i) a breakdown in relation to such Reporting Period of all Actual Maintenance Expenditure actually incurred in the Reporting Period together with such further details of each relevant item of expenditure as the Secretary of State may reasonably require;
 - (ii) a breakdown of all funds withdrawn from the Maintenance Account in that Reporting Period and the reason for that withdrawal; and
 - (iii) written confirmation from a director of the Franchise Operator certifying that (1) the information provided to the Secretary of State is, in all material respects, true, accurate, complete and not misleading, (2) all Actual Maintenance Expenditure has been properly expended for satisfying the Standard of Repair in respect of the Stations and (3) all withdrawals from the Maintenance Account made by the Franchise Operator were properly due to the Franchise Operator under paragraph 5.12(b) and have been applied for the purposes for which they were withdrawn. If requested by the Secretary of State the Franchise Operator agrees to demonstrate to the reasonable satisfaction of the Secretary of State that the written confirmation is a true and accurate confirmation of the Franchise Operator's compliance with its relevant obligations. It shall be a contravention of the Franchise Agreement if any such written confirmation is, in any material respect, found to be untrue, inaccurate and/or misleading.
- (d) In the event that the Secretary of State determines that any monies have been withdrawn from the Maintenance Account improperly he shall notify the Franchise Operator of the same specifying the relevant amount and requiring the Franchise Operator to repay the relevant amount into the Maintenance Account on or prior to such Weekday as the Secretary of State shall notify to the Franchise Operator.
- (e) If, on termination of the Franchise Agreement, the aggregate Asset Remaining Life of any category of Station Asset is less than the corresponding Minimum Asset Remaining Life shown in column 2 of the Minimum Asset Remaining Life Table, then the Franchise Operator shall transfer to the Secretary of State all sums then standing to the credit of the Maintenance Account. The Secretary of State shall, within a reasonable period, account to the Franchise Operator for the remaining proceeds of such sums so transferred following settlements of all liabilities, claims, costs or expenses incurred by the Secretary of State and/or a Successor Operator in rectifying any failure of the Franchise Operator to comply with the Standard of Repair.
- (f) If:

- (i) any revised Integrated Station Asset Management Plan delivered by the Franchise Operator pursuant to paragraph 5.9 provides for the bringing forward of any works intended to ensure that the Franchise Operator complies with its obligation in relation to the Standard of Repair;
- (ii) the additional cost incurred by the Franchise Operator in the Franchise Operator Year in which such costs are now to be incurred exceeds the amount that the Franchise Operator is required to pay into the Maintenance Account in such Franchise Operator Year by more than 10%; and
- (iii) the Franchise Operator can demonstrate to the reasonable satisfaction of the Secretary of State that the effect of bringing forward such works is to achieve the Standard of Repair in a more efficient or cost effective manner or to otherwise achieve real and demonstrable whole rail industry or passenger benefits in either case in a way that has no adverse financial or other impacts on the Secretary of State,

then the Secretary of State shall reasonably determine the reprofiling of the amounts specified in Appendix 1 (Figures For Calculation Of Annual Maintenance Amount) of this Schedule 6.2 to reasonably take account of the bringing forward of the relevant works provided that the total of the amounts specified in Appendix 1 (Figures For Calculation of Annual Maintenance Amount) of this Schedule 6.2 shall not reduce overall as a result of such reprofiling.

5.13 Maintenance Cost Savings

- (a) At the end of each Franchise Operator Year the Franchise Operator shall provide to the Secretary of State a report which sets out, in respect of such Franchise Operator Year:
 - (i) the sums then standing to the credit of the Maintenance Account (**Outstanding Amounts**);
 - (ii) the proportion of the Outstanding Amount that is required for the purposes of undertaking any continuing maintenance, repair and renewal works required for the purposes of compliance with its obligations under paragraph 5.10(a); and
 - (iii) the proportion of the Outstanding Amount that relates to any Maintenance Cost Savings that were realised during that Franchise Operator Year.
- (b) Provided that:
 - (i) no Event of Default has occurred and is continuing;

- (ii) a Termination Notice has not been served;
- (iii) the Franchise Agreement has not expired; and
- (iv) the Lock-Up Period does not apply,

then the Franchise Operator shall be entitled to withdraw from the Maintenance Account 25% of the amount of any Maintenance Cost Savings specified in paragraph **5.13(a)(iii)**²²⁹ at the end of the Franchise Operator Year in which such Maintenance Cost Savings were achieved (or such earlier date as the Secretary of State in his unfettered discretion may determine), save that if at such time the Maintenance Fund is less than the Minimum Balance or the aggregate Asset Remaining Life in relation to any Station Assets is less than the corresponding Minimum Asset Remaining Life shown in column 2 of the Minimum Asset Remaining Life Table such Maintenance Cost Savings otherwise capable of withdrawal shall first be reduced by an amount equal to the costs of remedying the same (or, if such costs cannot be ascertained at the time, such amount as is reasonably determined by the Secretary of State). The remaining 75% of such Maintenance Cost Savings shall be retained in the Maintenance Account.

5.14 Termination

- (a) On the date that is the earlier of eighteen months (18 months) prior to the end of the Franchise Term or the date upon which a Termination Notice is served upon the Franchise Operator, the Secretary of State and the Franchise Operator shall agree (or the Secretary of State shall reasonably determine) the amendments to be made to the Statement of Condition (as such term is defined in the Station Lease) so as to ensure that the Statement of Condition accurately evidences the state of repair and condition of each Station as at that date.
- (b) At the end of the Franchise Term and, upon the assignment, transfer or novation of the Station Leases to a Successor Operator (whether pursuant to a Transfer Scheme or otherwise) the Franchise Operator shall ensure that the condition of each Station so transferred, assigned or novated is in a state of repair and condition which is no worse than that evidenced in the Statement of Condition as amended pursuant to paragraph 5.14(a).
- (c) If at the end of the Franchise Period the Secretary of State is satisfied that the Franchise Operator has complied with its Station Maintenance Obligations, the Secretary of State shall, as soon as reasonably practicable thereafter, release the Maintenance Account

²²⁹ Cross-reference corrected in letter dated 30 March 2015.

Charge and the Franchise Operator shall be entitled to all sums standing to the credit of the Maintenance Account.

6 Community Rail Partnerships

6.1 The Franchise Operator shall become a member of, or where the Franchise Operator is already a member, shall continue to participate in the Community Rail Partnership relevant to the Passenger Services, including but not limited to:

- (a) Grantham – Skegness Community Rail Partnership (the **Poacher line**)
 - (b) Bishop Line Community Rail Partnership
 - (c) Yorkshire Coast Community Rail Partnership
 - (d) Tyne Valley Community Partnership
 - (e) Leeds – Morecambe Community Rail Partnership (the **Bentham line**)
 - (f) Settle Carlisle Railway Development Company
- (and any successor Community Rail Partnership).

6.2 The Franchise Operator shall become a member of any new Community Rail Partnership adjacent to or which interfaces with or is otherwise relevant to the Franchise.

6.3 The Franchise Operator shall, within 30 days of the commencement of each Franchise Operator Year, provide the sum of £60,000 to the Association of Community Rail Partnerships (**ACoRP**) to distribute as ACoRP considers appropriate taking into account the aims of the Secretary of State's Community Rail Strategy as published from time to time and ensuring the needs of the six Community Rail Partnerships referred to in paragraph 6.1 of this Schedule 6.2 (and such other Community Rail Partnerships which the Secretary of State may, after consultation with the Franchise Operator and ACoRP, designate) to invest on projects, payment of the salary for the partnership officer and other administrative costs.

7 Network Rail Claim

7.1 Without prejudice to clause 10.4 of the SPA, the Franchise Operator shall pay to the Secretary of State, by electronic funds transfer to an account nominated by the Secretary of State, an amount equal to all sums received by it in relation to the Network Rail Claim (the **NR Received Amount**) as soon as reasonably practicable and, in any event, within five business days of the date of receipt by the Franchise Operator of such sums. Any sums payable under this paragraph 7 shall

be paid free and clear of deductions or withholdings, save only as may be required by law. Save where expressly stated to the contrary, any amount paid or payable to the Franchise Operator and/or due and owing to the Secretary of State by the Franchise Operator, in each case in respect of the Network Rail Claim, shall not be taken into account in any calculation under Schedule 8 (Payments) or Schedule 9 (Changes).

**APPENDIX 1 TO SCHEDULE 6.2
Figures For Calculation Of Annual Maintenance Amount**

| Column 1 | Column 2 ²³⁰ |
|---------------------|-------------------------|
| Year 1 (part) | |
| Year 2 (core) | |
| Year 3 (core) | |
| Year 4 (core) | |
| Year 5 (core) | |
| Year 6 (core) | |
| Year 7 (core) | |
| Year 8 (core) | |
| Year 9 (core) | |
| Year 10 (extension) | |

²³⁰ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

**APPENDIX 2 TO SCHEDULE 6.2
Minimum Asset Remaining Life Table**

| Column 1 | Column 2 |
|----------------------------------|---|
| Category of Station Asset | Minimum Asset Remaining Life (percentage amount calculated on an aggregate basis across all relevant assets at all Stations) |
| Platforms | 55.3% |
| Footbridges | 58.8% |
| Buildings | 57.5% |
| Canopies | 57.8% |

SCHEDULE 6.3 The IEP Provisions

1 Definitions and Interpretation

1.1 In this Schedule 6.3, except where the context otherwise requires, words and expressions defined in the Train Availability and Reliability Agreement shall have the same meanings when used herein; and

1.2 In this Schedule 6.3, except where the context otherwise requires, the following words and expressions shall have the following meanings:

Acceptance Certificate has the meaning given to such term under the MARA;

Acceptance Issues means in respect of a Type of Set, that any compatibility issue set out in Annex B of Appendix C to Schedule 1 of the MARA is subsisting on the East Coast IEP Network as at the date on which the TSP presents a Set of such Type for Type Acceptance;

Additional Obligations has the meaning given to it in paragraph **2.10²³¹** of this Schedule 6.3;

Approvals Plan means the TSP's plan for obtaining all Relevant Approvals including any required Derogations in relation to each Set, developed and implemented in accordance with Appendix E to Schedule 1 of the MARA;

Compliance Audit has the meaning given to it in paragraph 3.3(d) of this Schedule 6.3;

Design Process has the meaning given to it in paragraph 2.4 of this Schedule 6.3;

Dispute Resolution Agreement means the dispute resolution agreement in the form set out in Schedule 14 of the Train Availability and Reliability Agreement to be acceded to by the Franchise Operator in accordance with the Umbrella Deed;

East Coast IEP Network means the sections of the IEP Network set out in the table in Part 1 of Appendix F of Schedule 1 of the MARA;

East Coast Relevant Approvals means all Relevant Approvals required in relation to the East Coast IEP Network;

Final Acceptance means the final acceptance of any Set pursuant to Paragraph 5 of Part A of Schedule 2 of the MARA;

²³¹ Cross-reference corrected in letter dated 30 March 2015.

Final Acceptance Conditions means the conditions in respect of Final Acceptance set out in Paragraph 5.2 of Part A of Schedule 2 of the MARA;

Fleet means the fleet of Sets described in Appendix C to Part A of Schedule 2 of the MARA;

Full Set means any Set consisting of more than seven Vehicles but fewer than or equal to twelve Vehicles to be delivered by the TSP pursuant to the MARA and identified in Appendix C to Part A of Schedule 2 of the MARA, including any replacement ordered pursuant to Part I of Schedule 6 of the MARA;

Great Western Operator means First Greater Western Limited (Company Number 05113733) or any successor operator from time to time in relation to some or to all of the railway passenger services operated by it;

Half Set means any Set consisting of fewer than eight Vehicles to be delivered by the TSP pursuant to the MARA and identified in Appendix C to Part A of Schedule 2 of the MARA, including any replacement ordered pursuant to Part I of Schedule 6 of the MARA;

IEP Network means the routes specified in Appendix F to Schedule 1 of the MARA;

MARA Variation has the meaning given to the term "Variation" under the MARA;

Operator MARA Rights means those rights in the MARA which are expressed to be exercisable by or for the benefit of the Franchise Operator;

Pension Amount has the meaning given to such term under the Train Availability and Reliability Agreement;

Relevant Operator has the meaning given to such term in the MARA;

Set means a Half Set or a Full Set;

Train User Review Group means each of the following:

- (a) passenger user design review group (to consider issues such as interior practicalities (including seat design, including comfort));
- (b) driver design review group (to consider issues such as cab and facilities);
- (c) other train staff user design review group (to consider issues such as catering facilities (including trolley storage facilities), train guard facilities, train dispatch, cleaning and control and communication); and

- (d) interior design style review group (to consider issues such as interior aesthetics (including seat design, including comfort));

Type has the meaning given to such term under the MARA;

Type Acceptance means the acceptance of a Type of Set pursuant to Paragraph 2 of Part A of Schedule 2 of the MARA; and

Unpaid TARA Payments has the meaning given to it in paragraph 4.2 of this Schedule 6.3.

2 The MARA Provisions

- 2.1 By an agreement dated 24 July 2012 (the **MARA**) the Secretary of State appointed the TSP to design, build, own and maintain the Sets to be operated by the Franchise Operator on the East Coast IEP Network for the purposes of providing certain of the Passenger Services. The TSP shall make the Sets available to the Franchise Operator in accordance with the terms of the Train Availability and Reliability Agreement.
- 2.2 The Franchise Operator acknowledges that the MARA provides for certain rights which are expressed to be exercised, and certain obligations which are expressed to be performed, by the Franchise Operator in its capacity as Relevant Operator. Accordingly the Franchise Operator shall:
 - (a) exercise such rights and perform such obligations promptly with all reasonable skill, care, diligence and safety, in accordance with good industry practice and in compliance with Applicable Laws and Standards;
 - (b) where the Secretary of State has agreed under the terms of the MARA to procure that certain steps are taken or obligations performed by the Franchise Operator, take those steps and perform those obligations promptly upon request; and
 - (c) co-operate with the Secretary of State and the TSP and act reasonably and in good faith in and about the exercise of such rights and the performance of such obligations.

The performance by the Franchise Operator of its obligations under this paragraph 2 shall not amount to a Change.

- 2.3 The Franchise Operator acknowledges that the relationship between the Secretary of State and the Relevant Operator under the MARA is not one of principal and agent and that nothing in the MARA nor any other Project Document (as defined in the MARA) shall create, or be construed as creating, a relationship of principal and agent between the Secretary of State and the Franchise Operator in its capacity as Relevant Operator respectively.

2.4 The MARA sets out the process (the **Design Process**) for developing and completing the design of the Sets. It is acknowledged by the Franchise Operator that:

- (a) the Design Process (including the establishment of the Train User Review Groups) will have commenced and may have been finalised prior to the date of the Franchise Agreement; and
- (b) the design for the Sets will also be used for the purposes of the supply and construction of new fleet of high speed trains for operation by the Great Western Operator. The Franchise Operator hereby:
 - (i) confirms its agreement to any aspect of the design of the Sets that has been approved or agreed by the Secretary of State or any person acting on his behalf prior to the date of the Franchise Agreement;
 - (ii) agrees to co-operate with the Great Western Operator in the carrying out of its obligations and the exercise of its rights as provided for under the MARA including in relation to its participation in the Design Process; and
 - (iii) agrees:
 - (A) if any Train User Review Group has been set up prior to the date of the Franchise Agreement, to continue to maintain (at its own cost) each such Train User Review Group for the duration of the Design Process (or for such other time period as may be required by the Secretary of State) and to ensure that, to the extent relevant and reasonably practicable, each such Train User Review Group is representative of the User Population (as such term is defined in the MARA); or
 - (B) if any Train User Review Group has not been set up prior to the date of the Franchise Agreement, to establish and maintain (in each case, at its own cost) for the duration of the Design Process (or for such other time period as may be required by the Secretary of State) each such Train User Review Group within the timescales required under the MARA and to ensure that, to the extent relevant and reasonably practicable, each such Train User Review Group so established is representative of the User Population.

2.5 At the request of the Secretary of State or the TSP (as the case may be) from time to time, the Franchise Operator shall, at its own expense:

- (a) review, consult and provide written comments to the Secretary of State, within such timescales as may be stipulated by the Secretary of State, in respect of any matter (including documents, reports and minutes of meetings) arising under or in connection with the MARA including the Design Process, the Approvals Plan and the Training Plan;
- (b) upon receipt of reasonable notice by the Secretary of State or the TSP, attend all meetings arranged by the Secretary of State or the TSP for the discussion of matters under or in connection with the MARA including the Design Process, the Approvals Plan and the Training Plan; and
- (c) provide such materials and information in the possession and control of the Franchise Operator as the Secretary of State may consider reasonably necessary for the purposes of complying with his obligations or exercising his rights under the MARA and/or where necessary to enable the Secretary of State to comply with his obligations under the MARA.

Franchise Operator Obligations under the RODA

2.6 The Franchise Operator agrees and undertakes to:

- (a) observe and comply with all the conditions and properly perform all the obligations which are expressed to apply to it under the Relevant Operator Direct Agreement; and
- (b) act reasonably and in good faith in and about the performance of its obligations and the exercise of its rights under the Relevant Operator Direct Agreement.

Other agreements

2.7 Except with the prior written consent of the Secretary of State, the Franchise Operator agrees and undertakes not to vary, agree to vary, waive performance of, terminate or in any way deal with or agree to change the terms of any Depot Access Agreement in respect of a depot in relation to which the Franchise Operator is the depot facility owner.

Indemnity

2.8 Subject to paragraph 2.9 of this Schedule 6.3, the Franchise Operator shall be responsible for and shall release, indemnify and hold harmless the Secretary of State from and against all losses suffered or incurred by the Secretary of State arising under or in connection with:

- (a) any failure by the Franchise Operator to comply with the provisions of paragraph 2.2 and/or paragraph 2.6 of this Schedule 6.3 (as the case may be); and

- (b) any claim by the TSP against the Secretary of State under the MARA to the extent that the Secretary of State reasonably determines that such claim is (in whole or in part) attributable to any negligent or improper act or omission by the Franchise Operator in or about the exercise of its rights or any negligent or improper performance of its obligations under the RODA and/or those rights expressed to be exercised and obligations expressed to be performed by the Franchise Operator under the MARA.

2.9 Without prejudice to the Secretary of State's rights under the Act and Schedule 10 (Remedies, Termination and Expiry), the Franchise Operator's total liability (whether in contract, tort (including negligence), breach of statutory duty or otherwise) to the Secretary of State under paragraph 2.8 of this Schedule 6.3 shall in no circumstances exceed ten million pounds (£10,000,000) x RPI. The Secretary of State hereby agrees that if he exercises his rights under:

- (a) Section 57A of the Act to impose a penalty; or
- (b) Section 55 to require that a sum not exceeding 10 per cent of turnover is paid by the Franchise Operator;

in each case, in respect of any contravention by the Franchise Operator of the provisions of paragraph 2.2 and/or paragraph 2.6 of this Schedule 6.3, the amount of such penalty or sum (as the case may be) shall be reduced to take account of any amounts already paid by the Franchise Operator to the Secretary of State under paragraph 2.8 of this Schedule 6.3 such that the aggregate amount payable by the Franchise Operator for a breach of paragraph 2.2 and/or paragraph 2.6 of this Schedule 6.3 whether in contract, tort (including negligence), breach of statutory duty or otherwise and under either Section 55 or Section 57A (as the case may be) of the Act for any breach of paragraph 2.2 and/or paragraph 2.6 of this Schedule 6.3 shall not at any time during the Franchise Period exceed ten million pounds (£10,000,000) x RPI. For the purposes of this paragraph 2.9, RPI shall have the meaning given to it in the definition of Threshold Amount.

2.10 The Secretary of State shall notify the Franchise Operator of any amendment to the MARA which has the effect of requiring the Franchise Operator to perform, or incur any liability in respect of, any obligations in addition to or in excess of the obligations assumed by the Franchise Operator in its capacity as Relevant Operator under the MARA (as at the date of the Franchise Agreement) and, if applicable, under the Relevant Operator Direct Agreement (the **Additional Obligations**). At the direction of the Secretary of State, the Franchise Operator shall make such amendments to the Relevant Operator Direct Agreement and/or the Train Availability and Reliability Agreement (as may be applicable) as may be required for the purposes of the Franchise Operator performing the Additional Obligations. Any such direction by the Secretary of State shall be a Change but only to the extent that such assumption of the Additional Obligations would result in the Franchise

Operator incurring costs and/or liabilities that exceed the costs and liabilities it would have incurred had such amendment to the MARA not been made.

Pre Acceptance/Acceptance Processes

- 2.11 The Franchise Operator shall immediately notify the Secretary of State if in respect of any Set:
- (a) it is of the view that such Set has not satisfied any of the Final Acceptance Conditions. In these circumstances the Franchise Operator shall provide a copy to the Secretary of State (at the same time as such written statement is issued to the TSP) of any written statement it provides to the TSP and which sets out the reasons why it believes that such Set has not satisfied any of the Final Acceptance Conditions; or
 - (b) it intends to issue a Qualified Acceptance Certificate in relation to such Set in accordance with the MARA. The Franchise Operator shall provide to the Secretary of State (at the same time as such letter is issued to the TSP) a copy of any letter it issues to the TSP for the purposes of obtaining the TSP's consent to the issue of the Qualified Acceptance Certificate.

Acceptance Issues

- 2.12 Where:
- (a) the existence of an Acceptance Issue is the sole cause of the Secretary of State not being required under the terms of the MARA to issue a Type Acceptance Certificate or Qualified Type Acceptance Certificate; and
 - (b) the Secretary of State considers (following consultation with the Franchise Operator, the TSP and/or any other person as the Secretary of State may deem necessary) that despite the existence of such Acceptance Issue the relevant Type of Set is capable of operating effectively in revenue earning service on the East Coast IEP Network subject to one or more operating restrictions; and
 - (c) the Secretary of State proposes (following consultation with the Franchise Operator and the TSP and/or any other person as the Secretary of State may deem necessary) operating restrictions in respect of the relevant Type of Set (including, without limitation, implementing speed restrictions for certain parts of the East Coast IEP Network or agreeing actions by the Franchise Operator under its Safety Management System) and modifications to the Diagrams in respect of the relevant Type of Set and modifications to the Dispatch Requirements in respect of that Type of Set to reflect such modifications to the Diagrams

(which shall in each case, in all other respects comply with the requirements of the Train Availability and Reliability Agreement),

- (i) the Franchise Operator shall modify the Diagrams and the Dispatch Requirements in respect of such Type of Set in the manner proposed by the Secretary of State. Any such modification by the Franchise Operator shall be a Change; and
 - (ii) the Franchise Operator shall not withhold the issue of any Acceptance Certificate (or qualify any Acceptance Certificate) in respect of such Type of Set solely because of one or more Acceptance Issues in respect of which operating restrictions have been recorded in a Certificate of Temporary Specific Infrastructure Acceptance Conditions.
- (d) a Qualifying Change has occurred pursuant to paragraph 2.12(c)(i) of this Schedule 6.3 and:
- (i) the relevant Acceptance Issues are no longer subsisting (as evidenced by the TSP and the Secretary of State having countersigned an amended Certificate of Temporary Specific Infrastructure Acceptance Conditions in respect of each Type of Set); and/or
 - (ii) the Franchise Operator is entitled to operate each Set of such Type free and clear of any operating restrictions pertaining to the relevant Acceptance Issues (but at all times in accordance with the terms of the Train Availability and Reliability Agreement relating to such Set),

a further Change (which for these purposes shall be a Qualifying Change irrespective of whether such Change meets the requirements of the definition of Qualifying Change) shall occur. The Franchise Operator shall, promptly on receipt of the amended Certificate of Temporary Specific Infrastructure Acceptance Conditions as countersigned by the Secretary of State and the TSP, modify the Diagrams and the Dispatch Requirements in respect of the relevant Type of Set to reflect the matters referred to in paragraphs 2.12(d)(i) and (ii) of this Schedule 6.3.

2.13 If:

- (a) an Acceptance Certificate is issued in respect of a Type of Set in the circumstances described in paragraph 2.12 of Schedule 6.3; and
- (b) the Franchise Operator is able to demonstrate to the satisfaction of the Secretary of State that the Franchise Operator will not be able to comply with the Train Service Requirement

or Service Level Commitment (as the case may be) or meet the NRPS Benchmark or any Benchmark (each a Condition) solely as a result of the operation of the Type of Set in accordance with the operating restrictions specified in the Acceptance Certificate for the period that such operating restriction is in place,

the Secretary of State agrees that such non-compliance shall not constitute a breach of such Condition of the Franchise Agreement.

Set Retention Amounts

- 2.14 Where the Franchise Operator is required to make any payment in accordance with paragraph 8 of Part A of Schedule 2 to the MARA, the Franchise Operator shall pay the required amount into such bank account as may be notified by the Secretary of State to the Franchise Operator from time to time.

Operator MARA Rights

- 2.15 If the TSP fails to:
- (a) permit the exercise by the Franchise Operator, or prevents the Franchise Operator from exercising any Operator MARA Rights in accordance with the MARA; and/or
 - (b) comply with its obligations under the MARA in respect of any Operator MARA Rights,

and such failure has a material adverse effect on the Franchise Operator's ability to comply with its obligations under this Schedule 6.3 (a **MARA Non-Compliance**) in circumstances where the Franchise Operator has no entitlement to relief and no right to claim against the TSP under the RODA or the Train Availability and Reliability Agreement in respect of any such MARA Non-Compliance, the Franchise Operator shall deliver promptly after the occurrence of any such MARA Non-Compliance, a written notice to the Secretary of State (**MARA Notice**) specifying full details of the relevant Operator MARA Rights and the related MARA Non-Compliance and the material adverse effect that such failure has on the Franchise Operator's ability to comply with its obligations under this Schedule 6.3.

- 2.16 Subject to the Franchise Operator indemnifying the Secretary of State against all claims, losses, damages and third party costs arising out of any action taken by the Secretary of State as a consequence of the MARA Non-Compliance and receipt of the MARA Notice, the Secretary of State shall, unless the Secretary of State believes, in his sole discretion, that:
- (a) the Franchise Operator's request is frivolous or vexatious; or

- (b) the Franchise Operator is entitled to claim against the TSP under the RODA or the Train Availability and Reliability Agreement in respect of the MARA Non-Compliance,

take such reasonable steps as he deems appropriate in order to seek the granting by the TSP to the Franchise Operator of those Operator MARA Rights specified in the MARA Notice and/or compliance by the TSP with those obligations under the MARA in respect of the Operator MARA Rights in accordance with the MARA.

3 TARA Provisions

3.1 The Franchise Operator agrees and undertakes to:

- (a) observe and comply with all the conditions and obligations which are expressed to apply to it under the Train Availability and Reliability Agreement;
- (b) agree and take all steps which may be required to implement any amendment to the Train Availability and Reliability Agreement as the Secretary of State may direct from time to time (including any amendments consequential upon the implementation of a MARA Variation required by the Secretary of State), within such period as the Secretary of State shall specify;
- (c) take all steps as may be required to terminate the Train Availability and Reliability Agreement in accordance with its terms as the Secretary of State may direct from time to time; and
- (d) except with the prior consent of the Secretary of State, not vary (except as permitted by Schedule 12 of the Train Availability and Reliability Agreement), agree to vary, waive performance of, terminate nor in any way deal with or agree to change the terms of the Train Availability and Reliability Agreement.

3.2 It shall be a Change if:

- (a) in accordance with a direction of the Secretary of State, the Franchise Operator implements an amendment to, or terminates, the Train Availability and Reliability Agreement pursuant to paragraphs 3.1(b) or 3.1(c) of this Schedule 6.3;
- (b) the Train Availability and Reliability Agreement automatically terminates on the date of termination of the MARA as contemplated by paragraph 1(b) of Part D of Schedule 10 of the Train Availability and Reliability Agreement; or

- (c) the Franchise Operator enters into a new Train Availability and Reliability Agreement in the circumstances contemplated by paragraph 1.1(a)(ii) of Appendix A to Part D of Schedule 6 to the MARA,

save where the amendment to the Train Availability and Reliability Agreement was contemplated by the Franchise Operator prior to the Start Date and is referred to in Schedule 6.1 (Committed Obligations).

3.3 Without prejudice to any other requirement in the Franchise Agreement (including, without limitation, the provisions of Schedule 11 (Agreement Management Provisions) and Schedule 13 (Information and Industry Initiatives)) the Franchise Operator shall:

- (a) provide promptly to the Secretary of State such information as may be requested by the Secretary of State in connection with the Train Availability and Reliability Agreement;
- (b) at the same time as it receives the same from the TSP, provide copies to the Secretary of State of any Performance Reports and minutes in respect of any Performance Review Meeting;
- (c) promptly on request by the Secretary of State, provide the Secretary of State with copies of any TSP Transition Progress Reports and/or Operator Transition Reports issued under the TARA; and
- (d) where the Franchise Operator exercises its rights under paragraph 7 of Part A of Schedule 4 of the Train Availability and Reliability Agreement to monitor the compliance by the TSP with its obligations thereunder (the **Compliance Audit**), as soon as reasonably practicable after undertaking any such Compliance Audit report to the Secretary of State its findings in relation to such Compliance Audit.

3.4 Notwithstanding the Secretary of State's rights under the MARA, if the Secretary of State suffers a loss in respect of which the Franchise Operator is indemnified in respect of the same loss by the TSP under Schedule 8 of the Train Reliability and Availability Agreement, the Franchise Operator shall, at the request of the Secretary of State, make a claim against the TSP for such loss and to the extent that the Franchise Operator recovers such amount (or any part of such amount) from the TSP, the Franchise Operator shall pay that amount to the Secretary of State within 5 Business Days of receipt of such amount (or such longer period as the Secretary of State may specify).

4 Step-in/Step-out Processes

- 4.1 If with the consent of the Secretary of State the Franchise Operator exercises its rights of step-in, in accordance with the provisions of paragraph 1 of Schedule 11 of the Train Availability and Reliability Agreement then such exercise of its step-in rights shall constitute a Change. If any such Change is a Qualifying Change then, in agreeing or determining the Revised Inputs (if Part A of Schedule 9 (Changes) applies) in respect of such Change, it shall be assumed, in circumstances where the provisions of paragraph 1.9 of Schedule 11 of the Train Availability and Reliability Agreement apply, that any payments to be made by the Franchise Operator to the TSP in respect of the period of such step-in shall be in an amount that is equal to the TARA Payments that the TSP would receive if the TSP was providing the Services that are affected by the Required Action less an amount that is equal to the reasonable and proper costs incurred by the Franchise Operator as a result of taking the Required Action.
- 4.2 Unless otherwise directed by the Secretary of State, the Franchise Operator shall exercise its rights under paragraph 1.8 of Schedule 11 of the Train Availability and Reliability Agreement to withhold payment to the TSP of the portion of the TARA Payments relating to the Services that are affected by any Required Actions (the **Unpaid TARA Payments**) during any Step-In Period if at any time during such Step-In Period it is entitled to do so because the TSP has not complied with its obligations to provide reasonable assistance to the Franchise Operator in accordance with paragraph 1.7 of Schedule 11 of the Train Availability and Reliability Agreement. The Franchise Operator shall on the next Payment Date following any exercise of such rights reimburse to the Secretary of State an amount equal to the Unpaid TARA Payments.
- 4.3 If a Change contemplated in paragraph 4.1 of this Schedule 6.3 occurs and is a Qualifying Change, and the Franchise Operator and the Secretary of State agree (or the Secretary of State reasonably determines) at any time following the exercise by the Franchise Operator of its step-in rights pursuant to Paragraph 1 of Schedule 11 of the Train Availability and Reliability Agreement that a Step-Out Notice should be served on the TSP, then the Franchise Operator shall serve such Step-Out Notice and service of that Step-Out Notice shall give rise to a further Change (which for these purposes shall be a Qualifying Change irrespective of whether such Change meets the requirements of the definition of Qualifying Change) on the date on which such Step-Out Notice is served on the TSP.
- 4.4 The Franchise Operator shall consult the Secretary of State prior to issuing any notification pursuant to paragraph 2.2 of Schedule 11 to the TARA in relation to the cessation of any Required Action thereunder, and the Franchise Operator shall not issue any such notification without the Secretary of State's prior written consent.

5 Pension Issues

- 5.1 The Secretary of State shall reimburse to the Franchise Operator an amount that is equal to the Top Up Amount that the Franchise Operator is required, pursuant to Paragraph 1.20 of Appendix A to Part E of Schedule 1 of the Train Availability and Reliability Agreement, to pay (and pays) to the Receiving Scheme (whether directly or through the Franchise Section) for and in respect of the Relevant Protected Persons and Relevant Indefeasible Rights Members. It is acknowledged and agreed by the Secretary of State and the Franchise Operator that:
- (a) any such Top Up Amount is to be as calculated by the Scheme Actuary in accordance with the terms of the Actuaries' Letter and as verified by the Franchise Operator and the TSP in accordance with the terms of the Train Availability and Reliability Agreement; and
 - (b) any reimbursement by the Secretary of State pursuant to this paragraph 5.1 shall be made by way of adjustment to Franchise Payments on the next Payment Date following the date on which the Franchise Operator pays such Top Up Amount to the Receiving Scheme (whether directly or through the Franchise Section).
- 5.2 The Franchise Operator shall ensure that it pays each Pension Amount to the TSP on the basis and as determined pursuant to the terms of the Train Availability and Reliability Agreement and the Actuaries' Letter.
- 5.3 For the purposes of Paragraph 1.46 of Appendix A to Part E of Schedule 1 to the Train Availability and Reliability Agreement, provided that the provisions of Paragraph 1.45 of Appendix A to Part E of Schedule 1 to the Train Availability and Reliability Agreement have been complied with, the Secretary of State shall (provided that he has received notice from the Franchise Operator within 20 business days of being so requested by the TSP), execute and deliver to the TSP the relevant Flexible Apportionment Arrangement within 30 business days of such request by the TSP.
- 5.4 For the purposes of the definition of **Operator Actuary** under the Train Availability and Reliability Agreement the Franchise Operator shall appoint as actuary such person as the Secretary of State shall direct.

6 IEP Implementation Strategy

Within three months of the Start Date (and at three monthly intervals thereafter), the Franchise Operator shall review its IEP Implementation Strategy and, provided that the Secretary of State approves any updates to the IEP Implementation Strategy, the Franchise Operator shall provide a copy of such updated strategy to the Secretary of State.

7 IEP Variations

232

7.1 233

7.2 234

7.3 235

(a)

(i)

(ii)

(b)

(i)

(ii)

(c)

7.4 For the purpose of this Schedule 6.3 (The IEP Provisions):

(a) any amendment to the MARA Agreement in connection with the Variation Notices which requires the Franchise Operator to perform, or incur any liability in respect of, any

²³² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²³³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²³⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²³⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

obligations in addition to or in excess of the obligations assumed by the Franchise Operator in its capacity as Relevant Operator under the MARA (as at the date of the Franchise Agreement) and, if applicable, under the Relevant Operator Direct Agreement shall not constitute Additional Obligations (as defined in paragraph 2.10 of this Schedule 6.3 (The IEP Provisions)) and shall not constitute a Change; and

- (b) the Franchise Operator shall make such amendments to the Train Availability and Reliability Agreement as the Secretary of State directs in accordance with paragraph 2.10 and paragraph 3(b) of this Schedule 6.3 (The IEP Provisions) in connection with the Variation Notices, save that such amendments shall not constitute a Change under paragraph 3.2 of this Schedule 6.3 (the IEP Provisions).

7.5 The Franchisee and the Secretary of State agree (and, with effect from the Start Date, the Franchise Operator acknowledges) that the Train Availability and Reliability Agreement in the agreed terms reflects the level of Set Availability Payment notified to the Franchisee (and the other shortlisted bidders for this Franchise) on 22 April 2014. ***Each of the Franchisee and the Secretary of State agree that the Franchise Operator will execute the Train Availability and Reliability Agreement on or before the Start Date in substantially the same terms as the Train Availability and Reliability Agreement in the agreed terms marked TARA.***²³⁶

7.6 It is acknowledged by the Franchisee (and, with effect from the Start Date, the Franchise Operator) that the Secretary of State instructed:

- (a) the following variations in April 2014 (the **SoS Variations**):
 - (i) the reduction of the size of the 5-car kitchens from 6 metres to 5 metres, which, in the absence of other changes, provides for a further three first class seats;
 - (ii) the installation of a pantograph camera system on all rolling stock referred to in Table 4 of Schedule 1.7 (The Train Fleet) to monitor the pantograph and overhead lines; and
 - (iii) the installation a speed limiter function on all rolling stock referred to in Table 4 of Schedule 1.7 (The Train Fleet) to allow the driver to select a speed and enable the train to control its speed to that selected speed; and
- (b) the variations set out in the appendix (the **Additional SoS Variations**).

7.7 It shall be a Change if:

²³⁶ ***Replaced in letter dated 27 February 2015.***

- (a) any of the SoS Variations and/or the Additional SoS Variations proceed and have an impact on the Set Availability Payment or require a capital or other payment to be made by the Franchise Operator; or
- (b) the Secretary of State does not proceed with any of the SoS Variations.

7.8 It is acknowledged by the Franchisee (and, with effect from the Start Date, the Franchise Operator) that the Secretary of State is seeking to agree variations with the TSP in relation to passenger count variations as more particularly described in column 4 of Annex 1 of Variation Notice²³⁷. If the Secretary of State:

- (a) proceeds to instruct such variations, it shall be a Change and any costs included in the Record of Assumptions in relation to such variations will be taken into account; or
- (b) does not instruct such variations, the Secretary of State will issue a variation notice in respect of those variations and paragraphs 7.3 and 7.4 will apply.

²³⁷ Pursuant to the letter dated 27 February 2015, this reference to the Variation Notice is to the form of Variation Notice in the agreed terms as at 9 December 2014 and not to the Variation Notice included in the letter dated 27 February 2015.

Appendix

Additional SoS Variations

Automatic power change over

In addition to the existing manual change process, the automatic power change over system is capable of causing the train to automatically change-over from electric power to diesel power or vice-versa without requiring any action from the driver

Driver advisory system

Standalone DAS integrated within the Train Management System with capability for upgrade to connected DAS in due course, providing driver with live information to manage and develop driving techniques to improve train running performance, right time service delivery, reduce possible performance impacts and improve safety

Variations resulting from the “overs and unders” process

The following minor design related changes emerging from the detailed design process have been agreed with Agility to be Agreed Technical Changes reflecting changes to the original signed Train Technical Specification and Train Technical Description.

Unders – being items to be removed from specification:

- Net effect of the removal of one SST (small toilet) and addition of one Bike/Bulk area in 9-car trains
- Blanking of external passenger information screen display near kitchen
- Removal of magazine racks and netting from bay tables and seatbacks (including passive provision for 19" LCD display screen in saloon end partitions in lieu of rack holders)
- Non-fitment of luggage rack in low roof area
- Removal of tint from windscreen
-

Overs – being items to be added to the specification:

- Cab ceiling lighting variable adjustment
- Cab desk illumination variable adjustment
- Additional cab coat hooks
- Second person work surface and lighting within cab
- Auto brake application when doors released
- Provision of pantograph automatic drop device isolation facility
- Acceleration restriction removal
- Electrical points in bulk storage areas (2 areas per 9-car train)
- Interlocked door functionality in UAT
- Push buttons for kitchen-to-1st class and 1st class-to-standard class doors
- FFCCTV still image download via remote transmission
- CCTV in L1 kitchen (net of no CCTV in staff vestibule)
- Modified design of CCTV cameras in vestibules (location and lens)
- Wi-Fi dual antenna units (rather than single units)
- Substituting four cat 5e cables with two cat 7 cables per run
- Two cat 7 cables from switch to access point in each vehicle rather than two cat 5e (which provides passive provision for Quicksilver)
- Additional sensor for passenger counting system for composite car dividing door
- TMS screen design for additional passenger counting system for composite car
- Additional internal passenger information screen display in composite car
- Push of live seat reservation data and "May be reserved later" capability in seat reservation system

- Staff in passenger areas to be advised of a PA activation by a sound and then scrolling visual notification via passenger information screens
- AED (automatic external defibrillator) space provision (TOC to supply kit)
- Atlas cart storage facility in one electrical cubicle per intermediate vehicle, with associated emergency equipment storage above;
- Staff vestibule area in the vestibule between each L1 kitchen and its associated cab, comprising two seat spaces, fold up tables, power sockets and coat hook;
- Fold-out flap design on all external powered doors on each DPT so as to remove the need for a wedge, thus enabling the safe deployment of wheelchair ramps in a way that prevents the train from being able to drive off with the ramp attached;
- Nappy change table in each SST; and
- At seat power socket provision of:
 - First class: dual USB and 13A socket per seat; and
 - Standard class: 13A socket per seat
- Atlas cart storage in one 1st Class Bike & Bulk space
- Ability to park the cab windscreen wiper on the left hand side

Level 1 kitchen equipment overs and unders

Unders – design change delivers less than the TTD

- Removal of Panini Grill
- Reduced size/capacity of the chiller unit (reduced from space for 8 carts to space for 6)
- Removal of hot milk steamer

Overs – Design change delivers more than the TTD

- Increased ambient cart storage (increased space from 6 to 7 in the Level 1 kitchen, space for 4 additional elsewhere in the 9 car and 1 additional elsewhere in the 5 car)
- Additional 1st class trolley storage (space increased from 1 to 2)
- Additional waste bins (increased from 2 to 6)
- Additional drawers (increased from 1 to 3)
- Addition of 1 drain sink
- Addition of 3 areas for chopping board storage
- Addition of 7 electrical sockets

Schedule 7
Performance Benchmarks

| | |
|--------------|---|
| Schedule 7.1 | Performance Benchmarks |
| | Appendix 1: Cancellations Benchmark Table |
| | Appendix 2: TOC Minute Delay Benchmark Table |
| | Appendix 3: Short Formation Benchmark Table |
| Schedule 7.2 | National Rail Passenger Surveys and Customer and Communities Improvement Fund |
| | Appendix 1: NRPS Benchmark Table |

SCHEDULE 7.1

Performance Benchmarks

1 Benchmarks and Annual Benchmarks

Location and amendment of Benchmarks and Annual Benchmarks

- 1.1 The Cancellations Benchmarks are set out in the table in Part 1 (Cancellations Benchmark Table) of Appendix 1 (Cancellations Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1.
- 1.2 The Annual Cancellations Benchmarks are set out in the table in Part 2 (Annual Cancellations Benchmark Table) of Appendix 1 (Cancellations Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1.
- 1.3 The TOC Minute Delay Benchmarks are set out in the table in Part 1 (TOC Minute Delay Benchmark Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1.
- 1.4 The Annual TOC Minute Delay Benchmarks are set out in the table in Part 2 (Annual TOC Minute Delay Benchmark Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1.
- 1.5 The Short Formation Benchmarks are set out in the table in Part 1 (Short Formation Table) of Appendix 3 (Short Formation Benchmark and Annual Short Formation Benchmark Table) to this Schedule 7.1.
- 1.6 The Annual Short Formation Benchmarks are set out in the table in Part 2 (Annual Short Formation Benchmark Table) of Appendix 3 (Short Formation Benchmark and Annual Short Formation Benchmark Table) to this Schedule 7.1.
- 1.7 The Secretary of State may at any time after a Charging Review vary, on giving not less than 3 months' notice in writing, any of the Benchmarks and/or the Annual Benchmarks to reflect the Secretary of State's reasonable view of the performance trajectory set as part of such Charging Review. Where the Secretary of State exercises his right pursuant to this paragraph 1.7, the relevant Benchmark Tables and/or Annual Benchmark Tables shall be deemed to have been amended accordingly.

2 Information Provisions

Cancellations Benchmarks and Annual Cancellations Benchmarks

2.1 At the end of each Reporting Period, the Franchise Operator shall, in accordance with the relevant requirements of Appendix 3 (Operational Information) to Schedule 13 (Information and Industry Initiatives), report to the Secretary of State:

- (a) the total number of Cancellations or Partial Cancellations in that Reporting Period.
- (b) the total number of Disputed Cancellations and Disputed Partial Cancellations in that Reporting Period;
- (c) the total number of Network Rail Cancellations and Network Rail Partial Cancellations in that Reporting Period;
- (d) the total number of Disputed Cancellations and Disputed Partial Cancellations from the 12 preceding Reporting Periods for which the attribution remains in dispute; and
- (e) the total number of Disputed Cancellations and Disputed Partial Cancellations for which the disputed attribution has been resolved since the Franchise Operator's last report pursuant to this paragraph 2.1 (including whether each relevant Disputed Cancellation and/or Disputed Partial Cancellation was attributed to Network Rail or to the Franchise Operator).

2.2 For each Reporting Period, the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the Cancellations Benchmark in accordance with the following formula:

$$\frac{A + D}{13}$$

where:

A is ascertained as follows:

$$\frac{B}{C} \times 100$$

where:

B is the total number of Cancellations or Partial Cancellations of Passenger Services in that Reporting Period, on the basis that:

- (a) each Cancellation shall count as 1;
- (b) each Partial Cancellation shall count as 0.5; and

(c) any Cancellations or Partial Cancellations during that Reporting Period which were caused by:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event,

shall, if the Franchise Operator has complied with paragraph 4, be disregarded in determining such total number of Cancellations and Partial Cancellations;

C is the total number of Passenger Services scheduled to be operated in the Enforcement Plan of the Day of that Reporting Period, disregarding, if the Franchise Operator has complied with paragraph 4.1 of this Schedule 7.1, any Cancellations or Partial Cancellations during that Reporting Period which were caused by:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event; and

D is the sum of the values of A in each of the 12 preceding Reporting Periods.

2.3 At the end of each Performance Calculation Year the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the Annual Cancellations Benchmark in accordance with the following formula:

$$\text{ACTUAL}_C = \frac{\sum A}{B}$$

where:

ACTUAL_C is the moving annual average of the Franchise Operator's performance against the Annual Cancellations Benchmark for that Performance Calculation Year;

$\sum A$ is the sum of the values of A as determined in accordance with paragraph 2.2 for each Reporting Period in that Performance Calculation Year; and

B is in respect of a Performance Calculation Year consisting of 13 Reporting Periods, 13 and in respect of a Performance Calculation Year consisting of less than 13 Reporting Periods, the number of Reporting Periods in such Performance Calculation Year.

2.4 Where there are any Disputed Cancellations and/or Disputed Partial Cancellations at the end of a Reporting Period and/or a Performance Calculation Year (as applicable) the Secretary of State shall, for the purpose of performing the calculations referred to in paragraphs 2.2 and/or 2.3 allocate any Disputed Cancellations and/or Disputed Partial Cancellations between the Franchise Operator and Network Rail in the proportions of:

A to B

Where

A is the total number of undisputed Cancellations and/or Partial Cancellations (that is, which are not Disputed Cancellations or Disputed Partial Cancellations) from the 12 preceding Reporting Periods including any Disputed Cancellations or Disputed Partial Cancellations which were resolved or determined (and attributed to the Franchise Operator) during such 12 preceding Reporting Periods; and

B is the total number of undisputed Network Rail Cancellations and/or Network Rail Partial Cancellations (that is, which are not Disputed Cancellations or Disputed Partial Cancellations) from the 12 preceding Reporting Periods including any Disputed Cancellations or Disputed Partial Cancellations which were resolved or determined (and attributed to Network Rail) during such 12 preceding Reporting Periods.

TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks

2.5 At the end of each Reporting Period the Franchise Operator shall, in accordance with the relevant requirements of Appendix 3 (Operational Information) to Schedule 13 (Information and Industry Initiatives), report to the Secretary of State:

(a) the total number of Minutes Delay:

(i) in that Reporting Period attributable to the Franchise Operator;

- (ii) in that Reporting Period for which the attribution is in dispute between Network Rail and the Franchise Operator;
- (iii) from the 12 preceding Reporting Periods for which the attribution remains in dispute; and
- (iv) from the 12 preceding Reporting Periods for which disputed attributions have been resolved or determined since the Franchise Operator's last report pursuant to this paragraph 2.5, and the number of such Minutes Delay attributed to each of the Franchise Operator and Network Rail as a result of such resolution or determination; and

(b) the aggregate Train Mileage operated in that Reporting Period.

2.6 For each Reporting Period, the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the TOC Minute Delay Benchmark in accordance with the following formula:

$$\frac{A}{D}$$

where:

A is the sum of the number of Minutes Delay that are attributable to the Franchise Operator:

- (a) in such Reporting Period; and
- (b) in the 12 preceding Reporting Periods;

D is ascertained as follows:

$$\frac{B}{1000}$$

Where:

B is the sum of the actual Train Mileage operated by the Franchise Operator:

- (a) in such Reporting Period; and
- (b) in the 12 preceding Reporting Periods.

2.7 At the end of each Performance Calculation Year the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the Annual TOC Minute Delay Benchmark in accordance with the following formula:

$$\text{ACTUAL}_{\text{MD}} = \frac{\text{AA}}{\text{AD}}$$

where:

$\text{ACTUAL}_{\text{MD}}$ is the Franchise Operator's performance against the Annual TOC Minute Delay Benchmark for that Performance Calculation Year;

AA is the sum of the number of Minutes Delay that are attributable to the Franchise Operator in each Reporting Period in that Performance Calculation Year; and

AD is ascertained as follows:

$$\frac{\text{AB}}{1000}$$

where:

AB is the sum of the actual Train Mileage operated by the Franchise Operator in each Reporting Period in that Performance Calculation Year.

2.8 In performing the calculation pursuant to paragraph 2.6 and/or 2.7, the Secretary of State shall disregard any Minutes Delay that are caused by the occurrence or continuing effect of a Force Majeure Event.

2.9 Where the attribution of any Minutes Delay is in dispute between Network Rail and the Franchise Operator at the end of a Reporting Period the Secretary of State shall, for the purpose of performing the calculation referred to in paragraph 2.6 and/or 2.7, allocate any disputed Minutes Delay between the Franchise Operator and Network Rail in the proportions of:

A to B

where:

- A is the total number of undisputed Minutes Delay from the 12 preceding Reporting Periods that are attributable to the Franchise Operator including any disputed attributions which were resolved or determined during such 12 preceding Reporting Periods; and
- B is the total number of undisputed Minutes Delay from the 12 preceding Reporting Periods that are attributable to Network Rail including any disputed attributions which were resolved or determined during such 12 preceding Reporting Periods.

2.10 The Franchise Operator agrees with the Secretary of State to comply with the requirements of the Track Access Agreement in respect of Minutes Delay attribution.

Short Formation Benchmarks and Annual Short Formation Benchmark

2.11 At the end of each Reporting Period commencing on or after 1 April 2018, the Franchise Operator shall, in accordance with the relevant requirements of Appendix 3 (Operational Information) to Schedule 13 (Information and Industry Initiatives), report to the Secretary of State the total number of Passenger Services in that Reporting Period operated with less than 90% of the Passenger Carrying Capacity specified for each such Passenger Service in the Train Plan.

2.12 For each Reporting Period occurring in the first Performance Calculation Year commencing on 1 April 2018, the Secretary of State shall calculate the Franchise Operator's performance against the Short Formations Benchmark in accordance with the following formula:

$$\frac{A + D}{n}$$

where:

A is ascertained as follows:

$$\frac{B}{C} \times 100$$

where:

B is the total number of Passenger Services in that Reporting Period operated with less than 90% of the Passenger Carrying Capacity specified for each such Passenger Service in the Train Plan, disregarding, if the Franchise Operator has complied with paragraph 4.3, any such Passenger Services which were operated in that way as a result of:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event;

C is the total number of Passenger Services scheduled to be operated in that Reporting Period, disregarding, if the Franchise Operator has complied with paragraph 4.3, any Passenger Services operated with less than 90% of the Passenger Carrying Capacity specified for each such Passenger Service in the Train Plan as a result of:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event; and

D is the sum of the values of *A* in each of the Reporting Periods immediately preceding that Reporting Period in the first Performance Calculation Year; and

n is the number of Reporting Periods that have elapsed since 1 April 2018.

2.13 For each Reporting Period commencing on or after 1 April 2019, the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the Short Formation Benchmark in accordance with the following formula:

$$\frac{A + D}{13}$$

where:

A is ascertained as follows:

$$\frac{B}{C} \times 100$$

where

B is the total number of Passenger Services in that Reporting Period operated with less than 90% of the Passenger Carrying Capacity specified for each such Passenger Service in the Train Plan, disregarding, if the Franchise Operator has complied with paragraph 4.3, any such Passenger Services which were operated in that way as a result of:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event;

C is the total number of Passenger Services scheduled to be operated in that Reporting Period, disregarding, if the Franchise Operator has complied with paragraph 4.3, any Passenger Services operated with less than 90% of the Passenger Carrying Capacity specified for each such Passenger Service in the Train Plan as a result of:

- (i) the Franchise Operator's implementation of a Service Recovery Plan during that Reporting Period; or
- (ii) the occurrence or continuing effect of a Force Majeure Event; and

D is the sum of the values of *A* in each of the 12 preceding Reporting Periods.

2.14 At the end of each Performance Calculation Year the Secretary of State shall calculate a moving annual average of the Franchise Operator's performance against the Annual Short Formation Benchmark in accordance with the following formula:

$$ACTUAL_{SF} = \frac{\sum A}{B}$$

where:

$ACTUAL_{SF}$ is the moving annual average of the Franchise Operator's performance against the Annual Short Formation Benchmark for that Performance Calculation Year;

$\sum A$ is the sum of the values of A as determined in accordance with paragraph 2.12 or 2.13, as applicable, for that Performance Calculation Year; and

B is in respect of a Performance Calculation Year consisting of 13 Reporting Periods, 13 and in respect of a Performance Calculation Year consisting of fewer than 13 Reporting Periods, the number of Reporting Periods in such Performance Calculation Year.

2.15 For the purposes of the calculations to be undertaken by the Secretary of State pursuant to paragraphs 2.12, 2.13 and 2.14, any Passenger Service that is the subject of a Cancellation or a Partial Cancellation shall be disregarded.

First 12 Reporting Periods of the Franchise Term

2.16 For as long as fewer than 13 Reporting Periods have elapsed following the Start Date, the Secretary of State shall, for the purposes of performing the calculations referred to in paragraphs 2.2 and 2.6 assume performance at the Previous Performance Level in respect of the relevant Reporting Periods (up to a maximum of the 12 Reporting Periods) that precede the Start Date.

Calculations

2.17 The Secretary of State shall perform the calculations referred to in paragraphs 2.2, 2.3, 2.6, 2.7, 2.9, 2.12, 2.13, 2.14 and 3 rounded to two decimal places, with the midpoint (that is, 11.115) rounded upwards (that is, 11.12).

Notice of Performance Results

2.18 As soon as reasonably practicable after the end of each Reporting Period and each Performance Calculation Year, the Secretary of State shall notify the Franchise Operator of the results of the calculations performed pursuant to this paragraph 2.

Meaning of Train Plan

2.19 For the purposes of this Schedule 7.1, Train Plan shall, unless otherwise stated, mean the then current Train Plan and which includes any amendments thereto pursuant to paragraph 3 of Part

A of Schedule 1.2 (Operating Obligations) or paragraph 4 of Part B of Schedule 1.2 (Operating Obligations), as the case may be, where:

- (a) such amendments are required as a consequence of Network Rail exercising its rights pursuant to the Track Access Agreement; and
- (b) the Franchise Operator has complied with the provisions of such paragraph in respect thereof.

3 Performance Sum Payments

3.1 At the end of each Performance Calculation Year the Secretary of State shall, in accordance with this paragraph 3, calculate:

- (a) the Cancellations Performance Sum and the TOC Minute Delay Performance Sum payable by the Secretary of State to the Franchise Operator or required to be incurred by the Franchise Operator (as the case may be); and
- (b) the Short Formation Performance Sum required to be incurred by the Franchise Operator.

3.2 Cancellations Performance Sum

Where for any Performance Calculation Year, the Franchise Operator's performance in relation to the Annual Cancellations Benchmark as calculated pursuant to paragraph 2.3 (that is, the value of ACTUAL_C) is:

- (a) less than (that is, better than) or equal to the Annual Target Performance Level for that Annual Cancellations Benchmark and is less than (that is, better than) or equal to the Annual Cap Performance Level for such Annual Cancellations Benchmark, in each case for that Performance Calculation Year, then the Cancellations Performance Sum in respect of that Performance Calculation Year shall subject to paragraph 3.6 be payable by the Secretary of State to the Franchise Operator and shall be an amount calculated as follows:

$$(TARGET_C - CAP_C) \times PBP_C$$

where:

TARGET_C is the Annual Target Performance Level relating to that Annual Cancellations Benchmark for that Performance Calculation Year;

CAP_C is the Annual Cap Performance Level relating to that Annual Cancellations Benchmark for that Performance Calculation Year;

PBP_c is, in respect of any Performance Calculation Year, an amount calculated as follows:

$$PBP_c \times RPI$$

where:

PBP_c is where the Actual CaSL Performance Level is:

- (i) less than (that is better than) or equal to the Annual CaSL Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 3 in the column headed "With Multiplier" of the table in Part 3 (Annual Cancellations Payment Table) of Appendix 1 (Cancellations Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1; and
- (ii) more than (that is worse than) the Annual CaSL Target Performance Level for that Performance Calculation Year, the amount specified in row 3 in the column headed "Without Multiplier" of the table in Part 3 (Annual Cancellation Payment Table) of Appendix 1 (Cancellations Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1.

RPI is the quotient of the Retail Prices Index for the January which immediately precedes the commencement of the relevant Performance Calculation Year divided by the Retail Prices Index for January 2014 (provided that for the first Performance Calculation Year RPI shall be one);

- (b) less than (that is, better than) or equal to the Annual Target Performance Level for that Annual Cancellations Benchmark but more than (that is, worse than) the Annual Cap Performance Level for that Annual Cancellations Benchmark, in each case for that Performance Calculation Year, then the Cancellations Performance Sum in respect of that Performance Calculation Year shall subject to paragraph 3.6 be payable by the Secretary of State to the Franchise Operator and shall be an amount calculated as follows:

$$(TARGET_c - ACTUAL_c) \times PBP_c$$

where:

TARGET_c has the meaning given to it in paragraph 3.2(a);

ACTUAL_c has the meaning given to it in paragraph 2.3; and

PBP_c has the meaning given to it in paragraph 3.2(a);

- (c) more than (that is, worse than) the Annual Target Performance Level for that Annual Cancellations Benchmark but less than (that is, better than) the Annual Floor Performance Level for that Annual Cancellations Benchmark, in each case for that Performance Calculation Year, then the Cancellations Performance Sum in respect of that Performance Calculation Year shall be required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{ACTUAL}_C - \text{TARGET}_C) \times \text{PPP}_C$$

where:

ACTUAL_C has the meaning given to it in paragraph 2.3;

TARGET_C has the meaning given to it in paragraph 3.2(a);

PPP_C is, in respect of any Performance Calculation Year, an amount calculated as follows:

$$\text{PPP}_C \times \text{RPI}$$

where

PPP_C where the Actual CaSL Performance Level is:

- (i) more than (that is worse than) the Annual CaSL Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 4 in the column headed "With Multiplier" of the table in Part 3 (Annual Cancellations Payment Table) of Appendix 1 (Cancellation Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1; or
- (ii) less than (that is better than) or equal to the Annual CaSL Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 4 in the column headed "Without Multiplier" of the table in Part 3 (Annual Cancellations Payment Table) of Appendix 1 (Cancellation Benchmarks and Annual Cancellations Benchmarks) to this Schedule 7.1;

RPI has the meaning given to it in paragraph 3.2(a); and

- (d) more than (that is, worse than) or equal to the Annual Floor Performance Level for that Annual Cancellations Benchmark for that Performance Calculation Year then the

Cancellations Performance Sum in respect of that Performance Calculation Year shall be required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{FLOOR}_C - \text{TARGET}_C) \times \text{PPP}_C$$

where:

FLOOR_C is the Annual Floor Performance Level relating to that Annual Cancellations Benchmark for that Performance Calculation Year;

TARGET_C has the meaning given to it in paragraph 3.2(a); and

PPP_C has the meaning given to it in paragraph 3.2(c).

3.3 TOC Minute Delay Performance Sum

Where for any Performance Calculation Year, the Franchise Operator's performance in relation to the Annual TOC Minute Delay Benchmark as calculated pursuant to paragraph 2.7 (that is, the value of ACTUAL_{MD}) is:

- (a) less than (that is, better than) or equal to the Annual Target Performance Level for that Annual TOC Minute Delay Benchmark and is less than (that is, better than) or equal to the Annual Cap Performance Level for such Annual TOC Minute Delay Benchmark, in each case for that Performance Calculation Year, then the TOC Minute Delay Performance Sum in respect of that Performance Calculation Year shall be payable by the Secretary of State to the Franchise Operator and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{TARGET}_{MD} - \text{CAP}_{MD}) \times \text{PBP}_{MD}$$

where:

TARGET_{MD} is the Annual Target Performance Level relating to that Annual TOC Minute Delay Benchmark for that Performance Calculation Year;

CAP_{MD} is the Annual Cap Performance Level relating to that Annual TOC Minute Delay Benchmark for that Performance Calculation Year;

PBP_{MD} is, in respect of any Performance Calculation Year, an amount calculated as follows:

$$\text{PBP}_{MD} \times \text{RPI}$$

where:

PBP_{MD} is, where the Actual PPM Performance Level is:

- (i) more than (that is, better than) or equal to the Annual PPM Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 3 of the column headed "With Multiplier" of the table in Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1; and
- (ii) less than (that is worse than) the Annual PPM Target Performance Level for that Performance Calculation Year, the amount specified in row 3 of the column headed "Without Multiplier" of the table in Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1;

RPI is the quotient of the Retail Prices Index for the January which immediately precedes the commencement of the relevant Performance Calculation Year divided by the Retail Prices Index for January 2014 (provided that for the first Performance Calculation Year RPI shall be one);

- (b) less than (that is, better than) or equal to the Annual Target Performance Level for that Annual TOC Minute Delay Benchmark but more than (that is, worse than) the Annual Cap Performance Level for that Annual TOC Minute Delay Benchmark, in each case for that Performance Calculation Year, then the TOC Minute Delay Performance Sum in respect of that Performance Calculation Year shall be payable by the Secretary of State to the Franchise Operator and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(TARGET_{MD} - ACTUAL_{MD}) \times PBP_{MD}$$

where:

$TARGET_{MD}$ has the meaning given to it in paragraph 3.3(a);

$ACTUAL_{MD}$ has the meaning given to it in paragraph 2.7; and

PBP_{MD} has the meaning given to it in paragraph 3.3(a);

- (c) more than (that is, worse than) the Annual Target Performance Level for that Annual TOC Minute Delay Benchmark but less than (that is, better than) the Annual Floor Performance

Level for that Annual TOC Minute Delay Benchmark, in each case for that Performance Calculation Year, then the TOC Minute Delay Performance Sum in respect of that Performance Calculation Year shall be required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{ACTUAL}_{\text{MD}} - \text{TARGET}_{\text{MD}}) \times \text{PPP}_{\text{MD}}$$

where:

$\text{ACTUAL}_{\text{MD}}$ has the meaning given to it in paragraph 2.7;

$\text{TARGET}_{\text{MD}}$ has the meaning given to it in paragraph 3.3(a);

PPP_{MD} is, in respect of any Performance Calculation Year, an amount calculated as follows:

$$\text{PPP}_{\text{MD}} \times \text{RPI}$$

where

PPP_{MD} is, where the Actual PPM Performance Level is:

- (i) less than (that is worse than) the Annual PPM Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 4 of the column headed "With Multiplier" of the table in Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1; and
- (ii) more than (that is better than) or equal to the Annual PPM Target Performance Level for that Performance Calculation Year, the amount equal to the amount specified in row 4 of the column headed "Without Multiplier" of the table in Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks) to this Schedule 7.1;

RPI has the meaning given to it in paragraph 3.3(a); and

- (d) more than (that is, worse than) or equal to the Annual Floor Performance Level for that Annual TOC Minute Delay Benchmark for that Performance Calculation Year then the TOC Minute Delay Performance Sum in respect of that Performance Calculation Year shall be

required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{FLOOR}_{\text{MD}} - \text{TARGET}_{\text{MD}}) \times \text{PPP}_{\text{MD}}$$

where:

FLOOR_{MD} is the Annual Floor Performance Level relating to that Annual TOC Minute Delay Benchmark for that Performance Calculation Year;

$\text{TARGET}_{\text{MD}}$ has the meaning given to it in paragraph 3.3(a); and

PPP_{MD} has the meaning given to it in paragraph 3.3(c).

3.4 Short Formations Performance Sum

Where for any Performance Calculation Year, the Franchise Operator's performance in relation to the Annual Short Formation Benchmark as calculated pursuant to paragraph 2.13 (that is the value of $\text{ACTUAL}_{\text{SF}}$) is:

- (a) more than (that is, worse than) the Annual Target Performance Level for that Annual Short Formation Benchmark but less than (that is, better than) the Annual Floor Performance Level for that Annual Short Formation Benchmark, in each case for that Performance Calculation Year, then the Short Formation Performance Sum in respect of that Performance Calculation Year shall be required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{ACTUAL}_{\text{SF}} - \text{TARGET}_{\text{SF}}) \times \text{PPP}_{\text{SF}}$$

where:

$\text{ACTUAL}_{\text{SF}}$ has the meaning given to it in paragraph 2.14;

$\text{TARGET}_{\text{SF}}$ is the Annual Target Performance Level relating to the Annual Short Formation Benchmark for that Performance Calculation Year;

PPP_{SF} is, in respect of any Performance Calculation Year, an amount calculated as follows:

$$\text{PPP}_{\text{SF}} \times \text{RPI}$$

where

PPP_{SF} is the amount specified in the table in Part 3 (Annual Short Formations Payment Table) of Appendix 3 (Short Formations Benchmark and Annual Short Formation Benchmark Table) to this Schedule 7.1;

RPI is the quotient of the Retail Prices Index for the January which immediately precedes the commencement of the relevant Performance Calculation Year divided by the Retail Prices Index for January 2014 (provided that for the first Performance Calculation Year RPI shall be one);

- (b) more than (that is, worse than) the Annual Floor Performance Level for that Annual Short Formation Benchmark for that Performance Calculation Year then the Short Formation Performance Sum in respect of that Performance Calculation Year shall be required to be incurred by the Franchise Operator in accordance with paragraph 3.7 and shall subject to paragraph 3.6 be an amount calculated as follows:

$$(\text{FLOOR}_{\text{SF}} - \text{TARGET}_{\text{SF}}) \times \text{PPP}_{\text{SF}}$$

where:

FLOOR_{SF} is the Annual Floor Performance Level relating to that Annual Short Formation Benchmark for that Performance Calculation Year;

TARGET_{SF} has the meaning given to it in paragraph 3.4(a); and

PPP_{SF} has the meaning given to it in paragraph 3.4(a).

3.5 For the purpose of the calculations referred to in this paragraph 3, each of the Annual Cap Performance Level, the Annual Target Performance Level and the Annual Floor Performance Level will be specified as an absolute number not as a percentage (i.e. 1.5% equals 1.5).

3.6 The maximum amount:

- (a) payable by the Secretary of State by way of Cancellations Performance Sum and TOC Minute Delay Performance Sum shall, in respect of any Performance Calculation Year, be limited to an aggregate amount of £2,000,000 x RPI (where RPI has the meaning given to it in paragraph 3.2(a));
- (b) to be incurred as expenditure by the Franchise Operator by way of Cancellations Performance Sum and TOC Minute Delay Performance Sum, shall, in respect of any Performance Calculation Year, be limited to an aggregate amount of £2,000,000 x RPI (where RPI has the meaning given to it in paragraph 3.2(a)); and

- (c) to be incurred as expenditure by the Franchise Operator by way of Short Formation Performance Sum shall, in respect of any Performance Calculation Year, be limited to £500,000 x RPI (where RPI has the meaning given to it in paragraph 3.2(a)). Notwithstanding any provision to the contrary in this Schedule 7.1, if, in respect of any Performance Calculation Year, the amount to be incurred by the Franchise Operator as expenditure by way of Short Formation Performance Sum is less than £50,000 x RPI (where RPI has the meaning given to it in paragraph 3.2(a)), the Franchise Operator shall have no obligation to incur such expenditure.

The Secretary of State shall be entitled to set off any liability for payment under this Schedule 7.1 against any sum owed to it by the Franchise Operator under this Schedule 7.1.

3.7 Where following calculation of the Cancellations Performance Sum, the TOC Minute Delay Performance Sum or the Short Formation Performance Sum, the Franchise Operator is required to incur expenditure, the Franchise Operator shall incur expenditure equal to the amount of the Cancellations Performance Sum, the TOC Minute Delay Performance Sum and/or the Short Formation Performance Sum due from the Franchise Operator in order to secure:

- (a) where the Franchise Operator is obliged to incur expenditure equal to the amount of the Cancellations Performance Sum, an improvement in the Franchise Operator's performance against the Annual Cancellations Benchmark so that such level is equal to or higher than the Annual Target Performance Level for the Annual Cancellations Benchmark;
- (b) where the Franchise Operator is obliged to incur expenditure equal to the amount of the TOC Minute Delay Performance Sum, an improvement in the Franchise Operator's performance against the Annual TOC Minute Delay Benchmark so that such level is equal to or higher than the Annual Target Performance Level for the Annual TOC Minute Delay Benchmark; and/or
- (c) where the Franchise Operator is obliged to incur expenditure equal to the amount of the Short Formation Performance Sum, an improvement in the Franchise Operator's performance against the Annual Short Formation Benchmark so that such level is equal to or higher than the Annual Target Performance Level for the Annual Short Formation Benchmark,

or, in each case, as the Secretary of State may otherwise direct (the **Required Performance Improvement**).

3.8 Without limiting paragraph 3.7, on each occasion that the Franchise Operator becomes obliged to incur expenditure equal to the amount of the Cancellations Performance Sum, the TOC Minute Delay Performance Sum and/or the Short Formation Performance Sum to secure a Required

Performance Improvement, the Franchise Operator shall produce an action plan which is consistent with its obligations under paragraph 3.7. and in compliance with the following provisions:

- (a) the Franchise Operator shall (1) produce, (2) obtain the Secretary of State's approval of, and (3) commence the implementation of the action plan within three months after the notification of the results of calculations in accordance of paragraph **2.18**²³⁸;
- (b) the action plan will contain specific tangible action points and indicate in the case of each action point:
 - (i) how that action will contribute to achieving the Required Performance Improvement;
 - (ii) where the action is to be implemented;
 - (iii) when the action is to be commenced and by when it is to be implemented provided always that where any action is expressed to be ongoing the plan shall include specific review dates; and
 - (iv) how performance of the action is to be measured; and
- (c) the action plan will identify the amount of the Cancellations Performance Sum, the TOC Minute Delay Performance Sum and/or the Short Formation Performance Sum associated with each action.

3.9 The Franchise Operator shall, except to the extent otherwise agreed by the Secretary of State in advance, implement each action plan referred to in paragraph 3.8 in accordance with its terms.

3.10 It is acknowledged by the Franchise Operator that the approval or lack of approval by the Secretary of State of each action plan as contemplated in paragraph 3.8(a) shall not relieve the Franchise Operator of its obligations under this Schedule 7.1 or any other provisions of the Franchise Agreement.

3.11 Each Cancellations Performance Sum and TOC Minute Delay Performance Sum calculated pursuant to paragraphs 3.2 and 3.3 (respectively) in respect of any Performance Calculation Year payable by the Secretary of State to the Franchise Operator shall, subject to paragraph 3.12, be paid by way of adjustment to Franchise Payments on the Performance Sum Adjustment Date.

3.12 Upon the termination of this Franchise Agreement:

²³⁸ Cross-reference corrected in letter dated 30 March 2015.

- (a) the Franchise Operator shall pay to the Secretary of State, by way of adjustment to Franchise Payments, an amount equivalent to the amount of any Cancellations Performance Sum, TOC Minute Delay Performance Sum and/or Short Formation Performance Sum due from the Franchise Operator and which it has not yet incurred as at the end of the Franchise Period;
- (b) the Secretary of State shall pay to the Franchise Operator, by way of adjustment to Franchise Payments, an amount equivalent to the amount of any Cancellation Performance Sum and/or TOC Minute Delay Performance Sum payable by the Secretary of State in respect of the final Performance Calculation Year.

4 Consequences for Poor Performance

4.1 The Franchise Operator shall procure that in each Reporting Period the moving annual average of:

- (a) Cancellations and Partial Cancellations (calculated in accordance with paragraph 2.2) does not exceed (that is, is neither equal to nor worse than) the Breach Performance Levels and the Default Performance Levels specified in the cells relating to each such Reporting Period in the Cancellations Benchmark Table;
- (b) the Minutes Delay occurring in respect of the Passenger Services which are attributable to the Franchise Operator (including in accordance with paragraph 2.9) per 1000 Train Miles actually operated (calculated in accordance with paragraph 2.5) does not exceed (that is, is neither equal to nor worse than) the Breach Performance Levels and the Default Performance Levels specified in the cells relating to such Reporting Period in the TOC Minute Delay Benchmark Table; and
- (c) the Franchise Operator's performance (calculated in accordance with paragraph 2.12) does not exceed (that is, is neither equal to nor worse than) the Breach Performance Levels and the Default Performance Levels specified in the cells relating to such Reporting Period in the Short Formation Benchmark Table.

4.2 Certain consequences of the Franchise Operator's performance exceeding (that is, equalling or being worse than) the Breach Performance Levels and Default Performance Levels relating to each Benchmark are set out in Schedule 10 (Remedies, Termination and Expiry).

Submission of Records Relating to the Implementation of a Service Recovery Plan

4.3 The Franchise Operator shall, within eight weeks of the end of each Reporting Period for which a Service Recovery Plan has been implemented (or such other period as may be agreed by the

Secretary of State), submit to the Secretary of State all the comprehensive records (as more particularly described in the relevant paragraph of the Service Recovery Plan) which relate to the implementation of such Service Recovery Plan during that Reporting Period.

5 Determination of the Annual Benchmarks for Performance Calculation Years that are shorter than 13 Reporting Periods

5.1 Where a Performance Calculation Year is shorter than 13 Reporting Periods the Secretary of State will perform the following calculations for the purposes of determining the Annual Cancellations Benchmark, the Annual TOC Minute Delay Benchmark and the Annual Short Formation Benchmark relating to that Performance Calculation Year:

(a) in respect of the Annual Cancellations Benchmark for that Performance Calculation Year:

$$\frac{\sum A}{B}$$

where:

$\sum A$ is:

- (i) for the Annual Cap Performance Level, the sum of the data relevant for each of the Reporting Periods in that Performance Calculation Year, such data being the data which was used for the purposes of determining the Annual Cap Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
- (ii) for the Annual Target Performance Level, the sum of the data relevant for each of the Reporting Periods in that Performance Calculation Year, such data being the data which was used for the purposes of determining the Annual Target Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
- (iii) for the Annual Floor Performance Level, the sum of the data relevant for each of the Reporting Periods in that Performance Calculation Year, such data being the data which was used for the purposes of determining the Annual Floor Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; and

B is the number of Reporting Periods in that Performance Calculation Year; and

- (b) in respect of the Annual TOC Minute Delay Benchmark for that Performance Calculation Year:

$$\frac{\sum AA}{AB}$$

where:

$\sum AA$ is:

- (i) for the Annual Cap Performance Level, the sum of the Minutes Delay attributable to the Franchise Operator as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Minutes Delay data being the data which was used for the purposes of determining the Annual Cap Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
- (ii) for the Annual Target Performance Level, the sum of the Minutes Delay attributable to the Franchise Operator as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Minutes Delay data being the data which was used for the purposes of determining the Annual Target Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
- (iii) for the Annual Floor Performance Level, the sum of the Minutes Delay attributable to the Franchise Operator as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Minutes Delay data being the data which was used for the purposes of determining the Annual Floor Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; and

AB is ascertained as follows:

$$\frac{B}{1000}$$

where:

B is:

- (A) for the Annual Cap Performance Level, the sum of the Train Mileage as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Train Mileage data being the data which was used for the purposes of determining the Annual Cap Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
 - (B) for the Annual Target Performance Level, the sum of the Train Mileage as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Train Mileage data being the data which was used for the purposes of determining the Annual Target Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
 - (C) for the Annual Floor Performance Level, the sum of the Train Mileage as comprised in the data relevant for each of the Reporting Periods in that Performance Calculation Year, such Train Mileage data being the data which was used for the purposes of determining the Annual Floor Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**.
- (c) in respect of the Annual Short Formation Benchmark for that Performance Calculation Year:

$$\frac{\sum A}{B}$$

where:

$$\sum A \text{ is:}$$

- (i) for the Annual Target Performance Level, the sum of the data relevant for each of the Reporting Periods in that Performance Calculation Year, such data being the data which was used for the purposes of determining the Annual Target Performance Level in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; or
- (ii) for the Annual Floor Performance Level, the sum of the data relevant for each of the Reporting Periods in that Performance Calculation Year, such data being the data which was used for the purposes of determining the Annual Floor Performance Level

in respect of a full Performance Calculation Year as more particularly set out in the document in agreed terms marked **ABD**; and

B is the number of Reporting Periods in that Performance Calculation Year.

6 Network Rail Claim

6.1 The Franchise Operator shall not include in any claim for compensation from Network Rail under Schedule 8 of the Track Access Agreement any amounts to compensate the Franchise Operator for any loss suffered or costs incurred as a result of the Franchise Operator:

- (a) not being entitled to receive from the Secretary of State the amounts specified in:
 - (i) row 3 or row 4 of the column headed "With Multiplier" of the table in Part 3 (Annual Cancellations Payment Table) of Appendix 1 (Cancellations Benchmark and Annual Cancellations Benchmark) of Schedule 7.1 (Performance Benchmarks); or
 - (ii) row 3 or row 4 of the column headed "With Multiplier" of Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (Annual TOC Minute Delay Benchmark Table) of Schedule 7.1 (Performance Benchmarks); and
- (b) being required to incur the amounts specified in:
 - (i) row 3 or row 4 of the column headed "With Multiplier" of the table in Part 3 (Annual Cancellations Benchmark Table) of Appendix 1 (Cancellations Benchmark and Annual Cancellations Benchmark) of Schedule 7.1 (Performance Benchmarks); or
 - (ii) row 3 or row 4 of the column headed "With Multiplier" of the table in Part 3 (Annual TOC Minute Delay Payment Table) of Appendix 2 (Annual TOC Minute Delay Benchmark Table) of Schedule 7.1 (Performance Benchmarks).
- (c) Without prejudice to the Secretary of State's rights under Schedule 10 (Remedies, Termination and Expiry), if the Franchise Operator receives compensation from Network Rail in respect of the losses and costs referred to in this paragraph 6.1, the Franchise Operator shall pay such compensation received to the Secretary of State within five Business Days of receipt.

**APPENDIX 1 TO SCHEDULE 7.1
Cancellations Benchmarks and Annual Cancellations Benchmarks**

Part 1 – Cancellations Benchmark Table

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Cancelled) | (% Cancelled) |
| Year 2, Period 1 | 2015/2016 | | 0.65% | 0.81% |
| Year 2, Period 2 | 2015/2016 | | 0.65% | 0.81% |
| Year 2, Period 3 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 4 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 5 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 6 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 7 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 8 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 9 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 10 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 11 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 12 | 2015/2016 | | 0.65% | 0.82% |
| Year 2, Period 13 | 2015/2016 | | 0.65% | 0.82% |
| Year 3, Period 1 | 2016/2017 | | 0.65% | 0.82% |
| Year 3, Period 2 | 2016/2017 | | 0.65% | 0.82% |
| Year 3, Period 3 | 2016/2017 | | 0.65% | 0.81% |
| Year 3, Period 4 | 2016/2017 | | 0.65% | 0.81% |
| Year 3, Period 5 | 2016/2017 | | 0.65% | 0.81% |
| Year 3, Period 6 | 2016/2017 | | 0.65% | 0.81% |
| Year 3, Period 7 | 2016/2017 | | 0.65% | 0.81% |
| Year 3, Period 8 | 2016/2017 | | 0.64% | 0.81% |
| Year 3, Period 9 | 2016/2017 | | 0.64% | 0.80% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Cancelled) | (% Cancelled) |
| Year 3, Period 10 | 2016/2017 | | 0.64% | 0.80% |
| Year 3, Period 11 | 2016/2017 | | 0.64% | 0.80% |
| Year 3, Period 12 | 2016/2017 | | 0.64% | 0.80% |
| Year 3, Period 13 | 2016/2017 | | 0.63% | 0.80% |
| Year 4, Period 1 | 2017/2018 | | 0.63% | 0.79% |
| Year 4, Period 2 | 2017/2018 | | 0.63% | 0.79% |
| Year 4, Period 3 | 2017/2018 | | 0.62% | 0.78% |
| Year 4, Period 4 | 2017/2018 | | 0.62% | 0.78% |
| Year 4, Period 5 | 2017/2018 | | 0.61% | 0.77% |
| Year 4, Period 6 | 2017/2018 | | 0.60% | 0.76% |
| Year 4, Period 7 | 2017/2018 | | 0.60% | 0.76% |
| Year 4, Period 8 | 2017/2018 | | 0.60% | 0.75% |
| Year 4, Period 9 | 2017/2018 | | 0.59% | 0.75% |
| Year 4, Period 10 | 2017/2018 | | 0.58% | 0.74% |
| Year 4, Period 11 | 2017/2018 | | 0.57% | 0.72% |
| Year 4, Period 12 | 2017/2018 | | 0.56% | 0.72% |
| Year 4, Period 13 | 2017/2018 | | 0.55% | 0.71% |
| Year 5, Period 1 | 2018/2019 | | 0.55% | 0.71% |
| Year 5, Period 2 | 2018/2019 | | 0.55% | 0.70% |
| Year 5, Period 3 | 2018/2019 | | 0.54% | 0.70% |
| Year 5, Period 4 | 2018/2019 | | 0.54% | 0.69% |
| Year 5, Period 5 | 2018/2019 | | 0.53% | 0.68% |
| Year 5, Period 6 | 2018/2019 | | 0.52% | 0.68% |
| Year 5, Period 7 | 2018/2019 | | 0.52% | 0.68% |
| Year 5, Period 8 | 2018/2019 | | 0.51% | 0.67% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Cancelled) | (% Cancelled) |
| Year 5, Period 9 | 2018/2019 | | 0.50% | 0.66% |
| Year 5, Period 10 | 2018/2019 | | 0.49% | 0.65% |
| Year 5, Period 11 | 2018/2019 | | 0.48% | 0.63% |
| Year 5, Period 12 | 2018/2019 | | 0.47% | 0.63% |
| Year 5, Period 13 | 2018/2019 | | 0.46% | 0.62% |
| Year 6, Period 1 | 2019/2020 | | 0.46% | 0.62% |
| Year 6, Period 2 | 2019/2020 | | 0.46% | 0.62% |
| Year 6, Period 3 | 2019/2020 | | 0.46% | 0.62% |
| Year 6, Period 4 | 2019/2020 | | 0.47% | 0.63% |
| Year 6, Period 5 | 2019/2020 | | 0.47% | 0.64% |
| Year 6, Period 6 | 2019/2020 | | 0.47% | 0.64% |
| Year 6, Period 7 | 2019/2020 | | 0.47% | 0.64% |
| Year 6, Period 8 | 2019/2020 | | 0.47% | 0.63% |
| Year 6, Period 9 | 2019/2020 | | 0.47% | 0.63% |
| Year 6, Period 10 | 2019/2020 | | 0.46% | 0.62% |
| Year 6, Period 11 | 2019/2020 | | 0.46% | 0.62% |
| Year 6, Period 12 | 2019/2020 | | 0.45% | 0.61% |
| Year 6, Period 13 | 2019/2020 | | 0.45% | 0.61% |
| Year 7, Period 1 | 2020/2021 | | 0.45% | 0.61% |
| Year 7, Period 2 | 2020/2021 | | 0.45% | 0.61% |
| Year 7, Period 3 | 2020/2021 | | 0.45% | 0.61% |
| Year 7, Period 4 | 2020/2021 | | 0.45% | 0.61% |
| Year 7, Period 5 | 2020/2021 | | 0.44% | 0.62% |
| Year 7, Period 6 | 2020/2021 | | 0.44% | 0.61% |
| Year 7, Period 7 | 2020/2021 | | 0.44% | 0.61% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Cancelled) | (% Cancelled) |
| Year 7, Period 8 | 2020/2021 | | 0.42% | 0.59% |
| Year 7, Period 9 | 2020/2021 | | 0.42% | 0.59% |
| Year 7, Period 10 | 2020/2021 | | 0.40% | 0.57% |
| Year 7, Period 11 | 2020/2021 | | 0.39% | 0.56% |
| Year 7, Period 12 | 2020/2021 | | 0.38% | 0.55% |
| Year 7, Period 13 | 2020/2021 | | 0.37% | 0.53% |
| Year 8, Period 1 | 2021/2022 | | 0.36% | 0.52% |
| Year 8, Period 2 | 2021/2022 | | 0.36% | 0.51% |
| Year 8, Period 3 | 2021/2022 | | 0.35% | 0.50% |
| Year 8, Period 4 | 2021/2022 | | 0.34% | 0.49% |
| Year 8, Period 5 | 2021/2022 | | 0.31% | 0.46% |
| Year 8, Period 6 | 2021/2022 | | 0.31% | 0.45% |
| Year 8, Period 7 | 2021/2022 | | 0.31% | 0.45% |
| Year 8, Period 8 | 2021/2022 | | 0.31% | 0.46% |
| Year 8, Period 9 | 2021/2022 | | 0.31% | 0.46% |
| Year 8, Period 10 | 2021/2022 | | 0.32% | 0.47% |
| Year 8, Period 11 | 2021/2022 | | 0.33% | 0.48% |
| Year 8, Period 12 | 2021/2022 | | 0.33% | 0.49% |
| Year 8, Period 13 | 2021/2022 | | 0.33% | 0.49% |
| Year 9, Period 1 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 2 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 3 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 4 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 5 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 6 | 2022/2023 | | 0.33% | 0.49% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|--------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Cancelled) | (% Cancelled) |
| Year 9, Period 7 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 8 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 9 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 10 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 11 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 12 | 2022/2023 | | 0.33% | 0.49% |
| Year 9, Period 13 | 2022/2023 | | 0.33% | 0.49% |
| Year 10, Period 1 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 2 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 3 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 4 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 5 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 6 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 7 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 8 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 9 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 10 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 11 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 12 | 2023/2024 | | 0.33% | 0.49% |
| Year 10, Period 13 | 2023/2024 | | 0.33% | 0.49% |

START OF THE FRANCHISE

The Reporting Period in the cells entitled “Year 2, Period 1” shall be the first Reporting Period of the first Performance Calculation Year in the Franchise Term.

Part 2 – Annual Cancellations Benchmark Table

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|--|---|--|---|---|
| Performance Calculation Year | Annual Cap Performance Level (% Cancelled) | Annual Target Performance Level (% Cancelled) | Annual Floor Performance Level (% Cancelled) | Annual CASL Target Performance Level (%) |
| 1 April 2015 – 31 March 2016 (core) | 0.22% | 0.44% | 0.55% | 5.1% |
| 1 April 2016 – 31 March 2017 (core) | 0.21% | 0.44% | 0.55% | 5.0% |
| 1 April 2017 – 31 March 2018 (core) | 0.17% | 0.39% | 0.50% | 4.6% |
| 1 April 2018 – 31 March 2019 (core) | 0.09% | 0.31% | 0.42% | 4.2% |
| 1 April 2019 – 31 March 2020 (core) | 0.04% | 0.26% | 0.37% | 4.3% |
| 1 April 2020 – 31 March 2021 (core) | 0.00% | 0.21% | 0.32% | 4.1% |
| 1 April 2021 – 31 March 2022 (core) | 0.00% | 0.13% | 0.24% | 3.9% |
| 1 April 2022 – 31 March 2023 (core) | 0.00% | 0.13% | 0.24% | 3.8% |
| 1 April 2023 – 31 March 2024 (extension) | 0.00% | 0.13% | 0.24% | 3.8% |

Part 3 – Annual Cancellations Payment Table

| 1 | Payment | Amount (£) | Amount (£) |
|----------|------------------|--------------------|-------------------|
| 2 | | Without Multiplier | With Multiplier |
| 3 | PBP _C | 2,999,098.68 | 4,498,648.02 |
| 4 | PPP _C | 5,998,197.35 | 8,997,296.03 |

* provided that in respect of any Performance Calculation Year of less than 13 Reporting Periods PBP_C and/or PPP_C (as applicable) shall be multiplied by the number of whole Reporting Periods in the relevant Performance Calculation Year and then divided by 13.

**APPENDIX 2 TO SCHEDULE 7.1
TOC Minute Delay Benchmarks and Annual TOC Minute Delay Benchmarks**

Part 1 – TOC Minute Delay Benchmark Table

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|---|---|
| | | | (relevant Minutes Delay/1000 Train Miles) | (relevant Minutes Delay/1000 Train Miles) |
| Year 2, Period 1 | 2015/2016 | | 6.09 | 7.26 |
| Year 2, Period 2 | 2015/2016 | | 6.06 | 7.23 |
| Year 2, Period 3 | 2015/2016 | | 6.03 | 7.20 |
| Year 2, Period 4 | 2015/2016 | | 5.99 | 7.15 |
| Year 2, Period 5 | 2015/2016 | | 5.94 | 7.10 |
| Year 2, Period 6 | 2015/2016 | | 5.91 | 7.07 |
| Year 2, Period 7 | 2015/2016 | | 5.89 | 7.05 |
| Year 2, Period 8 | 2015/2016 | | 5.86 | 7.01 |
| Year 2, Period 9 | 2015/2016 | | 5.83 | 6.98 |
| Year 2, Period 10 | 2015/2016 | | 5.78 | 6.94 |
| Year 2, Period 11 | 2015/2016 | | 5.73 | 6.88 |
| Year 2, Period 12 | 2015/2016 | | 5.68 | 6.83 |
| Year 2, Period 13 | 2015/2016 | | 5.64 | 6.79 |
| Year 3, Period 1 | 2016/2017 | | 5.63 | 6.78 |
| Year 3, Period 2 | 2016/2017 | | 5.62 | 6.77 |
| Year 3, Period 3 | 2016/2017 | | 5.61 | 6.75 |
| Year 3, Period 4 | 2016/2017 | | 5.58 | 6.73 |
| Year 3, Period 5 | 2016/2017 | | 5.56 | 6.71 |
| Year 3, Period 6 | 2016/2017 | | 5.55 | 6.70 |
| Year 3, Period 7 | 2016/2017 | | 5.54 | 6.69 |
| Year 3, Period 8 | 2016/2017 | | 5.53 | 6.67 |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|---|---|
| | | | (relevant Minutes Delay/1000 Train Miles) | (relevant Minutes Delay/1000 Train Miles) |
| Year 3, Period 9 | 2016/2017 | | 5.51 | 6.66 |
| Year 3, Period 10 | 2016/2017 | | 5.49 | 6.64 |
| Year 3, Period 11 | 2016/2017 | | 5.47 | 6.62 |
| Year 3, Period 12 | 2016/2017 | | 5.45 | 6.59 |
| Year 3, Period 13 | 2016/2017 | | 5.43 | 6.58 |
| Year 4, Period 1 | 2017/2018 | | 5.42 | 6.56 |
| Year 4, Period 2 | 2017/2018 | | 5.41 | 6.55 |
| Year 4, Period 3 | 2017/2018 | | 5.40 | 6.54 |
| Year 4, Period 4 | 2017/2018 | | 5.38 | 6.52 |
| Year 4, Period 5 | 2017/2018 | | 5.36 | 6.50 |
| Year 4, Period 6 | 2017/2018 | | 5.35 | 6.49 |
| Year 4, Period 7 | 2017/2018 | | 5.34 | 6.48 |
| Year 4, Period 8 | 2017/2018 | | 5.33 | 6.47 |
| Year 4, Period 9 | 2017/2018 | | 5.32 | 6.46 |
| Year 4, Period 10 | 2017/2018 | | 5.30 | 6.44 |
| Year 4, Period 11 | 2017/2018 | | 5.28 | 6.42 |
| Year 4, Period 12 | 2017/2018 | | 5.26 | 6.39 |
| Year 4, Period 13 | 2017/2018 | | 5.24 | 6.38 |
| Year 5, Period 1 | 2018/2019 | | 5.26 | 6.40 |
| Year 5, Period 2 | 2018/2019 | | 5.27 | 6.41 |
| Year 5, Period 3 | 2018/2019 | | 5.29 | 6.43 |
| Year 5, Period 4 | 2018/2019 | | 5.31 | 6.46 |
| Year 5, Period 5 | 2018/2019 | | 5.34 | 6.49 |
| Year 5, Period 6 | 2018/2019 | | 5.35 | 6.50 |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|---|---|
| | | | (relevant Minutes Delay/1000 Train Miles) | (relevant Minutes Delay/1000 Train Miles) |
| Year 5, Period 7 | 2018/2019 | | 5.35 | 6.50 |
| Year 5, Period 8 | 2018/2019 | | 5.35 | 6.50 |
| Year 5, Period 9 | 2018/2019 | | 5.36 | 6.50 |
| Year 5, Period 10 | 2018/2019 | | 5.36 | 6.50 |
| Year 5, Period 11 | 2018/2019 | | 5.35 | 6.49 |
| Year 5, Period 12 | 2018/2019 | | 5.35 | 6.48 |
| Year 5, Period 13 | 2018/2019 | | 5.34 | 6.48 |
| Year 6, Period 1 | 2019/2020 | | 5.33 | 6.47 |
| Year 6, Period 2 | 2019/2020 | | 5.31 | 6.45 |
| Year 6, Period 3 | 2019/2020 | | 5.31 | 6.46 |
| Year 6, Period 4 | 2019/2020 | | 5.29 | 6.45 |
| Year 6, Period 5 | 2019/2020 | | 5.27 | 6.44 |
| Year 6, Period 6 | 2019/2020 | | 5.24 | 6.42 |
| Year 6, Period 7 | 2019/2020 | | 5.22 | 6.40 |
| Year 6, Period 8 | 2019/2020 | | 5.18 | 6.34 |
| Year 6, Period 9 | 2019/2020 | | 5.12 | 6.28 |
| Year 6, Period 10 | 2019/2020 | | 5.02 | 6.17 |
| Year 6, Period 11 | 2019/2020 | | 4.97 | 6.12 |
| Year 6, Period 12 | 2019/2020 | | 4.87 | 6.01 |
| Year 6, Period 13 | 2019/2020 | | 4.81 | 5.95 |
| Year 7, Period 1 | 2020/2021 | | 4.78 | 5.93 |
| Year 7, Period 2 | 2020/2021 | | 4.74 | 5.89 |
| Year 7, Period 3 | 2020/2021 | | 4.70 | 5.86 |
| Year 7, Period 4 | 2020/2021 | | 4.62 | 5.79 |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|---|---|
| | | | (relevant Minutes Delay/1000 Train Miles) | (relevant Minutes Delay/1000 Train Miles) |
| Year 7, Period 5 | 2020/2021 | | 4.55 | 5.74 |
| Year 7, Period 6 | 2020/2021 | | 4.50 | 5.68 |
| Year 7, Period 7 | 2020/2021 | | 4.46 | 5.65 |
| Year 7, Period 8 | 2020/2021 | | 4.37 | 5.55 |
| Year 7, Period 9 | 2020/2021 | | 4.30 | 5.47 |
| Year 7, Period 10 | 2020/2021 | | 4.17 | 5.32 |
| Year 7, Period 11 | 2020/2021 | | 4.08 | 5.25 |
| Year 7, Period 12 | 2020/2021 | | 3.94 | 5.09 |
| Year 7, Period 13 | 2020/2021 | | 3.85 | 5.00 |
| Year 8, Period 1 | 2021/2022 | | 3.76 | 4.89 |
| Year 8, Period 2 | 2021/2022 | | 3.67 | 4.77 |
| Year 8, Period 3 | 2021/2022 | | 3.57 | 4.66 |
| Year 8, Period 4 | 2021/2022 | | 3.41 | 4.45 |
| Year 8, Period 5 | 2021/2022 | | 3.23 | 4.25 |
| Year 8, Period 6 | 2021/2022 | | 3.18 | 4.18 |
| Year 8, Period 7 | 2021/2022 | | 3.18 | 4.19 |
| Year 8, Period 8 | 2021/2022 | | 3.19 | 4.22 |
| Year 8, Period 9 | 2021/2022 | | 3.21 | 4.25 |
| Year 8, Period 10 | 2021/2022 | | 3.23 | 4.30 |
| Year 8, Period 11 | 2021/2022 | | 3.27 | 4.37 |
| Year 8, Period 12 | 2021/2022 | | 3.29 | 4.42 |
| Year 8, Period 13 | 2021/2022 | | 3.31 | 4.45 |
| Year 9, Period 1 | 2022/2023 | | 3.31 | 4.45 |
| Year 9, Period 2 | 2022/2023 | | 3.31 | 4.44 |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|--------------------|-----------|--|---|---|
| | | | (relevant Minutes Delay/1000 Train Miles) | (relevant Minutes Delay/1000 Train Miles) |
| Year 9, Period 3 | 2022/2023 | | 3.30 | 4.44 |
| Year 9, Period 4 | 2022/2023 | | 3.30 | 4.44 |
| Year 9, Period 5 | 2022/2023 | | 3.29 | 4.43 |
| Year 9, Period 6 | 2022/2023 | | 3.29 | 4.43 |
| Year 9, Period 7 | 2022/2023 | | 3.29 | 4.42 |
| Year 9, Period 8 | 2022/2023 | | 3.28 | 4.42 |
| Year 9, Period 9 | 2022/2023 | | 3.28 | 4.42 |
| Year 9, Period 10 | 2022/2023 | | 3.27 | 4.41 |
| Year 9, Period 11 | 2022/2023 | | 3.27 | 4.40 |
| Year 9, Period 12 | 2022/2023 | | 3.26 | 4.40 |
| Year 9, Period 13 | 2022/2023 | | 3.26 | 4.39 |
| Year 10, Period 1 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 2 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 3 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 4 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 5 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 6 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 7 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 8 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 9 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 10 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 11 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 12 | 2023/2024 | | 3.26 | 4.39 |
| Year 10, Period 13 | 2023/2024 | | 3.26 | 4.39 |

START OF THE FRANCHISE

The Reporting Period in the cells entitled “Year 2, Period 1” shall be the first Reporting Period of first Performance Calculation Year in the Franchise Term.

Part 2 – Annual TOC Minute Delay Benchmark Table

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|--|---|--|---|--|
| Performance Calculation Year | Annual Cap Performance Level (relevant Minutes Delay per 1000 train miles) | Annual Target Performance Level (relevant Minutes Delay per 1000 train miles) | Annual Floor Performance Level (relevant Minutes Delay per 1000 train miles) | Annual PPM Target Performance Level |
| 1 April 2015 – 31 March 2016 (core) | 3.40 | 4.16 | 4.54 | 86.5% |
| 1 April 2016 – 31 March 2017 (core) | 3.20 | 3.96 | 4.34 | 87.0% |
| 1 April 2017 – 31 March 2018 (core) | 3.02 | 3.78 | 4.17 | 87.8% |
| 1 April 2018 – 31 March 2019 (core) | 3.12 | 3.88 | 4.26 | 88.0% |
| 1 April 2019 – 31 March 2020 (core) | 2.61 | 3.37 | 3.75 | 87.8% |
| 1 April 2020 – 31 March 2021 (core) | 1.63 | 2.39 | 2.77 | 88.8% |
| 1 April 2021 – 31 March 2022 (core) | 1.09 | 1.85 | 2.23 | 89.6% |
| 1 April 2022 – 31 March 2023 (core) | 1.04 | 1.80 | 2.18 | 90.0% |
| 1 April 2023 – 31 March 2024 (extension) | 1.04 | 1.80 | 2.18 | 90.0% |

Part 3 – Annual TOC Minute Delay Payment Table

| 1 | Payment | Amount (£) | Amount (£) |
|----------|-------------------|--------------------|-------------------|
| 2 | | Without Multiplier | With Multiplier |
| 3 | PBP _{MD} | 899,627.56 | 1,314,840.28 |
| 4 | PPP _{MD} | 1,799,255.12 | 2,629,680.56 |

* provided that in respect of any Performance Calculation Year of less than 13 Reporting Periods PBP_{MD} and/or PPP_{MD} (as applicable) shall be multiplied by the number of whole Reporting Periods in the relevant Performance Calculation Year and then divided by 13.

**APPENDIX 3 TO SCHEDULE 7.1
Short Formation Benchmark and
Annual Short Formation Benchmark Table**

Part 1 – Short Formation Benchmark Table

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Short Formed) | (% Short Formed) |
| Year 5, Period 1 | 2018/2019 | | 1.36% | 2.26% |
| Year 5, Period 2 | 2018/2019 | | 1.34% | 2.24% |
| Year 5, Period 3 | 2018/2019 | | 1.33% | 2.21% |
| Year 5, Period 4 | 2018/2019 | | 1.31% | 2.18% |
| Year 5, Period 5 | 2018/2019 | | 1.26% | 2.11% |
| Year 5, Period 6 | 2018/2019 | | 1.24% | 2.07% |
| Year 5, Period 7 | 2018/2019 | | 1.23% | 2.06% |
| Year 5, Period 8 | 2018/2019 | | 1.20% | 2.00% |
| Year 5, Period 9 | 2018/2019 | | 1.18% | 1.97% |
| Year 5, Period 10 | 2018/2019 | | 1.14% | 1.91% |
| Year 5, Period 11 | 2018/2019 | | 1.10% | 1.83% |
| Year 5, Period 12 | 2018/2019 | | 1.07% | 1.78% |
| Year 5, Period 13 | 2018/2019 | | 1.04% | 1.73% |
| Year 6, Period 1 | 2019/2020 | | 1.03% | 1.72% |
| Year 6, Period 2 | 2019/2020 | | 1.03% | 1.72% |
| Year 6, Period 3 | 2019/2020 | | 1.03% | 1.72% |
| Year 6, Period 4 | 2019/2020 | | 1.03% | 1.72% |
| Year 6, Period 5 | 2019/2020 | | 1.04% | 1.73% |
| Year 6, Period 6 | 2019/2020 | | 1.03% | 1.72% |
| Year 6, Period 7 | 2019/2020 | | 1.03% | 1.71% |
| Year 6, Period 8 | 2019/2020 | | 1.01% | 1.69% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Short Formed) | (% Short Formed) |
| Year 6, Period 9 | 2019/2020 | | 1.00% | 1.67% |
| Year 6, Period 10 | 2019/2020 | | 0.98% | 1.64% |
| Year 6, Period 11 | 2019/2020 | | 0.96% | 1.61% |
| Year 6, Period 12 | 2019/2020 | | 0.95% | 1.58% |
| Year 6, Period 13 | 2019/2020 | | 0.93% | 1.55% |
| Year 7, Period 1 | 2020/2021 | | 0.93% | 1.54% |
| Year 7, Period 2 | 2020/2021 | | 0.92% | 1.53% |
| Year 7, Period 3 | 2020/2021 | | 0.91% | 1.51% |
| Year 7, Period 4 | 2020/2021 | | 0.89% | 1.48% |
| Year 7, Period 5 | 2020/2021 | | 0.86% | 1.43% |
| Year 7, Period 6 | 2020/2021 | | 0.84% | 1.40% |
| Year 7, Period 7 | 2020/2021 | | 0.83% | 1.38% |
| Year 7, Period 8 | 2020/2021 | | 0.79% | 1.32% |
| Year 7, Period 9 | 2020/2021 | | 0.77% | 1.29% |
| Year 7, Period 10 | 2020/2021 | | 0.73% | 1.22% |
| Year 7, Period 11 | 2020/2021 | | 0.69% | 1.14% |
| Year 7, Period 12 | 2020/2021 | | 0.66% | 1.10% |
| Year 7, Period 13 | 2020/2021 | | 0.63% | 1.05% |
| Year 8, Period 1 | 2021/2022 | | 0.61% | 1.02% |
| Year 8, Period 2 | 2021/2022 | | 0.60% | 1.00% |
| Year 8, Period 3 | 2021/2022 | | 0.58% | 0.97% |
| Year 8, Period 4 | 2021/2022 | | 0.56% | 0.93% |
| Year 8, Period 5 | 2021/2022 | | 0.51% | 0.85% |
| Year 8, Period 6 | 2021/2022 | | 0.49% | 0.82% |
| Year 8, Period 7 | 2021/2022 | | 0.49% | 0.81% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|-------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Short Formed) | (% Short Formed) |
| Year 8, Period 8 | 2021/2022 | | 0.49% | 0.81% |
| Year 8, Period 9 | 2021/2022 | | 0.49% | 0.81% |
| Year 8, Period 10 | 2021/2022 | | 0.49% | 0.81% |
| Year 8, Period 11 | 2021/2022 | | 0.49% | 0.81% |
| Year 8, Period 12 | 2021/2022 | | 0.49% | 0.81% |
| Year 8, Period 13 | 2021/2022 | | 0.49% | 0.81% |
| Year 9, Period 1 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 2 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 3 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 4 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 5 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 6 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 7 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 8 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 9 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 10 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 11 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 12 | 2022/2023 | | 0.49% | 0.81% |
| Year 9, Period 13 | 2022/2023 | | 0.49% | 0.81% |
| Year 10, Period 1 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 2 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 3 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 4 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 5 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 6 | 2023/2024 | | 0.49% | 0.81% |

| Reporting Period | | | Breach Performance Level | Default Performance Level |
|--------------------|-----------|--|--------------------------|---------------------------|
| | | | (% Short Formed) | (% Short Formed) |
| Year 10, Period 7 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 8 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 9 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 10 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 11 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 12 | 2023/2024 | | 0.49% | 0.81% |
| Year 10, Period 13 | 2023/2024 | | 0.49% | 0.81% |

START OF THE FRANCHISE

The Reporting Period in the cells entitled “Year 5, Period 1” shall be the first Reporting Period of the first Performance Calculation Year in the Franchise Term.

Part 2 – Annual Short Formation Benchmark Table

| Column 1 | | Column 3 | Column 4 |
|---|--|--|---|
| Performance Calculation Year | | Annual Target Performance Level (%) | Annual Floor Performance Level (%) |
| 1 April 2018 – 31 March 2019 (core) | | 0.00% | 0.11% |
| 1 April 2019 – 31 March 2020 (core) | | 0.00% | 0.11% |
| 1 April 2020 – 31 March 2021 (core) | | 0.00% | 0.11% |
| 1 April 2021 – 31 March 2022 (core) | | 0.00% | 0.11% |
| 1 April 2022 – 31 March 2023 (core) | | 0.00% | 0.11% |
| 1 April 2023 – 31 March 2024 (extension) | | 0.00% | 0.11% |

Part 3 – Annual Short Formation Payment Table

| 1 | | Amount (£) |
|----------|-------------------|-------------------|
| 2 | PPP _{SF} | 4,498,648.02 |

* provided that in respect of any Performance Calculation Year of less than 13 Reporting Periods PPP_{SF} shall be multiplied by the number of whole Reporting Period in the relevant Performance Calculation Year and then divided by 13.

SCHEDULE 7.2
National Rail Passenger Surveys and Customer and Communities Improvement Fund

1 Conduct of National Rail Passenger Surveys

- 1.1 The Franchise Operator agrees with the Secretary of State that:
- (a) the Passengers' Council may measure the level of passenger satisfaction with the Franchise Services through National Rail Passenger Surveys;
 - (b) the Passengers' Council shall determine how, when (normally twice per annum) and where National Rail Passenger Surveys are to be carried out;
 - (c) the Franchise Operator shall grant access on trains or at stations to the Passengers' Council (or its representatives and agents) to carry out National Rail Passenger Surveys;
 - (d) the Franchise Operator shall co-operate with the Passengers' Council (in such manner as the Passengers' Council may reasonably request or as the Secretary of State may reasonably direct) in order to enable the Passengers' Council to carry out National Rail Passenger Surveys; and
 - (e) the Passengers' Council and/or the Secretary of State may, from time to time, publish the results of each National Rail Passenger Surveys.
- 1.2 The Secretary of State shall ensure or shall procure that:
- (a) the findings of any National Rail Passenger Surveys are made available by the Passengers' Council to the Franchise Operator within a reasonable period of time after the completion of each such survey and shall use all reasonable endeavours to procure that those findings are made available in a timely manner to enable the Franchise Operator to comply with its obligations under paragraph 1.3; and
 - (b) if any such survey includes a comparison between its findings and the findings of any equivalent earlier survey, such comparison forms a reasonable basis for monitoring the trends of passenger satisfaction over time.
- 1.3 The Franchise Operator shall, as soon as reasonably practicable after such information is made available to the Franchise Operator in accordance with paragraph 1.2, publicise its performance against the NRPS Benchmarks by displaying such information at all of the Stations and on its website.

1.4 It is agreed by the Franchise Operator that, subject to paragraph 1.5, the methodology to be adopted by the Passengers' Council in conducting any such National Rail Passenger Survey shall be as described in the document in the agreed terms marked **PSM** (the **Passenger Survey Methodology**);

1.5 If:

(a) at any time during the Franchise Term the methodology adopted in conducting any National Rail Passenger Survey is, in the reasonable opinion of the Secretary of State, materially inconsistent with the Passenger Survey Methodology; and

(b) the Secretary of State reasonably determines that in consequence a revision to the NRPS Benchmark is required in order to hold constant the risk of the Franchise Operator failing to satisfy the NRPS Benchmark,

then the Secretary of State shall make such revisions to such NRPS Benchmarks as he reasonably considers appropriate to hold constant such risk.

1.6 If the Passengers' Council ceases to undertake National Rail Passenger Surveys then the relevant National Rail Passenger Survey for the purposes of this Schedule 7.2 shall be such other passenger survey as the Secretary of State may, after consultation with the Franchise Operator, reasonably determine to be appropriate in the circumstances (the **Alternative NRPS**). The provisions of this Schedule 7.2 shall apply in respect of any Alternative NRPS and for these purposes Passengers' Council shall be replaced with such other entity that is responsible for conducting such Alternative NRPS.

2 NRPS Benchmarks

2.1 It is agreed by the Secretary of State and the Franchise Operator that the results of the National Rail Passenger Survey(s) carried out by the Passengers' Council in any Franchise Operator Year shall be used to determine the Franchise Operator's performance against the NRPS Benchmarks for that Franchise Operator Year. If in any Franchise Operator Year the Passengers' Council has conducted:

(a) only one National Rail Passenger Survey in that Franchise Operator Year then the performance of the Franchise Operator against the NRPS Benchmarks shall be measured against the results of such National Rail Passenger Survey; or

(b) more than one National Rail Passenger Survey in that Franchise Operator Year then the performance of the Franchise Operator against the NRPS Benchmarks shall be measured

against the average of the results of all of the National Rail Passenger Surveys conducted by the Passengers' Council in that Franchise Operator Year.

Performance Results/Required Remedial Actions

- 2.2 For each Franchise Operator Year the Secretary of State shall determine the Franchise Operator's performance against each NRPS Benchmark by comparing:
- (a) if only one National Rail Passenger Survey has been published by Passengers' Council in that Franchise Operator Year, the results of such National Rail Passenger Survey against the NRPS Benchmarks applicable in respect of that Franchise Operator Year; or
 - (b) if more than one National Rail Passenger Survey has been conducted by Passengers' Council in that Franchise Operator Year, the average of the results of all of the National Rail Passenger Surveys published by the Passengers' Council in that Franchise Operator Year against the NRPS Benchmarks applicable in respect of that Franchise Operator Year.

For the purposes of undertaking the comparison pursuant to this paragraph 2.2, the results referred to in paragraph 2.2(a) or paragraph 2.2(b) (as the case may be) shall be rounded up to one decimal place with the midpoint (that is, 4.45) rounded upwards (that is, 4.5).

- 2.3 If, following the Secretary of State's determination pursuant to any of paragraphs 2.2(a) or 2.2(b) (as the case may be), the results show that the level of customer satisfaction in respect of any NRPS Measure is below the NRPS Benchmark for such measure:
- (a) unless the Secretary of State shall otherwise direct, the Franchise Operator shall incur Additional Expenditure in order to secure the Required Improvement and/or participate in additional rail surveys or other such initiatives; or
 - (b) if the Secretary of State so requires, a sum equivalent to the Additional Expenditure reasonably required to secure the Required Improvement shall be added to the CCIF Amount for the relevant period;
- 2.4 Without limiting paragraph 2.3, on each occasion that the Franchise Operator becomes obliged to incur Additional Expenditure to secure a Required Improvement, the Franchise Operator shall produce an action plan which is consistent with its obligations under paragraph 2.3 and in compliance with the following provisions:
- (a) the Franchise Operator shall (1) produce, (2) obtain the Secretary of State's approval of, and (3) commence the implementation of the action plan within three months after the date on which the results of such National Rail Passenger Survey which triggered the

requirement for the Required Improvement were published or otherwise made available to the Franchise Operator pursuant to paragraph 1.2;

- (b) the action plan will contain specific tangible action points and indicate in the case of each action point:
 - (i) how that action will contribute to meeting the NRPS Measure;
 - (ii) where the action is to be implemented;
 - (iii) when the action is to be commenced and by when it is to be implemented provided always that where any action is expressed to be ongoing the plan shall include specific review dates; and
 - (iv) how performance of the action is to be measured; and
- (c) the action plan will identify the Additional Expenditure associated with each action.

2.5 The Franchise Operator shall, except to the extent otherwise agreed by the Secretary of State in advance, implement each action plan referred to in paragraph 2.4 in accordance with its terms.

It is acknowledged by the Franchise Operator that the approval or lack of approval by the Secretary of State of each action plan as contemplated in paragraph 2.4(a) shall not relieve the Franchise Operator of its obligations under this Schedule 7.2 or any other provisions of the Franchise Agreement.

2.6 Upon the termination of this Franchise Agreement the Franchise Operator shall pay to the Secretary of State, by way of adjustment to Franchise Payments, an amount equivalent to the amount of any Additional Expenditure that the Franchise Operator is committed to incur pursuant to paragraph 2.3 and which it has not yet incurred as at the end of the Franchise Period.

2.7 For the purposes of this Schedule 7.2:

Additional Expenditure means, where the Franchise Operator's performance is:

- (a) below the NRPS Benchmark for one NRPS Measure, but equal to or more than the NRPS Benchmark for the other two NRPS Measures, £150,000;
- (b) below the NRPS Benchmark for two NRPS Measures, but equal to or more than the NRPS Benchmark for the other NRPS Measure, £225,000;
- (c) below the NRPS Benchmark for all three NRPS Measures, £300,000;

and:

- (i) for any Franchise Operator Year which is shorter than 13 Reporting Periods, the applicable amount shall be reduced pro rata;
- (ii) for each Franchise Operator Year (other than the first Franchise Operator Year) the Additional Expenditure applicable in relation to such Franchise Operator Year shall be determined as follows:

$AD \times RPI$

where:

AD is £150,000 (where paragraph (a) above applies), £225,000 (where paragraph (b) above applies) or £300,000 (where paragraph (c) above applies), as the case may be; and

RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments),

and such additional expenditure shall be additional to:

- (A) any sums provided for expenditure in respect of the same or similar commitments in the Business Plan for the Franchise Operator Year (the **First Expenditure Franchise Operator Year**) in which the obligation to incur Additional Expenditure under paragraph 2.3 first arises (the **Existing Expenditure**), and in any subsequent Franchise Operator Year, shall be in addition to the amount of the Existing Expenditure as increased by an amount equivalent to any increase in the Retail Prices Index between the beginning of the First Expenditure Franchise Operator Year and the beginning of that subsequent Franchise Operator Year; and
- (B) without limiting the preceding paragraph (c)(i), any expenditure made or to be made by the Franchise Operator for the purposes of complying with the provisions of Schedule 1 (Passenger Service Obligations), Schedule 4 (Persons with Disabilities and Disability Discrimination), Part 1 (List of Committed Obligations) to Schedule 6.1 (Committed Obligations and Related Provisions) and Schedule 7 (Performance Benchmarks);

Required Improvement means an improvement in the level of customer satisfaction for the relevant NRPS Measure as measured by a National Rail Passenger Survey so that such level is equal to or higher than the related NRPS Benchmark.

3 Customer and Communities Improvement Fund

- 3.1 The Franchise Operator shall undertake consultations with passengers, potential passengers and other users of the rail network in accordance with and shall otherwise comply with the Customer and Stakeholder Engagement Strategy.
- 3.2 The Franchise Operator shall:
- (a) by no later than the Start Date; and
 - (b) thereafter at least annually,
- publish the Customer Report in accordance with the Customer and Stakeholder Engagement Strategy.
- 3.3 No later than 3 months prior to the start of each CCIF Period the Franchise Operator shall provide to the Secretary of State details of those initiatives, works or proposals (each a **CCIF Scheme**) which the Franchise Operator proposes to undertake in that CCIF Period in order to resolve or mitigate issues raised with the Franchise Operator through the consultation referred to in paragraph 3.1. The Franchise Operator shall use all reasonable endeavours to propose, in respect of each CCIF Period, CCIF Schemes with an aggregate projected CCIF Scheme Shortfall of not less than the aggregate of the CCIF Amount for each Franchise Operator Year in the relevant CCIF Period.
- 3.4 In relation to each CCIF Scheme proposed by the Franchise Operator pursuant to paragraph 3.3 the Franchise Operator shall provide:
- (a) details of the specific issues which that CCIF Scheme is intended to resolve or mitigate (including how those issues have been identified) and how that CCIF Scheme will resolve or mitigate those issues; and
 - (b) fully worked up details of the CCIF Scheme sufficient to enable the Secretary of State to evaluate the same, including:
 - (i) a timetable for the implementation of that CCIF Scheme, setting out the proposed commencement and completion date of such CCIF Scheme and any other key dates and milestones;
 - (ii) details of the projected CCIF Scheme Cost; and
 - (iii) details of the projected CCIF Scheme Revenue.

- 3.5 The Franchise Operator shall provide the Secretary of State with such further information in relation to any CCIF Scheme proposed by the Franchise Operator pursuant to paragraph 3.3 as the Secretary of State may reasonably require.
- 3.6 A CCIF Scheme proposed by the Franchise Operator pursuant to paragraph 3.3 shall not be an Approved CCIF Scheme unless and until approved by the Secretary of State pursuant to this paragraph 3.6. Without limitation, the Secretary of State may withhold his approval to any proposed CCIF Scheme which:
- (a) has not been identified and/or developed in accordance with the Customer and Stakeholder Engagement Strategy;
 - (b) is not designed to resolve or mitigate issues raised with the Franchise Operator through the consultation referred to in paragraph 3.1;
 - (c) has a completion date falling later than the end of the relevant CCIF Period;
 - (d) is projected to generate a Commercial Return or in relation to which the Secretary of State considers the CCIF Scheme Costs (or any part of them) to be too high or disproportionate to the benefits accruing from the CCIF Scheme;
 - (e) the Franchise Operator is otherwise funded to undertake; or
 - (f) in the opinion of the Secretary of State, amounts to actions or steps which the Franchise Operator is otherwise obliged to take or which any competent train operator should be taking in relation to the operation of the Franchise.
- 3.7 Approved CCIF Schemes shall be included as Committed Obligations in Schedule 6.1 (Committed Obligations and Related Provisions).
- 3.8 Paragraph 3.10 will apply if:
- (a) the aggregate projected CCIF Scheme Shortfall in respect of all Approved CCIF Schemes for any CCIF Period is less than the aggregate of the CCIF Amount for each Franchise Operator Year in that CCIF Period; or
 - (b) subject to paragraph 3.9 in any CCIF Period, in the Secretary of State's reasonable opinion, the aggregate of the actual CCIF Scheme Shortfall incurred by the Franchise Operator during that CCIF Period upon Approved CCIF Schemes is less than the aggregate of the CCIF Amount for each Franchise Operator Year in that CCIF Period,

in each case the underspend against the aggregate CCIF Amount being the **CCIF Underspend**.

3.9 If:

- (a) the amount of the CCIF Scheme Costs actually incurred by the Franchise Operator in relation to any Approved CCIF Scheme exceeds the projected CCIF Scheme Costs notified to the Secretary of State pursuant to paragraph 3.4 for such Approved CCIF Scheme, then the amount of the excess shall not amount to CCIF Scheme Costs; or
- (b) in the Secretary of State's reasonable opinion, the amount of the CCIF Scheme Revenue actually earned by the Franchise Operator in relation to any Approved CCIF Scheme is less than the projected CCIF Scheme Revenue notified to the Secretary of State pursuant to paragraph 3.4 for such Approved CCIF Scheme then, for the purposes of paragraph 3.8(b) the actual CCIF Scheme Revenue shall be deemed to be the projected CCIF Scheme Revenue.

3.10 Where this paragraph 3.10 applies the Secretary of State may require:

- (a) all or part of the CCIF Underspend to be added to the CCIF Amount for the first Franchise Operator Year in the subsequent CCIF Period;
- (b) the Franchise Operator to propose further CCIF Schemes using all or part of the CCIF Underspend by such new deadline as the Secretary of State may specify;
- (c) the Franchise Operator to spend all or part of the CCIF Underspend in such manner as the Secretary of State may direct; and/or
- (d) the Franchise Operator to pay all or part of the CCIF Underspend to the Secretary of State,

provided that paragraph 3.10(d) shall automatically apply in respect of the last CCIF Period unless the Secretary of State specifies otherwise.

3.11 The Franchise Operator shall:

- (a) undertake and complete a review of its Customer and Stakeholder Engagement Strategy during the 2nd Franchise Operator Year and at intervals of every two Franchise Operator Years thereafter; and
- (b) provide the Secretary of State with any proposed revisions to the Customer and Stakeholder Engagement Strategy arising out of such review by no later than the end of each such Franchise Operator Year.

- 3.12 The aim of such review shall be to update the Customer and Stakeholder Engagement Strategy to reflect lessons learned in the period since the Start Date or the previous review of the Customer and Stakeholder Engagement Strategy (as applicable) and to ensure that the Customer and Stakeholder Engagement Strategy achieves effective passenger engagement. Any revisions to the Customer and Stakeholder Engagement Strategy shall require the consent of the Secretary of State (such consent not to be unreasonably withheld or delayed).
- 3.13 Any Franchise Asset arising as a result of an Approved CCIF Scheme shall be designated as a Primary Franchise Asset and shall not be dedesignated as such. Any such Primary Franchise Asset which falls to be valued in accordance with the Supplemental Agreement shall be valued at nil.

**APPENDIX 1 TO SCHEDULE 7.2
NRPS Benchmark Table**

| | NRPS BENCHMARK | | |
|---------|----------------|-------|------------------|
| | STATION | TRAIN | CUSTOMER SERVICE |
| 2015/16 | 76.5% | 76.5% | 76.5% |
| 2016/17 | 77.0% | 77.5% | 77.5% |
| 2017/18 | 77.5% | 78.0% | 78.5% |
| 2018/19 | 78.0% | 78.5% | 79.5% |
| 2019/20 | 79.0% | 80.0% | 80.5% |
| 2020/21 | 80.0% | 82.5% | 81.0% |
| 2021/22 | 80.0% | 82.5% | 81.5% |
| 2022/23 | 80.0% | 83.5% | 82.0% |
| 2023/24 | 80.0% | 84.0% | 82.0% |
| 2024/25 | 80.0% | 84.0% | 82.0% |

**Schedule 8
Payments**

| | |
|--------------|--|
| Schedule 8.1 | Franchise Payments |
| | Appendix 1: Profit Share Thresholds |
| | Appendix 2: Components of AFA and DFR |
| Schedule 8.2 | Annual Franchise Payments |
| | Appendix: Figures for the Calculation of Annual Franchise payments |
| Schedule 8.3 | Miscellaneous Payment Provisions |
| Schedule 8.4 | Track Access Adjustments and Station Charge Adjustments |
| Schedule 8.5 | GDP Adjustment Payments |
| | Appendix 1: DfTR |
| | Appendix 2: Adjusted Target GDP Index |

SCHEDULE 8.1

Franchise Payments

1 Franchise Payments

The Franchise Payment for any Reporting Period shall be an amount equal to:

$$\text{£FP} = \text{PFP} + \text{TAA} + \text{SCA} + \text{GDPA} + \text{GDPR}_1 + \text{GDPR}_2 + \text{TUA} + \text{CPS} + \text{TMDPS}$$

where:

£FP means the Franchise Payment for that Reporting Period;

PFP means $\left(\frac{\text{RPD}}{\text{FYD}} \times \text{AFP} \right)$

where:

RPD means the number of days in that Reporting Period;

FYD means the number of days in the Franchise Operator Year in which that Reporting Period occurs provided that in respect of any Reporting Period:

- (a) occurring during any Franchise Operator Year in which the Franchise Agreement terminates early pursuant to Schedule 10 (Remedies, Termination and Expiry), FYD shall mean the number of days there would have been in such Franchise Operator Year had such early termination not occurred;
- (b) which commences on or after 1 April 2023 be deemed to be the number of days during the period from 1 April 2023 to the date to which the Franchise Agreement is continued in accordance with paragraph 1.2 of Schedule 18 (Additional Reporting Periods) (inclusive).

AFP means the Annual Franchise Payment for the Franchise Operator Year in which that Reporting Period occurs, as determined in accordance with Schedule 8.2 (Annual Franchise Payments);

TAA means any Track Access Adjustment to be made on that Reporting Period's Payment Date;

SCA means any Station Charge Adjustment to be made on that Reporting Period's Payment Date;

- GDPA means any GDP adjustment payment, determined in accordance with paragraph 3 of Schedule 8.5 (GDP Adjustment Payments), to be made on that Reporting Period's Payment Date;
- GDPR₁ means any GDP reconciliation payment, determined in accordance with paragraph 4.2 of Schedule 8.5 (GDP Adjustment Payments), to be made on that Reporting Period's Payment Date;
- GDPR₂ means any GDP reconciliation payment, determined in accordance with paragraph 4.5 of Schedule 8.5 (GDP Adjustment Payments), to be made on that Reporting Period's Payment Date;
- TUA means the sum of any payment to be made by the Secretary of State to the Franchise Operator pursuant to paragraph 5.1²³⁹ of Schedule 6.3 (The IEP Provisions) (which may only have a positive value) on the next Payment Date following the date on which the Franchise Operator pays such Top-Up Amount to the Receiving Scheme (whether directly or through the Franchise Section) in accordance with paragraph 5²⁴⁰ of Schedule 6.3 (The IEP Provisions);
- CPS means any Cancellations Performance Sum payable by the Secretary of State to the Franchise Operator on that Reporting Period's Payment Date (which may only have a positive value); and
- TMDPS means any TOC Minute Delay Performance Sum payable by the Secretary of State to the Franchise Operator on that Reporting Period's Payment Date (which may only have a positive value).
- 1.2 Where a Franchise Operator Year starts or ends during a Reporting Period, £FP and PFP shall be determined as if references in paragraph 1.1 to a Reporting Period were to each of the separate sections of two such Reporting Periods which fall either side of such Franchise Operator Year start or end, and the Franchise Payment for such Reporting Period shall be the sum of £FP as determined for each such section of such Reporting Period.
- 1.3 The parties agree that:
- (a) each of £FP, TAA, SCA, GDPA, GDPR₁ and GDPR₂ may be a positive or negative number;

²³⁹ Cross-reference corrected in letter dated 30 March 2015

²⁴⁰ Cross-reference corrected in letter dated 30 March 2015

- (b) where £FP is a positive number, the Secretary of State shall pay that amount to the Franchise Operator on the Payment Date for that Reporting Period; and
- (c) where £FP is a negative number, the Franchise Operator shall pay the corresponding positive amount to the Secretary of State on the Payment Date for that Reporting Period.

2 Payment of Franchise Payments

- 2.1 The Secretary of State shall notify the Franchise Operator, no less than seven days prior to the end of each Reporting Period, of the amount of the Franchise Payment payable in respect of that Reporting Period.
- 2.2 Each such notification shall set out in reasonable detail how the Franchise Payment has been calculated.
- 2.3 The Payment Date for a Reporting Period shall be the last business day of that Reporting Period.
- 2.4 Each Franchise Payment shall be payable by the Franchise Operator or, as the case may be, the Secretary of State in the amount notified by the Secretary of State in accordance with paragraph 2.1 on the Payment Date of the Reporting Period to which it relates.
- 2.5 Each Franchise Payment shall be made:
 - (a) by automatic electronic funds transfer in pounds sterling to such bank account in the United Kingdom as the payee of such payment may have previously specified to the payer in writing; and
 - (b) so that cleared funds are received in that account on or before the due date for payment.
- 2.6 If either party disputes the amount of a Franchise Payment, the dispute shall, unless the parties otherwise agree, be resolved in accordance with the provisions of clause 8 (Governing Law) of this Franchise Agreement. Any such dispute shall not affect the obligation of either party to pay a Franchise Payment notified in accordance with this paragraph 2.
- 2.7 If either party fails to pay any amount (including any amounts due under paragraph 7 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions)) to the other party on its due date, it shall in addition pay interest on such amount at the Interest Rate, calculated on a daily basis, from the due date for payment to the date on which payment is made.
- 2.8 If the amount of any Franchise Payment is agreed or determined to be incorrect and:

- (a) either party has made a payment to the other party which is greater than it would have made if the amount of the Franchise Payment had been correct, then the recipient shall repay the excess within three business days of the agreement or determination; or
- (b) either party has made a payment to the other party which is less than it would have made if the amount of the Franchise Payment had been correct, then the payer shall pay the amount of any shortfall to the payee within three business days of the agreement or determination,

together, in each case, with interest on the amount payable at the Interest Rate, calculated on a daily basis from the date on which the Franchise Payment was paid until the date on which such excess amount or shortfall is paid.

3 Profit Share

3.1 For the purposes of this paragraph 3:

First Profit Share Threshold means an amount in respect of any Franchise Operator Year determined as follows:

$$\text{FPST} \times \text{RPI} \times (\text{NRP}/\text{ENRP})$$

Where:

FPST is the amount prescribed for these purposes in paragraph 1 of Appendix 1 (Profit Share Thresholds) to this Schedule 8.1 in respect of the applicable Franchise Operator Year;

RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments);

NRP means the number of Reporting Periods in that Franchise Operator Year; and

ENRP means the expected number of Reporting Periods in that Franchise Operator Year, being 13 for every Franchise Operator Year except for the Franchise Operator Year referred to as "Year 1" in the table set out in paragraph 1 of Appendix 1 to Schedule 8.1 (Franchise Payments), which shall be the number of Reporting Periods between the Start Date and 1 April 2015.

Second Profit Share Threshold means an amount in respect of any Franchise Operator Year determined as follows:

$$\text{SPST} \times \text{RPI} \times (\text{NRP}/\text{ENRP})$$

- SPST is the amount prescribed for these purposes in paragraph 2 of Appendix 1 (Profit Share Thresholds) to this Schedule 8.1 in respect of the applicable Franchise Operator Year;
- RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments);
- NRP means the number of Reporting Periods in that Franchise Operator Year; and
- ENRP means the expected number of Reporting Periods in that Franchise Operator Year, being 13 for every Franchise Operator Year except for the Franchise Operator Year referred to as “Year 1” in the table set out in paragraph 2 of Appendix 1 to Schedule 8.1 (Franchise Payments), which shall be the number of Reporting Periods between the Start Date and 1 April 2015.

Third Profit Share Threshold means an amount in respect of any Franchise Operator Year determined as follows:

$TPST \times RPI \times (NRP/ENRP)$

- TPST is the amount prescribed for these purposes in paragraph 3 of Appendix 1 (Profit Share Thresholds) to this Schedule 8.1 in respect of the applicable Franchise Operator Year;
- RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments);
- NRP means the number of Reporting Periods in that Franchise Operator Year; and
- ENRP means the expected number of Reporting Periods in that Franchise Operator Year, being 13 for every Franchise Operator Year except for the Franchise Operator Year referred to as “Year 1” in the table set out in paragraph 3 of Appendix 1 to Schedule 8.1 (Franchise Payments), which shall be the number of Reporting Periods between the Start Date and 1 April 2015.

Relevant Profit means, subject to paragraph 3.4, in respect of any Franchise Operator Year, the total profit of the Franchise Operator for that Franchise Operator Year calculated by applying the accounting policies and standards set out in the Record of Assumptions and applied through the Financial Model:

- (a) after taking into account in respect of that Franchise Operator Year:
- (i) interest, finance income and finance charges (other than finance items recognised in respect of retirement benefits);

- (ii) Franchise Payments, including any adjustment by way of GDPA pursuant to Schedule 8.5 (GDP Adjustment Payments);
- (iii) all extraordinary and exceptional items, as defined under the accounting policies and standards set out in the Record of Assumptions and applied through the Financial Model;
- (iv) the Franchise Operator's normal pension contributions in relation to the Franchise Operator Sections and any other pension schemes to the extent connected with the Franchise; and
- (v) any payments to Affiliates of the Franchise Operator (including management fees and royalty fees) ²⁴¹ exceed an amount to be determined as follows:

AFA x RPI

where:

AFA is the amount specified in respect of each **Franchise Operator Year**²⁴² in column 2 of the table set out in paragraph 1 of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 (Franchise Payments) provided that if the Secretary of State exercises his right to extend the Franchise Agreement pursuant to Schedule 18 (Additional Reporting Periods):

(A) for 13 Reporting Periods, AFA for the **Franchise Operator Year**²⁴³ which commences on 1 April 2023 shall be the amount specified in column 2 of the table set out in paragraph 1 of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 for the period referred to as Year 10; or

(B) for less than 13 Reporting Periods, AFA for the **Franchise Operator Year**²⁴⁴ which commences on 1 April 2023 shall be equal to A x (B/13) where:

²⁴¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁴² Term corrected in letter dated 27 February 2015

²⁴³ Term corrected in letter dated 27 February 2015

²⁴⁴ Term corrected in letter dated 27 February 2015

A means the amount specified in column 2 of the table set out in paragraph 1 of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 for the period referred to as Year 10; and

B means the number of Reporting Periods in the **Franchise Operator Year**²⁴⁵ which commences on 1 April 2023 (as extended pursuant to Schedule 18 (Additional Reporting Periods)); and

RPI has the meaning given to it in the definition of Threshold Amount;

- (vi) any sums payable by or to the Franchise Operator pursuant to the terms of the Supplemental Agreement; and
 - (vii) any capital expenditure to the extent that it is recognised as an operating cost in the Annual Audited Accounts and any depreciation on capital expenditure that is recognised as an expense in the Annual Audited Accounts, unless the depreciation policy and assumptions used in the Annual Audited Accounts are different to those set out in the Record of Assumptions and applied through the Financial Model, in which case an adjustment should be made to take account of the depreciation which would have been charged had the policy and assumptions set out in the Record of Assumptions been applied for the relevant Franchise Operator Year; and
- (b) before taking into account in respect of that Franchise Operator Year:
- (i) any taxation on profits including corporation tax;
 - (ii) shares of the profit of any Affiliate of the Franchise Operator, except dividends received in cash;
 - (iii) non cash entries in respect of the Franchise Sections and any other pension schemes to the extent connected with the Franchise, excluding accruals or prepayments of any normal pension contributions due;
 - (iv) any payment made by the Franchise Operator consequent upon any breach or contravention of the Franchise Agreement and/or its Licences (including as a consequence of any penalty payment paid or payable pursuant to Section 57A of the Railways Act 1993);

²⁴⁵ Term corrected in letter dated 27 February 2015

- (v) any profit share payments payable to the Secretary of State in relation to any Franchise Operator Year;
- (vi) fees, remuneration and pension contributions in respect of any director and officers of the Franchise Operator in excess of an amount to be determined as follows:

DFR x RPI

where:

DFR is the amount specified in respect of each **Franchise Operator Year**²⁴⁶ in column 2 of the table set out in paragraph 2 of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 provided that if the Secretary of State exercises his right to extend the Franchise Agreement pursuant to Schedule 18 (Additional Reporting Periods):

- (A) for 13 Reporting Periods, DFR for the **Franchise Operator Year**²⁴⁷ which commences 1 April 2023 shall be the amount specified in column 2 of the table set out in paragraph 2 of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 for the period referred to as “Year 10”;
- (B) for less than 13 Reporting Periods, DFR for the **Franchise Operator Year**²⁴⁸ which commences on 1 April 2023 shall be equal to A x (B/13) where:

A means the amount specified in column 2 of the table set out in paragraph 2²⁴⁹ of Appendix 2 (Components of AFA and DFR) to this Schedule 8.1 for the period referred to as “Year 10”; and

B means the number of Reporting Periods in the **Franchise Operator Year**²⁵⁰ which commences on 1 April 2023 (as extended pursuant to Schedule 18 (Additional Reporting Periods)); and

RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments); and

- (vii) any NR Received Amount.

²⁴⁶ Term corrected in letter dated 27 February 2015

²⁴⁷ Term corrected in letter dated 27 February 2015

²⁴⁸ Term corrected in letter dated 27 February 2015

²⁴⁹ Coss-reference corrected in letter dated 30 March 2015.

²⁵⁰ Term corrected in letter dated 27 February 2015

The Franchise Operator shall separately identify any adjustment by way of GDPA pursuant to Schedule 8.5 (GDP Adjustment Payments) in its Annual Audited Accounts and shall include such adjustment in its Annual Audited Accounts for the Franchise Operator Year in respect of which such adjustment is made

3.2 If the Annual Audited Accounts in respect of any Franchise Operator Year show that the Relevant Profit for that Franchise Operator Year exceeds the First Profit Share Threshold then, subject to paragraph 3.4, the Franchise Operator shall pay to the Secretary of State:

- (a) 25% of Relevant Profit in excess of the First Profit Share Threshold but less than or equal to the Second Profit Share Threshold;
- (b) 75% of Relevant Profit in excess of the Second Profit Share Threshold but less than or equal to the Third Profit Share Threshold; and
- (c) 100% of Relevant Profit in excess of the Third Profit Share Threshold.

3.3 Subject to paragraphs 3.5 and 3.6 below, payments due under paragraph 3.2 shall be paid as part of the Franchise Payment for the first Reporting Period falling 30 or more days after delivery of the Annual Audited Accounts by the Franchise Operator to the Secretary of State under paragraph 3.9 of Schedule 13 (Information and Industry Initiatives) or if there is no such Reporting Period, within 30 days of the date of such delivery.

3.4

- (a) If in any Franchise Operator Year (or any period of 12 consecutive months after the end of the Franchise Period) (the **Current Franchise Operator Year**) the Franchise Operator receives a compensation or other settlement payment of at least £200,000 x RPI arising from a single claim or series of related claims which relate wholly or partly to costs, losses or expenses (including loss of revenue) arising in any other Franchise Operator Year or Franchise Operator Years, then the Franchise Operator shall notify the Secretary of State of such payment as soon as reasonably practicable and for the purposes of this paragraph 3 and notwithstanding its other terms:
 - (i) the payment which relates to such other Franchise Operator Year shall be attributed to that other Franchise Operator Year and not treated as received in the Current Franchise Operator Year;
 - (ii) where and to the extent any payments under this paragraph 3 in respect of any other Franchise Operator Year would have been made or would have been higher had that amount actually been received in that other Franchise Operator Year, the

Franchise Operator shall pay a reconciliation amount to the Secretary of State within 30 days after delivery of the Annual Audited Accounts that relate to the Current Franchise Operator Year by the Franchise Operator to the Secretary of State under paragraph 3.9 of Schedule 13 (Information and Industry Initiatives) or, if there is no further requirement on the Franchise Operator to deliver Annual Audited Accounts following the end of the Franchise Period, within 30 days of the Franchise Operator receiving the relevant payment; and

(iii) RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments).

(b) Where the Secretary of State reasonably considers that in calculating Relevant Profit any particular item or transaction has not been accounted for on a reasonable basis (including where the accounting treatment looks to the form rather than the substance of the item or transaction) he shall be entitled to require it to be accounted for on such other basis as he may reasonably determine and notify to the Franchise Operator provided that the Secretary of State shall not be entitled pursuant to this paragraph to alter the accounting policies of the Franchise Operator from those set out in the Record of Assumptions and applied through the Financial Model.

(c) Without prejudice to paragraph 3.4(a) where the Annual Audited Accounts in relation to any previous Franchise Operator Year are subject to adjustment or restatement the Secretary of State shall have a discretion to require the recalculation of Relevant Profit for the relevant Franchise Operator Year and to require that the Franchise Operator shall pay to the Secretary of State the amount which is the difference between the profit share actually paid to the Secretary of State pursuant to paragraph 3.2 and the amount that would have been paid had the Relevant Profit been originally calculated on the basis that such adjustment or revision was included in the Annual Audited Accounts. Any payment due to the Secretary of State shall be paid by the Franchise Operator within 30 days of the Secretary of State notifying the Franchise Operator that he requires a payment to be made pursuant to this paragraph.

3.5 The Franchise Operator shall, within 10 days after delivery of any Annual Audited Accounts under paragraph 3.9 of Schedule 13 (Information and Industry Initiatives), deliver to the Secretary of State a report identifying:

(a) the amount of total profit and the adjustments made in the calculation of Relevant Profit pursuant to paragraph 3.1;

(b) any items falling under paragraph 3.4(a), including details of the allocation across Franchise Operator Years of such items; and

(c) any adjustments or restatements made in relation to the Annual Audited Accounts in respect of any previous Franchise Operator Year,

and shall provide such additional information, records or documents as the Secretary of State may reasonably require in relation to such matters (including an unqualified report from the Franchise Operator's auditors addressed to the Secretary of State which confirms that any such report gives a true and fair view of the matters contained within it including the amount of total profit and the adjustments made in the calculation of relevant profit).

3.6 Any profit share payment pursuant to paragraph 3.2 to be made in respect of the final Franchise Operator Year shall be determined in accordance with this paragraph 3 but shall be paid within 30 days of the Secretary of State giving written notice to the Franchise Operator of the amount of such profit share payment.

3.7 If the Franchise Operator fails to provide the Annual Audited Accounts for the final Franchise Operator Year within four Reporting Periods of the expiry of the final Franchise Operator Year pursuant to paragraph 3.9 of Schedule 13 (Information and Industry Initiatives), the Secretary of State shall be entitled (but not obliged) to determine any profit share adjustment in accordance with this paragraph 3 but by reference to any relevant information available to the Secretary of State at the time of such determination, including any information contained in the latest cumulative, year-to-date Management Accounts or in the Annual Management Accounts.

APPENDIX 1 TO SCHEDULE 8.1
Profit Share Thresholds

- 1 The prescribed amounts for the component of FPST for the relevant Franchise Operator Year and for the purposes of the definition of First Profit Share Threshold are as set out in the table below:

| Franchise Operator Year | First Profit Share Threshold Amount (£) ²⁵¹ |
|-------------------------|---|
| Year 1 (part) | |
| Year 2 | |
| Year 3 | |
| Year 4 | |
| Year 5 | |
| Year 6 | |
| Year 7 | |
| Year 8 | |
| Year 9 | |
| Year 10 | |

- 2 The prescribed amounts for the component of SPST for the relevant Franchise Operator Year and for the purposes of the definition of Second Profit Share Threshold are as set out in the table below:

| Franchise Operator Year | Second Profit Share Threshold Amount (£) ²⁵² |
|-------------------------|--|
| Year 1 (part) | |
| Year 2 | |

²⁵¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁵² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

| Franchise Operator Year | Second Profit Share Threshold Amount (£)²⁵² |
|--------------------------------|---|
| Year 3 | |
| Year 4 | |
| Year 5 | |
| Year 6 | |
| Year 7 | |
| Year 8 | |
| Year 9 | |
| Year 10 | |

- 3 The prescribed amounts for the component of TPST for the relevant Franchise Operator Year and for the purposes of the definition of Third Profit Share Threshold are as set out in the table below:

| Franchise Operator Year | Third Profit Share Threshold Amount (£)²⁵³ |
|--------------------------------|--|
| Year 1 (part) | |
| Year 2 | |
| Year 3 | |
| Year 4 | |
| Year 5 | |
| Year 6 | |
| Year 7 | |
| Year 8 | |
| Year 9 | |

²⁵³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

| Franchise Operator Year | Third Profit Share Threshold Amount (£) ²⁵³ |
|-------------------------|---|
| Year 10 | |

**APPENDIX 2 TO SCHEDULE 8.1
Components of AFA and DFR**

- 1 The amounts for the purposes of the component of AFA in paragraph 3(a)(v) of Schedule 8.1 (Franchise Payments) are set out in the table below:

| Franchise Operator Year | Component of AFA (£)²⁵⁴ |
|--------------------------------|---|
| Year 1 (part) | |
| Year 2 | |
| Year 3 | |
| Year 4 | |
| Year 5 | |
| Year 6 | |
| Year 7 | |
| Year 8 | |
| Year 9 | |
| Year 10 | |

- 2 The amounts for the purposes of the component of DFR in paragraph 3(b)(vi) of Schedule 8.1 (Franchise Payments) are set out in the table below:

| Franchise Operator Year | Component of DFR (£)²⁵⁵ |
|--------------------------------|---|
| Year 1 (part) | |
| Year 2 | |
| Year 3 | |
| Year 4 | |
| Year 5 | |

²⁵⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁵⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

| Franchise Operator Year | Component of DFR (£) ²⁵⁵ |
|-------------------------|-------------------------------------|
| Year 6 | |
| Year 7 | |
| Year 8 | |
| Year 9 | |
| Year 10 | |

SCHEDULE 8.2

Annual Franchise Payments

1 Annual Franchise Payments

The Annual Franchise Payment for any Franchise Operator Year is an amount equal to:

$$\text{AFP} = \text{FXD} + (\text{VCRPI} \times \text{RPI}) + (\text{VCAWE} \times \text{AWE}) + (\text{PRPI} \times \text{RPI}) + (\text{ORRPI} \times \text{RPI}) + (\text{PRRPI} \times \text{RPI})$$

where:

AFP equals the Annual Franchise Payment in the relevant Franchise Operator Year;

FXD means the figure shown in respect of the relevant Franchise Operator Year in column 2 of the table set out in the Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2;

VCRPI means the figure shown in respect of the relevant Franchise Operator Year in column 3 of the table set out in Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2;

RPI is the quotient of the Retail Prices Index for the January which immediately precedes the commencement of the relevant Franchise Operator Year divided by the Retail Prices Index for January 2014 provided that, for the first Franchise Operator Year, RPI shall be one;

VCAWE means the figure shown in respect of the relevant Franchise Operator Year in column 4 of the table set out in Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2;

AWE is the quotient of the Average Weekly Earnings for the January which immediately precedes the commencement of the relevant Franchise Operator Year divided by the Average Weekly Earnings for January 2014, provided that, for the first Franchise Operator Year, AWE shall be one;

PRPI means the figure shown in respect of the relevant Franchise Operator Year in column 5 of the table set out in Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2;

ORRPI means the figure shown in respect of the relevant Franchise Operator Year in column 6 of the table set out in Appendix (Figures for Calculation of Annual

Franchise Payments) to this Schedule 8.2 (and which shall always be expressed as a negative number); and

PRRPI means the figure shown in respect of the relevant Franchise Operator Year in column 7 of the table set out in Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2 (and which shall always be expressed as a negative number).

For the avoidance of doubt, for the purpose of calculating the Annual Franchise Payment, the “relevant Franchise Year” shall in respect of any Reporting Period which commences on or after 1 April 2023, be that referred to as “Year 10” in the table set out in the Appendix (Figures for Calculation of Annual Franchise Payments) to this Schedule 8.2.

APPENDIX TO SCHEDULE 8.2
Figures for Calculation of Annual Franchise Payments²⁵⁶²⁵⁷

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 | Column 7 |
|-------------------------|----------|-----------|-----------|----------|-----------|-----------|
| Franchise Operator Year | FXD (£) | VCRPI (£) | VCAWE (£) | PRPI (£) | ORRPI (£) | PRRPI (£) |
| Year 1 (part) | | | | | | |
| Year 2 | | | | | | |
| Year 3 | | | | | | |
| Year 4 | | | | | | |
| Year 5 | | | | | | |
| Year 6 | | | | | | |
| Year 7 | | | | | | |
| Year 8 | | | | | | |
| Year 9 | | | | | | |
| Year 10 | | | | | | |

²⁵⁶ Bidder to populate.

²⁵⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

SCHEDULE 8.3
Miscellaneous Payment Provisions

The Secretary of State, in his discretion, may at any time decide to reimburse or ameliorate net losses of the Franchise Operator arising from Industrial Action (however caused and of whatever nature) in circumstances where the Franchise Operator has demonstrated to the satisfaction of the Secretary of State that it has taken all reasonable steps to avoid the Industrial Action and that, Industrial Action having nevertheless occurred, the Franchise Operator has taken all reasonable steps to mitigate its effects.

SCHEDULE 8.4
Track Access Adjustments and Station Charge Adjustments

1 Track Access Adjustments

- 1.1 The Track Access Adjustment to be made in respect of any Reporting Period shall be determined in accordance with the following formula:

$$TAA = (GCA - W) \times \frac{RPD}{FYD}$$

where:

- TAA means the Track Access Adjustment to be made in that Reporting Period;
- GCA is the value of "GC" for the Franchise Operator Year in which the Reporting Period falls under Part 3A of Schedule 7 of the Track Access Agreement;
- W is the value of "Wt" for the Franchise Operator Year in which the Reporting Period falls under Part 2 of Schedule 7 of the Track Access Agreement;
- RPD means the number of days in that Reporting Period; and
- FYD means the number of days in the Franchise Operator Year in which that Reporting Period falls,

except that, where a Reporting Period falls during two Franchise Operator Years, TAA shall be determined as if the references to Reporting Period were to each of the two periods within such Reporting Period which fall wholly within one of such Franchise Operator Years and the Track Access Adjustment to be made in that Reporting Period shall reflect the sum of TAA as determined for each such period.

- 1.2 The Franchise Operator shall notify the Secretary of State upon becoming aware that any Track Access Adjustment is to be made and shall supply such information as the Secretary of State may require in relation thereto. The Franchise Operator shall exercise its rights under the Track Access Agreement in such manner and take such other action as the Secretary of State may reasonably require in connection with any related payment thereunder (including in relation to any agreement of the amount of any such payment and including submitting any relevant dispute to any relevant dispute resolution procedures). The Franchise Operator shall not, without the consent of the Secretary of State, agree or propose to agree a value for "Wt" or "GC" under Parts 2 or 3A of Schedule 7 of the Track Access Agreement.

- 1.3 The Franchise Operator shall provide such evidence of payment as the Secretary of State may require (including any certificates) for the purpose of determining the value of W and GCA under paragraph 1.1.
- 1.4 If no value is ascertained for W or GCA prior to the date on which the Franchise Payment for the relevant Reporting Period is determined, then a Track Access Adjustment shall only be determined to the extent such values can be ascertained at such time and, when such values are subsequently ascertained, adjustment shall be made to reflect the full Track Access Adjustment for such Reporting Period.
- 1.5 The values of W and GCA when used in the computation in paragraph 1.1 shall be taken to exclude any input Value Added Tax which is recoverable in respect of the payments they represent by the Franchise Operator under Sections 24 to 26 of the Value Added Tax Act 1994.
- 1.6 References in this paragraph 1 to **Wt** and **GC** and Parts 2 and 3A of Schedule 7 of the Track Access Agreement shall be deemed also to be references to such other provisions, and such other algebra under any such other provisions, of any Track Access Agreement as the Secretary of State may reasonably consider have an equivalent effect, or are intended to fulfil the same function, as Wt or GC and Parts 2 or 3A of Schedule 7 of the Track Access Agreement to which the Franchise Operator is a party on the Start Date.

2 Station Charge Adjustment

- 2.1 The following provisions shall not apply in relation to any Station or each other Franchisee Access Station for which the applicable Station Access Conditions is the one entitled "National Station Access Conditions 2011 (FRI Leases) (England and Wales)".
- 2.2 The Station Charge Adjustment to be made in respect of any Reporting Period shall be the aggregate of the Individual Station Charge Adjustments as determined in accordance with the following formula for each Station and each other Franchise Operator Access Station:

$$ISCA = (L - P) \times \frac{RPD}{FYD}$$

where:

ISCA means the Individual Station Charge Adjustment for the relevant station for that Reporting Period;

L is the value of "Lt" for the Franchise Operator Year in which the Reporting Period falls under:

- (a) if the relevant station is not an Independent Station, Condition F11.2 of the Station Access Conditions entitled “National Station Access Conditions 1996 (England and Wales)” relating to such station; or
- (b) if the relevant station is an Independent Station, Condition 42.3 of the Independent Station Access Conditions relating to that Independent Station,

in each case, to the extent that value represents an amount payable to or by Network Rail or any other relevant Facility Owner by or to the Franchise Operator on its own behalf under the relevant Access Agreement (excluding any amount payable to Network Rail by the Franchise Operator in its capacity as Facility Owner of a station on behalf of a beneficiary which is party to an Access Agreement in respect of a Station);

P is the value of “Pt” for the Franchise Operator Year in which the Reporting Period falls under:

- (a) if the relevant station is not an Independent Station, Condition F11.2 of the Station Access Conditions entitled “National Station Access Conditions 1996 (England and Wales)” relating to such station; or
- (b) if the relevant station is an Independent Station, Condition 42.3 of the Independent Station Access Conditions relating to that Independent Station,

in each case, to the extent that value represents an amount payable to or by Network Rail or any other relevant Facility Owner by or to the Franchise Operator on its own behalf under the relevant Access Agreement (excluding any amount payable to Network Rail by the Franchise Operator in its capacity as Facility Owner of a station on behalf of a beneficiary which is party to an Access Agreement in respect of a Station);

RPD means the number of days in that Reporting Period; and

FYD means the number of days in the Franchise Operator Year in which that Reporting Period falls except that, where a Reporting Period falls during two Franchise Operator Years, the Station Charge Adjustment shall be determined as if the references to Reporting Period were to each of the two periods within such Reporting Period which fall wholly within one of such Franchise Operator Years and the Station Charge Adjustment for such Reporting Period shall be the sum of the Station Charge Adjustment as determined for each such period.

2.3 The Franchise Operator shall notify the Secretary of State upon becoming aware that any Station Charge Adjustment is to be made and shall supply such information as the Secretary of State

may require in relation thereto. The Franchise Operator shall exercise such rights as it may have under any Access Agreement in such manner and take such other action as the Secretary of State may reasonably require in connection with any related payment thereunder (including in relation to any agreement of the amount of any such payment and including submitting any relevant dispute to any relevant dispute resolution procedures). The Franchise Operator shall not, without the consent of the Secretary of State, agree or propose to agree a value for “Lt” or “Pt” under any relevant Access Agreement.

- 2.4 The Franchise Operator shall provide such evidence of payment as the Secretary of State may require (including any certificates) for the purpose of determining the value of L and P under paragraph 2.2.
- 2.5 If no value is ascertained for any of L or P prior to the date on which the Franchise Payment for the relevant Reporting Period is determined, then a Station Charge Adjustment shall only be determined to the extent such values can be ascertained at such time and, when such values are subsequently ascertained, an adjustment shall be made to reflect the full Station Charge Adjustment for such Reporting Period.
- 2.6 The values of L and P when used in the computation in paragraph 2.2 shall be taken to exclude any input Value Added Tax which is recoverable in respect of the payments they represent by the Franchise Operator under Sections 24 to 26 of the Value Added Tax Act 1994.
- 2.7 For the purposes of this paragraph 2, **Independent Station** shall mean, at any time, any station of which Network Rail is the Facility Owner at that time.
- 2.8 References in this paragraph 2 to “Lt”, Pt, Condition F11.2 of the Station Access Conditions entitled “National Station Access Conditions 1996 (England and Wales)” and Condition 42.3 of the Independent Station Access Conditions shall be deemed also to be references to such other provisions, and such other algebra under any such other provisions, of any relevant station access conditions as the Secretary of State may reasonably consider have an equivalent effect, or are intended to fulfil the same function as, “Lt”, “Pt” and Condition F11.2 of the Station Access Conditions entitled “National Station Access Conditions 1996 (England and Wales)” and Condition 42.3 of the Independent Station Access Conditions which are in effect on the Start Date.

SCHEDULE 8.5

GDP Adjustment Payments

1 Purpose and Application of Schedule

- 1.1 This Schedule 8.5 sets out the formulae to be used to calculate the value of GDPA, GDPR₁ and GDPR₂ for the purposes of Schedule 8.1 (Franchise Payments).
- 1.2 If, in respect of any Franchise Operator Year:
- (a) Adjusted Actual GDP Index and Adjusted Target GDP Index are the same; or
 - (b) Adjusted Actual GDP Index is within the Nil Band for that Franchise Operator Year,
- GDPA in respect of that Franchise Operator Year shall be zero. However, GDPR₁ and/or GDPR₂ may be greater or less than zero in respect of that Franchise Operator Year as a result of a reconciliation made in accordance with paragraph 4 or paragraph 5.
- 1.3 Subject to paragraph 1.2(b), if, in respect of any Franchise Operator Year:
- (a) Adjusted Actual GDP Index is less than Adjusted Target GDP Index, GDPA will be a positive number for the purposes of Schedule 8.1 (Franchise Payments); or
 - (b) Adjusted Actual GDP Index is greater than Adjusted Target GDP Index, GDPA will be a negative number for the purposes of Schedule 8.1 (Franchise Payments).
- 1.4 The Office for National Statistics publishes the GDP (ABMI) Figures by quarters and calendar years. In respect of each Franchise Operator Year, the GDP (ABMI) Figures to be used for the purposes of calculating GDPA, GDPR₁ and GDPR₂ will be the sum of those GDP (ABMI) Figures published in respect of (a) quarter 2 (ending in June), (b) quarter 3 (ending in September), (c) quarter 4 (ending in December), in each case, of the calendar year in which the relevant Franchise Operator Year starts and (d) quarter 1 (ending in March) of the following calendar year.
- 1.5 As the GDP (ABMI) Figures used in the calculation of Base Year GDP may be refined and/or rebased by the Office for National Statistics from time to time following their initial publication, the most recently published GDP (ABMI) Figures in respect of the quarters ending June 2013, September 2013, December 2013 and March 2014 shall be used to determine Base Year GDP for the purpose of calculating Adjusted Actual GDP Index.
- 1.6 As the GDP (ABMI) Figures used in the calculation of Current Year GDP for each Franchise Operator Year may be refined by the Office for National Statistics from time to time following their

initial publication, two reconciliation payments will be calculated in respect of each Franchise Operator Year (subject to paragraph 5) in accordance with paragraph 4, to reflect the difference between the amount of GDPA already paid and the amount of GDPA which would have been payable in respect of that Franchise Operator Year had the GDP (ABMI) Figures used in the calculation of Current Year GDP and Base Year GDP been those most recently published at the GDPR₁ Reconciliation Date or the GDPR₂ Reconciliation Date (as the case may be).

- 1.7 The GDP (ABMI) Figures as at the date of this Franchise Agreement are in 2010 prices. During the Franchise Period, the Office for National Statistics may rebase the GDP (ABMI) Figures to a different base year. If it does so, the rebased GDP (ABMI) Figures will be used for the purposes of calculating Adjusted Actual GDP Index.
- 1.8 The final GDPA and reconciliation payments to be made at the end of the Franchise Period will be calculated in accordance with paragraph 5. If the final Franchise Operator Year ends other than on 31 March, the only change to the calculation of GDPA in respect of that final Franchise Operator Year will be a pro-rata adjustment to DfTRW for that Franchise Operator Year as described in paragraph 5.1 and there will be no change to the figures for Adjusted Target GDP Index or the figures used to calculate Adjusted Actual GDP Index.

2 Definitions

- 2.1 For the purposes of this Schedule 8.5:

Adjusted Actual GDP Index (expressed in the formulae in this Schedule 8.5 as GDP^{C_A}) means, in respect of each Franchise Operator Year, the figure calculated for that Franchise Operator Year in accordance with paragraph 3.3;

Adjusted Target GDP Index (expressed in the formulae in this Schedule 8.5 as GDP^{C_T}) means, in respect of each Franchise Operator Year, the figure specified for that Franchise Operator Year in the column headed "GDP^{C_T}" in Appendix 2 (Adjusted Target GDP Index);

Base Year GDP (expressed in the formulae in this Schedule 8.5 as GDP_{13/14}) means, at the time of any calculation pursuant to paragraph 3.3, 4.2 and 4.5, the sum of the GDP (ABMI) Figures most recently published by the Office for National Statistics for the quarters ending at the end of each of June 2013, September 2013 and December 2013 and March 2014;

Current Year GDP means, in respect of a Franchise Operator Year, the sum of the GDP (ABMI) Figures most recently published (as at the time of any calculation pursuant to paragraph 3.3, 4.2 and 4.5) by the Office for National Statistics in respect of each quarter of the Franchise Operator Year, being those figures published for the quarters ending at the end of each of June, September, December and March of that Franchise Operator Year;

GDP Adjustment Payment (expressed in this Schedule 8.5 as GDPA) means, in respect of each Franchise Operator Year, the figure calculated in accordance with paragraph 3.2 or paragraph 5.1 (as applicable) which shall be due in accordance with paragraph 3.5 and payable in accordance with Schedule 8.1 (Franchise Payments);

GDP (ABMI) Figures means the “Gross Domestic Product at Market Prices in Chained Volume Measure, Seasonally Adjusted in £m” output figures as published by the Office for National Statistics for the quarters ending at the end of each March, June, September and December of each year or, if such figures cease to be published or there is, in the reasonable opinion of the Secretary of State, a material change in the basis on which those figures are calculated or if, at any relevant time, there is a delay in the publication of those figures, such other gross domestic product figures as the Secretary of State may, after consultation with the Franchise Operator, determine to be appropriate, and the Secretary of State shall determine such other changes as may be appropriate to this Schedule 8.5 to reflect any such reasonable replacement measure;

GDP Reconciliation Payments (expressed in this Schedule 8.5 as GDPR₁ and GDPR₂) means the reconciliations to the GDP Adjustment Payment payable in respect of the relevant Franchise Operator Year, calculated in accordance with paragraph 4 and/or paragraph 5 (as applicable);

GDPR₁ Reconciliation Date has the meaning given to it in paragraph 4.1;

GDPR₂ Reconciliation Date has the meaning given to it in paragraph 4.4;

Nil Band Lower means, in respect of each Franchise Operator Year, the figure specified in column 6 headed “Nil Band Lower” of the table in Appendix 2 (Adjusted Target GDP Index) in respect of that Franchise Operator Year; and

Nil Band Upper means, in respect of each Franchise Operator Year, the figure specified in column 7 headed “Nil Band Upper” of the table in Appendix 2 (Adjusted Target GDP Index) in respect of that Franchise Operator Year.

3 GDP Adjustment Payments (GDPA)

3.1 Nil Band

The GDP Adjustment Payment for a Franchise Operator Year shall be zero if the Adjusted Actual GDP Index for that Franchise Operator Year is equal to or greater than the Nil Band Lower figure for that Franchise Operator Year but less than or equal to the Nil Band Upper for that Franchise Operator Year.

3.2 GDP Adjustment Payments outside the Nil Band

Where paragraph 3.1 does not apply for a Franchise Operator Year, the GDP Adjustment Payment payable for that Franchise Operator Year shall be an amount calculated in accordance with the following formula:

$$GDPA = DfTRW \times \left[\frac{(GDP^{C_A}) - A}{(GDP^{C_T})} \right] \times RPI$$

Where:

DfTRW is, subject to paragraph 5, the figure shown in respect of the relevant Franchise Operator Year in column 4 of the table in Appendix 1 (DfTRW);

GDP^{C_A} is the Adjusted Actual GDP Index for the relevant Franchise Operator Year;

GDP^{C_T} is the Adjusted Target GDP Index for the relevant Franchise Operator Year;

A means the figure determined in accordance with paragraph 3.4 for the relevant Franchise Operator Year; and

RPI has the meaning given to it in Schedule 8.2 (Annual Franchise Payments).

3.3 Calculating Adjusted Actual GDP Index (GDP^{C_A})

The Adjusted Actual GDP Index for a Franchise Operator Year shall be an amount calculated in accordance with the following paragraph:

$$GDP^{C_A} = \left[\frac{(GDP_y)}{GDP_{13/14}} \right]^c$$

where:

^c means 1.20;

GDP_y is Current Year GDP for the relevant Franchise Operator Year; and

GDP_{13/14} is Base Year GDP.

Adjusted Actual GDP Index shall be specified as a decimal (to 4 decimal places) and where Adjusted Actual GDP Index is negative, it shall be specified as a positive number less than 1.

3.4 Calculating the relevant GDP threshold (A)

The figure A for a Franchise Operator Year shall be:

- (a) the Nil Band Upper figure for that Franchise Operator Year, where GDP^{C_A} is greater than the Nil Band Upper figure for that Franchise Operator Year; or
- (b) the Nil Band Lower figure for that Franchise Operator Year, where GDP^{C_A} is less than the Nil Band Lower figure for that Franchise Operator Year.

3.5 Payment

Where an amount of GDPA is payable in respect of a Franchise Operator Year, GDPA shall be payable in accordance with Schedule 8.1 (Franchise Payments) as a single annual payment on the first Payment Date to occur following the date falling 15 days after publication of the GDP (ABMI) Figures published as part of the Office for National Statistics second estimate of GDP for quarter one, relating to the final quarter of the relevant Franchise Operator Year (such date of publication being the **Second Estimate Date**), or where there is no Payment Date which occurs following the date falling 15 days after the Second Estimate Date, not later than 30 days after the Second Estimate Date.

4 GDP Reconciliation Payments (GDPR₁ and GDPR₂)

First Reconciliation - GDPR₁

4.1 Subject to paragraph 5, GDPR₁ for a Franchise Operator Year shall be calculated based on the GDP (ABMI) Figures in respect of that Franchise Operator Year published in the UK Quarterly National Accounts for quarter one in the year following the Second Estimate Date (as defined in paragraph 3.5) for that Franchise Operator Year (the **GDPR₁ Reconciliation Date**).

4.2 GDPR₁ for a Franchise Operator Year shall be an amount equal to:

- (a) the amount which GDPA would have been for that Franchise Operator Year if:
 - (i) Current Year GDP for that Franchise Operator Year had been calculated using the UK Quarterly National Accounts for Q1 GDP (ABMI) Figures in respect of that Franchise Operator Year available at the GDPR₁ Reconciliation Date; and
 - (ii) Base Year GDP had been calculated using the most recently published GDP (ABMI) Figures available at the GDPR₁ Reconciliation Date;

minus

- (b) GDPA for that Franchise Operator Year.

4.3 If GDPR₁ is:

- (a) a negative number, $GDPR_1$ will be a negative number for the purpose of Schedule 8.1 (Franchise Payments); or
- (b) a positive number, $GDPR_1$ will be a positive number for the purpose of Schedule 8.1 (Franchise Payments).

Second Reconciliation - $GDPR_2$

4.4 Subject to paragraph 5, $GDPR_2$ for a Franchise Operator Year shall be calculated based on the GDP (ABMI) Figures in respect of that Franchise Operator Year published in the UK Quarterly National Accounts for quarter one in the year following the $GDPR_1$ Reconciliation Date (the **$GDPR_2$ Reconciliation Date**).

4.5 $GDPR_2$ for a Franchise Operator Year shall be an amount equal to:

- (a) the amount which GDPA would have been for that Franchise Operator Year if:
 - (i) Current Year GDP for that Franchise Operator Year had been calculated using the UK Quarterly National Accounts for Q1 GDP (ABMI) Figures in respect of that Franchise Operator Year available at the $GDPR_2$ Reconciliation Date; and
 - (ii) Base Year GDP had been calculated using the most recently published GDP (ABMI) Figures available at the $GDPR_2$ Reconciliation Date;

minus

- (b) the sum of GDPA and any $GDPR_1$ for that Franchise Operator Year.

4.6 If $GDPR_2$ is:

- (a) a negative number, $GDPR_2$ will be a negative number for the purpose of Schedule 8.1 (Franchise Payments); or
- (b) a positive number, $GDPR_2$ will be a positive number for the purpose of Schedule 8.1 (Franchise Payments).

4.7 Payment of any $GDPR_1$ or $GDPR_2$

Where an amount of $GDPR_1$ or $GDPR_2$ is payable for a Franchise Operator Year, such amount shall be payable in accordance with Schedule 8.1 (Franchise Payments) as a single annual payment on the first Payment Date to occur following the date falling 15 days after publication of the refined GDP (ABMI) Figures referred to in paragraph 4.2(a) or 4.5(a) (as applicable) or as set out in paragraph 5 (the **Publication Date**) or, where there is no Payment Date which occurs

following the date falling 15 days after the Publication Date, not later than 15 days after the Publication Date.

5 Final Adjustments / Reconciliations

Final Year

5.1 GDPA for the final Franchise Operator Year (including in the event of an early termination) shall be calculated and payable in accordance with paragraph 3 provided that, if such final Franchise Operator Year ends other than on 31 March, for the purpose of calculating GDPA for that final Franchise Operator Year:

- (a) DfTRW shall be adjusted on a pro-rata basis to reflect the number of days by which the number of days in the final Franchise Operator Year was less than 365; and
- (b) no other component of GDPA referred to in the formula in paragraph 3.2 shall be adjusted to reflect that the final Franchise Operator Year ended other than on 31 March, and

GDPA for the final Franchise Operator Year shall be payable in accordance with paragraph 3.5.

5.2 No GDPR₁ or GDPR₂ payment shall be payable in respect of the final Franchise Operator Year.

Penultimate Year

5.3 GDPR₁ for the penultimate Franchise Operator Year shall be calculated and payable in accordance with paragraph 4.2 and payable in accordance with paragraph 4.7 provided that, if the final Franchise Operator Year ends other than on 31 March, in paragraph 4.2(a) the words:

- (a) “at the GDPR₁ Reconciliation Date”

shall be deemed to be replaced by the following words:

- (b) “in the month in which GDPA is calculated for the final Franchise Operator Year”.

5.4 No GDPR₂ payment shall be payable in respect of the penultimate Franchise Operator Year.

Year before Penultimate Year

5.5 GDPR₂ for the Franchise Operator Year immediately prior to the penultimate Franchise Operator Year shall be calculated in accordance with paragraph 4.5 and payable in accordance with paragraph 4.7 provided that, where the final Franchise Operator Year ends other than on 31 March, in paragraph 4.5(a) the words:

(a) “at the GDP_{R2} at the Reconciliation Date”

shall be deemed to be replaced by:

(b) “in the month in which GDPA is calculated for the final Franchise Operator Year”.

6 Early Termination and survival

6.1 Paragraphs 3.5, 4.7 and 5 and this paragraph 6.1 of this Schedule 8.5 shall survive the expiry or earlier termination of the Franchise Agreement, in the case of an early termination irrespective of the reason for such termination.

**Appendix 1
DfTRW**

| Column 1 | Column 2 | Column 3 | Column 4 |
|-----------------|--------------------------------|-----------------|--------------------------------|
| Year | Franchise Operator Year | DfTR | DfTRW (90% of DfTR) |
| 1 (part) | 2014/2015 | (55,000,000) | (49,500,000) |
| 2 | 2015/2016 | (702,000,000) | (631,800,000) |
| 3 | 2016/2017 | (719,000,000) | (647,100,000) |
| 4 | 2017/2018 | (746,000,000) | (671,400,000) |
| 5 | 2018/2019 | (764,000,000) | (687,600,000) |
| 6 | 2019/2020 | (827,000,000) | (744,300,000) |
| 7 | 2020/2021 | (887,000,000) | (798,300,000) |
| 8 | 2021/2022 | (922,000,000) | (829,800,000) |
| 9 | 2022/2023 | (951,000,000) | (855,900,000) |
| 10 | 2023/2024 | (985,000,000) | (886,500,000) |

**Appendix 2
Adjusted Target GDP Index**

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 | Column 6 | Column 7 |
|----------|-------------------------|-----------------|--------------|-----------------|--------------------------------------|--------------------------------------|
| Year | Franchise Operator Year | GDP Index value | ^c | $GDP^{c,258}_T$ | Nil Band Lower $GDP^{c}_T - 0.02$ | Nil Band Upper $GDP^{c}_T + 0.02$ |
| 0 | 2013/2014 | 1.0000 | 1.20 | 1.0000 | 0.9800 | 1.0200 |
| 1 | 2014/15 | 1.0255 | 1.20 | 1.0307 | 1.0107 | 1.0507 |
| 2 | 2015/16 | 1.0499 | 1.20 | 1.0602 | 1.0402 | 1.0802 |
| 3 | 2016/17 | 1.0773 | 1.20 | 1.0935 | 1.0735 | 1.1135 |
| 4 | 2017/18 | 1.1055 | 1.20 | 1.1279 | 1.1079 | 1.1479 |
| 5 | 2018/19 | 1.1318 | 1.20 | 1.1602 | 1.1402 | 1.1802 |
| 6 | 2019/20 | 1.1635 | 1.20 | 1.1993 | 1.1793 | 1.2193 |
| 7 | 2020/21 | 1.1961 | 1.20 | 1.2397 | 1.2197 | 1.2597 |
| 8 | 2021/22 | 1.2248 | 1.20 | 1.2755 | 1.2555 | 1.2955 |
| 9 | 2022/23 | 1.2542 | 1.20 | 1.3123 | 1.2923 | 1.3323 |
| 10 | 2023/24 | 1.2843 | 1.20 | 1.3502 | 1.3302 | 1.3702 |

²⁵⁸ GDP Index value (as specified in column 3) raised to the power of c.

Schedule 9 Changes

| | |
|--------------|---|
| Schedule 9.1 | Financial and Other Consequences of Change |
| | Appendix 1: Summary Flow Chart |
| | Appendix 2: Agreement or Determination of Revised Inputs |
| | Annex to Appendix 2: Incentivising Long Term Investment |
| Schedule 9.2 | Identity of the Financial Model etc. |
| Schedule 9.3 | Secretary of State Risk Assumptions |
| Schedule 9.4 | Not used |
| Schedule 9.5 | Variation to the Franchise Agreement and Incentivising Beneficial Changes |

SCHEDULE 9.1

Financial and Other Consequences of Change

1 Purpose and Application of Schedule

- 1.1 This Schedule 9.1 sets out:
- (a) the circumstances in which the occurrence of a Change will result in an adjustment to the Franchise Payments and/or the Benchmarks and/or the Annual Benchmarks; and
 - (b) the process by which that adjustment to the Franchise Payments and/or the Benchmarks and/or the Annual Benchmarks will be determined and effected; and
 - (c) provisions dealing with the responsibility for costs incurred by the Franchise Operator in connection with any audit of the Run of the Financial Model and its results.
- 1.2 Schedule 9.2 (Identity of the Financial Model etc.) contains provisions dealing with the Financial Model which are relevant to the operation of this Schedule 9.1.
- 1.3 This Schedule 9.1 shall apply in relation to a Change where:
- (a) there are good reasons for considering that that Change will be a Qualifying Change or, with other Changes, part of an Aggregated Qualifying Change; and
 - (b) the required notice(s) has/have been given in accordance with paragraph 1.4 (or the parties have agreed that this Schedule 9.1 will apply and there should be a Run of the Financial Model and/or a Review of the Benchmarks and/or the Annual Benchmarks even though the required notices have not been given),
- and in determining whether a Qualifying Change or an Aggregated Qualifying Change has occurred, any NR Received Amount shall not be taken into account.
- 1.4 The notice requirements are that:
- (a) subject to paragraph 1.4(b), a party must have notified the other that it considers that the Change will be a Qualifying Change and that it requires a Run of the Financial Model and/or a review of the Benchmarks and/or the Annual Benchmarks in respect of that Change:
 - (i) within 6 months of the notification or agreement of that Change if it is a Variation pursuant to paragraph 1.1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes); or
 - (ii) within 6 months of becoming aware of it, if it is any other type of Change; and

- (b) in the case of an Aggregated Qualifying Change, a party must have notified the other:
- (i) after an individual Change occurs, within the time limits stated in paragraphs 1.4(a)(i) or 1.4(a)(ii), that it reserves the right to count that Change towards an Aggregated Qualifying Change; and
 - (ii) within 6 months of the occurrence of the last Change which that party considers will trigger an Aggregated Qualifying Change, that the party requires a Run of the Financial Model and/or a review of the Benchmarks and/or the Annual Benchmarks in respect of the Changes comprised in that Aggregated Qualifying Change. The notice must identify each of the Changes included in the Aggregated Qualifying Change.

1.5 References in the remainder of this Schedule 9.1 and in Schedule 9.2 (Identity of the Financial Model etc.) to a **Change** are to a Change in respect of which the requirements in paragraph 1.3 have been satisfied.

1.6 Appendix 1 (Summary Flow Chart) to this Schedule 9.1 contains a flow chart summary of the process described in this Schedule 9.1. This is for guidance only and if there are any inconsistencies between this flow chart and any other of the contents of Schedule 9 (Changes), the latter shall apply.

2 Timescales

2.1 Where this Schedule 9.1 applies, any resulting restatement of the Annual Franchise Payment Components, the Benchmarks and/or the Annual Benchmarks (as applicable) shall be made in accordance with this Schedule 9.1:

- (a) where it is reasonably practicable to do so, at least three Reporting Periods prior to the Change; or
- (b) where the timescale in paragraph 2.1(a) is not reasonably practicable, as soon as reasonably practicable after that.

2.2 If paragraph 2.1(b) applies and it is not reasonably practicable for the restatement of the Annual Franchise Payment Components to be made before the Change occurs, then paragraph 9 (Estimated Revisions) shall apply.

3 How any adjustments to Franchise Payments will be established

3.1 The adjustments, if any, to the Franchise Payments to be made in respect of any Change shall be established by:

- (a) establishing those Model Changes and/or Revised Inputs required to take account of the Change; then
- (b) applying those Model Changes and/or Revised Inputs to the Financial Model before performing a Run of the Financial Model to generate the New Results; then
- (c) restating the Annual Franchise Payment Components, by substituting the New Results for the Old Results (so that, to the extent that the New Results and the Old Results are different, this will result in an adjustment to the Franchise Payments),

in each case, subject to and in accordance with the terms more particularly described in this Schedule 9.1.

4 How Model Changes and/or Revised Inputs will be established

- 4.1 The parties shall agree or the Secretary of State shall reasonably determine the Revised Inputs and (if any) the Model Changes.
- 4.2 **Revised Inputs** means:
 - (a) the data that the Financial Model utilised in order to produce the Old Results, as such data is recorded in the Financial Model released by the Secretary of State pursuant to either of paragraphs 2.1(d) or 2.2 of Schedule 9.2 (Identity of the Financial Model etc.) for the purposes of the Run of the Financial Model; but
 - (b) amended, whether by way of increase, reduction or other alterations to such data, (if at all) only as the parties may agree or the Secretary of State may reasonably determine is required by the provisions of Appendix 2 (Agreement or Determination of Revised Inputs) to this Schedule 9.1 in respect of a Change.
- 4.3 **Model Changes** means any changes that the parties may agree or the Secretary of State may reasonably determine are required to the Financial Model and/or the Operational Model, as released by the Secretary of State pursuant to either of paragraphs 2.1(d) or 2.2 of Schedule 9.2 (Identity of the Financial Model etc.), for the purposes of the Run of the Financial Model, as a consequence of and in order to give effect to the Revised Inputs.
- 4.4 The Secretary of State shall provide a written statement of the Revised Inputs and any Model Changes to the Franchise Operator for the purposes of paragraph 7 promptly after they have been agreed or determined.

5 Changes to Benchmarks and/or Annual Benchmarks

- 5.1 This paragraph 5 shall apply if either party has given notice to the other that it considers that a Change has or will have, in that party's reasonable opinion, a material effect on the risk of the Franchise Operator failing to satisfy the requirements of any Benchmark and/or Annual Benchmark (whether in terms of increasing or reducing that risk).
- 5.2 Any notice referred to in paragraph 5.1 shall be given as soon as reasonably practicable and in any event before the parties have agreed or the Secretary of State has reasonably determined the Revised Inputs in respect of the Change.
- 5.3 Where this paragraph 5 applies, the relevant Benchmarks and/or Annual Benchmarks shall be revised to the extent that such revision is reasonably considered to be necessary to hold constant the risk of the Franchise Operator failing to satisfy the requirements of that Benchmark and/or Annual Benchmarks. The parties shall agree or the Secretary of State shall reasonably determine any such revision(s).
- 5.4 For the purposes of any revision to the Benchmarks and/or Annual Benchmarks under this paragraph 5, regard may be had to:
- (a) any assumptions in the Record of Assumptions; and/or
 - (b) the contents of an Operational Model; and/or
 - (c) any other information

to the extent they are relevant to the consideration of whether a revision is reasonably considered to be appropriate to take account of the Change.

6 Run of the Financial Model following agreement or determination of the Revised Inputs and Model Changes

- 6.1 When the Revised Inputs and Model Changes (if any) are agreed or determined there shall be a Run of the Financial Model.
- 6.2 The Run of the Financial Model shall be performed after making any Model Changes and utilising the Revised Inputs and shall be performed by:
- (a) the Franchise Operator promptly on receiving notification of the Revised Inputs and any Model Changes from the Secretary of State pursuant to paragraph 4.4 or within such period of time as the Secretary of State shall reasonably determine; or

- (b) the Secretary of State if the Franchise Operator fails to do so. In these circumstances, the Franchise Operator shall reimburse to the Secretary of State the Secretary of State's costs of performing the Run of the Financial Model.
- 6.3 The party that performs the Run of the Financial Model pursuant to paragraph 6.2 shall provide the non performing party with a reasonable opportunity to be in attendance and shall promptly notify such other party of the New Results.
- 6.4 Where there is more than one Change, Runs of the Financial Model in respect of such Changes shall (unless otherwise agreed or the Secretary of State reasonably determines) be undertaken in the order in which such Changes occur. For this purpose, the order of occurrence will be determined by reference to the earliest date from which the Franchise Payments are reasonably expected to require adjustment as a result of the restatement of the Annual Franchise Payment Components triggered by a Change. This will be as agreed between the parties or in the absence of agreement be reasonably determined by the Secretary of State.

7 Certification or Audit of the New Results

- 7.1 The Secretary of State, as soon as reasonably practicable after receiving or generating the New Results pursuant to paragraph 6.3, shall either:
- (a) certify to the Franchise Operator his approval of the New Results; or
 - (b) notify the Franchise Operator that he requires the Run of the Financial Model and its results to be audited by an independent auditor appointed by the Secretary of State with the approval (not to be unreasonably withheld) of the Franchise Operator.
- 7.2 For the purposes of paragraph 7.1(b), the requirement for an audit is one that requires the auditor either to certify:
- (a) that the New Results have been produced by applying the Revised Inputs (as provided to the Franchise Operator by the Secretary of State pursuant to paragraph 4.4) to the Financial Model after making the Model Changes (as provided to the Franchise Operator by the Secretary of State pursuant to paragraph 4.4); or
 - (b) the New Results themselves, by itself applying the Revised Inputs (as provided to the Franchise Operator by the Secretary of State pursuant to paragraph 4.4) to the Financial Model after making the Model Changes (as provided to the Franchise Operator by the Secretary of State pursuant to paragraph 4.4).

- 7.3 The parties shall procure that any auditor is, as soon as reasonably practicable after his appointment, able to discharge the audit requirements.
- 7.4 The results as certified by the Secretary of State pursuant to paragraph 7.1 or by the auditor pursuant to paragraph 7.2 shall be final and binding on the parties, except in the case of manifest error.
- 7.5 The Secretary of State may stipulate (on or before the date on which the Secretary of State approves or the auditor certifies the results of the Run of the Financial Model) in respect of a Change that the restated Annual Franchise Payment Components are to apply for a limited period of time only (the **Initial Period**), with provision thereafter, if appropriate, for a further Run of the Financial Model with new Revised Inputs and/or Model Changes based on information available at that time.

8 Restatement of Annual Franchise Payment Components and/or Benchmarks

- 8.1 When the New Results have been certified by the Secretary of State or the auditor in accordance with paragraph 7 then:
- (a) if:
- (i) there is any difference between the Old Results and the New Results; and
- (ii) the New Results are such that the Change:
- (1) meets the criteria for a Qualifying Change; or
- (2) with other Changes meets the criteria for an Aggregated Qualifying Change,
- the Annual Franchise Payment Components shall be restated in the amounts of the New Results; and
- (b) if any changes to the Benchmarks and/or Annual Benchmarks have been agreed or determined in accordance with paragraph 5, the Benchmarks and/or Annual Benchmarks shall be restated to give effect to those changes.
- 8.2 Subject to paragraph 8.3, the restatement of the Annual Franchise Payment Component shall have effect on and from the date on which the Secretary of State or the auditor certifies the results of the Run of the Financial Model.

8.3 If and to the extent that:

- (a) the application of the New Results in respect of the then current or any earlier Franchise Operator Year would result in any change to the amount of any payments already made between the Secretary of State and the Franchise Operator; and
- (b) that change in payments is not already taken into account in any Reconciliation Amount payable pursuant to paragraph 9.11,

then a reconciliation payment shall be paid by the Franchise Operator or the Secretary of State (as the case may be). The payment shall be made on the first Payment Date after agreement or determination of the amount of the reconciliation payment required (or if there is no such Payment Date, within 14 days after such agreement or determination).

8.4 Following the certification of the New Results by the Secretary of State or the auditor in accordance with paragraph 7, "DfTR" as specified in column 3 of Appendix 1 (DfTRW) to Schedule 8.5 (GDP Adjustment Payments) shall be adjusted to reflect the adjustment to "PRRPI" in accordance with the following formula and for each Franchise Operator Year in respect of which the change to PRRPI applies:

$$\text{New DfTR} = \text{DfTR} \times (\text{PRRPI}_{\text{new}}/\text{PRRPI}_{\text{old}})$$

Where:

New DfTR is, in respect of a Franchise Operator Year, the figure to be included in column 3 of Appendix 1 (DfTR) of Schedule 8.5 (GDP Adjustment Payments) in place of the figure included for DfTR in column 3 in Appendix 1 (DfTR) of Schedule 8.5 (GDP Adjustment Payments);

DfTR is, in respect of a Franchise Operator Year, the figure included for DfTR in column 3 in Appendix 1 (DfTR) of Schedule 8.5 (GDP Adjustment Payments) at the time to certification of the New Results;

PRRPI_{new} is, in respect of a Franchise Operator Year, the figure for PRRPI for that Franchise Operator Year in the New Results; and

PRRPI_{old} is, in respect of a Franchise Operator Year, the figure for PRRPI for that Franchise Operator Year in the Old Results.

Following calculation of New DfTR by the Secretary of State in accordance with this paragraph 8.4, the Secretary of State shall issue a replacement Appendix 1 (DfTR) of Schedule 8.5 (GDP Adjustment Payments) which, in respect of each Franchise Operator Year, shall specify New

DfTR in column 3 of that appendix as “DfTR” and 90% of New DfTR in column 4 of that appendix as “DfTRW” and such replacement appendix shall replace the existing appendix without further act.

9 Estimated Revisions

- 9.1 This paragraph 9 applies where there is or is to be a Change before there is a Run of the Financial Model in respect of it. It provides a mechanism for interim adjustments in Franchise Payments pending the final agreement or determination of those adjustments under this Schedule 9.1.
- 9.2 Where this paragraph 9 applies, the Secretary of State shall make the Estimated Revisions described in paragraph 9.3:
- (a) if the Franchise Operator requests the Secretary of State to do so at the same time as requesting a Run of the Financial Model in respect of the Change under paragraph 1.4; or
 - (b) if the Secretary of State otherwise agrees or chooses (in his discretion) to do so.
- 9.3 The estimated revisions are the Secretary of State's estimates of the New Results which will apply once the process in paragraphs 4 - 8 of this Schedule 9.1 has been completed in respect of the Change (the **Estimated Revisions**). For the avoidance of doubt, Revised Inputs are not made in order to generate or take account of the Estimated Revisions.
- 9.4 The estimates referred to in paragraph 9.3 will be such estimates as the Secretary of State, acting reasonably, makes having regard to the time and the information available to him at the time the estimates fall to be made, provided always that it is acknowledged that:
- (a) the purpose of the estimates is to enable provision to be made in respect of adjustments to the Annual Franchise Payment Components before full information about the Change is available and/or full consideration of the nature and extent of Revised Inputs and/or Model Changes has been undertaken;
 - (b) it may not be reasonably practicable in all circumstances for the Secretary of State to take into account in such an estimate all actual or potential impacts of a Change. Where the Secretary of State is aware that there are any such actual or potential impacts which he has not taken into account, he shall notify the Franchise Operator of them when notifying the Estimated Revisions pursuant to paragraph 9.2; and
 - (c) the Secretary of State shall be entitled to adjust any Estimated Revision notified pursuant to paragraph 9.2 to the extent he reasonably considers appropriate if at any time:

- (i) the Secretary of State becomes aware of any new or revised information which would, if it had been available to him at the time he made his original estimate, have resulted in him making a different Estimated Revision; and
- (ii) it is reasonable to revise the Estimated Revision having regard to the likely period of delay prior to the Run of the Financial Model in respect of the relevant Change.

9.5 In the circumstances described in paragraph 9.2 and paragraph 9.4(c), the Annual Franchise Payment Components shall be restated in the amounts and values of the Estimated Revisions, and Franchise Payments shall be paid accordingly until the Run of the Financial Model has taken place and its results have been put into effect.

9.6 The Secretary of State shall use all reasonable endeavours to notify the Franchise Operator of the Estimated Revisions required by paragraph 9.2 at least two Reporting Periods before he considers the Change is likely to occur. If, having exercised all reasonable endeavours, the Secretary of State cannot provide two Reporting Periods' notice, he shall provide such notification as soon as reasonably practicable afterwards.

9.7 The restatement of the Annual Franchise Payment Components referred to in paragraph 9.5 shall have effect on and from:

- (a) the date on which the Secretary of State notifies the Franchise Operator of the Estimated Revisions; or
- (b) such other date as the Secretary of State, acting reasonably, may notify the Franchise Operator as the date on which the Secretary of State considers the Estimated Revisions should reasonably take effect, consistent with the matters taken into account by the Secretary of State in estimating the Estimated Revisions.

9.8 No estimate made by the Secretary of State pursuant to this paragraph 9 shall prejudice the Secretary of State's subsequent determination of any Revised Input or Model Change pursuant to paragraph 4.

9.9 Subject to paragraph 9.10, where adjustments to Franchise Payments have resulted from the operation of paragraph 9.5. then, as soon as reasonably practicable after the certification of the New Results following the related Run of the Financial Model, the parties shall agree or the Secretary of State shall reasonably determine the difference (the **Reconciliation Amount**) between:

- (a) the total amount of Franchise Payments paid or to be paid to which adjustments have been made pursuant to the operation of paragraph 9.5; and

(b) the total amount of the Franchise Payments, as determined by that Run of the Financial Model, in respect of the same period as the period over which the adjusted Franchise Payments referred to in paragraph 9.9(a) have been paid or are to be paid.

9.10 If a Change is agreed or determined not to be a Qualifying Change or not to be part of an Aggregated Qualifying Change with or without any Run of the Financial Model having been performed, the Reconciliation Amount shall be the total amount of the adjustments to Franchise Payments which have resulted from the operation of paragraph 9.5.

9.11 The Reconciliation Amount shall be paid:

(a) by the Franchise Operator to the Secretary of State where the Estimated Revisions resulted in an overpayment of Franchise Payments by the Secretary of State to the Franchise Operator or an underpayment of Franchise Payments by the Franchise Operator to the Secretary of State compared with:

(i) the amount of the Franchise Payments described in paragraph 9.9(b); or

(ii) where paragraph 9.10 applies, the amount of the unrestated Franchise Payments over the same period; and

(b) by the Secretary of State to the Franchise Operator where the Estimated Revisions resulted in an underpayment of Franchise Payments by the Secretary of State to the Franchise Operator or an overpayment of Franchise Payments by the Franchise Operator to the Secretary of State compared with:

(i) the amount of the Franchise Payments described in paragraph 9.9(b); or

(ii) where paragraph 9.10 applies, the amount of the unrestated Franchise Payments over the same period.

In either case, such payment shall be made on the first Payment Date which falls more than 7 days after agreement or determination (or if none, within 14 days after such agreement or determination).

10 Information

The Franchise Operator shall promptly, having regard to the other timescales anticipated in this Schedule 9.1, provide to the Secretary of State such information as the Secretary of State may request for the purpose of enabling the Secretary of State to exercise his rights and comply with his obligations pursuant to this Schedule 9.1.

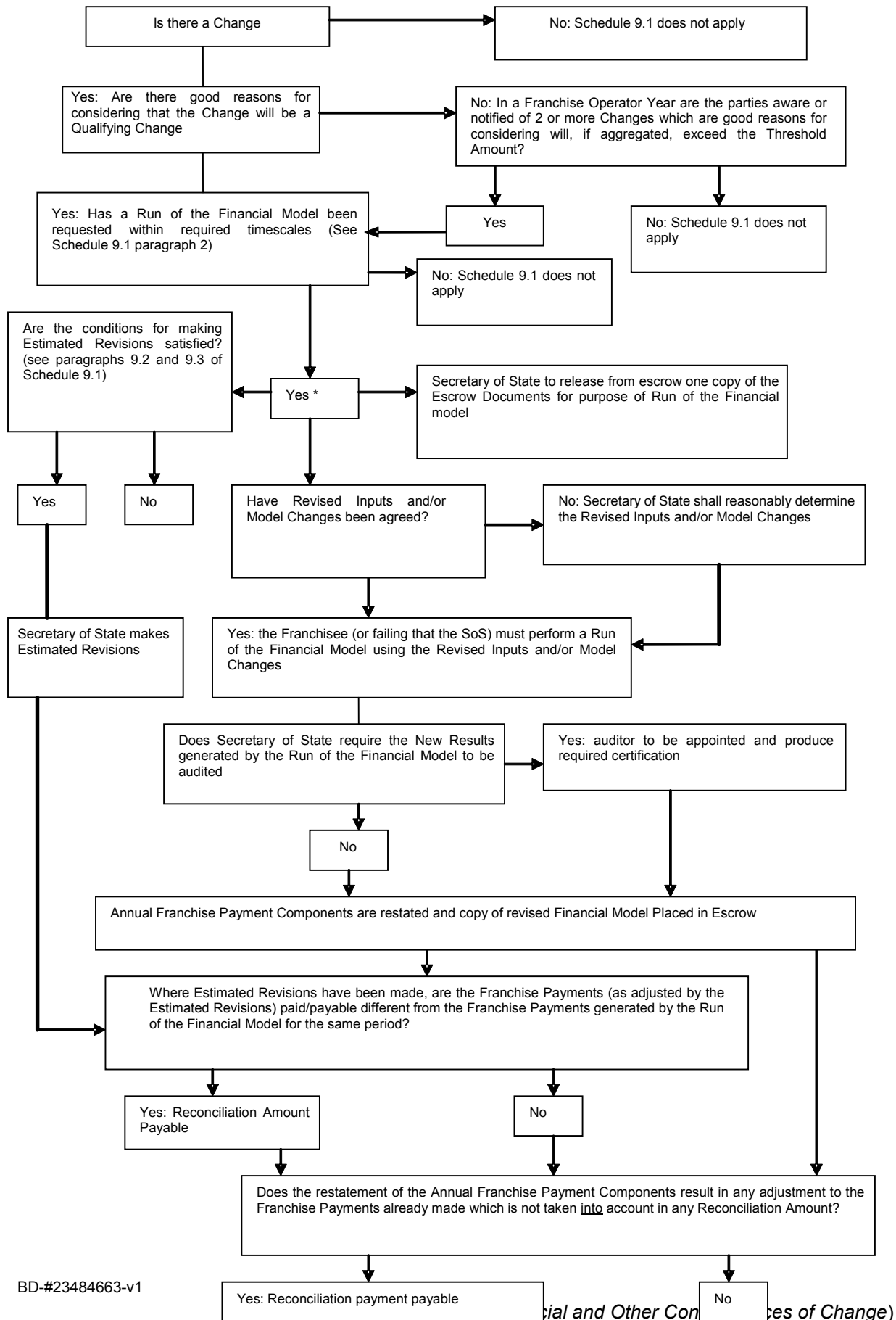
11 Costs

- 11.1 This paragraph deals with the costs incurred by the Franchise Operator in connection with any audit required by the Secretary of State pursuant to paragraph 7.
- 11.2 The costs of any audit required under paragraph 7.1(b) shall be met by the Secretary of State subject to the following:
- (a) the costs of the audit shall be met entirely by the Franchise Operator:
 - (i) where,
 - (A) the New Results produced by applying the Revised Inputs to the Financial Model after making the Model Changes (if any); or
 - (B) the New Results themselves,were incorrect as a result of manifest error by the Franchise Operator or Franchisee; and
 - (ii) in the case of a Change falling within any of the following sub-paragraphs within the definition of Change:
 - (A) an event set out in any Secretary of State Risk Assumption specified in Schedule 9.3 (Secretary of State Risk Assumptions); and
 - (B) a Charge Variation; and
 - (b) where paragraph 11.2(a) does not apply, the Secretary of State shall only be responsible for the reasonable costs of the Franchise Operator in connection with the audit, and the Franchise Operator shall comply with the Secretary of State's reasonable directions in connection with the audit which may include a requirement for a competitive tender for the appointment of the auditor.

**APPENDIX 1 TO SCHEDULE 9.1
Summary Flow Chart**

See next page

This summary is for guidance only. If there are any inconsistencies with the other contents of Schedule 9.1 or 9.2 (including any Appendix), those other contents shall apply.



APPENDIX 2 TO SCHEDULE 9.1
Agreement or Determination of Revised Inputs

- 1 The parties shall agree or the Secretary of State shall reasonably determine the Revised Inputs that are required in respect of a Change:
- (a) on the basis of the general adjustments and/or assumptions referred to in paragraph 2;
 - (b) on the basis of the assumptions in the Record of Assumptions as added to and/or amended (if at all) in accordance with paragraph 3;
 - (c) so as to provide for profit in accordance with paragraph 5;
 - (d) so as to give effect to the provisions of paragraph 6 in relation to indexation;
 - (e) so as to give effect to the provisions of paragraph 8 in relation to Cancellations Performance Sum and TOC Minute Delay Performance Sum; and
 - (f) so as to give effect to the provisions of paragraph 9 in relation to the Service Level Commitment,

provided that if there is any inconsistency between the assumptions in the Record of Assumptions described in paragraph (b) above and any other of the requirements of this paragraph 1, those other requirements shall prevail, unless the Secretary of State (acting reasonably) otherwise elects.

2 General Adjustments/Assumptions

- 2.1 Revised Inputs are to be agreed between the parties or reasonably determined by the Secretary of State on the basis that:
- (a) any increase in costs relating to a Change; and/or
 - (b) any reduction in revenues relating to a Change,
- that is attributable to any activities, actions or omissions of the Franchise Operator which are not permitted under, or would otherwise constitute a contravention of, the terms of the Franchise Agreement, is to be disregarded.
- 2.2 Revised Inputs are to be agreed between the parties or reasonably determined by the Secretary of State on the basis that:
- (a) any reduction in costs relating to a Change; and/or

(b) any increase in revenues relating to a Change,

that is attributable to any activities, actions or omissions of the Franchise Operator which are not permitted under, or would otherwise constitute a contravention of, the terms of the Franchise Agreement, is to be taken into account.

2.3 Revised Inputs are also to be agreed between the parties or reasonably determined by the Secretary of State on the basis that:

(a) the Franchise Operator will use all reasonable endeavours to:

(i) reduce any costs that may arise or income that may be foregone; and

(ii) increase any revenue that may arise and avoid any cost that may be avoided,

as a consequence of a Change; and

(b) any requirement for borrowing in respect of Capital Expenditure by the Franchise Operator is dealt with in accordance with paragraph 2 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes).

2.4 Where and as directed to do so by the Secretary of State (acting reasonably) the Franchise Operator shall undertake one or more competitive tendering exercises for the purposes of ascertaining the likely level of any costs relating to a Change which are relevant to a Revised Input.

3 Assumptions in the Record of Assumptions

3.1 The parties shall (unless to do so would be contrary to paragraph 2) agree or the Secretary of State shall reasonably determine Revised Inputs that are in accordance with the assumptions that are contained in the Record of Assumptions, as added to or modified pursuant to paragraph 3.2 or paragraph 3.3.

3.2 Where the Secretary of State reasonably considers that the assumptions contained in the Record of Assumptions are ambiguous or that additional assumptions are required in relation to circumstances not dealt with by the assumptions in the Record of Assumptions, the parties shall agree or the Secretary of State shall reasonably determine the assumptions or additional assumptions to be utilised for this purpose.

3.3 Where the Secretary of State reasonably considers that:

- (a) a Change is likely to result in an increase in either or both of the costs of the Franchise Operator and the revenues of the Franchise Operator; and
- (b) an assumption relevant to the Change contained in the Record of Assumptions does not accord with what would be achievable by, or experienced by, an economic and efficient Franchise Operator,

then the parties shall agree or the Secretary of State shall reasonably determine a modification to the assumption so that, as modified, it does accord with what would be achievable by, or experienced by, an economic and efficient Franchise Operator.

4 Traction Electricity Charges

4.1 This paragraph 4 applies only in relation to Charge Variations.

4.2 In agreeing or determining Revised Inputs, no adjustment shall be made in respect of a Charge Variation to the extent that Charge Variation relates, directly or indirectly and however it may be effected, to the Traction Electricity Charge payable by the Franchise Operator pursuant to any Track Access Agreement. For this purpose (and subject to clause 1.1(l) of this Agreement), the Traction Electricity Charge is the component of the Track Charges (as defined in the Track Access Agreement) identified as such in any Track Access Agreement or any similar arrangement under which the Franchise Operator pays for traction current consumed by rolling stock vehicles operated by or on behalf of the Franchise Operator.

5 Revised Input for Profit

5.1

- (a) Where a Change is forecast to result in an increase to the Franchise Operator's revenue in a Franchise Operator Year, the parties shall agree or the Secretary of State shall reasonably determine Revised Inputs in relation to profit that provide for an increase in the amount of profit in any Franchise Operator Year equal to ²⁵⁹ of the forecast increase in revenue for that Franchise Operator Year; and/or
- (b) Where a Change is forecast to result in a reduction in the Franchise Operator's revenue in a Franchise Operator Year, the parties shall agree or the Secretary of State shall

²⁵⁹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

reasonably determine Revised Inputs in relation to profit that provide for a decrease in the amount of profit in any Franchise Operator Year equal to the lower of:

- (i) the percentage specified in paragraph 5.1(a); or
- (ii) the average profit margin in the current Business Plan for the remaining Franchise Term,

of the forecast reduction in revenue for that Franchise Operator Year.

5.2 In agreeing or determining Revised Inputs in relation to profit in respect of any Change, the parties or the Secretary of State shall effect such change (if any) in the amount attributable to profit in paragraph 5.1 as they agree or the Secretary of State reasonably determines to reflect:

- (a) the risk for the Franchise Operator in continuing to operate the Franchise on the terms of the Franchise Agreement after and as a result of the Change; and
- (b) the likelihood of:
 - (i) material benefit from such Change arising after expiry of the Franchise Term; and
 - (ii) material detriment from such Change arising prior to the expiry of the Franchise Term.

5.3 In agreeing or determining Revised Inputs for the purposes of any Protected Proposal, the parties or the Secretary of State shall effect such change (if any) to the amount attributable to profit as they agree or the Secretary of State reasonably determines:

- (a) fairly rewards the Franchise Operator for proposing the Protected Proposal; and
- (b) reasonably incentivises the Franchise Operator to propose further Protected Proposals

by sharing with the Franchise Operator a reasonable amount of the additional profit that is expected to arise from implementing the Protected Proposal.

5.4 The Annex (Incentivising Long Term Investment) to this Appendix 2 sets out the Secretary of State's guidance on how he approaches incentivising long term investment. Nothing in this Annex is intended to limit or be limited by, the provisions of paragraph 2.2 of Schedule 14.4 (Designation of Franchise Operator Assets).

6 Indexation

In agreeing or determining Revised Inputs, the parties shall apply the following principles in connection with indexation. For each relevant item of data in the Financial Model in respect of which a Revised Input is agreed or determined to be required:

- (a) the parties shall agree or the Secretary of State shall reasonably determine, having regard to the particular facts of the Change, the base date at which that item is priced; and
- (b) that item shall be deflated by reference to the original base date and index (if any) relevant to that item in the Financial Model.

7 Efficiency Benefit Share/REBS

No Revised Inputs shall be made to reflect:

- (a) any amount payable by or to the Franchise Operator in respect of Efficiency Benefit Share or REBS (as the case may be); or
- (b) any change in the basis on which Efficiency Benefit Share or REBS (as the case may be) is calculated or is to be paid (including any change which may require amounts in respect of Efficiency Benefit Share to be payable by as well as payable to the Franchise Operator).

For this purpose (and subject to clause 1.1(l) of this Agreement), Efficiency Benefit Share is the component of Track Charges (as defined in the Track Access Agreement) identified as such in any Track Access Agreement or similar arrangement under which benefits of any outperformance of efficiency targets (or risk of failure to achieve efficiency targets) are to be shared between Network Rail and train operators.

8 Cancellations Performance Sum and TOC Minute Delay Performance Sum

In agreeing or determining Revised Inputs, no adjustment shall be made to the Financial Model to reflect any change in the amount of the Cancellations Performance Sum or the TOC Minute Delay Performance payable either by the Secretary of State or the Franchise Operator and arising from the exercise by the Secretary of State of his rights pursuant to paragraph 1.7²⁶⁰ of Schedule 7.1 (Performance Benchmarks). For example if prior to such exercise the Franchise Operator would have been entitled to receive a Cancellations Performance Sum of £100 for a particular level of performance against the Annual Cancellations Benchmark and after such exercise the Franchise Operator would only be entitled to receive a Cancellations Performance Sum of £50

²⁶⁰ Cross-reference corrected in letter dated 30 March 2015.

for achieving the same level of performance, no adjustment shall be made to the Financial Model to reflect this.

9 Service Level Commitment

9.1 In agreeing or determining the Revised Inputs for revenue and costs for the purpose of a Change in accordance with this Schedule 9.1 in respect of a Service Level Commitment following a TSR Trigger or an SLC Trigger, the Secretary of State shall:

- (a) perform a run of MOIRA (such MOIRA run being referred to as the **SLCR**), using the Bid TSR2 MOIRA, provided that:
 - (i) subject to paragraph 9.1(a)(ii) below, the SLC Timetable applicable to those weekday services referred to in the TSR2 Time Bands shall be included in the SLCR in place of those weekday services referred to in the TSR2 Time Bands in the Bid TSR2 Timetable and included in the Bid TSR2 MOIRA, and removing or amending (as applicable), following:
 - (A) a TSR Trigger, those aspects of the TSR2 Key Services which the Franchise Operator cannot meet solely as a result of the Franchise Operator not obtaining the Additional TSR2 TDR Rights or the Equivalent TSR2 TDR Rights; or
 - (B) an SLC Trigger, those aspects of the TSR2 Key Services which the Franchise Operator is able to meet as a result of the Franchise Operator obtaining some or all of the Additional TSR2 TDR Rights or the Equivalent TSR2 TDR Rights;
 - (ii) any Excess Services included in the Bid TSR2 MOIRA shall be retained;
 - (iii) the Timetable for the Saturday and Sunday services to be operated from May 2020 included in the Bid TSR2 MOIRA shall be retained; and
 - (iv) those services to/from London King's Cross in respect of which another train operator has been granted access rights (which are greater than the Assumed Access Rights) and which the Franchise Operator applied for in order to run the TSR2 Key Services but did not obtain (for the avoidance of doubt, this shall include the full route of any such services of the other train operator) shall be included in the SLCR,

and no adjustment will be made in MOIRA to reflect the difference in fares charged by the Franchise Operator and another train operator who has been granted access rights which the Franchise Operator applied for in order to run the TSR2 Key Services;

- (b) determine as figures the Revised Inputs for revenue (i) in respect of the SLCR using the same basis as described in paragraph 9.1(a) above provided that the Revised Inputs for revenue shall be no less than they would have been if the Revised Inputs for revenue had been derived from the ARCP MOIRA Run rather than the SLCR (in each case following the application of indexation in accordance with Schedule 8.2 (Annual Franchise Payments)) and (ii) in respect of any other Revised Inputs for revenue in accordance with the provisions of Schedule 9.1 (Financial and Other Consequences of Change) and the other provisions of this Appendix 2; and
- (c) determine as figures the Revised Inputs for costs using the same basis as described in paragraph 9.1(a) above in respect of the SLCR.

ANNEX TO APPENDIX 2 TO SCHEDULE 9.1
Incentivising Long Term Investment

This Appendix sets out the Secretary of State's guidance on how he approaches incentivising long term investment.

- 1 The Secretary of State wishes to encourage the Franchise Operator to:
 - (a) improve the efficiency;
 - (b) reduce the cost; and
 - (c) enhance the revenue earning potential of the delivery of services to passengers, from the commencement of the Franchise, through the Franchise Term and into the successor franchises.

- 2 It is recognised however that the Franchise Term may be perceived to be a barrier to undertaking investment or change programmes where:
 - (a) the time scale for implementation limits the benefit to the Franchise Operator; or
 - (b) the business case for such investment or change has a payback period longer than the Franchise Term.

- 3 In this context investment or change may be considered to encompass:
 - (a) capital investments undertaken solely by the Franchise Operator;
 - (b) capital investments undertaken by the Franchise Operator in association with others;
 - (c) total or partial substitution of certain train services by bus services where an enhanced service level could be provided for reduced cost or where the provision of bus services improves the overall capacity of the network or delivers other benefits;
 - (d) changes in working practices of the Franchise Operator's employees;
 - (e) changes in the contracted roles and responsibilities between the Franchise Operator and its major suppliers; and
 - (f) operational changes.

- 4 Accordingly, the Franchise Operator is encouraged to propose schemes that seek to achieve the objectives set out in paragraph 1 for consideration by the Secretary of State during the Franchise Term.
- 5 In considering the Franchise Operator's proposals for any investment or change proposed to be undertaken, the Secretary of State will recognise:
- (a) the capital cost and proposed payment profile;
 - (b) legitimate costs of the Franchise Operator in developing, procuring, delivering and project managing the project;
 - (c) the life of any capital assets and the duration of the benefits stream arising;
 - (d) the remaining Franchise Term and the projected payback period;
 - (e) the benefits associated with undertaking the investment early rather than waiting until the Franchise is re-let;
 - (f) the risks of cost overrun or under performance of the projected benefits;
 - (g) a profit element for undertaking the project commensurate with the risks of the proposed project; and
 - (h) alternative benefit sharing arrangements which could be based on:
 - (i) a capital lump sum when the expenditure is incurred;
 - (ii) an enhanced Franchise Payment over the Franchise Term;
 - (iii) a balloon payment on expiry of the Franchise which allocates a proportion of future benefits to the Franchise Operator;
 - (iv) an ongoing payment if the benefits materialise after the Franchise Term; and/or
 - (v) any combination of any of paragraphs 5(h)(i) to 5(h)(iv) inclusive.
- 6 In evaluating the Franchise Operator's proposals for any investment or change proposed to be undertaken and to enable best value for money to be obtained from third party financiers, the Secretary of State shall also give consideration to the appropriateness of the provision, by the Secretary of State, of an undertaking (or other form of comfort) pursuant to Section 54 of the Act.

SCHEDULE 9.2

Identity Of The Financial Model etc.

1 Franchisee's Obligations

- 1.1 The Franchisee shall deliver two copies of each of the Financial Model, the Operational Model and the Record of Assumptions (each such copy in electronic format on CD-ROM) together with hard format copies of the output template of the Financial Model in the format set out in the document in agreed terms marked **FF** (the **Escrow Documents**) to the Secretary of State in the agreed form, accompanied by a notice that the Escrow Documents are to be Placed in Escrow.
- 1.2 The Franchisee shall deliver the Escrow Documents in accordance with paragraph 1.1 of this Schedule 9.2 on the date of the Franchise Agreement and the Franchise Operator shall deliver the Escrow Documents:
- (a) within seven days of the Start Date, but updated only as strictly necessary for any elapsed time between the actual Start Date and the date assumed to be the Start Date in the Initial Business Plan; and
 - (b) within seven days of any approval or audit of a Run of the Financial Model as provided for in paragraph 7 of Schedule 9.1 (Financial and Other Consequences of Change), but updated with the Revised Inputs and any Model Changes.
- 1.3 The Franchisee or, as the case may be, the Franchise Operator shall deliver with each such deposit of the Escrow Documents all of the following information to the extent that it is relevant:
- (a) details of the Escrow Documents deposited (including full filename and version details, any details required to access the Escrow Documents including media type, backup command/software used, compression used, archive hardware and operating system details);
 - (b) the names and contact details of persons who are able to provide support in relation to accessing and interpreting the Escrow Documents; and
 - (c) if required by the Secretary of State, a certificate from independent auditors approved by the Secretary of State, confirming that the deposited version of the Escrow Documents is in the agreed form in accordance with paragraph 1.1 or (as the case may be) is in accordance with paragraphs 1.2 (a) or (b).

2 Secretary of State's Obligations

- 2.1 The Secretary of State shall:

- (a) within three days following receipt, acknowledge receipt to the Franchisee or, as the case may be, the Franchise Operator of any version of the Escrow Documents delivered to him for the purposes of being Placed in Escrow;
- (b) save as provided under paragraph 2.1(c), store each copy of the Escrow Documents in a different physical location from any other copy of each such document and use all reasonable endeavours to ensure that each copy of the Escrow Documents is at all times kept in a safe and secure environment. In so doing the Secretary of State shall be deemed to have Placed in Escrow the Escrow Documents for the purposes of the Franchise Agreement;
- (c) notify the Franchisee or, as the case may be, the Franchise Operator if he becomes aware at any time during the term of the Franchise Agreement that any copy of the Escrow Documents or part thereof stored in a particular location has been lost, damaged or destroyed. In such an event, the Secretary of State shall be permitted to create a new copy of the Escrow Documents or part thereof from the other copy Placed in Escrow and shall within seven days notify the Franchisee or, as the case may be, the Franchise Operator accordingly and afford it the right to make reasonable inspections in order to satisfy itself that a “complete and accurate” copy has been made. Following the making of such a new copy of the Escrow Documents, the Secretary of State shall retain all copies of the Escrow Documents in accordance with paragraph 2.1(b);
- (d) within seven days of receipt of a notice from the Franchise Operator stating that the Escrow Documents are required for the purposes of a Run of the Financial Model in relation to any Change, or should the Secretary of State himself so decide that the Escrow Documents are required by the Franchise Operator or by the Secretary of State for such purposes release one copy of the Escrow Documents accordingly and retain one copy of the Escrow Documents in escrow in accordance with paragraph 2.1(b);
- (e) maintain a record of any release of any copy of any version of the Escrow Documents made, including details of any version released and the date of release as well as the identity of the person to whom the Escrow Documents are released;
- (f) have no obligation or responsibility to any person whatsoever to determine the existence, relevance, completeness, accuracy, effectiveness or any other aspect of the Escrow Documents; and
- (g) not be liable for any loss, damage or destruction caused to the Franchisee or, as the case may be, the Franchise Operator arising from any loss of, damage to or destruction of the Escrow Documents.

2.2 If the Franchisee or, as the case may be, the Franchise Operator fails to perform a Run of the Financial Model pursuant to paragraph 6.2(a) of Schedule 9.1 (Financial and Other Consequences of Change) or fails to return the copy of the Escrow Documents released pursuant to paragraph 2.1(d):

- (a) such failure to perform or to return the released copy to the Secretary of State shall be a contravention of the Franchise Agreement;
- (b) the Secretary of State may release the other copy of the Escrow Documents Placed in Escrow and take a copy thereof (the **Replacement Copy**) in order that the Secretary of State may perform a Run of the Financial Model pursuant to paragraph 6.2(a) of Schedule 9.1 (Financial and other Consequences of Change);
- (c) once copied, the second copy of the Escrow Documents released pursuant to this paragraph 2.2 shall be Placed in Escrow; and
- (d) once the Run of the Financial Model has been approved or audited as provided for in paragraph 7 of Schedule 9.1 (Financial and Other Consequences of Change), two copies of the Replacement Copy shall also be Placed in Escrow.

Nothing in this Schedule 9.2 shall prevent the Secretary of State or the Franchise Operator each retaining for their working use one or more copies of any of the Escrow Documents Placed in Escrow provided that no such working copy shall (unless otherwise explicitly agreed by the parties) be regarded as a copy released from Escrow for the purposes of this Schedule 9.2 or any Run of the Financial Model.

3 Errors in Escrow Documents

3.1 Any feature of the Escrow Documents which is in the reasonable opinion of the Secretary of State an error will be addressed as follows:

- (a) if rectification of such an error would (as the case may be) over the Franchise Term result in a net increase in the amount of Franchise Payments payable by the Secretary of State to the Franchise Operator or a net decrease in the amount of Franchise Payments payable by the Franchise Operator to the Secretary of State then such error shall be rectified provided that there shall not be a restatement of the values of the Annual Franchise Payment Components;
- (b) if rectification of such an error would (as the case may be) over the Franchise Term result in a net decrease in the amount of Franchise Payments payable by the Secretary of State to the Franchise Operator or a net increase in the amount of Franchise Payments payable

by the Franchise Operator to the Secretary of State then such error shall be rectified and the values of the Annual Franchise Payment Components shall be restated where appropriate;

- (c) a record of the error shall be noted in the Record of Assumptions and, if applicable, the Financial Model; and
- (d) as soon as reasonably practicable after the date of the rectification of the error, the Franchise Operator shall (unless otherwise agreed by the Secretary of State) deliver to the Secretary of State a certificate from independent auditors approved by the Secretary of State confirming that the error has been rectified as required by this paragraph 3 and is now in the agreed form in accordance with paragraph 1.1 or paragraph 1.2(a) or 1.1(b) as the case may be.

SCHEDULE 9.3

Secretary of State Risk Assumptions

1 ERTMS

1.1 It shall be a Change if:

- (a) the Proposed ERTMS Implementation Plan is amended by the Secretary of State or Network Rail (other than where the Proposed ERTMS Implementation Plan is amended for a reason wholly attributable to any action or inaction of the Franchise Operator) and the Franchise Operator is required to retrofit ERTMS equipment to the rolling stock units set out in Table 1 of Schedule 1.7 (The Train Fleet) prior to the lease expiry date applicable to such rolling stock units specified in Table 1 of Schedule 1.7 (The Train Fleet) as at the Start Date (the **Fitment**); and
- (b) the Franchise Operator is able to demonstrate to the satisfaction of the Secretary of State that the compensation the Franchise Operator is entitled to recover from Network Rail under the Network Code in respect of the Fitment Costs is less than the Fitment Costs.

2 Intercity Express Project

It shall be a Change if any of the following circumstances occurs:

- (a) the TSP is unable to comply with its obligations under paragraph 1.1 of Part B of Schedule 2 of the Train Availability and Reliability Agreement to make no fewer than 10 Bi-Mode Sets available to the Franchise Operator due to any such Bi-Mode Full Set not having achieved Qualified Acceptance or Final Acceptance by 15 November 2018;
- (b) the TSP is unable to comply with its obligations under paragraph 1.1 of Part B of Schedule 2 of the Train Availability and Reliability Agreement to make no fewer than 8 Bi-Mode Half Sets available to the Franchise Operator due to any such Bi-Mode Half Set not having achieved Qualified Acceptance or Final Acceptance by 25 April 2019;
- (c) the TSP is unable to comply with its obligations under paragraph 1.1 of Part B of Schedule 2 of the Train Availability and Reliability Agreement to make no fewer than 10 Electric Sets available to the Franchise Operator due to any such Electric Set not having achieved Qualified Acceptance or Final Acceptance by 14 February 2019; and
- (d) the TSP is unable to comply with its obligations under paragraph 1.1 of Part B of Schedule 2 of the Train Availability and Reliability Agreement to make no fewer than 26 Electric Full Sets available to the Franchisee due to any such Electric Full Sets not having achieved Qualified Acceptance or Final Acceptance by 06 February 2020.

For the purpose of this Schedule 9.3 **Final Acceptance** and **TSP** shall have the same meaning as defined in Schedule 6.3 (The IEP Provisions) and **Bi-Mode Full Sets**, **Bi-Mode Half Sets**, **Electric Sets** and **Qualified Acceptance** shall have the same meaning as defined under the MARA (as such term is defined in paragraph 2.1 of Schedule 6.3 (The IEP Provisions)).

3 TSR

3.1 Subject to paragraph 3.2, it shall be a **TSR Trigger** (and paragraphs 3.5 to 3.9 shall apply) if:

- (a) subject to the Franchise Operator having demonstrated to the satisfaction of the Secretary of State that it has used best endeavours to amend or enter into such Access Agreements as may be necessary to obtain the Timetable Development Rights required to secure a Timetable which permits the operation of the TSR2 Key Services (the **Additional TSR2 TDR Rights**) in accordance with paragraph 5.1(b) of Part A of Schedule 1.1 (Service Development), the Franchise Operator is unable to amend or enter into such Access Agreements as may be necessary to obtain the Additional TSR2 TDR Rights; or
- (b) the Secretary of State determines, acting reasonably, that the Franchise Operator has no prospect of obtaining the Additional TSR2 TDR Rights even if it were to use best endeavours to amend or enter into such Access Agreements as may be necessary to obtain the Additional TSR2 TDR Rights.

3.2 Where the Franchise Operator does not obtain the Additional TSR2 TDR Rights that it assumed in the Bid TSR2 Timetable applicable to Monday to Friday (inclusive) that it would obtain in respect of a particular hour (a **Relevant Hour**) but where the Franchise Operator obtains the Timetable Development Rights to secure a Timetable which permits the operation of:

- (a) in the Relevant Hour and the hour immediately preceding the Relevant Hour; or
- (b) in the Relevant Hour and the hour immediately following the Relevant Hour,

the aggregate number of services to or from (as the case may be) London King's Cross to or from (as the case may be) Edinburgh, Newcastle (or Middlesbrough to the extent that TSR2 permits services to Middlesbrough to replace services to or from Newcastle), Leeds or Newark North Gate in relation to such two hour period which is equal to or greater than the number assumed in the Bid TSR2 Timetable in respect of that period, the Franchise Operator shall be deemed to have obtained those Additional TSR2 TDR Rights in respect of that Relevant Hour (the **Equivalent TSR2 TDR Rights**). In circumstances where the Franchise Operator has obtained the Additional TSR2 TDR Rights or the Equivalent TSR2 TDR Rights in respect of each hour in the Bid TSR2 Timetable applicable to Monday to

Friday (inclusive), it shall not be a TSR Trigger (and therefore shall not be a Change) and paragraph 5.7 of Part A of Schedule 1.1 (Service Development) shall apply.

- 3.3 It shall be an **SLC Trigger** (and paragraphs 3.5 to 3.8 and 3.10 shall apply) if, following a TSR Trigger, the Franchise Operator obtains any Additional TSR2 TDR Rights or the Equivalent TSR2 TDR Rights.
- 3.4 Following a TSR Trigger or an SLC Trigger, the Franchise Operator shall use best endeavours to amend or enter into such Access Agreements as may be necessary to obtain the Additional TSR2 TDR Rights.
- 3.5 Following the Secretary of State becoming aware of the occurrence or expected occurrence of a TSR Trigger which is equal to or above the Threshold Amount for a Qualifying Change or an SLC Trigger, the Franchise Operator and the Secretary of State shall agree a service level commitment to apply with effect from:
- (a) the TSR2 Date (in respect of a TSR Trigger); or
 - (b) a date to be agreed between the Secretary of State and the Franchise Operator (or determined by the Secretary of State in the absence of agreement) (in respect of an SLC Trigger),

in each case taking account of the Access Rights which have been granted to the Franchise Operator, provided that in the absence of agreement, the Secretary of State shall determine the service level commitment in accordance with paragraph 3.6 and 3.7. Such service level commitment agreed or determined shall be the **Service Level Commitment**.

- 3.6 Subject to the Franchise Operator's Access Agreements permitting such Timetable Development Rights, the Service Level Commitment shall include as a minimum:
- (i) two trains per hour from London King's Cross to Edinburgh;
 - (ii) two trains per hour from Edinburgh to London King's Cross;
 - (iii) a third train per hour from London King's Cross to York;
 - (iv) a third train per hour from York to London King's Cross;
 - (v) two trains per hour from London King's Cross to Leeds as specified in TSR1; and
 - (vi) two trains per hour from Leeds to London King's Cross as specified in TSR1,

for Monday to Friday and at such times as the Bid TSR2 Timetable contains at least this level of service.

- 3.7 In determining the Service Level Commitment in accordance with paragraph 3.5 and 3.6 above the Secretary of State shall have regard to:
- (a) the Access Rights Contingency Plan;
 - (b) proposals made by either party to change the Train Fleet; and
 - (c) such other factors as the Secretary of State considers appropriate for the purpose of setting the Service Level Commitment which delivers the maximum passenger benefits and revenue practicable using the rights available under the Access Agreements which the Franchise Operator has obtained or has a reasonable prospect of obtaining, and to minimise the Franchise Operator's costs.
- 3.8 Where a Change arising from a TSR Trigger which is equal to or above the Threshold Amount has occurred, with effect from the TSR2 Date, Part A of Schedule 1.1 (Service Development) and Part A of Schedule 1.2 (Operating Obligations) shall be replaced by Part B of Schedule 1.1 (Service Development) and Part B of Schedule 1.2 (Operating Obligations).
- 3.9 It shall be a Change if a TSR Trigger occurs, and paragraph 9 of Appendix 2 (Agreement or Determination of Revised Inputs) of Schedule 9.1 (Financial and Other Consequences of Change) shall apply.
- 3.10 It shall be a Change if an SLC Trigger occurs and paragraph 9 of Appendix 2 (Agreement or Determination of Revised Inputs) of Schedule 9.1 (Financial and Other Consequences of Change) shall apply.

4 No double recovery

Neither the Franchisee nor the Franchise Operator shall be entitled to recover (by way of a Change or otherwise) more than once in respect of the same loss suffered by it.

SCHEDULE 9.4
Not Used

SCHEDULE 9.5

Variations to the Franchise Agreement and Incentivising Beneficial Changes

1 Variations to the Franchise Agreement and Incentivising Beneficial Changes

1.1 The terms of the Franchise Agreement may be varied as follows but not otherwise:

(a) by the Secretary of State as contemplated where relevant in the Invitation to Tender in relation to:

(i) any aspect of the Franchise Services; and/or

(ii) any provision of the Franchise Agreement other than those provisions specified in paragraph 1.2,

by service of a notice on the Franchise Operator referring to this paragraph 1.1(a) and setting out the variation to the terms of the Franchise Agreement; and

(b) in relation to any other provision of the Franchise Agreement, by agreement in writing between the parties to that effect,

(each a **Variation**).

1.2 Without prejudice to the Secretary of State's rights under paragraph 1.1(a), the terms of each of:

(a) clause 4 (Term) of this Agreement;

(b) Schedules 8 (Payments), 9 (Changes), 10 (Remedies, Termination and Expiry), 12 (Financial Obligations and Covenants), 14 (Preservation of Assets), 18 (Additional Reporting Periods) and Schedule 19 (Other Provisions); and

(c) the definitions set out at clause 2 (Definitions) of this Agreement insofar as such affect the respective rights and obligations of the Secretary of State and the Franchise Operator pursuant to the provisions referred to at (a) and (b) above,

shall not be varied at any time other than in accordance with the terms of the Franchise Agreement or with the agreement of the parties.

1.3 The Secretary of State shall, to the extent reasonably practicable, allow the Franchise Operator a reasonable opportunity to make representations to the Secretary of State concerning any Variation to be made in accordance with paragraph 1.1(a), prior to making any such Variation.

- 1.4 The Secretary of State may:
- (a) issue, revise and withdraw from time to time procedures that he requires to be followed for the purposes of orderly consideration of Variations. This will include for the purpose of establishing in relation to any Change whether it is a Qualifying Change; and
 - (b) require the Franchise Operator to provide any information that the Secretary of State reasonably requires for this purpose (including in relation to prospective change to profit, costs and revenue as a consequence of proceeding with the Variation).
- 1.5 Procedures issued pursuant to paragraph 1.4 may provide for indicative iterations of Runs of the Financial Model in relation to one or more Changes that the Secretary of State is considering and may also provide for any number of Changes to be grouped together as a single Change for the purposes of agreeing or determining Revised Inputs and then performing a Run of the Financial Model.
- 1.6 Procedures issued pursuant to paragraph 1.4 shall have contractual effect between the parties in accordance with their terms.
- 1.7 The Franchise Operator may notify the Secretary of State of any proposal for a Variation by notice setting out the proposed method of implementing such Variation including:
- (a) the timescale for doing so;
 - (b) the effect (if any) on the timing of the performance of its other obligations under the Franchise Agreement;
 - (c) the impact of effecting the proposed Variation on the provision of the Franchise Services and the Franchise Operator's proposals as to how to minimise such impact; and
 - (d) the financial consequences of implementing the Variation proposed by the Franchise Operator in terms of the Revised Inputs that the Franchise Operator considers the Variation would require.
- 1.8 Where the Franchise Operator proposes a Variation in sufficient detail for it to be apparent that its implementation is likely to result in an increase in the overall profitability of the Franchise Operator through costs saving measures (a **Protected Proposal**), the Secretary of State may not proceed with the Protected Proposal or seek to implement the substance of it by proposing a Variation of his own without complying with the provisions of paragraph 5 of Appendix 2 (Agreement or Determination of Revised Inputs) to Schedule 9.1 (Financial and Other Consequences of Change).

1.9

- (a) The Franchise Operator and the Secretary of State acknowledge that the Franchise Operator may during the Franchise Term identify actions that could be taken by the Franchise Operator to achieve savings and improved financial performance and that such actions may if implemented give rise to a Change under the terms of this Agreement which, if it is a Qualifying Change, will give a financial benefit to the Secretary of State. It is further acknowledged that it is appropriate for the Franchise Operator to seek to identify such actions for the purposes of improving the cost effective delivery of railway passenger services.
- (b) To incentivise the Franchise Operator to seek to identify such actions it is agreed that the Franchise Operator may approach the Secretary of State with a proposal to take an action that would constitute a Change on the basis that if such a Change occurred and was a Qualifying Change in agreeing or determining Revised Inputs the parties or the Secretary of State would affect such change (if any) to the amount attributable to profit as they agree or the Secretary of State reasonably determines:
 - (i) fairly rewards the Franchise Operator for proposing the Change; and
 - (ii) reasonably incentivises the Franchise Operator to propose further Changes that achieve savings and/or improved financial performance by sharing with the Franchise Operator a reasonable amount of the additional profit that is expected to arise from implementing the relevant Change.
- (c) The Secretary of State shall have an unfettered discretion as to whether or not to agree such a proposal but if he does so agree and a Qualifying Change in consequence occurs then in agreeing or determining Revised Inputs the provisions referred to in paragraph 1.9(b) above shall apply.

2 Capital Expenditure

Capital Expenditure Threshold

- 2.1 The Franchise Operator shall notify the Secretary of State promptly if it reasonably expects that a Change to which paragraph 1 relates would require it to incur, singly or in aggregate with other Changes from time to time, Capital Expenditure in excess of one per cent of its annual Turnover as disclosed by its latest available Annual Audited Accounts and, when so notified, the Secretary of State shall either:
 - (a) withdraw (or direct the Franchise Operator to withdraw) the Change;

- (b) undertake to meet the excess through additional funding as and when such Capital Expenditure is incurred; or
- (c) direct the Franchise Operator to use all reasonable endeavours to borrow or otherwise raise the money required to fund any Change on commercial terms and at rates which are consistent with market conditions at the time, unless borrowing or otherwise raising such money would result in the Franchise Operator failing to comply with the financial covenants contained in Schedule 12 (Financial Obligations and Covenants).

Franchise Operator to Seek Finance

2.2 If the Secretary of State elects to require the Franchise Operator to use all reasonable endeavours as described in paragraph 2.1(c) then the Franchise Operator shall:

- (a) seek finance from a representative range of lending institutions and other financial institutions including those which at that time provide finance to the Franchise Operator, the Parent or the Guarantor;
- (b) if it is unable to raise funding, provide the Secretary of State with all information the Secretary of State may reasonably require in relation to the efforts made by the Franchise Operator and the reasons for a failure to raise additional finance;
- (c) so far as it is able (having used all reasonable efforts to do so), the Franchise Operator shall provide to the Secretary of State letters from lenders and financiers it has approached for finance stating their reasons for refusing to provide it and if the Secretary of State so requires, arrange and attend meetings with them for the Secretary of State to discuss those reasons; and
- (d) if funding is not available, or is not available on terms that the Secretary of State considers to be commercial terms or at rates which are consistent with market conditions at that time the Secretary of State may:
 - (i) withdraw the Change; or
 - (ii) undertake to fund the Capital Expenditure as and when such Capital Expenditure is incurred.

Treatment of Borrowings in Revised Inputs

2.3 In calculating the Revised Inputs for the purposes of any Change referred to in this paragraph 2, the Franchise Operator shall account for the Capital Expenditure in accordance with GAAP, taking into account the basis on which such Capital Expenditure has been financed.

Meaning of Capital Expenditure

- 2.4 The expression **Capital Expenditure** when used in this Schedule 9.5 refers to the nature of the expenditure incurred by the Franchise Operator and, accordingly, does not include expenditure incurred under operating leases.

Schedule 10
Remedies, Termination and Expiry

| | |
|---------------|--|
| Schedule 10.1 | Remedial Plans and Remedial Agreements |
| Schedule 10.2 | Termination and Expiry |
| Schedule 10.3 | Events of Default and Termination Events |
| Schedule 10.4 | Force Majeure |
| Schedule 10.5 | Liability |

SCHEDULE 10.1 Remedial Plans and Remedial Agreements

1 Remedies for Contraventions of the Franchise Agreement

- 1.1 If the Secretary of State is satisfied that the Franchisee and/or the Franchise Operator is contravening or is likely to contravene any term of the Franchise Agreement he may serve a notice on the Franchisee and Franchise Operator requiring the relevant party (the **Relevant Party**) to propose such steps as the Relevant Party considers appropriate for the purpose of securing or facilitating compliance with the term in question (a **Remedial Plan Notice**).

Contents of Remedial Plan Notices

- 1.2 Each Remedial Plan Notice shall specify the following:
- (a) the term or terms of the Franchise Agreement that the Secretary of State is satisfied that the Relevant Party is contravening or is likely to contravene (each a **Relevant Term**); and
 - (b) the time period within which the Secretary of State requires the Relevant Party to provide an appropriate plan for the purpose of facilitating or securing compliance with any Relevant Term (a **Remedial Plan**).

Contents of Remedial Plans

- 1.3 If the Secretary of State issues a Remedial Plan Notice, the Relevant Party shall submit a Remedial Plan to the Secretary of State within the period specified in such Remedial Plan Notice.
- 1.4 Each Remedial Plan shall set out:
- (a) the Relevant Term which has caused a Remedial Plan to be required;
 - (b) an explanation of the reasons for the contravention or likely contravention of the Relevant Term;
 - (c) the steps proposed for the purposes of securing or facilitating compliance with the Relevant Term; and
 - (d) the time period within which the Relevant Party proposes to implement those steps.

Remedial Agreements

- 1.5 If the Secretary of State is satisfied that the matters referred to in paragraphs 1.4(c) and (d) are appropriate (with or without further modification as the parties may agree) he may require the

Relevant Party to enter into a supplemental agreement (the **Remedial Agreement**) with the Secretary of State to implement those matters.

- 1.6 It is a term of the Franchise Agreement that the Relevant Party (at its own cost) complies with the Remedial Agreement in accordance with its terms.

Effect of Force Majeure Event

- 1.7 Without prejudice to the operation of paragraph 3.2 of Schedule 10.4 (Force Majeure), the following provisions shall apply in relation to Force Majeure Events affecting performance of a Remedial Agreement:

- (a) the Relevant Party shall give written notice to the Secretary of State promptly after it becomes aware (and in any event within 24 hours after becoming aware) of the occurrence or likely occurrence of a Force Majeure Event which will or is likely to affect the Relevant Party's ability to comply with a Remedial Agreement within the period specified therein;
- (b) each notice submitted in accordance with paragraph 1.7(a) shall state the extent or likely extent of the relevant Force Majeure Event and, in the case of a Force Majeure Event which has not occurred at such time, the reasons why the Relevant Party considers it likely to occur;
- (c) the Relevant Party shall use, and shall continue to use, all reasonable endeavours to avoid or reduce the effect or likely effect of any Force Majeure Event on its ability to comply with any Remedial Agreement; and
- (d) subject to the Relevant Party having complied with its obligations under paragraphs 1.7(a) to 1.7(c) (inclusive) the Relevant Party shall be entitled to a reasonable extension of the remedial period applicable to a Remedial Agreement in order to take account of the effect of a Force Majeure Event which has occurred on the Relevant Party's ability to comply with any Remedial Agreement.

Occurrence of a Contravention

- 1.8 Following the occurrence of a contravention of the Franchise Agreement, the Secretary of State may at his option (but shall not be obliged to) commence or increase the level and/or frequency of monitoring (whether by inspection, audit or otherwise) of the Franchisee and/or the Franchise Operator's performance of any relevant obligations until such time as the Relevant Party demonstrates, to the Secretary of State's reasonable satisfaction, that it is capable of performing and will perform such obligations as required by the Franchise Agreement.

- 1.9 The Franchisee and the Franchise Operator shall co-operate fully with the Secretary of State in relation to the monitoring referred to in paragraph 1.8.
- 1.10 The results of such monitoring will be reviewed at each Franchise Performance Meeting held pursuant to Schedule 11 (Agreement Management Provisions).
- 1.11 The Relevant Party shall compensate the Secretary of State for all reasonable costs incurred by the Secretary of State in carrying out such monitoring.

SCHEDULE 10.2 Termination and Expiry

1 Termination Notices

1.1 The Secretary of State may, on and at any time after the occurrence of:

- (a) (subject to paragraphs 1.2 and 1.3) an Event of Default which:
 - (i) is unremedied or continuing; and
 - (ii) the Secretary of State considers to be material; or
- (b) a Termination Event specified in paragraph 3.1 of Schedule 10.3 (Events of Default and Termination Events) which is unremedied or continuing; or
- (c) a Termination Event specified in paragraph 3.2 of Schedule 10.3 (Events of Default and Termination Events),

terminate the Franchise Agreement by serving a Termination Notice on the Franchisee and Franchise Operator. The Franchise Agreement shall terminate with effect from the date specified in any such Termination Notice.

1.2 The Secretary of State may not serve a Termination Notice in respect of an Event of Default in relation to which a Remedial Plan Notice has been issued until the period has expired within which the Franchisee and/or the Franchise Operator is required to deliver to the Secretary of State the Remedial Plan specified in such Remedial Plan Notice.

1.3 The Secretary of State may not serve a Termination Notice in respect of an Event of Default for which the Franchisee and/or the Franchise Operator is implementing a Remedial Agreement in accordance with its terms.

2 Consequences of Termination or Expiry

2.1 Upon termination of the Franchise Agreement (whether through default or effluxion of time or otherwise) the obligations of the parties shall cease except for:

- (a) any obligations arising as a result of any antecedent contravention of the Franchise Agreement;
- (b) any obligations which are expressed to continue in accordance with the terms of the Franchise Agreement; and

(c) any other obligations which give effect to such termination or to the consequences of such termination or which otherwise apply (expressly or impliedly) on or after such termination.

2.2 Nothing in this paragraph 2 shall prevent the Secretary of State from bringing an action against either the Franchisee or the Franchise Operator in connection with the termination of the Franchise Agreement prior to the expiry of the Franchise Term.

SCHEDULE 10.3

Events of Default and Termination Events

1 Provisions Relating to Events of Default

Contravention

- 1.1 The occurrence of an Event of Default shall constitute a contravention of the Franchise Agreement by the Franchise Operator and/or the Franchisee.

Notification of Event of Default

- 1.2 The Franchise Operator and the Franchisee shall notify the Secretary of State as soon as reasonably practicable on, and in any event within 24 hours of, it becoming aware of the occurrence of an Event of Default or an event which is likely to result in the occurrence of an Event of Default. The Franchise Operator and the Franchisee shall take such action or steps as the Secretary of State may require to remedy any Event of Default or potential Event of Default.

Consequences of Event of Default

- 1.3 On the occurrence of an Event of Default, the provisions of Schedule 10.1 (Remedial Plans and Remedial Agreements) shall apply.

2 Events of Default

Each of the following is an Event of Default:

Insolvency

2.1

- (a) **Administration:** Any step being taken by any person with a view to the appointment of an administrator to the Franchise Operator, the Franchisee, the Parent, the Guarantor or any Bond Provider;
- (b) **Insolvency:** Any of the Franchise Operator, the Franchisee, the Guarantor, the Parent or any Bond Provider stopping or suspending or threatening to stop or suspend payment of all or, in the reasonable opinion of the Secretary of State, a material part of (or of a particular type of) its debts, or being unable to pay its debts, or being deemed unable to pay its debts under Section 123(1) or (2) of the Insolvency Act 1986 except that in the interpretation of this paragraph the words "it is proved to the satisfaction of the court that" in sub-section (1)(e) and sub-section (2) of Section 123 shall be deemed to be deleted;

- (c) **Arrangements with Creditors:** The directors of the Franchise Operator, the Franchisee, Guarantor, the Parent or any Bond Provider making any proposal under Section 1 of the Insolvency Act 1986, or any of the Franchise Operator, the Franchisee, the Guarantor or the Parent or any Bond Provider proposing or making any agreement for the deferral, rescheduling or other readjustment (or proposing or making a general assignment or an arrangement or composition with or for the benefit of creditors) of all or, in the reasonable opinion of the Secretary of State, a material part of (or of a particular type of) its debts, or a moratorium being agreed or declared in respect of or affecting all or, in the reasonable opinion of the Secretary of State, a material part of (or of a particular type of) its debts;
- (d) **Security Enforceable:** Any expropriation, attachment, sequestration, execution or other enforcement action or other similar process affecting any property of the Franchise Operator or the Franchisee or the whole or a substantial part of the assets or undertaking of the Guarantor, the Parent or any Bond Provider, including the appointment of a receiver, administrative receiver, manager or similar person to enforce that security;
- (e) **Stopping Business/Winding-Up:** Any step being taken by the Franchisee, the Franchise Operator, the Guarantor, the Parent or any Bond Provider with a view to its winding-up or any person presenting a winding-up petition or any of the Franchisee, the Franchise Operator, the Guarantor, or the Parent or any Bond Provider ceasing or threatening to cease to carry on all or, in the reasonable opinion of the Secretary of State, a material part of its business, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Secretary of State before that step is taken;
- (f) **Railway Administration Order:** A railway administration order being made in relation to the Franchise Operator under Sections 60 to 62 of the Act;
- (g) **Train Availability and Reliability Agreement:** Termination of the Train Availability and Reliability Agreement due to the occurrence of a TARA Operator Default; and
- (h) **Analogous Events:** Any event occurring which, under the Law of any relevant jurisdiction, has an analogous or equivalent effect to any of the events listed in this paragraph 2.1,

subject, in the case of any relevant event occurring in relation to a Bond Provider where no such other Event of Default has occurred and is unremedied or continuing at such time, to a period of 20 business days having elapsed in order to allow the Franchise Operator to replace the relevant Bond Provider.

Non-payment

- 2.2 The Franchise Operator failing to pay to the Secretary of State any amount due under the Franchise Agreement within 28 days of the due date for such payment.

Change of Control

- 2.3 Otherwise than in accordance with a prior consent of the Secretary of State given under paragraph 4 of this Schedule 10.3:
- (a) the Franchise Operator ceasing to be a wholly owned subsidiary of the Franchisee; or
 - (b) a change occurring in the identity of any one person, or two or more persons acting by agreement, who may Control the Franchisee on and from the date of the Franchise Agreement and during the Franchise Term, which shall include a person, or two or more persons acting by agreement, ceasing to Control the Franchise Operator at any time during the Franchise Term, whether or not any other person Controls the Franchisee at the same time (any such change a **Change of Control**) and for the purposes of this paragraph 2.3, two or more persons shall be deemed to be acting by agreement in relation to the Franchisee or the Franchise Operator if, assuming the Franchisee or the Franchise Operator was a target company as defined in the Companies Act 2006, such persons would be under an obligation to disclose an interest in shares in such company by virtue of an agreement between such persons.

Revocation of Licence

- 2.4 Revocation of any Licence required to be held by the Franchise Operator in order to comply with its obligations under the Franchise Agreement.

Safety Certificate and Safety Authorisation

- 2.5 The Safety Certificate and/or Safety Authorisation of the Franchise Operator being withdrawn or terminated.

Passenger Service Performance

- 2.6 The Franchise Operator's performance in relation to any Benchmark exceeds (that is, is equal to or worse than) the Default Performance Level for that Benchmark for:
- (a) any three consecutive Reporting Periods;
 - (b) any four Reporting Periods within a period of 13 consecutive Reporting Periods; or

- (c) any five Reporting Periods within a period of 26 consecutive Reporting Periods.

Remedial Agreements and Enforcement Orders

2.7

- (a) Non-compliance by the Franchise Operator and/or the Franchisee with a Remedial Agreement, where such non-compliance is reasonably considered by the Secretary of State to be material.
- (b) Non-compliance by the Franchise Operator and/or the Franchisee with:
 - (i) a provisional order;
 - (ii) a final order;
 - (iii) a penalty; or
 - (iv) any other order made relating to contravention of either a relevant condition or requirement (as defined in Section 55 of the Act) or another order,in each case made by the Secretary of State under the Act.
- (c) Non-compliance by the Franchise Operator with any enforcement notice issued to it by the Secretary of State pursuant to Section 120 of the Act.

2.8 Not Used

Financial Ratios

- 2.9 Breach by the Franchise Operator of either or both of the financial ratios specified in paragraph 2 of Schedule 12 (Financial Obligations and Covenants).

Breach of Law

2.10

- (a) It becoming unlawful for the Franchise Operator to provide all or, in the reasonable opinion of the Secretary of State, a material part of the Passenger Services or to operate all or, in the reasonable opinion of the Secretary of State, a material number of the Stations or Depots (except to the extent not required so to do under the Franchise Agreement).

- (b) The Franchise Operator or any of the directors or senior managers of the Franchise Operator being convicted of manslaughter, fraud or any other indictable criminal offence in each case relating directly to the provision and operation of the Franchise Services.
- (c) The Franchise Operator being, in the reasonable opinion of the Secretary of State, in material non-compliance with a prohibition or enforcement order (or the equivalent thereof) issued by the ORR pursuant to its safety functions. If the Franchise Operator makes an appeal against such prohibition or enforcement order (or such equivalent thereof) in accordance with its terms, no Event of Default shall have occurred under this paragraph 2.10(c) until such appeal has been determined to be unsuccessful.

Contravention of Other Obligations

2.11 The occurrence of the following:

- (a) the Franchise Operator and/or the Franchisee contravening to an extent which is reasonably considered by the Secretary of State to be material any one or more of its obligations under the Franchise Agreement (other than such non-performance or non-compliance as may constitute an Event of Default under the provisions of this Schedule 10.3 other than this paragraph 2.11);
- (b) the service by the Secretary of State on the Franchise Operator and/or the Franchisee of a written notice specifying:
 - (i) such contravention; and
 - (ii) to the extent the contravention is capable of being remedied, the reasonable period within which the Franchise Operator and/or the Franchisee is required to so remedy; and
- (c) the Franchise Operator and/or the Franchisee contravening such obligation or obligations again to an extent which is reasonably considered by the Secretary of State to be material or permitting the contravention to continue or, if the contravention is capable of remedy, failing to remedy such contravention within such period as the Secretary of State has specified in the notice served pursuant to paragraph 2.11(b)(ii).

Non-membership of Inter-Operator Schemes

2.12 The Franchise Operator ceasing to be a member of, or ceasing to participate in or to be party to, any of the Inter-Operator Schemes, or having its membership or participation therein suspended.

Bonds

2.13

- (a) Any Performance Bond or Season Ticket Bond ceasing to be a legal, valid and binding obligation on the relevant Bond Provider (other than in accordance with its terms) or it otherwise becoming unlawful or impossible for any Bond Provider to perform its obligations thereunder;
- (b) A failure by the Franchise Operator to procure the provision to the Secretary of State of a Performance Bond (or Performance Bonds provided pursuant to paragraph **4.8**²⁶¹ of Schedule 12 (Financial Obligations and Covenants)) which individually or in aggregate fulfil the requirements of Schedule 12 (Financial Obligations and Covenants); or
- (c) A failure by the Franchise Operator to procure the provision to the Secretary of State of a Season Ticket Bond which fulfils the requirements of Schedule 12 (Financial Obligations and Covenants).

Key Contracts

2.14 Termination of any Key Contract, or the failure by the Franchise Operator to take all reasonable steps to enter into an appropriate replacement contract prior to the scheduled expiry date of any Key Contract, except where requested by the Secretary of State or to the extent that the Franchise Operator has demonstrated to the reasonable satisfaction of the Secretary of State that for the duration of the Franchise Term:

- (a) it is no longer necessary for it to be party to such Key Contract; or
- (b) it has made adequate alternative arrangements in order to be able to continue to provide and operate the Franchise Services.

Funding Deed

2.15 A failure by the Franchise Operator or the Guarantor to comply with its respective obligations under the Funding Deed.

2.16 Not used.

Maintenance Account

2.17 The Franchise Operator failing to comply with its obligations in paragraph 5.12 of Schedule 6.2 (Intercity East Coast Franchise Specific Provisions).

²⁶¹ Cross-reference corrected in letter dated 30 March 2015.

3 Termination Events

The Secretary of State may terminate the Franchise Agreement in accordance with Schedule 10.2 (Termination and Expiry) if:

- 3.1 any Force Majeure Event continues with the effect of preventing the Franchise Operator from delivering, wholly or mainly, the Passenger Services for more than six consecutive months; or
- 3.2
 - (a) the warranty given by the Franchisee pursuant to paragraph 6.1 of Schedule 12 (Financial Obligations and Covenants) is materially untrue; or
 - (b) the Franchise Operator commits a material breach of its obligation to notify the Secretary of State of any Occasion of Tax Non-Compliance in respect of any Affected Party (as defined in paragraph 6.3 of Schedule 12) as required by paragraph 6.2(a) of Schedule 12 (Financial Obligations and Covenants); or
 - (c) the Franchise Operator fails to provide details of proposed mitigating factors as required by paragraph 6.2(b) of Schedule 12 (Financial Obligations and Covenants) which in the reasonable opinion of the Secretary of State, are acceptable,

each a **Termination Event**.

4 Facilitation Fee

- 4.1 The Franchise Operator may, at any time, apply in writing to the Secretary of State for his consent to a Change of Control (as such term is defined pursuant to paragraph 2.3).
- 4.2 The Secretary of State may require the Franchise Operator to pay a fee in consideration of the grant of such consent (the **Facilitation Fee**).
- 4.3 The Secretary of State may require the Franchise Operator to pay an additional fee in respect of the staff, professional and other costs incurred by the Secretary of State in connection with the Franchise Operator's application (the **Administration Fee**). The Administration Fee shall be payable whether or not the Secretary of State consents to the proposed Change of Control.
- 4.4 On or after submitting such application to the Secretary of State, the Franchise Operator will provide, and will procure that the seller and the buyer provide, the Secretary of State with such documentation and information as the Secretary of State may require to assess such application and the amount of the Facilitation Fee. Without limiting paragraphs 4.9 or 4.10, it shall be deemed

to be reasonable for the Secretary of State to delay or withhold consent to the Change of Control where any such documentation is not provided.

- 4.5 The Facilitation Fee shall be a sum equal to the greater of:
- (a) one million pounds sterling (£1,000,000); or
 - (b) where the Estimated Profit Stream is greater than the Bid Profit Stream 5% of the difference between the Bid Profit Stream and the Estimated Profit Stream.
- 4.6 The Administration Fee shall be determined by the Secretary of State on the basis of:
- (a) the aggregate time spent by officials within the Secretary of State's Department on matters relating to such application;
 - (b) the Secretary of State's hourly scale rates for such officials, as varied from time to time; and
 - (c) the aggregate costs and disbursements, including where applicable VAT and professional costs, incurred by the Secretary of State in connection with such application.
- 4.7 Any determination by the Secretary of State for the purposes of paragraphs 4.5 or 4.6 shall in the absence of manifest error be final and binding as between the Secretary of State and the Franchise Operator (but without prejudice to the requirement of the Secretary of State to reasonably determine the Estimated Profit Stream).
- 4.8 Any consent by the Secretary of State to a Change of Control may be given subject to such conditions as the Secretary of State sees fit and the Franchise Operator shall, as applicable, comply with, and/or procure that the seller and/or the buyer comply with, any such conditions.
- 4.9 The Secretary of State shall have absolute discretion as to the grant of consent to any Change of Control and may accordingly refuse such consent for any reason he sees fit.
- 4.10 The Secretary of State shall have no liability whatever to the Franchise Operator in respect of any refusal of consent to a Change of Control, any delay in providing such consent, or any condition of such consent.

SCHEDULE 10.4 Force Majeure

1 Force Majeure Events

The following events shall constitute Force Majeure Events, subject to the conditions specified in paragraph 2 being satisfied:

- (a) the Franchise Operator or any of its agents or subcontractors is prevented or restricted by Network Rail (including by virtue of the implementation of any Contingency Plan) from gaining access to any section or part of track (including any track running into, through or out of a station). For the purposes of this paragraph 1:
 - (i) references to a party being prevented or restricted from gaining access to any section or part of track shall mean that such party is not permitted to operate any trains on the relevant section or part of track, or is only permitted to operate a reduced number of trains from that which it was scheduled to operate;
 - (ii) the period of such prevention or restriction shall be deemed to commence with effect from the first occasion on which the Franchise Operator is prevented or restricted from operating a train on such section or part of track;
 - (iii) references in paragraphs 1(a)(i) and (ii) to the operation of trains include scheduled empty rolling stock vehicle movements; and
 - (iv) **Contingency Plan** means a contingency plan (as defined in the Railway Operational Code or where the Railway Operational Code ceases to exist such other replacement document of a similar or equivalent nature which contains a definition of contingency plan similar to that contained in the Railway Operational Code) implemented by and at the instigation of Network Rail, or such other contingency or recovery plan as the Secretary of State may agree from time to time;

- (b) the Franchise Operator or any of its agents or subcontractors is prevented or restricted by Network Rail or any Facility Owner (other than a Facility Owner which is an Affiliate of the Franchise Operator) from entering or leaving:
 - (i) any station or part thereof (excluding any prevention or restriction from gaining access to any section or part of track running into, through or out of a station); or
 - (ii) any depot or part thereof (including the movement of trains on tracks within any depot but excluding any prevention or restriction from gaining access to any track outside such depot running into or out of that depot);

1.2 any of the following events occurs:

- (a) a programme of Mandatory Modifications commences;
- (b) any rolling stock units are damaged by fire, vandalism, sabotage or a collision and are beyond repair or beyond economic repair; or
- (c) a government authority prevents the operation of Rolling Stock Units on the grounds of safety,

and, in each case, the greater of two Rolling Stock Units and ten per cent of all rolling stock vehicles used by the Franchise Operator in the provision of the Passenger Services in relation to any Service Group are unavailable for use in the provision of the Passenger Services as a result of the occurrence of such event;

- (d) the Franchise Operator prevents or restricts the operation of any train on safety grounds provided that:
 - (i) the Franchise Operator has, either before or as soon as reasonably practicable after initiating such prevention or restriction, sought the confirmation of the ORR in exercise of its safety functions, or any relevant other body with statutory responsibility for safety in the circumstances, of the necessity of such prevention or restriction; and
 - (ii) if and to the extent that the ORR, or other relevant body with statutory responsibility for safety in the circumstances, in exercise of its safety functions indicates that such prevention or restriction is not necessary, then no Force Majeure Event under this paragraph 1(d) shall have occurred in respect of that restriction or prevention after the receipt of such indication from the ORR or other relevant body;
- (e) act of God, war damage, enemy action, terrorism or suspected terrorism, riot, civil commotion or rebellion (together '**Emergency Events**') or the act of any government instrumentality (including the ORR but excluding the Secretary of State) in so far as the act of government instrumentality directly relates to any of the Emergency Events, provided that there shall be no Force Majeure Event under this paragraph 1(e) by reason of:
 - (i) the suicide or attempted suicide of any person that does not constitute an act of terrorism;
 - (ii) the activities of the police, fire service, ambulance service or other equivalent emergency service that are not in response to acts of terrorism or suspected terrorism; or

- (iii) an act of God which results in the Franchise Operator or its agents or subcontractors being prevented or restricted by Network Rail from gaining access to any relevant section or part of track;
- (f) any strike or other Industrial Action by any or all of the employees of the Franchise Operator or any or all of the employees of:
 - (i) Network Rail;
 - (ii) the operator of any other railway facility; or
 - (iii) any person with whom the Franchise Operator has a contract or arrangement for the lending, seconding, hiring, contracting out or supervision by that person of train drivers, conductors, other train crew or station or depot staff used by the Franchise Operator in the provision of the Franchise Services,

or of the agents or sub-contractors of any such person listed in paragraphs 1(f)(i) to (iii) and for the purposes of this paragraph Industrial Action shall include any concerted action taken in connection with the employment of such employees (whether or not that action involves any breach of such employees' conditions of employment, and including any action taken in furtherance of a dispute, or with a view to improving the terms of employment of the relevant employees or by way of support for any other person) subject always, in the case of any unofficial Industrial Action, to the Franchise Operator being able to demonstrate the occurrence of such unofficial Industrial Action to the reasonable satisfaction of the Secretary of State.

2 Conditions to Force Majeure Events

2.1 The occurrence, and continuing existence of a Force Majeure Event shall be subject to satisfaction of the following conditions:

- (a) in relation to an event occurring under paragraph 1(a), that event has continued for more than 12 consecutive hours;
- (b) the Franchise Operator notifies the Secretary of State within two business days of it becoming aware or, if circumstances dictate, as soon as reasonably practicable thereafter, of:
 - (i) the occurrence or likely occurrence of the relevant event; and
 - (ii) the effect or the anticipated effect of such event on the Franchise Operator's performance of the Passenger Services;

- (c) at the same time as the Franchise Operator serves notification on the Secretary of State under paragraph 2.1(b), it informs the Secretary of State of the steps taken and/or proposed to be taken by the Franchise Operator to prevent the occurrence of, and/or to mitigate and minimise the effects of, the relevant event and to restore the provision of the Passenger Services;
- (d) the relevant event did not occur as a result of:
 - (i) any act or omission to act by the Franchise Operator or its agents or subcontractors, save that in respect of the occurrence of Industrial Action in accordance with paragraph 1(f), the provisions of paragraph 2.2 apply; or
 - (ii) the Franchise Operator's own contravention of, or default under, the Franchise Agreement, any Access Agreement, Rolling Stock Related Contract, Property Lease or any other agreement;
- (e) the Franchise Operator used and continues to use all reasonable endeavours to avert or prevent the occurrence of the relevant event and/or to mitigate and minimise the effects of such event on its performance of the Passenger Services and to restore the provision of the Passenger Services as soon as reasonably practicable after the onset of the occurrence of such event; and
- (f) the Franchise Operator shall, to the extent reasonably so requested by the Secretary of State, exercise its rights and remedies under any relevant agreement to prevent the occurrence or recurrence of any such event and to obtain appropriate redress and/or compensation from any relevant person.

2.2 Where:

- (a) Industrial Action in accordance with paragraph 1(f) occurs as a result of an act or omission to act by the Franchise Operator or its agents or subcontractors;
- (b) the Secretary of State reasonably believes that it was reasonable for the Franchise Operator, its agents or subcontractors (as the case may be) so to act or omit to act; and
- (c) the other conditions specified in paragraph 2.1 have been satisfied,

such occurrence shall be a Force Majeure Event.

3 Consequences of Force Majeure Events

On Obligations

- 3.1 The Franchise Operator shall not be responsible for any failure to perform any of its obligations under the Franchise Agreement, nor shall there be any contravention of the Franchise Agreement if and to the extent that such failure is caused by any Force Majeure Event.
- 3.2 If any Force Majeure Event continues, with the effect of preventing the Franchise Operator from delivering, wholly or mainly, the Passenger Services for more than six consecutive months, it shall be a Termination Event in accordance with paragraph 3 of Schedule 10.3 (Events of Default and Termination Events).

Business Continuity

- 3.3 Within 1 month following the Start Date the Franchise Operator shall produce and provide to the Secretary of State a written Business Continuity Plan in respect of the Franchise Services and the people, facilities and assets used to provide them, that is adequate to minimise the effect of and deal promptly and efficiently with any Disaster and which will as a minimum:
- (a) reflect the degree of skill, care, foresight and prudence which can reasonably be expected from a highly experienced and competent operator of railway passenger services;
 - (b) use what the industry would (at the relevant time) regard as the best generally accepted processes, techniques and materials; and
 - (c) comply with all Laws.
- 3.4 The Franchise Operator shall, at all times, maintain and comply with the Business Continuity Plan, and ensure that it is, at all times, able to implement the Business Continuity Plan immediately upon an event occurring which the Business Continuity Plan is expressed to cover, or reasonably can be expected to cover.
- 3.5 The Franchise Operator shall update the Business Continuity Plan at least once during each Franchise Operator Year.
- 3.6 The Franchise Operator will, on request, provide a copy of the Business Continuity Plan to the Secretary of State and will provide to the Secretary of State any other information that the Secretary of State may reasonably require in relation thereto.
- 3.7 Nothing in this paragraph 3 will relieve the Franchise Operator from its obligations under this Franchise Agreement to create, implement and operate the Business Continuity Plan. Accordingly, if a Force Majeure Event affecting the Franchise Operator occurs which is an event or circumstance that is within the scope of the Business Continuity Plan, or would have been had the Franchise Operator and/or Business Continuity Plan complied with this paragraph 3, then paragraph 3.1 will only apply to that Force Majeure Event to the extent that the impacts of that

Force Majeure Event would have arisen even if the Business Continuity Plan had complied with paragraph 3 and had been fully and properly implemented and operated in accordance with paragraph 3 and the terms of the Business Continuity Plan in respect of that Force Majeure Event.

On Payments

- 3.8 Following the occurrence of a Force Majeure Event, the payment of Franchise Payments shall continue unaffected.

SCHEDULE 10.5 Liability

1 Exclusion of Liability

Liability with respect to Passengers and Third Parties

- 1.1 Each of the Franchisee and the Franchise Operator hereby acknowledges that the Secretary of State will not be responsible for the actions of the Franchisee, Franchise Operator or any Affiliate of the Franchisee and that, except as expressly provided in the Franchise Agreement, the Franchise Operator shall provide and operate the Franchise Services at its own cost and risk without recourse to the Secretary of State or government funds or guarantees.
- 1.2 Each of the Franchisee and the Franchise Operator, on demand, shall hold the Secretary of State fully protected and indemnified in respect of all losses, liabilities, costs, charges, expenses, actions, proceedings, claims or demands incurred by or made on the Secretary of State in connection with any death, personal injury, loss or damage suffered by passengers or by any third party using or affected by the Franchisee, the Franchise Services which is caused or contributed to by the Franchise Operator, any Affiliate of the Franchisee or the Franchise Operator, or any employee, agent, contractor or sub-contractor of the Franchisee, Franchise Operator or of any Affiliate of the Franchisee.

Liability of the Secretary of State

- 1.3 Neither the Secretary of State nor any of his officers, agents or employees shall in any circumstances be liable to the Franchisee or the Franchise Operator for any loss or damage caused by the negligent exercise of any powers reserved to the Secretary of State under the Franchise Agreement, except to the extent that such negligence also constitutes a contravention of an obligation of the Secretary of State under the Franchise Agreement. Neither the Franchisee nor the Franchise Operator may recover from the Secretary of State or any of his officers, agents, or employees any amount in respect of loss of profit or consequential loss.

2 Review or Monitoring by the Secretary of State

- 2.1 The Secretary of State may for his own purposes (whether under the Franchise Agreement or under any other arrangement or otherwise and whether before or after the date of the Franchise Agreement) monitor or review any proposals, plans or projects (or any aspect thereof) of the Franchise Operator under the Franchise Agreement, but no review, enquiry, comment, statement, report or undertaking, made or given by or on behalf of the Secretary of State during such review or monitoring (and no failure to undertake, make or give any review, enquiry,

comment or statement) shall operate to exclude or relieve either party from or reduce or otherwise affect the obligations of such party under the Franchise Agreement.

- 2.2 The exercise by or on behalf of the Secretary of State of (or, as the case may be, any failure to exercise) any of his functions, rights or obligations in respect of any review or monitoring process shall not in any way impose any liability, express or implied, on the Secretary of State to any other party save to the extent that the exercise (or failure to exercise) of any of such functions, rights or obligations results in a contravention by the Secretary of State of an express provision of the Franchise Agreement and the Secretary of State does not make or give any representation or warranty, either express or implied, as to whether any proposal, plan or project will enable either party to comply with its obligations under the Franchise Agreement.

Schedule 11

Agreement Management Provisions

1 Not Used

2 Identification of Key Personnel and Provision of Organisation Chart

2.1 The Franchise Operator shall identify and provide to the Secretary of State a schedule of Key Personnel who shall be employed by the Franchise Operator in the performance of the Franchise Agreement. This shall include but not be limited to the following persons:

- (a) a managing director whose role will include the overall management of the operation of the Franchise Services;
- (b) a train service delivery manager, whose role will include responsibility for ensuring compliance by the Franchise Operator with Schedule 7.1 (Performance Benchmarks);
- (c) a safety manager, whose role will include responsibility for ensuring that the Franchise Operator complies with its legal obligations in relation to the Franchise Services including the Safety Certificate; and
- (d) a finance manager, whose role will include responsibility in relation to the Financial Model.

2.2 On or before the Start Date the Franchise Operator shall provide to the Secretary of State an organisation chart detailing the responsibilities and reporting lines of each of the Key Personnel and shall update such chart (and provide a copy to the Secretary of State promptly thereafter) as and when any changes occur.

3 Not Used

4 Franchise Performance Meetings

4.1

- (a) The parties shall hold a Franchise Performance Meeting at least once in every quarter (or such other interval as the Secretary of State may notify to the Franchise Operator in writing) at a time and location notified to the Franchise Operator by the Secretary of State.
- (b) Not used.
- (c) Not used.

- (d) Not used.
- (e) The Franchise Operator shall ensure that each of its representatives at all Franchise Performance Meetings have full power and authority delegated to them by the Franchise Operator to act and to make binding decisions on behalf of the Franchise Operator and shall include such directors and/or senior managers of the Franchise Operator and the Parent as the Secretary of State may require.

4.2 Not used.

4.3 Not used.

4.4 The Franchise Operator shall prepare and present such reports to each Franchise Performance Meeting as the Secretary of State may reasonably request. The Franchise Operator's obligations under this paragraph 4.4 are subject to the Franchise Operator receiving at least 28 days' notice of the requirement to prepare and present any such report.

4.5 No comment or failure to comment nor any agreement or approval, implicit or explicit by the Secretary of State at such meetings will relieve the Franchise Operator of any of its obligations under the Franchise Agreement.

4A. Periodic Update Reports

4A.1 In addition to the obligation at paragraph 4.4 above, the Franchise Operator shall prepare and submit to the Secretary of State a periodic report in each Reporting Period containing such information as the Secretary of State may reasonably specify on or after commencement of this Agreement or from time to time in accordance with clause 4A.2 below for the previous quarter, or such other period as may be reasonably required and disaggregated to the extent that the Secretary of State shall require).

4A.2 The Franchise Operator's obligations under this paragraph 4A are subject to the Franchise Operator receiving at least 28 days' notice of any amendments required to the contents of such report.

5 Right of Assessment or Inspection

5.1 The Franchise Operator shall, if requested by the Secretary of State, allow the Secretary of State and his representatives and advisers:

- (a) to inspect and copy any records referred to in Schedule 13 (Information and Industry Initiatives) and the Secretary of State may verify any such records; and

- (b) to inspect and copy at any reasonable time any books, records and any other material kept by or on behalf of the Franchise Operator and/or its auditors and any assets (including the Franchise Assets) used by the Franchise Operator in connection with the Franchise Services.
- 5.2 The Franchise Operator shall make available to the Secretary of State, his representatives and advisers the information referred to in paragraph 5.1 and grant or procure the grant of such access (including to or from third parties) as the Secretary of State, his representatives and advisers shall reasonably require in connection therewith. The obligation of the Franchise Operator under this paragraph 5.2 shall include an obligation on the Franchise Operator to grant or procure the grant of such access to premises (including third party premises) where the information referred to in paragraph 5.1 is kept by or on behalf of the Franchise Operator.
- 5.3 The Secretary of State, his representatives and advisers shall be permitted to take photographs, film or make a video recording, or make any other kind of record of any such inspection.
- 5.4 If any inspection reveals that information previously supplied to the Secretary of State was, in the reasonable opinion of the Secretary of State, inaccurate in any material respect or if such inspection reveals any other contravention of the Franchise Operator's obligations under the Franchise Agreement which the Secretary of State considers to be material, the costs of any such inspection shall be borne by the Franchise Operator.

Schedule 12

Financial Obligations and Covenants

1 Obligations

Except to the extent that the Secretary of State may otherwise agree from time to time, neither the Franchisee nor the Franchise Operator shall:

- (a) incur any liability or financial indebtedness except in the ordinary course of providing and operating the Franchise Services;
- (b) make any loan or grant any credit, or have or permit to subsist any loan or any credit, to any person (other than the deposit of cash with a Bank as permitted under paragraph 1(d) or to an employee in the ordinary course of its business);
- (c) create or permit to subsist any Security Interest over any of its assets or property or give any guarantee or indemnity to or for the benefit of any person or otherwise assume liability or become obliged (actually or contingently) in respect of any obligation of any other person, in each case other than in the ordinary course of the business of providing and operating the Franchise Services; or
- (d) create or acquire any subsidiary or make or have any investment in any other entity, except for the deposit of cash with a Bank.

2 Financial Ratios

2.1 The Franchise Operator covenants that as at the end of each Reporting Period during the Franchise Term:

- (a) the ratio of its Modified Revenue to its Actual Operating Costs during the Preceding 13 Reporting Periods of the Franchise Term (or, prior to the end of the thirteenth such Reporting Period, during all preceding Reporting Periods) will equal or exceed the ratio of 1.050:1; and
- (b) the ratio of its Forecast Modified Revenue to its Forecast Operating Costs for the next 13 Reporting Periods (or, where there are less than 13 Reporting Periods remaining in the Franchise Term, for all such remaining Reporting Periods) will equal or exceed the ratio of 1.050:1; and

For the purposes of this paragraph 2 **Preceding 13 Reporting Periods** means the Reporting Period just ended and the preceding 12 Reporting Periods of the Franchise Term.

2.2 If:

- (a) in respect of any Reporting Period, the Franchise Operator fails pursuant to paragraph 3.3(b) of Schedule 13 (Information and Industry Initiatives) to provide a statement of calculation of performance against the covenants set out in paragraph 2.1(b) for each of the next 13 Reporting Periods (or, where there are less than 13 Reporting Periods remaining in the Franchise Term, for all such remaining Reporting Periods) following any such Reporting Period; or
- (b) the Secretary of State reasonably considers that any particular item of Forecast Modified Revenue or Forecast Operating Cost used for the purposes of determining the Franchise Operator's performance against the covenants set out in paragraph 2.1(b) has not been accounted for on a reasonable basis (including where the accounting treatment looks to the form rather than the substance),

then the Secretary of State may:

- (i) in the circumstances referred to in paragraph 2.2(a) above reasonably determine the ratio of the Forecast Modified Revenue and Forecast Operating Cost on the basis of information available to him; or
- (ii) in the circumstances referred to in paragraph 2.2(b) above require any such particular item of Forecast Modified Revenue or Forecast Operating Cost to be adjusted in a manner which is fair and reasonable and, so far as reasonably determinable, on the basis on which such particular item of Forecast Modified Revenue or Forecast Operating Cost should have been accounted for by the Franchise Operator as reasonably determined by the Secretary of State,

in either case after having exercised his rights under paragraph 3.13 of Schedule 13 (Information and Industry Initiatives) to the extent that he considers appropriate in the circumstances for the purpose of making any such reasonable determination.

3 Breach of Financial Ratios

3.1 The Franchise Operator shall not during any Lock-up Period, do any of the following without the Secretary of State's consent:

- (a) declare or pay any dividend (equity or preference) or make any other distribution including surrendering any taxable losses to any of its Affiliates or pay any of its Affiliates in respect of taxable losses that they wish to surrender to the Franchise Operator, without the prior written consent of the Secretary of State;

(b) pay management charges to any of its Affiliates in excess of those specified in the Initial Business Plan; or

(c) make payment under any intra-group borrowings;

(d) ²⁶²

²⁶³

3.2 **Lock-up Period** means any period from the time when either of the ratios referred to in paragraphs 2.1(a) and 2.1(b) falls below the ratio of 1.070:1 until the time at which the Secretary of State is satisfied that the relevant ratio is again above the ratio of 1.070:1.

3.3 Failure by the Franchise Operator at any time to comply with either of the ratios referred to in paragraph 2.1 shall be an Event of Default under paragraph 2.9 of Schedule 10.3 (Events of Default and Termination Events).

4 Performance Bond

4.1 The Franchisee shall procure that there shall be a valid and effective Performance Bond in place with effect from the date of the Franchise Agreement, and the Franchisee and the Franchise Operator shall procure that there shall be a valid and effective Performance Bond in place:

(a) throughout the Franchise Period; and

(b) for a period of seven Reporting Periods after the end of the Franchise Period;

4.2 Each Performance Bond shall:

(a) be substantially in the form of Appendix 1 (Form of Performance Bond) to this Schedule 12;

(b) be issued by a Bond Provider;

²⁶² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁶³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

- (c) in the case of the Initial Performance Bond, have a value of £20,000,000 (pounds sterling twenty million), and in the case of any Replacement Bond, have a value equal to the amount determined under paragraph 4.4; and
- (d) have a minimum duration of the shorter of (A) three years and (B) the period from the date of issue of the Performance Bond until seven Reporting Periods after the end of the Franchise Period.

Provision of Replacement Performance Bond

4.3

- (a) The Franchisee and the Franchise Operator may replace the then current Performance Bond at any time.
- (b) The Franchisee and the Franchise Operator shall replace each Performance Bond at least six months prior to its scheduled expiry with a Replacement Performance Bond.
- (c) If at any time the Secretary of State reasonably considers the Bond Provider under the then current Performance Bond to be unacceptable, the Secretary of State may require the Franchisee or the Franchise Operator within 20 business days to procure the execution and delivery of a new Performance Bond by a Bond Provider acceptable to the Secretary of State.

Amount of Replacement Performance Bonds

4.4 The value of any Replacement Performance Bond shall be as follows:

- (a) in relation to the first Replacement Performance Bond, an amount which is £20,000,000 (pounds sterling twenty million) × RPI; and
- (b) in relation to each subsequent Replacement Performance Bond an amount which is the amount of the Replacement Performance Bond that it is replacing × RPI,

and, for the purpose of this paragraph 4.4, RPI shall be the quotient of the Retail Prices Index for the month for which the Retail Prices Index has most recently been determined on the date on which the Franchisee or the Franchise Operator is to replace the Performance Bond divided by the Retail Prices Index for the month in which the Performance Bond that is being replaced was required to be delivered to the Secretary of State.

Demands under the Performance Bond

4.5

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- (a) The Performance Bond shall be on terms that it is payable without further enquiry by the Bond Provider to the Secretary of State in full in London on first written demand by the Secretary of State on the Bond Provider, certifying as to any one or more of the following:
- (i) that the Franchise Agreement has:
 - (A) either terminated or expired and, in either case, in circumstances where there are liabilities or obligations outstanding from the Franchisee and/or the Franchise Operator to the Secretary of State; and/or
 - (B) terminated solely as a consequence of the occurrence of one or more Events of Default or a Termination Event of a type described in paragraph 3.2 of Schedule 10.3 (Event of Default and Termination Events) in circumstances where the Secretary of State has incurred or expects to incur additional costs in connection with early termination of the Franchise;
 - (ii) that a railway administration order has been made in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Act;
 - (iii) the occurrence of an Event of Default:
 - (A) under paragraph 2.13(a) of Schedule 10.3 (Events of Default and Termination Events) in relation to the Performance Bond; or
 - (B) under paragraph 2.13(b) of Schedule 10.3 (Events of Default and Termination Events),

whether or not the Franchise Agreement is, or is to be, terminated as a result thereof;
 - (iv) that the Franchise Operator (following Completion (as defined in the Funding Deed)), the Franchisee and/or the Guarantor has failed to perform or comply with its obligations under the Umbrella Deed;
 - (v) that the Franchise Operator has failed to provide a replacement Performance Bond complying with this paragraph 4 at least six months prior to the scheduled expiry of the existing Performance Bond; or
 - (vi) that each of the Franchisee and the Franchise Operator has failed to procure the execution and delivery of a new Performance Bond by a Bond Provider acceptable to the Secretary of State when required to do so in accordance with paragraph 4.3(c).

- (b) If the Secretary of State makes a demand under the Performance Bond, he shall, within a reasonable period, account to the Franchise Operator for the proceeds of such Performance Bond less the amount of the losses, liabilities, costs or expenses which, in the reasonable opinion of the Secretary of State, the Secretary of State or a Successor Operator has incurred or suffered or may be reasonably likely to incur or suffer including as a result of:
 - (i) early termination of the Franchise Agreement; and/or
 - (ii) any failure by the Franchise Operator to perform or comply with any of its obligations to the Secretary of State under the Franchise Agreement or to a Successor Operator under the Supplemental Agreement.

- (c) Nothing in paragraph (b) shall oblige the Secretary of State to account to the Franchise Operator or the Franchisee for the proceeds of such Performance Bond in the circumstances described in paragraphs 4.5(a)(iii), (v) or (vi) until such time as the Franchisee or the Franchise Operator has procured a replacement Performance Bond which complies with the requirements of paragraph 4.

Characteristics of Performance Bond Provider

- 4.6 In determining whether a Bond Provider under any replacement Performance Bond is acceptable, the Secretary of State may exercise his discretion and shall not be obliged to accept a Bond Provider accepted under any previous Performance Bond.

- 4.7 The Franchisee and Franchise Operator shall provide such information relating to any Bond Provider or proposed Bond Provider as the Secretary of State may require from time to time.

Provision of more than one Performance Bond

- 4.8 Each of the Franchisee and the Franchise Operator shall be permitted subject to the prior consent of the Secretary of State (such consent not to be unreasonably withheld or delayed) to meet its obligations to provide a valid and effective Performance Bond by providing up to three valid and effective Performance Bonds, the aggregate value of which at all times is equal to the value determined under paragraph 4.4. With the exception of the value of each individual Performance Bond the provisions of the Franchise Agreement in relation to the Performance Bond shall be deemed to apply separately in relation to each such Performance Bond. Where more than one Performance Bond is provided the Secretary of State shall have a discretion as to whether to make a demand under some or all of such Performance Bonds and the extent to which he accounts for the proceeds of each such Performance Bond in accordance with the provisions of paragraph 4.5(b).

5 Season Ticket Bond

Provision of Season Ticket Bond

5.1 Subject to paragraph 5.1A, the Franchise Operator shall procure that, for each Franchise Operator Year throughout the Franchise Term and during the relevant call period specified in clauses 4 and 5 of the Season Ticket Bond, there shall be in place a valid and effective Season Ticket Bond substantially in the form of Appendix 2 (Form of Season Ticket Bond) to this Schedule 12.

5.1A In relation to the first Bond Year, there shall be a single Season Ticket Bond covering the one Reporting Period in the first Franchise Operator Year and the 13 Reporting Periods in the second Franchise Operator Year.

Provision of Replacement Season Ticket Bond

5.2 No later than one Reporting Period before the expiry of each Bond Year, the Franchise Operator shall provide to the Secretary of State (or procure that the Secretary of State receives) a Season Ticket Bond for the following Bond Year:

- (a) substantially in the form of Appendix 2 (Form of Season Ticket Bond) to this Schedule 12 (or in any other form acceptable to the Secretary of State in his discretion);
- (b) duly executed and delivered by a Bond Provider acceptable to the Secretary of State; and
- (c) in an amount determined in accordance with paragraph 5.3.

Amount of Season Ticket Bond

5.3 The amount of any Season Ticket Bond shall vary for each Reporting Period during the Bond Year to which the Season Ticket Bond relates in accordance with the following formula:

$$STBA = STL \times \frac{((RPI \times 100) + k)}{100} \times Z$$

where:

STBA equals the amount of the Season Ticket Bond in the **Relevant**²⁶⁴ Reporting Period;

STL equals, in respect of such Reporting Period:

²⁶⁴ "Relevant " was capitalised in the letter dated 30 March 2015

- (a) the maximum amount which would be payable by the Franchise Operator in respect of Season Ticket Fares under and in accordance with a Supplemental Agreement and paragraph 3.3 of Schedule 15.4 (Provisions Applying on and after Termination) and the rights and liabilities of the Franchise Operator relating to an obligation of carriage under the terms of any Season Ticket Fares which were transferred under a Transfer Scheme relating to that Supplemental Agreement to a Successor Operator at that time; and
- (b) the Stored Credit Balance which would be held by the Franchise Operator

if the Franchise Agreement were to terminate on any day during the Reporting Period (the '**Relevant**²⁶⁵ Reporting Period') falling 13 Reporting Periods before such Reporting Period,

provided that for these purposes only:

- (i) Season Ticket Fares shall mean any Season Ticket Fare which expires more than seven days after it first comes into effect;
- (ii) the Start Date shall be assumed, where relevant, to have occurred before the commencement of the **Relevant**²⁶⁶ Reporting Period; and
- (iii) if STL cannot reasonably be determined at the time at which the Franchise Operator is required under paragraph 5.4 to provide its estimate of the amount of the relevant Season Ticket Bond (including because the **Relevant**²⁶⁷ Reporting Period²⁶⁸ has not yet occurred), the **Relevant**²⁶⁹ Reporting Period shall be the Reporting Period falling 26 Reporting Periods before the Reporting Period in the relevant Bond Year;

RPI equals the quotient of the Retail Prices Index for the month for which the Retail Prices Index has most recently been determined at the time the Franchise Operator is required under paragraph 5.4 to provide its estimate of the amount of the relevant Season Ticket Bond divided by the Retail Prices Index for the month falling 12 months before such month, provided that, for the first Franchise Operator Year, RPI shall be one;

K has the value attributed to it in Schedule 5 (Fares) for the Fare Year in which the Reporting Period in the relevant Bond Year falls; and

²⁶⁵ "Relevant " was capitalised in the letter dated 30 March 2015

²⁶⁶ "Relevant " was capitalised in the letter dated 30 March 2015

²⁶⁷ "Relevant " was capitalised in the letter dated 30 March 2015

²⁶⁸ "Relevant " was capitalised in the letter dated 30 March 2015

²⁶⁹ "Relevant " was capitalised in the letter dated 30 March 2015

Z equals +1 or, if the **Relevant**²⁷⁰ Reporting Period falls 26 Reporting Periods before such Reporting Period, an amount equal to:

$$\frac{(\text{RPI} \times 100)}{100} + k$$

where RPI and k are determined for the 12 months and the Fare Year preceding the 12 months and the Fare Year for which RPI and k are respectively determined above.

- 5.4 The Franchise Operator shall supply to the Secretary of State, not later than three Reporting Periods before the end of each Bond Year, its estimate of the amount of the Season Ticket Bond for each Reporting Period during the following Bond Year and shall supply such details as the Secretary of State may request in connection therewith.
- 5.5 The Franchise Operator and the Secretary of State shall endeavour to agree the amount of such Season Ticket Bond by no later than two Reporting Periods before the end of each Bond Year. If the parties are unable to agree the amount of the Season Ticket Bond in respect of any Reporting Period during the following Bond Year, the matter shall be resolved in accordance with the Dispute Resolution Rules.
- 5.6 If the amount of the Season Ticket Bond for each Reporting Period during a Bond Year has not been agreed two Reporting Periods before the end of the preceding Bond Year, then, until the amount is agreed or determined in accordance with the Dispute Resolution Rules, the amount thereof shall be the amount determined by the Secretary of State.
- 5.7 The Secretary of State and the Franchise Operator may agree to increase or reduce the amount covered or required to be covered under a Season Ticket Bond from time to time.

Demands under the Season Ticket Bond

- 5.8
- (a) The Season Ticket Bond shall be on terms that it is payable without further enquiry by the Bond Provider to the Secretary of State in full in London on first written demand by the Secretary of State on the Bond Provider, certifying as to any one or more of the following:
- (i) that the Franchise Agreement has terminated or expired;

²⁷⁰ "Relevant " was capitalised in the letter dated 30 March 2015

- (ii) that a railway administration order has been made in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Act; or
- (iii) that an Event of Default:
 - (A) under paragraph 2.13(a) of Schedule 10.3 (Events of Default and Termination Events) in relation to the Season Ticket Bond; or
 - (B) under paragraph 2.13(c) of Schedule 10.3 (Events of Default and Termination Events),

has occurred (whether or not the Franchise Agreement is, or is to be, terminated as a result thereof).

- (b) If the Secretary of State makes a demand under the Season Ticket Bond, he shall account to the Franchise Operator for the proceeds of such Season Ticket Bond remaining following settlement of all liabilities or obligations of the Franchise Operator in respect of any Season Ticket Fares and/or Stored Credit Balance that may be transferred or is transferred whether under a Transfer Scheme (or otherwise) to a Successor Operator.

Characteristics of Season Ticket Bond Provider

- 5.9 In determining whether a Bond Provider under any replacement Season Ticket Bond is acceptable, the Secretary of State may exercise his discretion and shall not be obliged to accept a Bond Provider accepted under any previous Season Ticket Bond.
- 5.10 The Franchise Operator shall provide such information relating to any Bond Provider or proposed Bond Provider as the Secretary of State may require from time to time.
- 5.11 The Secretary of State agrees that, subject to receipt of a Season Ticket Bond in an amount determined in accordance with paragraph 5.3 in respect of any Bond Year, he shall release the relevant Bond Provider from any liability under the Season Ticket Bond provided in relation to the preceding Bond Year on the expiry of such Bond Year, provided that no Event of Default has occurred and is unremedied or continuing.

Meaning of Reporting Period

- 5.12 References in this paragraph 5 to a Reporting Period shall be construed, where the Franchise Operator so requests and the Secretary of State consents (such consent not to be unreasonably withheld), to be references to each consecutive seven-day period (or such other period as may be agreed) during such Reporting Period. The Franchise Operator may only make such a request in respect of a maximum of two Reporting Periods in each Bond Year and only where the amount

of the Season Ticket Bond over any such period would, in the reasonable opinion of the Franchise Operator, differ materially if determined by reference to such seven-day periods.

6 Tax Compliance

6.1 The Franchisee represents and warrants that as at the Start Date, it has notified the Secretary of State in writing of any Occasions of Tax Non-Compliance where the Franchisee (including where the Franchisee is a joint venture or consortium, the members of that joint venture or consortium) is the Affected Party (as defined in paragraph 6.3 below) or any litigation that it is involved in that is in connection with any Occasions of Tax Non Compliance where the Franchisee (including where the Franchisee is a joint venture or consortium, the members of that joint venture or consortium) is the Affected Party.

6.2 If, at any point during the Franchise Term, an Occasion of Tax Non-Compliance occurs in relation to any Affected Party, the Franchise Operator shall:

(a) notify the Secretary of State in writing of such fact within 5 business days of its occurrence; and

(b) promptly provide to the Secretary of State:

(i) details of the steps which the Affected Party is taking to address the Occasion of Tax Non-Compliance and to prevent the same from recurring, together with any mitigating factors that it considers relevant; and

(ii) such other information in relation to the Occasion of Tax Non-Compliance as the Secretary of State may reasonably require.

6.3 For the purposes of this paragraph 6 (Tax Compliance), the following defined terms shall have the following meanings:

Occasion of Tax Non-Compliance means, in respect of the Franchisee (including where Franchisee is a joint venture or consortium, the members of that joint venture or consortium) or the Franchise Operator (such party being the **Affected Party**):

(a) any tax return of the Affected Party submitted to a Relevant Tax Authority on or after 1 October 2012 is found on or after 1 April 2013 is found to be incorrect as a result of:

(i) a Relevant Tax Authority successfully challenging the Affected Party under the General Anti-Abuse Rule or the Halifax Abuse Principle or under any tax rules or legislation that have an effect equivalent or similar to the General Anti-Abuse Rule or the Halifax Abuse Principle;

- (ii) the failure of an avoidance scheme which the Affected Party was involved in, and which was, or should have been, notified to a Relevant Tax Authority under the DOTAS or any equivalent or similar regime; and/or
- (b) any tax return of the Affected Party submitted to a Relevant Tax Authority on or after 1 October 2012 gives rise, on or after 1 April 2013, to a criminal conviction in any jurisdiction for tax related offences which is not spent at the Start Date or to a civil penalty for fraud or evasion.

DOTAS means the Disclosure of Tax Avoidance Schemes rules which require a promoter of tax schemes to tell HM Revenue & Customs of any specified notifiable arrangements or proposals and to provide prescribed information on those arrangements or proposals within set time limits as contained in Part 7 of the Finance Act 2004 and in secondary legislation made under vires contained in Part 7 of the Finance Act 2004 and as extended to National Insurance Contributions by the National Insurance Contributions (Application of Part 7 of the Finance Act 2004) Regulations 2012, SI 2012/1868 made under s.132A Social Security Administration Act 1992;

General Anti-Abuse Rule means:

- (a) the legislation in Part 5 of the Finance Act 2013; and
- (b) any future legislation introduced into parliament to counteract tax advantages arising from abusive arrangements to avoid national insurance contributions;

Halifax Abuse Principle means the principle explained in the CJEU Case C-255/02 Halifax and others; and

Relevant Tax Authority means HM Revenue & Customs, or, if applicable, a tax authority in the jurisdiction in which the Affected Party is established.

**APPENDIX 1 TO SCHEDULE 12
Form of Performance Bond**

[DOCUMENT "PB" - PERFORMANCE BOND]

Dated

20[•]

[BOND PROVIDER]

Performance Bond

Secretary of State for Transport
33 Horseferry Road
London SW1P 4DR

To: Secretary of State for Transport
Horseferry Road
London
SW1P 4DR
(the **Secretary of State**)

Whereas:

We are informed that you have entered into a franchise agreement dated [_____] (the **Franchise Agreement**) with [name of Franchisee] (the **Franchisee**) and [name of Franchise Operator] (the **Franchise Operator**) will enter into a deed of adherence on or about _____ 2015 in respect of such Franchise Agreement. Pursuant to the Franchise Agreement the Franchisee will secure that the Franchise Operator will provide certain railway passenger services.

We are further informed that the Franchise Agreement requires that the Secretary of State receives a duly executed performance bond in the amount of [*To be populated in for the duration of the Bond in accordance with 4.2/4.4*] (the **Bond Value**) to secure the performance by each of the Franchisee and the Franchise Operator of and its compliance with their respective obligations under the Franchise Agreement, the Umbrella Deed and any Supplemental Agreement.

Accordingly:

We hereby unconditionally and irrevocably undertake to pay to you in full in London, immediately upon receipt of your first written demand on us in the form set out in the Schedule and, without further enquiry, the sum specified therein. Such written demand shall state:

- (a) the Call Event (as defined in clause 2 hereof) that has occurred; and
- (b) the date of occurrence of such Call Event.

You may call on us for the whole or part of the amount of our liability hereunder and you may make any number of calls on us up to a maximum aggregate amount of the Bond Value. All sums payable hereunder shall be paid free of any restriction or condition and free and clear of and (except to the extent required by law) without any deduction or withholding, whether for or on account of tax, by way of set-off or otherwise.

1 The undertaking given by us above shall operate provided that:

- (a) our maximum liability shall be limited to a sum or sums not exceeding in the aggregate the amount of the Bond Value or such lesser amount as you may notify us of from time to time in writing, separately from any demand, shall constitute the Bond Value of this Bond; and

- (b) notwithstanding anything contained herein, our liability hereunder shall expire on the earlier of:
- (i) the date falling six months after the date on which any railway administration order is made in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993; and
 - (ii) the later of:
 - (A) the date falling one month after the determination of the Purchase Price (as defined in any Supplemental Agreement) under each relevant Supplemental Agreement; and
 - (B) the date falling seven Reporting Periods after the end of the Franchise Period; and
 - (C) the end of the Franchise Term; and
 - (iii) [date]²⁷¹

except in respect of any written demand for payment complying with all the requirements hereof which is received by us on or before such date for either the Bond Value, or for such lesser amount which, when aggregated with any previous demands, amounts to the Bond Value or less, after which date this undertaking shall be void whether returned to us or not.

2 Call Event means, in this Bond, any of:

- (a) the termination or expiry of the Franchise Agreement in circumstances where there are liabilities or obligations outstanding from the Franchisee and/or Franchise Operator to the Secretary of State;
- (b) the termination of the Franchise Agreement solely as a consequence of the occurrence of one or more Events of Default or a Termination Event of a type described in paragraph 3.2 of Schedule 10.3 (Event of Default and Termination Events) in circumstances where the Secretary of State has incurred or expects to incur additional costs in connection with early termination of the Intercity East Coast franchise;
- (c) the making of a railway administration order in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993;

²⁷¹ Such date to be consistent with the obligations of the Franchise Operator pursuant to paragraph 4.2 of Schedule 12 of the Franchise Agreement.

- (d) the occurrence of an Event of Default under the Franchise Agreement in respect of:
- (i) paragraph 2.13(a) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement in relation to the Performance Bond; or
 - (ii) paragraph 2.13(b) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement,
- whether or not the Franchise Agreement is, or is to be, terminated as a result thereof;
- (e) the failure by the Franchise Operator (following Completion (as defined in the Funding Deed)), the Franchisee and/or the Guarantor to perform or comply with its obligations under the Umbrella Deed;
- (f) the failure by the Franchisee and/or the Franchise Operator to provide the Secretary of State with a replacement Performance Bond which complies with paragraph 4 of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement at least six months prior the scheduled expiry of the existing Performance Bond; or
- (g) the failure by the Franchisee and/or the Franchise Operator to procure the execution and delivery of a new Performance Bond by a Bond Provider in favour of and acceptable to the Secretary of State when required to do so in accordance with paragraph 4.3(c) of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement.

3 This undertaking is made to you, your successors and your assigns.

4 This undertaking shall not be discharged or released by time, indulgence, waiver, alteration or release of, or in respect to, the obligations of the Franchisee and/or the Franchise Operator under the Franchise Agreement or any Supplemental Agreement or any other circumstances that might operate as a release of a guarantor at law or in equity.

5 You may make demand or give notice to us under this Bond in writing by hand or facsimile transmission to us as follows:

Address: [Bond Provider's address]

Facsimile Number: [Bond Provider's fax number]

6 References in this Bond to the Franchise Agreement and the Supplemental Agreement are to the Franchise Agreement and any Supplemental Agreement as amended from time to time.

7 Where used in this Bond, capitalised terms have the same meanings as in the Franchise Agreement.

8 This Bond shall be governed by and construed in accordance with the laws of England and Wales.

Executed as a deed this[day and month]of[year].

**SCHEDULE TO THE PERFORMANCE BOND
SPECIMEN DEMAND NOTICE**

To: [name and address of Bond Provider]
[date of demand notice]

We refer to the performance bond issued by you on [date of Bond] (the **Performance Bond**) in connection with the franchise agreement (the **Franchise Agreement**) entered into between the Secretary of State for Transport (the **Secretary of State**) and [name of Franchise Operator] (the **Franchise Operator**) and [name of Franchisee] (the **Franchisee**) on [Franchise Agreement signature date]. We acknowledge that [name of Franchise Operator] (the **Franchise Operator**) will enter into a deed of adherence on or about _____ 2015 in respect of such Franchise Agreement.

We hereby notify you that the following Call Event (as defined in the Performance Bond) occurred on [date of occurrence of Call Event]: [delete as appropriate].

[The Franchise Agreement has [terminated/expired] on [date of termination/expiry] in circumstances where there are liabilities or obligations outstanding from the Franchise Operator to the Secretary of State.]

[The Franchise Agreement has terminated solely as a consequence of the occurrence of one or more Events of Default on [date of termination] in circumstances where the Secretary of State has incurred or expects to incur additional costs in connection with the termination of the [name of franchise] franchise.]

[A railway administration order has been made in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993.]

[That an Event of Default under the Franchise Agreement has occurred under:

[(a)paragraph 2.13(a) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement in relation to the Performance Bond; or]

[(b)paragraph 2.13(b) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement.]]

[The Franchisee, the Franchise Operator and/or the Guarantor has failed to perform or comply with its obligations under the Umbrella Deed.]

[The Franchisee and/or the Franchise Operator has failed to provide a replacement Performance Bond (as described in the Franchise Agreement) complying with paragraph 4 of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement at least six months prior to the scheduled expiry of the existing Performance Bond.]

[The Franchise Operator has failed to procure the execution and delivery of a new Performance Bond by a Bond Provider acceptable to the Secretary of State when required to do so in accordance with paragraph 4.3(c) of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement.]

We hereby demand immediate payment from you of [specify alternative amount if not Bond Value] or the Bond Value, whichever is smaller.

Please arrange for immediate payment of the relevant amount as follows:

[account details to which Bond monies to be paid into]

Where used in this Notice, capitalised terms have the same meanings as in the Franchise Agreement.

For and on behalf of

Secretary of State for Transport

**APPENDIX 2 TO SCHEDULE 12
Form of Season Ticket Bond**

DOCUMENT "STB" - SEASON TICKET BOND

Dated

20[•]

[BOND PROVIDER]

Season Ticket Bond

Secretary of State for Transport
33 Horseferry Road
London SW1P 4DR

To: Secretary of State for Transport
33 Horseferry Road
London
SW1P 4DR
(the **Secretary of State**)

Whereas:

We are informed that you have entered into a franchise agreement dated [_____] (the **Franchise Agreement**) with [name of Franchisee] (the **Franchisee**) and [name of Franchise Operator] (the **Franchise Operator**) under which the Franchise Operator will provide certain railway passenger services.

We are further informed that the Franchise Agreement requires that the Secretary of State receives a duly executed season ticket bond to secure the performance by the Franchise Operator of and its compliance with its obligations under the Franchise Agreement and any Supplemental Agreement.

Accordingly:

We hereby unconditionally and irrevocably undertake to pay to you in full in London, immediately upon receipt of your first written demand on us in the form set out in Schedule 1 (Specimen Demand Notice) and, without further enquiry, the sum specified therein. Such written demand shall state:

- (a) the Call Event (as defined in clause 2) that has occurred; and
- (b) the date of occurrence of such Call Event.

You may call on us for the whole or part of the amount of our liability hereunder and you may make any number of calls on us up to a maximum aggregate amount of the Bond Value (as defined in clause 3). All sums payable hereunder shall be paid free of any restriction or condition and free and clear of and (except to the extent required by law) without any deduction or withholding, whether for or on account of tax, by way of set-off or otherwise.

1 The undertaking given by us above shall operate provided that:

- (a) our maximum liability shall be limited to a sum or sums not exceeding in the aggregate the amount of the Bond Value on the date of occurrence of the Call Event stated in your written demand on us; and
- (b) you may only call on us (whether on one or more occasions) in relation to one Call Event, such Call Event to be determined by reference to the first written demand which is received by us in the form set out in Schedule 1 (Specimen Demand Notice).

- 2 Call Event means, in this Bond, any of:
- (a) the termination or expiry of the Franchise Agreement;
 - (b) the making of a railway administration order in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993; or
 - (c) the occurrence of an Event of Default under paragraph 2.13(a) (in relation to a Season Ticket Bond) or paragraph 2.13(c) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement (whether or not the Franchise Agreement is, or is to be, terminated as a result thereof).
- 3 Bond Value shall mean, in respect of any date, the amount specified in Schedule 2 (Bond Value) as being the value of this Bond for such date (provided that for these purposes the date of occurrence of the Call Event specified in clause 2(c) shall be deemed to be the last date for which a Bond Value is assigned under Schedule 2 (Bond Value) of this Bond).
- 4 Notwithstanding anything contained herein, but subject to clause 5, our liability hereunder in respect of any Call Event shall expire no later than the end of the Franchise Term and:
- (a) in relation to a Call Event specified in clauses 2(a) and (b), at noon (London time) on the date falling three business days after the date of occurrence of such Call Event (business day being a day on which banks are open for business in the City of London); and
 - (b) in relation to any other Call Event, on the day falling one month after the last date for which a Bond Value is assigned under Schedule 2 (Bond Value) of this Bond unless you notify us in writing prior to the relevant expiry time that the relevant Call Event has occurred (whether or not you call on us at the same time under this Bond).
- 5 If you do notify us under clause 4 our liability shall expire on:
- (a) if the Call Event in respect of which you may call on us under this Bond is the termination of the Franchise Agreement, the date falling one month after the determination of the Purchase Price (as defined in the Supplemental Agreement) under each relevant Supplemental Agreement;
 - (b) if the Call Event in respect of which you may call on us under this Bond is the making of a railway administration order in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993, the date falling three months after the making of such railway administration order; or

(c) if the Call Event in respect of which you may call on us under this Bond is the occurrence of an Event of Default under paragraph 2.13(a) (in relation to a Season Ticket Bond) or paragraph 2.13(c) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement (whether or not the Franchise Agreement is, or is to be, terminated as a result thereof), the date falling one month after your notification to us under clause 4,

except, in each case, in respect of any written demand for payment complying with all the requirements hereof which is received by us on or before the relevant date, after which date this undertaking shall be void whether returned to us or not.

6 This undertaking is made to you, your successors and your assigns.

7 This undertaking shall not be discharged or released by time, indulgence, waiver, alteration or release of, or in respect to, the obligations of the Franchise Operator under the Franchise Agreement or any Supplemental Agreement or any other circumstances that might operate as a release of a guarantor at law or in equity.

8 You may make demand or give notice to us under this Bond in writing by hand or facsimile transmission to us as follows:

Address: [Bond Provider's address]

Facsimile Number: [Bond Provider's fax number]

9 References in this Bond to the Franchise Agreement and the Supplemental Agreement are to the Franchise Agreement and the Supplemental Agreement as amended from time to time and terms defined therein shall have the same meaning in this Bond.

10 Where used in this Bond, capitalised terms have the same meanings as in the Franchise Agreement.

11 This Bond shall be governed by and construed in accordance with the laws of England and Wales.

Executed as a deed this[day and month]of[year].

SCHEDULE 1 TO THE SEASON TICKET BOND SPECIMEN DEMAND NOTICE

To: [Name and address of Bond Provider]

[date of demand notice]

We refer to the season ticket bond issued by you on [date of Bond] (the **Season Ticket Bond**) in connection with the franchise agreement (the **Franchise Agreement**) entered into between the Secretary of State for Transport (the **Secretary of State**) and [name of Franchisee] (the **Franchisee**) and [name of Franchise Operator] (the **Franchise Operator**) on [Franchise Agreement signature date].

We hereby notify you that the following Call Event (as defined in the Season Ticket Bond) occurred on [date of occurrence of Call Event]: [delete as appropriate].

[The Franchise Agreement [terminated][expired] on [date of [termination][expiry]].

[A railway administration order has been made in relation to the Franchise Operator pursuant to Sections 60 to 62 of the Railways Act 1993.]

[An Event of Default occurred under paragraph 2.13(a) (in relation to a Season Ticket Bond) or paragraph 2.13(c) of Schedule 10.3 (Events of Default and Termination Events) of the Franchise Agreement.]

We hereby demand immediate payment from you of [specify alternative amount if not Bond Value] or the Bond Value, whichever is smaller.

Please arrange for immediate payment of the relevant amount as follows:

[account details to which Bond monies to be paid into]

Where used in this Notice, capitalised terms have the same meanings as in the Franchise Agreement.

For and on behalf of
Secretary of State for Transport

**SCHEDULE 2 TO THE SEASON TICKET BOND
BOND VALUE**

| Call Event occurring in Reporting Period | Bond Value |
|---|------------|
| 13 * | |
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| 8 | |
| 9 | |
| 10 | |
| 11 | |
| 12 | |
| 13 | |

* First Bond Year only

Schedule 13

Information and Industry Initiatives

1 General Information

Corporate Information

1.1 Each of the Franchisee and the Franchise Operator shall provide the following information to the Secretary of State on the Start Date and shall notify the Secretary of State of any change to such information within 21 days of such change:

- (a) its name;
- (b) its business address and registered office;
- (c) its directors and company secretary;
- (d) its auditors;
- (e) its trading name or names; and
- (f) to the best of the Franchisee and the Franchise Operator's knowledge and belief, having made due and diligent enquiry, the identity of all persons holding, separately or acting by agreement, directly or indirectly, the right to cast more than 20 per cent of the votes at general meetings of the Franchisee.

1.2 Each of the Franchisee and the Franchise Operator shall inform the Secretary of State of any material change or proposed material change in its business (including the employment or the termination of employment of any Key Personnel, the termination of any Key Contract and any litigation or other dispute which may have a material effect on its business) and any material change in or restructuring of the capitalisation or financing of the Franchisee, the Franchise Operator, the Parent or the Guarantor.

Operational and Performance-related Information to be provided by the Franchise Operator

1.3 The Franchise Operator shall provide to the Secretary of State the information specified in the Appendices to this Schedule 13 at the times specified therein.

1.4 The Appendices to this Schedule 13 shall be interpreted in accordance with any guidance issued by the Secretary of State from time to time for that purpose.

Maintenance of Records

- 1.5 The Franchise Operator shall maintain true, up to date and complete records of all of the information required to be provided by the Franchise Operator under the Franchise Agreement.
- 1.6 Each record required to be maintained by the Franchise Operator in accordance with this Schedule 13 shall be held for a period of six years following the date on which such record was required to be created.
- 1.7 References to records in this Schedule 13 shall include records maintained under any Previous Franchise Agreement to the extent that such records relate to services equivalent to the Franchise Services and the Franchise Operator has access to them (which it shall use all reasonable endeavours to secure).
- 1.8 Neither the Franchisee nor the Franchise Operator shall be responsible for any records maintained under any Previous Franchise Agreement, as referred to in paragraph 1.7, being true, complete and up to date. As soon as reasonably practicable after becoming aware that any such records are not true, complete and up to date, the Franchise Operator shall take all reasonable steps to remedy any such deficiency, and shall thereafter maintain such records in accordance with paragraph 1.5.

Information to the Passengers' Council and Local Authorities

- 1.9 The Franchise Operator shall comply with any reasonable requests and guidance issued by the Secretary of State from time to time in respect of the provision of information to and co-operation and consultation with the Passengers' Council and Local Authorities.

2 Business Plans

Initial Business Plan

- 2.1 Within three months of the Start Date, the Franchise Operator shall deliver to the Secretary of State its Initial Business Plan, describing its planned activities for each Franchise Operator Year during the Franchise Term, which shall include:
 - (a) a description as to how the Franchise Operator will be able to meet its obligations under the Franchise Agreement for the Franchise Term, supported by operational plans demonstrating this;
 - (b) details of any investments proposed to be made or procured by the Franchise Operator in relation to the Franchise Services during the Franchise Term;

- (c) a summary of the Franchise Operator's plans for marketing and developing the Franchise Services; and
- (d) a profit and loss forecast, cash flow forecast and forecast balance sheet for each of the first 13 Reporting Periods following the Start Date, together with a list of assumptions on the basis of which each such forecast has been prepared.

2.2 Not used.

Annual Business Plans

2.3 The Franchise Operator shall, at all times during the Franchise Term, provide to the Secretary of State any annual business plan (in written or electronic form) that it provides to its Parent (or any other document or documents which individually or collectively can reasonably be considered to be an annual business plan) in relation to a Franchise Operator Year (other than the first Franchise Operator Year) and which describes the Franchise Operator's planned activities for such Franchise Operator Year or describes the manner in which the Franchise Operator will meet its obligations under the Franchise Agreement in respect of that Franchise Operator Year (the **Annual Business Plan**). Any such Annual Business Plan shall be provided to the Secretary of State within one month of submission of same to the Parent. Where the Franchise Operator does not produce an annual business plan it shall notify the Secretary of State of all the periodic plans that it does produce and:

- (a) the Secretary of State shall be entitled to copies of such periodic plans as he shall reasonably determine; and
- (b) any such periodic plans shall be deemed to be Annual Business Plans for the purposes of this paragraph 2.3.

2.4 The Franchise Operator shall, at the same time as it submits the Annual Business Plan to the Secretary of State in accordance with paragraph 2.3 (or to the extent that no Annual Business Plan is submitted to the Parent in any Franchise Operator Year, not more than three Reporting Periods and not less than one Reporting Period prior to the start of each Franchise Operator Year), provide to the Secretary of State:

- (a) a revised profit and loss forecast, cash flow forecast and forecast balance sheet for each of the 13 Reporting Periods in the relevant Franchise Operator Year and each subsequent Franchise Operator Year of the Franchise Term; and
- (b) an annual improvement plan providing:

- (i) details of any new technologies, processes, developments and/or proposals which could improve the provision of the Franchise Services, reduce the cost of providing the Franchise Services or enable the Franchise Services to be provided more efficiently;
- (ii) an analysis of the impact of any technologies, processes, developments and/or proposals that are proposed in relation to the Franchise Services, including analyses of the costs of and timescale for effecting such changes and the impact on the provision of the Franchise Services;
- (iii) details of those technologies, processes, developments and/or proposals which the Franchise Operator proposes to implement during the relevant Franchise Operator Year; and
- (iv) an analysis of the technologies, processes, developments and/or proposals which the Franchise Operator implemented in the previous Franchise Operator Year including details of any cost reductions and/or efficiency gains arising from the same and a reconciliation to the annual improvement plan for that previous Franchise Operator Year.

2.5 Not used.

2.6 The Franchise Operator shall not be relieved of any of its obligations under the Franchise Agreement as a result of any comment or failure to comment by the Secretary of State on any Business Plan or any agreement with or approval, implicit or explicit, of any Business Plan by the Secretary of State at any time.

2.7 The Secretary of State may at any time require the Franchise Operator to produce a Business Action Plan in respect of any aspect of the Business Plan. Such Business Action Plan may include steps relating to:

- (a) timetable and service pattern development;
- (b) Station facility improvement;
- (c) performance management improvement;
- (d) customer service improvement; and
- (e) improvements in the quality of service delivery or the efficiency of delivery of the Franchise Services.

- 2.8 The Franchise Operator shall comply with any guidance issued by the Secretary of State about how and with whom any consultation on the content of a Business Action Plan is to take place.
- 2.9 Any proposal in a Business Action Plan shall only be implemented if and to the extent that the Secretary of State decides it is appropriate to do so and subject to any conditions which he may impose.

3 Financial And Operational Information

Accounting Records

- 3.1 The Franchise Operator shall prepare and at all times during the Franchise Term maintain true, up to date and complete accounting records as are required to be kept under Section 386 of the Companies Act 2006. Such records shall be prepared on a consistent basis for each Reporting Period.

Reporting Period Financial Information

- 3.2 The Franchise Operator shall deliver to the Secretary of State, within two weeks of the end of each Reporting Period:
- (a) Management Accounts for such Reporting Period, setting out a cashflow statement, profit and loss account and balance sheet for that Reporting Period and cumulatively for the Franchise Operator Year to date;
 - (b) written confirmation that the Management Accounts, to the best of the knowledge, information and belief of the board of directors of the Franchise Operator, contain a true and accurate reflection of the current assets and liabilities of the Franchise Operator (including contingent assets or liabilities and known business risks and opportunities) and, to the extent that they do not, identify in a written report relevant issues in reasonable detail and provide such further information that the Secretary of State shall reasonably require in relation; and
 - (c) in circumstances where the Franchise Operator was in a Lock-up Period during such Reporting Period, written confirmation from a statutory director of the Franchise Operator that the Franchise Operator has complied with the restrictions applicable during a Lock-up Period pursuant to paragraph 3 of Schedule 12 (Financial Obligations and Covenants).

- 3.3 The Management Accounts shall also set out:

- (a) sufficient information to enable the Secretary of State to calculate Actual Operating Costs and Modified Revenue on a cumulative basis for the previous thirteen Reporting Periods;

- (b) the ratio of the Franchise Operator's:
 - (i) Total Modified Revenue to its Total Actual Operating Costs; and
 - (ii) Total Forecast Modified Revenue to its Total Forecast Operating Costs,

together with supporting information showing how the Franchise Operator has calculated such ratios including a breakdown of the Modified Revenue, Forecast Modified Revenue, Actual Operating Cost and Forecast Operating Costs for each of the Reporting Periods used for the purposes of the calculation of the ratios pursuant to this paragraph 3.3(b);

- (c) a comparison of the Franchise Operator's performance during such period against the forecast provided by the Franchise Operator in the then current Business Plan;
- (d) a comparison of the Franchise Operator's cumulative performance during the Franchise Operator Year in which such period occurs against the forecast referred to in paragraph 3.3(c);
- (e) a detailed statement and explanation of any material difference between such Management Accounts and the forecast referred to in paragraph 3.3(c);
- (f) where the level of financial performance reported in the Management Accounts is, in the reasonable opinion of the Secretary of State, materially worse than forecast by the Franchise Operator in its current Business Plan, the Secretary of State may require the Franchise Operator to prepare and submit to him, as soon as reasonably practicable, a Financial Action Plan to ensure that the level of financial performance forecast in its current Business Plan for the remainder of the currency of that Business Plan is achieved and the Franchise Operator shall use all reasonable endeavours to implement such Financial Action Plan; and
- (g) a detailed statement and explanation of any Agreed Funding Commitment and PCS Advances (each as defined in the Funding Deed) provided during such Reporting Period and any repayments made during such Reporting Period in respect of (i) previously provided Agreed Funding Commitments as against the Funding Plan (as defined in the Funding Deed) and (ii) PCS Advances.

Quarterly Financial Information

- 3.4 ⁱWithin four weeks after the end of the third, sixth, ninth and twelfth Reporting Periods in each Franchise Operator Year, the Franchise Operator shall deliver to the Secretary of State the following information:

- (a) an updated version of the profit and loss forecast, cash flow forecast and forecast balance sheet provided in accordance with paragraph 2.1(d), for each of the following 13 Reporting Periods; and
 - (b) a statement of calculation demonstrating the Franchise Operator's performance against each of the financial covenants in paragraph 2 of Schedule 12 (Financial Obligations and Covenants) at the beginning of each Reporting Period and a forecast of performance against such covenants for each of the following 13 Reporting Periods.
- 3.5 Where any Reporting Period falls partly within one Franchise Operator Year and partly within another, the results for each section of such Reporting Period falling either side of such Franchise Operator Year end shall be prepared on an accruals basis for each such section of such Reporting Period.

Annual Financial Information

- 3.6 Within three weeks of the end of each Franchise Operator Year, the Franchise Operator shall deliver to the Secretary of State its Annual Management Accounts for that Franchise Operator Year.
- 3.7 The Franchise Operator shall deliver to the Secretary of State:
- (a) in respect of any Franchise Operator Year other than the final Franchise Operator Year, its Annual Financial Statements for that Franchise Operator Year within three Reporting Periods of the end of that Franchise Operator Year;
 - (b) in respect of the final Franchise Operator Year, its Annual Financial Statements for the period from the start of that Franchise Operator Year to the end of the Franchise Period within three Reporting Periods of the end of the Franchise Period,
- each together with a reconciliation to the Management Accounts for the same period.

3.8 Not used.

3.9 ⁱⁱWithin four Reporting Periods after the end of each Franchise Operator Year, the Franchise Operator shall deliver to the Secretary of State the following information:

- (a) certified true copies of its annual report and Annual Audited Accounts for that Franchise Operator Year, together with copies of all related directors' and auditors' reports;
- (b) a reconciliation to the Management Accounts for the same period;

- (c) a statement from the Franchise Operator's auditors confirming compliance with the financial covenants in paragraph 2 of Schedule 12 (Financial Obligations and Covenants); and
- (d) a statement from the Franchise Operator (signed by a director of the Franchise Operator) confirming compliance with the reporting requirements of paragraph 3.3(g).

Accounting Standards and Practices

3.10 Each set of Management Accounts and Annual Management Accounts shall:

- (a) be in the formats set out in the document in the agreed terms marked **FF** or in such other format as the Secretary of State may reasonably specify from time to time;
- (b) be prepared consistently in accordance with the Franchise Operator's normal accounting policies, details of which shall be supplied on request to the Secretary of State; and
- (c) identify to the reasonable satisfaction of the Secretary of State, any changes in such accounting policies from those policies that were applied in preparing each of the profit and loss account, the cashflow projection and the balance sheet contained in the Financial Model Placed in Escrow on the date of the Franchise Agreement.

3.11 Each set of Annual Financial Statements and Annual Audited Accounts shall:

- (a) be prepared and audited in accordance with GAAP, consistently applied and in accordance with the Companies Act 2006; and
- (b) give a true and fair view of:
 - (i) the state of affairs, profits and financial condition of the Franchise Operator for the period covered by such accounts; and
 - (ii) the amount of its total revenue (being all revenue whatsoever from any source obtained from any commercial or non-commercial activity or undertaking of the Franchise Operator, such revenue to be disaggregated by reference to revenue derived by the Franchise Operator from the sale of tickets, income received from Network Rail pursuant to Schedule 4 and Schedule 8 to the Track Access Agreement and other income (including car park revenue) or to such other level of disaggregation as may be notified to the Franchise Operator by the Secretary of State from time to time) derived by the Franchise Operator in respect of that Franchise Operator Year.

Parent and Guarantor Accounts

- 3.12 The Franchise Operator shall, upon the request of the Secretary of State, promptly deliver to, or procure delivery to, the Secretary of State, certified true copies of the annual reports and audited accounts of the Guarantor and the Parent, together with copies of all related directors' and auditors' reports. If the Parent is domiciled outside England and Wales, the equivalent documents in the jurisdiction of residence of the Parent or the Guarantor (as applicable) shall be delivered to the Secretary of State.

Secretary of State Audit of calculations provided pursuant to paragraph 3.3(b) of Schedule 13

- 3.13 Without prejudice to paragraph 2.2 of Schedule 12 (Financial Obligations and Covenants) or to any other rights of the Secretary of State under the Franchise Agreement, the Secretary of State and his representatives shall be permitted to inspect at any time the books, records and any other material kept by or on behalf of the Franchise Operator in order to check or audit any item contained in or relating to the Management Accounts in so far as they relate to the statement of calculations required by paragraph 3.3(b) of this Schedule 13 and any other matter in connection with the Franchise Operator's obligations under paragraph 2 of Schedule 12 (Financial Obligations and Covenants).
- 3.14 The Franchise Operator shall make available to the Secretary of State and his representatives such information and grant such access or procure the grant of such access (including to or from third parties) as they shall reasonably require in connection with any audit to be carried out pursuant to paragraph 3.13. If any audit carried out pursuant to paragraph 3.13 reveals, in the reasonable opinion of the Secretary of State, any material inaccuracy in the Management Accounts (but only in so far as such accounts relate to the statement of calculations required by paragraph 3.3(b)) then the Secretary of State may exercise its rights as described in paragraphs 2.2 (i) or 2.2(ii) of Schedule 12 (Financial Obligations and Covenants) and the Franchise Operator shall pay all reasonable costs of any such audit as a monitoring cost pursuant to paragraph 1.11 of Schedule 10.1 (Remedial Plans and Remedial Agreements).

4 Safety Information

Safety

- 4.1 The Franchise Operator shall co-operate with any request from any relevant competent authority for provision of information and/or preparation and submission of reports detailing or identifying compliance with safety obligations set out in the Safety Regulations including any breaches of the Safety Regulations.

- 4.2 The Franchise Operator shall notify the Secretary of State as soon as practicable of the receipt and contents of any formal notification relating to safety or any improvement or prohibition notice received from ORR. Immediately upon receipt of such notification or notice, the Franchise Operator shall provide the Secretary of State with a copy of such notification or notice.
- 4.3 The Franchise Operator shall participate in industry groups and committees addressing the domestic and European safety agenda of the Railway Group.

5 Further Information

- 5.1 The Franchise Operator shall:
- (a) deliver to the Secretary of State, or procure the delivery to the Secretary of State of, such information, records or documents as he may request within such period as he may reasonably require and which relate to or are connected with the Franchise Operator's performance of the Franchise Agreement; and
 - (b) procure that each Affiliate of the Franchise Operator complies with paragraph 5.1(a) in respect of any information, records or documents that relate to its dealings with the Franchise Operator in connection with the Franchise Operator's performance of its obligations under the Franchise Agreement.
- 5.2 The information referred to in paragraph 5.1(a) shall include:
- (a) any agreement, contract or arrangement to which the Franchise Operator is a party in connection with any rolling stock vehicles used in the operation of the Passenger Services including the Train Availability and Reliability Agreement;
 - (b) in so far as the Franchise Operator has or is able to obtain the same, any other agreement contract or arrangement which may be associated with the procurement, leasing, financing or maintenance of any such rolling stock vehicles;
 - (c) any agreement for the manufacture or supply of any rolling stock vehicles; or
 - (d) any arrangements for the securitisation of any lease granted in respect of such rolling stock vehicles.
- 5.3 The Secretary of State may require the Franchise Operator to provide:
- (a) the information required to be provided under this Schedule 13 more frequently than set out in this Schedule 13;

- (b) the information required to be provided under this Schedule 13, or, in the Secretary of State's discretion, more detailed financial information, at any time in connection with the re-letting of the Franchise; and
- (c) such unaudited accounts under such accounting policies as may be prescribed by the Secretary of State, acting reasonably, from time to time.

6 Contraventions of the Franchise Agreement

- 6.1 Each of the Franchisee and the Franchise Operator shall notify the Secretary of State, so far as possible before it may occur and in any event as soon as reasonably practicable thereafter, of any contravention by the Franchisee or the Franchise Operator of any provision of the Franchise Agreement. This includes where the Franchisee and/or the Franchise Operator is under an obligation to use all reasonable endeavours to achieve a particular result by a particular time, where such result is not achieved by such time.
- 6.2 Each of the Franchisee and the Franchise Operator shall deliver to the Secretary of State, or procure the delivery to the Secretary of State of, such information, records or documents as the Secretary of State may request within such period as the Secretary of State may reasonably require for the purpose of determining the existence, likelihood, nature or scope of any contravention of, Event of Default or Termination Event under, the Franchise Agreement.

7 Information from Third Parties

- 7.1 Each of the Franchisee and the Franchise Operator shall, if the Secretary of State so requests, use all reasonable endeavours to ensure that the Secretary of State has direct access to any information, data or records relating to the Franchisee and/or the Franchise Operator which is or are maintained by third parties and to which the Secretary of State is entitled to have access, or of which the Secretary of State is entitled to receive a copy under the Franchise Agreement.
- 7.2 The Franchise Operator shall, if the Secretary of State so requests, procure the provision by RSP to the Secretary of State of such information, data and records as the Franchise Operator is entitled to receive under the Ticketing and Settlement Agreement, in such form as the Secretary of State may specify from time to time.
- 7.3 The obligations of the Franchisee and/or the Franchise Operator under this Schedule 13 to provide information to the Secretary of State shall not apply if the Secretary of State notifies the Franchise Operator that he has received the relevant information directly from any other person (including Network Rail or RSP). The Franchise Operator shall, if the Secretary of State so requests, confirm or validate any such information which is received from any such other person.

- 7.4 Each of the Franchisee and the Franchise Operator shall promptly advise the Secretary of State of any changes that are to be made to its systems or processes or the systems and processes of the RSP that will, in the reasonable opinion of the Franchisee and the Franchise Operator, materially affect the continuity of any of the records that are provided pursuant to this Schedule 13. Any such advice shall include an assessment of the materiality of the relevant change.

8 Compatibility of Information

- 8.1 All financial, operational or other information, and any data and records required to be provided to the Secretary of State under the Franchise Agreement shall be provided, if so requested by the Secretary of State, in a form compatible with the Secretary of State's electronic data and records systems on the Start Date, as modified from time to time in accordance with paragraph 9.
- 8.2 The Franchise Operator shall ensure that the interconnection of such systems or the provision of such information, data and records to the Secretary of State under the Franchise Agreement will not result in any infringement of any third party intellectual property rights to which its systems or such information, data or records may be subject.

9 Development of Industry Systems

The Franchise Operator shall actively co-operate, in a manner consistent with it being a responsible Train Operator of the Franchise, with Network Rail, the Secretary of State, ORR and all other relevant railway industry bodies and organisations in relation to the development of anything that can reasonably be considered to be a railway industry system including systems in relation to the attribution of train delay, the allocation of revenue and the collection and dissemination of industry wide information.

10 Co-operation with Various Schemes

The Franchise Operator shall co-operate (in good faith) with the Secretary of State, the relevant Local Authority and/or any other affected railway industry parties in the development and the implementation of initiatives relating to its participation in Integrated Transport Schemes, multi-modal fares schemes, Traveline and Transport Direct (the **Industry Schemes**), where such Industry Schemes relate to the Franchise.

11 Cooperation With Network Rail And Alliancing

- 11.1 The Franchise Operator shall use all reasonable endeavours to work with Network Rail to identify ways in which cooperation between the Franchise Operator and Network Rail can be enhanced, costs can be reduced and closer working and alignment of incentives can improve value for money within the parameters of this Agreement.

11.2 Where the Franchise Operator considers pursuant to its obligations under paragraph 11.1 above that it is appropriate to enter into an alliance agreement with Network Rail that would require its obligations under this Agreement to be varied (an **Alliance Agreement**) it may make a proposal for the Secretary of State to consider. The Franchise Operator agrees that any such proposal (unless otherwise agreed by the Secretary of State) shall:

- (a) be for the purposes of improved delivery of some or all of the following:
 - (i) the efficient and cost effective operation of some or all of the network over which the Passenger Services operate;
 - (ii) the efficient and cost effective maintenance of some or all of the network over which the Passenger Services operate;
 - (iii) the efficient and cost effective renewal of some or all of the network over which the Passenger Services operate;
 - (iv) the efficient and cost effective delivery of some or all enhancement projects on the network over which the Passenger Services operate; and
 - (v) such other infrastructure enhancement projects as may be agreed by the Franchise Operator and Network Rail and approved by the Secretary of State during the Franchise Term;
- (b) be on terms which are commercially fair and reasonable so that:
 - (i) the incentives of the Franchise Operator and Network Rail are more effectively aligned in a way that gives a reasonable expectation that the matters subject to the alliance will be delivered in a more efficient and effective way; and
 - (ii) the financial and operational risk of the Franchise Operator arising out of the operation of the Franchise is not unreasonably increased (including through the agreement of appropriate limitations of liability); and
- (c) the Secretary of State has rights to require the termination of the Alliance Agreement in appropriate circumstances including so that the term of the alliance is aligned with the Franchise Term and liabilities do not accrue to any Successor Operator.

11.3 The Franchise Operator shall provide such information, updates and reports on the progress of its negotiation with Network Rail as the Secretary of State shall reasonably require and meet with the Secretary of State to discuss the progress of the negotiations when reasonably requested to do so.

- 11.4 On reaching agreement in principle with Network Rail on the terms of an Alliance Agreement the Franchise Operator shall present the draft Alliance Agreement to the Secretary of State for approval and shall not enter into any such agreement without the prior written consent of the Secretary of State (which he shall have an unfettered discretion to withhold).
- 11.5 The Franchise Operator agrees that any approval of an Alliance Agreement shall (without prejudice to the unfettered discretion of the Secretary of State to refuse to consent to such an alliance) be conditional upon:
- (a) the Secretary of State being satisfied that such Alliance Agreement is consistent with the provisions of paragraph 11.2(b) above;
 - (b) the Franchise Operator agreeing to a fair and reasonable allocation of the gain from such alliance being passed to the Secretary of State (whether through profit share or otherwise) consistent with the role of the Secretary of State in funding the railway network; and
 - (c) the Franchise Operator entering into a deed of amendment to the Franchise Agreement in a form reasonably determined by the Secretary of State.

12 Sustainable Construction

For construction projects (including building refurbishment or fit out):

- (a) which are either being funded by the Franchise Operator or in respect of which the Franchise Operator has design responsibility; and
- (b) in respect of which the total capital cost exceeds £250,000 (indexed by the Retail Prices Index in the same way as variable costs are indexed in Schedule 8.2 (Annual Franchise Payments)),

the Franchise Operator shall use reasonable endeavours to achieve at least an “excellent” rating from an accredited assessor using Building Research establishment environmental assessment methodology (or an equivalent recognised standard) at both the design stage and the post-construction stage unless the Secretary of State (acting reasonably) agrees that the relevant project is not of a suitable scale or type to be so assessed and the Franchise Operator shall provide to the Secretary of State such information in relation to any construction project as the Secretary of State may reasonably request.

13 Environmental Management and Sustainability Accreditation

The Franchise Operator shall, by no later than the date which is 18 months after the Start Date, attain and, at all times thereafter, maintain accreditation pursuant to ISO14001 and ISO50001 or equivalent standards.

14 Station Investment

14.1 The Franchise Operator shall at all times during the Franchise Term, co-operate with the Secretary of State and any third party nominated by the Secretary of State and notified to the Franchise Operator in developing opportunities for financing investment at Stations and Franchise Operator Access Stations in order to improve the station environment at such stations.

14.2 In co-operating with the Secretary of State and/or any nominated third party in developing any such financing opportunities, the Franchise Operator shall:

- (a) attend meetings with the Secretary of State and/or such third party to discuss such opportunities;
- (b) provide the Franchise Operator's opinion on those opportunities;
- (c) review and comment on implementation timetables and programmes for any such opportunities; and
- (d) use all reasonable endeavours to achieve any necessary amendments to any Station Leases in order to facilitate the implementation of those opportunities.

15 Small and Medium-sized Enterprises

15.1 The Franchise Operator shall at all times keep accurate and complete records of its use of and interaction with SMEs in delivering the Franchise Services.

15.2 By no later than 31 January in each year (and within one month of the end of the Franchise Period) the Franchise Operator shall deliver to the Secretary of State a breakdown of the number of SMEs used by the Franchise Operator in providing the Franchise Services during the calendar year (or part thereof) which ended on the immediately preceding 31 December or at the end of the Franchise Period (as applicable).

16 Apprenticeships

- 16.1 The Franchise Operator shall at all times keep accurate and complete records of the training and apprenticeships offered by the Franchise Operator and/or its immediate UK-based supply chain in delivering the Franchise Services.
- 16.2 By no later than 31 January in each year (and within one month of the end of the Franchise Period) the Franchise Operator shall deliver to the Secretary of State a breakdown of the number of training and apprenticeships offered by the Franchise Operator and/or its supply chain in providing the Franchise Services during the calendar year (or part thereof) which ended on the immediately preceding 31 December or at the end of the Franchise Period (as applicable).

17 Environmental impact monitoring, data collection and contractual targets

- 17.1 The Franchise Operator shall, by no later than 3 months after the Start Date, provide a report to the Secretary of State setting out:
- (a) which measures included in the Dataset the Franchise Operator is unable to provide, despite using reasonable endeavours to do so (**Excluded Data**);
 - (b) for each item of Excluded Data, the technical, operational or commercial reason why the Franchise Operator is unable to provide the Excluded Data; and
 - (c) a plan (**Environmental Data Implementation Plan**) detailing, in relation to each item of Excluded Data, the actions which the Franchise Operator would need to take in order to be able to provide such Excluded Data, the Franchise Operator's best estimate of the cost of taking such action and the date by which, if such actions were taken, the Franchise Operator would be able to begin providing such Excluded Data to the Secretary of State.

The Dataset, excluding any measures which the Secretary of State agrees, acting reasonably, that the Franchise Operator is, despite using reasonable endeavours, unable to provide, shall be referred to as the **Initial Dataset**.

- 17.2 The Secretary of State may require:
- (a) the Franchise Operator to implement the Environmental Data Implementation Plan in whole or in part; and/or
 - (b) the Franchise Operator to take such other actions as, in the reasonable opinion of the Secretary of State, would enable the Franchise Operator to provide any item of Excluded Data,

following which the relevant item of Excluded Data will form part of the Initial Dataset.

17.3 Where the Franchise Operator is:

- (a) undertaking works, whether at a station or depot or in respect of rolling stock;
- (b) procuring rolling stock; or
- (c) taking any other action which could enable the Franchise Operator to provide any items of Excluded Data in a cost effective manner,

the Franchise Operator will use reasonable endeavours to do so in a manner which would enable the Franchise Operator to provide any relevant item of Excluded Data (and any item of Excluded Data which the Franchise Operator becomes able to provide as a result will, with effect from the date on which the Franchisee becomes able to provide the same, form part of the Initial Dataset).

17.4 With effect from the date which is 3 months after the Start Date, the Franchise Operator shall measure, collect and provide to the Secretary of State in accordance with this paragraph 17, that data included on the Initial Dataset so as to allow the Secretary of State and the Franchise Operator to understand the current environmental performance of the Franchise and any potential for improvement in terms of environmental impact.

17.5 The Franchise Operator may, in its discretion, measure and collect additional data provided that the minimum required Initial Dataset is adhered to and the Franchise Operator will co-operate with the Secretary of State to seek to identify improvements in the efficiency and/or cost effectiveness of the collection of the data in the Dataset.

17.6 The Franchise Operator shall ensure that the form of measurement of the Initial Dataset enables it to report a consolidated quarterly or annual (as applicable) usage figure to the Secretary of State for each reporting quarter or Franchise Operator Year (as applicable).

17.7 The Franchise Operator shall submit to the Secretary of State a report setting out the result of the of the data collection required by this paragraph 17 within four weeks following the end of each (i) reporting quarter during the Franchise Period and (ii) Franchise Operator Year (as applicable).

17.8 For the purpose of this paragraph 17 “reporting quarters” are 1st April to 30th June, 1st July to 30th September, 1st October to 31st December and 1st January to 31st March. The first reporting quarter of the Franchise Period for the purpose of the report shall begin on the Start Date and end on the last day of the reporting quarter in which the Start Date falls, and the final quarter shall end on the last day of the Franchise Period.

17.9 The Franchise Operator shall submit the report required by paragraph 17.7 above to the Secretary of State in such format as the Secretary of State may (acting reasonably) from time to time specify. Such report will include the actual quarterly or annual results (as applicable) and, with effect from:

- (a) the first reporting quarter which commences at least 15 months after the Start Date; and
- (b) in respect of any measure which, as a result of an amendment to the Initial Dataset, the Franchise Operator subsequently becomes obliged to report against, the first reporting quarter which commences at least 12 months after the date on which the Franchise Operator first became obliged to report against that measure,

the average of the results for the relevant reporting quarter and the previous three reporting quarters (**Moving Annual Average**).

17.10 The Franchise Operator shall procure a suitably qualified independent body (such independent body to be appointed only with the prior written approval of the Secretary of State) to undertake an annual independent audit of the data provided and the collection methodology in respect of each Franchise Operator Year.

17.11 The Franchise Operator shall procure that the independent audit report contains:

- (a) a retrospective assessment (covering the Franchise Operator Year to which the audit relates) of the Franchise Operator's data collection methodology and level of data granularity carried out in accordance with this paragraph 17;
- (b) a verification of the accuracy of past data submissions made in accordance with paragraph 17.7 above; and
- (c) an assessment of the Franchise Operator's proposed data collection methodology and level of data granularity for the following Franchise Operator Year's data collection.

In each case where the independent audit report states that there are errors or concerns with any of the items described in paragraphs 17.11(a) to 17.11(c) above, the Franchise Operator shall procure that the independent auditor specifies whether these are material or minor errors or concerns.

17.12 The Franchise Operator shall submit a copy of the independent audit report covering the relevant Franchise Operator Year to the Secretary of State at the same time as the data for the last reporting quarter in that Franchise Operator Year is submitted in accordance with paragraph 17.7 above.

- 17.13 Where the independent audit report highlights errors or concerns with any of the items described in paragraphs 17.11(a) to 17.11(c) above, the Franchise Operator shall:
- (a) in the case of minor errors within past data which are capable of rectification without significant resource or significant expenditure, rectify those flaws and resubmit the relevant report to the Secretary of State as soon as reasonably practicable following submission of the independent audit report so that there is a complete and accurate record of the data in question;
 - (b) in the case of material errors within past data which are capable of rectification, rectify those flaws and resubmit the relevant report to the Secretary of State as soon as reasonably practicable following submission of the independent audit report so that there is a complete and accurate record of the data in question; and
 - (c) in the case of concerns in relation to the Franchise Operator's proposed data collection methodology and level of data granularity for the forthcoming Franchise Operator Year's data collection, make such changes to that proposed methodology so as to address those concerns.
- 17.14 Within eighteen months following the Start Date, the Franchise Operator shall propose to the Secretary of State annual targets for future Franchise Operator Years against the measures listed below or, if such measures are Excluded Data, against such alternate measures included in the Initial Dataset as the Secretary of State may specify, that demonstrate a reasonable improvement compared with the first Moving Annual Average which is reported in line with paragraph 17.7 and take account of the environmental benefits to be realised from the introduction into passenger service of the rolling stock specified in Table 4 of Schedule 1.7 (The Train Fleet):
- (a) Carbon emissions:
 - (i) Traction (kg CO₂) and
 - (ii) Non traction (kg CO₂)
 - (b) Water consumption: Water consumption (m³)
- 17.15 The Franchise Operator must as soon as reasonably practicable following notification of the annual targets described in paragraph 17.14 above produce an implementation plan which, in the opinion of the Secretary of State, is capable of achieving the annual targets notified to the Secretary of State in accordance with paragraph 17.14. The Franchise Operator shall use all reasonable endeavours to implement that plan.

- 17.16 In the event that an annual target is not met, the Franchise Operator must as soon as reasonably practicable produce a revised implementation plan, which, in the reasonable opinion of the Secretary of State, is capable of achieving the annual targets. The Franchise Operator shall use all reasonable endeavours to implement that plan.
- 17.17 Notwithstanding paragraph 17.14, the Franchise Operator shall review the annual targets, and provide to the Secretary of State a revised implementation plan after 5 years (5 years after the original annual targets were agreed), and every 5 years thereafter.
- 17.18 The Franchise Operator shall publish any annual targets agreed with the Secretary of State pursuant to paragraph 17.14 above and the Franchise Operator's performance against those targets in widely accessible forms including, as a minimum, publishing them on its website.
- 17.19 The target to be met by the Franchise Operator in respect of waste to landfill is zero by the end of second Franchise Operator Year. If by the end of the Second Franchise Operator Year:
- (a) the Franchise Operator believes it has met the target of zero waste to landfill, the Franchise Operator shall procure, within three Reporting Periods of the end of the second Franchise Operator Year, that a suitably qualified independent body (such independent body to be appointed only with the prior written approval of the Secretary of State) undertakes an audit to confirm whether the zero waste to landfill annual target has been met; and/or
 - (b) the Franchise Operator has not met the zero waste to landfill target, paragraph 17.16 shall apply, and
- the Secretary of State may require the Franchise Operator, at any time, to procure an audit of its performance as described in paragraph 17.19(a) above.

18 Sustainability

- 18.1 The Franchise Operator shall at all times comply with the Sustainable Development Strategy.
- 18.2 By no later than six months following the Start Date, the Franchise Operator shall consult with the Rail Safety and Standards Board, and such other Stakeholders as agreed between the Secretary of State and the Franchise Operator (or, in the absence of agreement, such Stakeholders as the Secretary of State shall determine) on the Initial Sustainable Development Plan in order to finalise (i) the key priority sustainable development areas specified in the Initial Sustainable Development Plan and (ii) the targets associated with such key priority sustainable development areas.
- 18.3 The Franchise Operator shall revise the Initial Sustainable Development Plan to reflect such consultation and the Franchise Operator shall propose and agree a final version of the

Sustainable Development Plan with the Rail Safety and Standards Board and the Secretary of State by not later than 12 months after the Start Date. Such agreed plan shall be the Sustainable Development Plan for the purposes of the Franchise Agreement, provided that in the absence of agreement between the parties the Sustainable Development Plan shall be the plan determined by the Secretary of State (acting reasonably).

18.4 The Franchise Operator shall 1 year after the Sustainable Development Plan is agreed in accordance with paragraph 18.3 above, and annually thereafter, provide to the Secretary of State a report showing:

- (a) progress against the targets in key priority sustainable development areas;
- (b) progress on development of staff to ensure they have the skills and knowledge required to deliver a sustainable franchise;
- (c) proposed revisions to the Sustainable Development Plan (such revisions to include those revisions reflecting feedback and advice from stakeholders, and which have been consulted on with Rail Safety and Standards Board).

18.5 Subject to the Secretary of State consenting to such amendments to the Sustainable Development Plan, such revised Sustainable Development Plan shall be the Sustainable Development Plan for the purposes of the Franchise Agreement.

18.6 On request by the Secretary of State, the Franchise Operator shall publish (in such form as the Secretary of State may reasonably determine):

- (a) all or any part of its Sustainable Development Strategy; and/or
- (b) all or any of the information described in paragraphs 18.4(a), (b) and/or (c).

19 Innovation Account

19.1 The Franchise Operator shall:

- (a) by no later than the date falling six months after the Start Date provide to the Secretary of State its Innovation Implementation Plan in accordance with the Innovation Guidelines; and
- (b) at all times comply with its Innovation Strategy.

Establishment of Account

- 19.2 Not later than seven days following the start of each Innovation Year, the Franchise Operator shall deposit an amount equal to 1% of its Estimated Turnover for that Innovation Year (the **Annual Innovation Account Contribution**) into the Innovation Account.
- 19.3 Not later than three months after the end of each Franchise Operator Year during the Innovation Period, the Franchise Operator shall, where the Annual Innovation Account Contribution for a Franchise Operator Year was lower than 1% of the Turnover for that Franchise Operator Year, deposit into the Innovation Account an amount equal to the difference between:
- (a) the Annual Innovation Account Contribution for that Franchise Operator Year; and
 - (b) 1% of the Turnover for that Franchise Operator Year; and
- 19.4 Where the Annual Innovation Account Contribution for a Franchise Operator Year was higher than 1% of the Turnover for that Franchise Operator Year, it shall be a Change where it is a Qualifying Change.
- 19.5 The Innovation Account shall be an interest bearing account.

Proposals during the Innovation Period

- 19.6 At any time during the Innovation Period, the Franchise Operator may make proposals to the Innovation Board in relation to initiatives, works or proposals to implement any aspect of its Innovation Implementation Plan or any other initiatives, works or proposals which fall within the aims specified in the Innovation Guidelines (each an **Innovation Scheme**).
- 19.7 In relation to each Innovation Scheme proposed by the Franchise Operator pursuant to 19.6, the Franchise Operator shall provide to the Innovation Board (with a copy to the Secretary of State):
- (a) details of the new ideas that the Innovation Scheme will exploit and how such Innovation Scheme will be new to the company, organisation, industry or sector and whether it applies to products, services, business processes, models, marketing or enabling technologies and demonstrate how the Innovation Scheme falls within the aims specified in the Innovation Guidelines; and
 - (b) details of how the Innovation Scheme will be implemented, in sufficient detail to allow the Innovation Board to evaluate the same, including:
 - (i) a timetable for the implementation of that Innovation Scheme, setting out the proposed commencement and completion date of such Innovation Scheme and other key dates and milestones; and

- (ii) details of the Projected Innovation Cost and the proposed milestone upon satisfaction of which withdrawals from the Innovation Account would be required; and
 - (c) such other information as may be required to enable the Innovation Board to review an Innovation Scheme in accordance with the Innovation Guidelines.
- 19.8 The Franchise Operator shall provide the Innovation Board and/or the Secretary of State with;
 - (a) details of all Background Intellectual Property and the proposed use of the Background Intellectual Property in connection with any Innovation Scheme proposed by the Franchise Operator pursuant to paragraph 19.6; and
 - (b) such further information in relation to any Innovation Scheme proposed by the Franchise Operator pursuant to paragraph 19.6 as the Innovation Board and/or the Secretary of State may reasonably require.
- 19.9 The Franchise Operator grants to the Secretary of State an irrevocable, royalty-free, perpetual, transferable, worldwide, non-exclusive licence (including the right to grant sub-licences) to use or otherwise exploit the Background Intellectual Property referred to in paragraph 19.8(a) for the purpose of exploiting the Innovation Intellectual Property.
- 19.10 In calculating the Projected Innovation Cost (and the Actual Innovation Cost), the Franchise Operator shall not include the cost of any management time or employee time, save to the extent that additional personnel are employed or to be employed by the Franchise Operator solely in connection with the implementation of the Innovation Scheme.
- 19.11 An Innovation Scheme proposed by the Franchise Operator pursuant to paragraph 19.6 shall not be an Approved Innovation Scheme until:
 - (a) the Innovation Board has notified the Secretary of State in writing that:
 - (i) the Innovation Scheme meets the requirements of the Innovation Guidelines; and
 - (ii) it approves the Innovation Scheme, subject to the further approval of the Secretary of State; and
 - (b) the Secretary of State has notified the Franchise Operator in writing that the Franchise Operator may implement the Innovation Scheme. Without limitation, the Secretary of State may withhold its approval to any Proposed Innovation Scheme:
 - (i) which has not been identified in the Innovation Implementation Plan;

- (ii) which does not, in the Secretary of State's opinion, exploit new ideas and/or is not new to the company, organisation, industry or sector;
- (iii) where the Projected Innovation Cost for the Proposed Innovation Scheme, when considered in aggregate with (A) the Projected Innovation Cost (where the Actual Innovation Cost for an Approved Innovation Scheme is not known at the relevant time) and/or (B) the Actual Innovation Costs, in each case for any other Approved Innovation Schemes would be greater than the Account Balance at the relevant time or the projected Account Balance at the time when a withdrawal from the Innovation Account would be required;
- (iv) in relation to which the Secretary of State believes the Projected Innovation Costs to be too high or disproportionate to the benefits accruing from the Innovation Scheme;
- (v) which the Franchise Operator is otherwise funded to undertake; and/or
- (vi) which in the opinion of the Secretary of State, amounts to actions or steps which the Franchise Operator is otherwise obliged to take or which any competent train operator should be taking in relation to the operation of the Franchise.

19.12 Approved Innovation Schemes shall be included as Committed Obligations in Schedule 6.1 (Committed Obligations and Related Provisions).

Withdrawals from the Innovation Account

19.13 The Franchise Operator may only withdraw amounts from the Innovation Account in the following circumstances:

- (a) on the achievement of milestones agreed with the Secretary of State in respect of any Approved Innovation Scheme and for the amounts agreed with the Secretary of State, and following the provision of evidence satisfactory to the Secretary of State that such milestones shall have been satisfied;
- (b) to transfer the Innovation Scheme Underspend to the Secretary of State as may be required pursuant to paragraph 19.22; or
- (c) at the request of the Secretary of State and in the amount and to the account directed by the Secretary of State in order to pay costs to a third party group providing advisory, project management and/or administration services in respect of the matters described in this paragraph 19 to the Secretary of State and/or the Innovation Board, provided that such costs, in relation to any Innovation Year, shall not exceed an amount equal to 3% of the Annual Innovation Account Contribution in respect of that Innovation Year.

Intellectual Property

- 19.14 All Innovation Intellectual Property shall be owned by the Franchise Operator.
- 19.15 The Franchise Operator grants to the Secretary of State an irrevocable, royalty-free, perpetual, transferable, non-exclusive licence (including the right to grant sub-licences) to use or otherwise exploit the Innovation Intellectual Property for any purpose.
- 19.16 The Franchise Operator shall:
- (a) maintain an accurate and up to date register of all Innovation Intellectual Property in such format as the Secretary of State may reasonably specify and shall provide copies of such register to the Secretary of State and the Innovation Board upon request and at least annually in any event; and
 - (b) upon request and at the Franchise Operator's cost, provide assistance to the Secretary of State in relation to the protection, enforcement and defence of the Innovation Intellectual Property including the taking of any steps on behalf of the Secretary of State which the Secretary of State may specify.

Innovation Scheme Underspend

- 19.17 Within 30 days of completion of each Approved Innovation Scheme, the Franchise Operator shall notify the Secretary of State of the Actual Innovation Cost.
- 19.18 Where, in respect of any Approved Innovation Scheme, withdrawals have been made from the Innovation Account based on the Projected Innovation Cost, any Innovation Scheme Underspend shall be deposited in the Innovation Account within 30 days of the Actual Innovation Cost being calculated and the Franchise Operator shall, on request by a Secretary of State provide such information as may be required to demonstrate that amounts withdrawn from the Innovation Account have been spent on the Approved Innovation Scheme.
- 19.19 In respect of each Innovation Year, at the end of that Innovation Year, the Secretary of State shall calculate the Indexation Sum and the Franchise Operator shall deposit such sum into the Innovation Account within 30 days.

Overspend

- 19.20 If the Actual Innovation Scheme Costs incurred by the Franchise Operator in relation to any Approved Innovation Scheme exceeds the Projected Innovation Costs notified to the Secretary of State pursuant to paragraph 19.7(b)(ii), the Franchise Operator shall not be entitled to withdraw such excess from the Innovation Account.

Report

- 19.21 Not later than three months after the end of each Innovation Year, the Franchise Operator shall:
- (a) submit a report to the Secretary of State which shall set out in respect of each Approved Innovation Scheme:
 - (i) all withdrawals from the Innovation Account made during each completed Innovation Year in relation to such Approved Innovation Scheme;
 - (ii) all anticipated withdrawals from the Innovation Account to be made in future years in respect of such Approved Innovation Scheme;
 - (iii) where an Approved Innovation Scheme was completed, the Actual Innovation Cost for such Approved Innovation Scheme and any Underspend; and
 - (iv) confirm the level of any Innovation Year Underspend, together with any other information which the Secretary of State may reasonably require in respect of any Approved Innovation Scheme and/or the Innovation Account.

Innovation Period Underspend

- 19.22 If at the end of the Innovation Period, subject to paragraph 19.23, there is an amount remaining in the Innovation Account which has not been committed to an Approved Innovation Scheme (the **Innovation Period Underspend**), the Secretary of State may require the Franchise Operator to pay all or part of the Innovation Period Underspend to the Secretary of State.

Extension

- 19.23 The Secretary of State, may, prior to 31 March 2018, extend the Innovation Period by notice in writing to the Franchise Operator and the definitions of "Innovation Period" and "Innovation" shall be construed accordingly and any such extension shall be a Change.

**APPENDIX 1 TO SCHEDULE 13
Environmental Impact Monitoring Dataset²⁷²**

| Environmental Impact Monitoring Dataset SUBJECT (UNIT) | | OPERATOR TO REPORT | GRANULARITY |
|---|---|---|-------------------------------------|
| TRACTION | <i>EC4T (kWh)</i> | <i>Breakdown per distinct fleet - metered</i> | <i>4-week period</i> |
| | <i>EC4T (kWh)</i> | <i>Breakdown per distinct fleet - unmetered</i> | <i>4-week period</i> |
| | <i>Gas-oil (litres)</i> | <i>Breakdown per distinct fleet</i> | <i>4-week period</i> |
| NONTRACTION | <i>Electricity (kWh)</i> | <i>Total</i> | <i>4-week period or monthly</i> |
| | <i>Gas (kWh)</i> | <i>Total</i> | <i>4-week period or monthly</i> |
| | <i>Gas-oil (litres)</i> | <i>Total</i> | <i>4-week period or monthly</i> |
| CARBON | <i>Scope 1 emissions (tonnes)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Scope 2 emissions (tonnes)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Embodied carbon in new infrastructure projects over £250,000</i> | <i>Total</i> | <i>Per project</i> |
| WATER | <i>Mains Water consumption (m3)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Water recycling initiatives</i> | <i>Narrative</i> | <i>Annual</i> |
| WASTE | <i>Waste generated (tonnes)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Waste recycled (tonnes)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Waste subject to other recovery (tonnes)</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Waste to landfill (tonnes)</i> | <i>Total</i> | <i>Annual</i> |

²⁷² Replaced in letter dated 27 February 2015

| | | | |
|--|---|--------------|---------------|
| | <i>Hazardous waste</i> | <i>Total</i> | <i>Annual</i> |
| ENVIRONMENTAL MANAGEMENT SYSTEM | <i>Enforcement/information Notices</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Environmental fines or prosecutions</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Environmental incidents reports through EMS</i> | <i>Total</i> | <i>Annual</i> |
| | <i>Environmental training records % personnel briefed/trained</i> | <i>Total</i> | <i>Annual</i> |

APPENDIX 2 TO SCHEDULE 13
Key Assets

1 Information About Assets Used In The Franchise

The Franchise Operator shall at all times during the Franchise Term maintain (and shall provide copies to the Secretary of State when requested to do so from time to time) records covering the following information:

- (a) for each Primary Franchise Asset or other asset which is the subject of, or operated under, a Key Contract:
 - (i) the progress and completion of all work described in the maintenance schedules and manuals;
 - (ii) all operating manuals (including any safety related regulations); and
 - (iii) all permits, licences, certificates or other documents required to operate such asset; and
- (b) a printed or electronic list of all assets owned by the Franchise Operator from time to time (excluding, unless otherwise requested by the Secretary of State, any office furniture and consumable items).

APPENDIX 3 TO SCHEDULE 13
Operational Information

1 Information about the Performance of the Franchise Operator

- 1.1 The Franchise Operator shall at all times during the Franchise Term maintain records in relation to its operational performance under the Franchise Agreement, covering the areas and the information described in this Appendix 3. Such information shall include details as to whether or not any curtailment, diversion, delay or failure to attain any connection is attributable, in the Franchise Operator's opinion, to either a Force Majeure Event or the implementation of a Service Recovery Plan.
- 1.2 The Franchise Operator shall, subject to paragraph 1.3, provide to the Secretary of State the information set out in the following tables at the frequency specified in the column of each such table headed "When information to be provided".
- 1.3 When so requested by the Secretary of State, the Franchise Operator shall, within such reasonable period as the Secretary of State may specify, make such information available for review by the Secretary of State by reference to:
- (a) such level of disaggregation (including by Route or Service Group) as is reasonably specified by the Secretary of State; and
 - (b) any particular day, week or other longer period as is reasonably specified by the Secretary of State.
- 1.4 The following key shall apply to the table in this Appendix 3:
- A =Information to be provided on or before any Passenger Change Date;
 - B =Information to be provided for every Reporting Period within 17 days of the last day of each Reporting Period; and
 - C =Information to be provided annually within 10 days of the last day of each Franchise Operator Year.
- 1.5 For the purpose of this Appendix 3, a business day is any day between Monday to Friday (inclusive) excluding public holidays.

Table 1 Operational Information

| Information to be provided | Information (format) | When information to be provided |
|---|----------------------|---------------------------------|
| Number of Passenger Services | | |
| Number of Passenger Services in the Timetable | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day | [number] | B |
| Number of Cancellations and Partial Cancellations | | |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Cancellation | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Partial Cancellation | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Cancellation attributable to the Franchise Operator's implementation of a Service Recovery Plan | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Partial Cancellation attributable to the Franchise Operator's implementation of a Service Recovery Plan | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Network Rail Cancellation | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Network Rail Partial Cancellation | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Disputed Cancellation | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a Disputed Partial Cancellation | [number] | B |
| Number of Disputed Cancellations and Disputed Partial Cancellations for the 12 preceding Reporting Periods for which the attribution remains in dispute between Network Rail and the Franchise Operator | [minutes] | B |
| Number of Disputed Cancellations and Disputed Partial Cancellations from the 12 preceding Reporting Periods for | [minutes] | B |

| Information to be provided | Information (format) | When information to be provided |
|--|----------------------|---------------------------------|
| which disputed attribution has been resolved or determined since the Franchise Operator's previous report pursuant to paragraph 2.1 of Schedule 7.1 (Performance Benchmarks) including whether each relevant Disputed Cancellation and/or Disputed Partial Cancellation was attributed to Network Rail or to the Franchise Operator | | |
| <p>Where there is a difference between the Timetable and the Plan of the Day on any day the following:</p> <p>(a) the fact of such difference (together with an annotation showing whether the difference was initiated by Network Rail or the Franchise Operator); and</p> <p>(b) the number of:</p> <p>(i) Passenger Services affected; and</p> <p>(ii) Cancellations or Partial Cancellations which would have arisen if the Timetable on that day had been the same as the Plan of the Day</p> | [number] | B |
| <p>Where there is a difference between the Plan of the Day and the Enforcement Plan of the Day on any day:</p> <p>(a) the fact of such difference;</p> <p>(b) the number of:</p> <p>(i) Passenger Services affected; and</p> <p>(ii) Cancellations or Partial Cancellations which would have arisen if the Plan of the Day had been the same as the Enforcement Plan of the Day</p> | | |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a cancellation and which satisfied the conditions of the term Cancellation, except that such cancellations occurred for reasons attributable to the occurrence of a Force Majeure Event | [number] | B |
| Number of Passenger Services in the Enforcement Plan of the Day which were the subject of a partial cancellation and which satisfied the conditions of the term Partial Cancellation, except that such partial cancellations occurred for reasons attributable to the occurrence of a Force Majeure Event | [number] | B |
| Capacity | | |
| Number of Passenger Services that have less than the required Passenger Carrying Capacity specified in the Train Plan | [number] | B |

| Information to be provided | Information (format) | When information to be provided |
|---|-----------------------------|--|
| Number of Passenger Services that have less than 90% of the required Passenger Carrying Capacity specified in the Train Plan | [number] | B |
| Number of Passenger Services that have less than the required Passenger Carrying Capacity specified in the Train Plan attributable to the Franchise Operator's implementation of a Service Recovery Plan | [number] | B |
| Number of Passenger Services that have less than the required Passenger Carrying Capacity specified in the Train Plan attributable to the occurrence of a Force Majeure Event | [number] | B |
| Minutes Delay and Punctuality | | |
| Number of Minutes Delay attributable to the Franchise Operator | [minutes] | B |
| Number of Minutes Delay attributable to Network Rail; | [minutes] | B |
| Number of Minutes Delay for such Reporting Period for which the attribution is in dispute between Network Rail and the Franchise Operator | [minutes] | B |
| Number of Minutes Delay for the 12 preceding Reporting Periods for which the attribution remains in dispute between Network Rail and the Franchise Operator | [minutes] | B |
| Number of Minutes Delay from the 12 preceding Reporting Periods for which disputed attribution has been resolved or determined since the Franchise Operator's previous report pursuant to paragraph 2.9 of Schedule 7.1 (Performance Benchmarks) and the number of such Minutes Delay attributed to each of the Franchise Operator and Network Rail as a result of such resolution or determination | [minutes] | B |
| Number of Minutes Delay attributed to the occurrence of a Force Majeure Event | [minutes] | |
| Train Mileage | | |
| Aggregate Train Mileage scheduled in the Timetable | [mileage] | A |
| Aggregate Train Mileage operated | [mileage] | B |
| Year to Date Loaded Train Miles (millions) | [mileage] | B |

APPENDIX 4 TO SCHEDULE 13
Estimated Turnover²⁷³

| Year | Estimated Revenue (£) |
|------|-----------------------|
| | |
| | |
| | |

²⁷³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

Schedule 14
Preservation of Assets

| | |
|---------------|--|
| Schedule 14.1 | Maintenance of Franchise |
| Schedule 14.2 | Maintenance of Operating Assets |
| Schedule 14.3 | Key Contracts |
| | Appendix: List of Key Contracts |
| Schedule 14.4 | Designation of Franchise Assets |
| | Appendix: List of Primary Franchise Assets |
| Schedule 14.5 | Dealings with Franchise Assets |

SCHEDULE 14.1

Maintenance of Franchise

Maintenance as going concern

- 1 The Franchise Operator shall maintain and manage the business of providing the Franchise Services so that, to the greatest extent possible and practicable:
 - (a) the Franchise Operator is able to perform its obligations under the Franchise Agreement;
and
 - (b) a Successor Operator would be able to take over the business of providing the Franchise Services immediately at any time.

- 2 The Franchise Operator's obligation under paragraph 1 shall include an obligation to ensure that any computer and information technology systems of the Franchise Operator shared in whole or in part with Affiliates or third parties can be operated by a Successor Operator as a stand alone system without continued reliance on such Affiliates or other third parties immediately from the date of termination of the Franchise Agreement and without any reduction in functionality or any increase in maintenance or support costs to the Successor Operator (this obligation being without prejudice to any requirement for the Franchise Operator to obtain consent to such arrangements relating to sharing computer and information technology systems from the Secretary of State).

- 3 The Franchise Operator shall use all reasonable endeavours to ensure that such Successor Operator would have immediate access to all Franchise Employees and Primary Franchise Assets for such purpose.

- 4 The Franchise Operator shall maintain and manage the business of providing the Franchise Services on the basis that such business will be transferred, in the manner contemplated under the Franchise Agreement, as a going concern at the end of the Franchise Period to, and continued immediately thereafter by, a Successor Operator.

- 5 The Franchise Operator shall use all reasonable endeavours to ensure that an appropriate number of employees (having sufficient skills, qualifications and experience) will transfer by operation of Law to any Successor Operator following the expiry of the Franchise Period.

- 6 The Franchise Operator shall comply with all reasonable requirements of the Secretary of State to obtain or maintain the property and rights that a Successor Operator would require, or that it would be convenient for it to have, on the basis that the same will transfer by operation of Law to any Successor Operator following the expiry of the Franchise Period.

Post-Franchise timetables

- 7 Both prior to and following the selection of a Successor Operator (whether a Franchise Operator or otherwise and whether or not subject to the satisfaction of any conditions), the Franchise Operator shall:
- (a) co-operate with, where a Successor Operator has been appointed, that Successor Operator, or where not, the Secretary of State; and
 - (b) take such steps as may reasonably be requested by the Secretary of State,
 - (c) so as to ensure the continuity of, and orderly handover of control over of the Franchise Services.
- 8 The steps that the Secretary of State may reasonably request the Franchise Operator to take pursuant to paragraph 7 include:
- (a) participating in any timetable development process that takes place during the Franchise Period, but which relates to any timetable period applying wholly or partly after the expiry of the Franchise Term (**Successor Operator Timetable**), including bidding for and securing any Successor Operator Timetable, whether or not:
 - (i) the Successor Operator has been identified; or
 - (ii) there is in place an Access Agreement relating to the period over which that Successor Operator Timetable is intended to be operated;
 - (b) using reasonable endeavours to seek amendments to and/or extensions of Access Agreements which can be transferred to the Successor Operator on expiry of the Franchise Period;
 - (c) assisting the Secretary of State or the Successor Operator (as the case may be) in the preparation and negotiation of any new Access Agreement relating to any Successor Operator Timetable; and/or
 - (d) entering into that Access Agreement in order to secure the relevant priority bidding rights required by the Successor Operator to operate that Successor Operator Timetable, provided that the Franchise Operator shall not be required to enter into any such Access Agreement unless the Secretary of State has first provided to it confirmation in writing that he will include that Access Agreement in any Transfer Scheme pursuant to paragraph 3.1 of Schedule 15.4 (Provisions Applying on and after Termination).

SCHEDULE 14.2

Maintenance of Operating Assets

1 Operating Assets

- 1.1 The Franchise Operator shall maintain, protect and preserve the assets (including any intellectual property or intangible assets employed in the performance of its obligations under the Franchise Agreement (the **Operating Assets**) in good standing or good working order, subject to fair wear and tear.
- 1.2 The Franchise Operator shall carry out its obligations under paragraph 1.1 so that the Operating Assets may be transferred at the end of the Franchise Period to a Successor Operator and used by such Successor Operator in the provision or operation of similar services to the Franchise Services.
- 1.3 Where any Operating Asset is lost, destroyed or otherwise beyond repair, the Franchise Operator shall replace the Operating Asset with property, rights or liabilities in modern equivalent form to the Operating Asset to be replaced. The Franchise Operator shall at all times maintain an appropriate volume of Spares, and/or an appropriate level of access to Spares from a third party, to enable it to perform its obligations under the Franchise Agreement.
- 1.4 The Secretary of State may at any time require the Franchise Operator to provide to the Secretary of State a schedule specifying the condition of any asset or class of assets that he specifies for this purpose. Such schedule shall cover such aspects of asset condition as the Secretary of State may reasonably require. If the parties are unable to agree the content of such schedule of condition, either party may refer the dispute for resolution in accordance with the Dispute Resolution Rules. Until such dispute is resolved, the Franchise Operator shall comply with the Secretary of State's requirements in respect of such schedule of condition.
- 1.5 The Franchise Operator shall keep vested in it at all times during the Franchise Period all Franchise Assets designated as such pursuant to Schedule 14.4 (Designation of Franchise Assets) as it may require in order to comply with:
- (a) the Licences;
 - (b) any contracts of employment with Franchise Employees;
 - (c) any relevant Fares;
 - (d) any Key Contracts; and
 - (e) any applicable safety legislation regulations or safety standards and the Safety Certificate,

in order to ensure that the Secretary of State may designate such assets as Primary Franchise Assets.

2 Brand Licences And Branding

Brand Licences

2.1 The Franchise Operator shall comply with its obligations under each of the Brand Licences.

Branding

2.2 Subject to any applicable obligations or restrictions on the Franchise Operator (including the terms of the Rolling Stock Leases), the Franchise Operator may apply registered or unregistered trade marks (including company names, livery and other distinctive get-up) to any assets owned or used by it in the operation and provision of the Franchise Services.

(a) Subject to paragraphs 2.2(c) and (g), the Franchise Operator may:

- (i) in respect of unregistered Marks, provide or procure the provision of an irrevocable undertaking to any relevant Successor Operator to the effect that neither it nor the owner of the Marks will enforce such rights as it may have or may in the future have in respect of such Marks against such Successor Operator and its successors; and
- (ii) in respect of registered Marks, grant or procure the grant of an irrevocable licence to use such Marks to such Successor Operator and its successors.

(b) Any such licence or undertaking under paragraph 2.2(a) shall be in such form as the Secretary of State shall reasonably require except that the terms of any such licence and, to the extent appropriate, any such undertaking shall accord with the provisions of paragraph 8.3 of Schedule 15.4 (Provisions Applying on and after Termination).

(c) Subject to paragraph 2.2(g), to the extent that:

- (i) the Franchise Operator does not provide a relevant undertaking or licence in accordance with paragraph 2.2(a);
- (ii) the Secretary of State considers the relevant Marks to be so distinctive or otherwise such that a Successor Operator could not reasonably be asked to use the relevant assets to which the Marks are applied; or

- (iii) the Franchise Operator has not otherwise removed or covered such Marks in such a way as may be reasonably acceptable to the Secretary of State prior to the expiry of the Franchise Period,

then the Franchise Operator shall pay to the relevant Successor Operator such amount as may be agreed between the Franchise Operator and such Successor Operator, as being the reasonable cost (including any Value Added Tax for which credit is not available under Sections 25 and 26 of the Value Added Tax Act 1994) of covering such Marks or otherwise removing all indications of or reference to the Marks in a manner reasonably acceptable to the Secretary of State. Such amount shall not in any event exceed the cost to the Successor Operator of replacing such Marks with its own. If the Franchise Operator and the relevant Successor Operator fail to agree such cost within 28 days of the expiry of the Franchise Period, the Franchise Operator shall submit such dispute for resolution in accordance with such dispute resolution procedures as the Secretary of State may require.

- (d) The amount to be paid to a Successor Operator under paragraph 2.2(c) may include the reasonable cost of:
 - (i) removing or covering Marks from the exterior of any rolling stock vehicle;
 - (ii) removing or covering interior indications of the Marks including upholstery and carpets;
 - (iii) replacing or covering all station or other signs including bill boards; and
 - (iv) otherwise ensuring that such removal, covering or replacement is effected with all reasonable care and in such manner that the relevant assets may reasonably continue to be used by a Successor Operator in the provision of the Franchise Services.
- (e) The Franchise Operator shall, in addition to making a payment under paragraph 2.2(c) grant or procure the grant of a licence or undertaking complying with paragraphs 2.2(a) and (b) except that such licence shall only be for such period as may be agreed between the Franchise Operator and the Successor Operator as being reasonably required by the Successor Operator to remove the Marks from all relevant assets without causing excessive disruption to the operation of services similar to the Franchise Services provided by such Successor Operator. If such period cannot be agreed, the Franchise Operator shall submit such dispute for resolution in accordance with such dispute resolution procedures as the Secretary of State may require.

- (f) The Secretary of State shall determine at or around the end of the Franchise Period, and after consultation with the Franchise Operator, the maximum liability of the Franchise Operator under paragraph 2.2(c) and the maximum length of licence or undertaking under paragraph 2.2(e);
- (g) The provisions of paragraphs 2.2(a) to (f) shall not apply to the extent that the relevant asset is not to be used by a Successor Operator in the provision of services similar to the Franchise Services. The Secretary of State shall notify the Franchise Operator as soon as he becomes aware of whether or not any such asset is to be so used.

Non-designation of New Brands

- 2.3 The Secretary of State agrees not to designate as a Primary Franchise Asset any registered or unregistered trade mark which is developed by the Franchise Operator.

SCHEDULE 14.3 Key Contracts

1 Key Contracts

- 1.1 The provisions of this Schedule 14.3 apply to all contracts designated as Key Contracts from time to time.
- 1.2 The Key Contracts as at the date of the Franchise Agreement are set out in the Appendix (List of Key Contracts) to this Schedule 14.3. The Franchise Operator shall, in respect of any category of agreement, contract, licence or other arrangement which, by virtue of the provisions of this paragraph 1.2, is a Key Contract and to which the Franchise Operator, as at date of the Franchise Agreement, is not already a party:
- (a) inform the Secretary of State from time to time of any such agreement, contract, licence or other arrangement which it may be intending to enter into; and
 - (b) the provisions of paragraph 5.1 shall apply in respect of any such agreement, contract, licence or other arrangement.
- 1.3 Without prejudice to the provisions of paragraphs 2, 3 and 4 of this Schedule 14.3, the Appendix (List of Key Contracts) to this Schedule 14.3 shall be amended as considered necessary from time to time to take account of any:
- (a) designation by the Secretary of State of any actual or prospective agreement, contract, licence or other arrangement or any category of agreement, contract, licence or other arrangement, to which or under which the Franchise Operator is (or may become) a party or a beneficiary pursuant to paragraph 2 of this Schedule 14.3; or
 - (b) de-designation by the Secretary of State of any Key Contract pursuant to paragraph 3 of this Schedule 14.3; or
 - (c) re-designation by the Secretary of State pursuant to paragraph 4 of this Schedule 14.3.

2 Designation of Key Contracts

- 2.1 Where the Secretary of State considers that it is reasonably necessary for securing the continued provision of the Franchise Services or the provision of services similar to the Franchise Services by a Successor Operator in accordance with the Franchise Agreement, he may make a designation pursuant to paragraph 2.2.

2.2 The Secretary of State may at any time, by serving notice on the Franchise Operator, designate as a Key Contract:

- (a) any actual or prospective agreement, contract, licence or other arrangement; and/or
- (b) any category of agreement, contract, licence or other arrangement, to which or under which the Franchise Operator is (or may become) a party or a beneficiary,

with effect from the date specified in such notice.

2.3 Key Contracts may include any agreement, contract, licence or other arrangement whether in written, oral or other form, whether formal or informal and whether with an Affiliate of the Franchise Operator or any other person and may include any arrangement for the storage of assets (including electronic systems or Computer Systems) or accommodation of employees.

3 De-Designation of Key Contracts

The Secretary of State may at any time, by serving a notice on the Franchise Operator, de-designate any Key Contract from continuing to be a Key Contract with effect from the date specified in such notice.

4 Re-Designation of Key Contracts

The Secretary of State may at any time, by serving notice on the Franchise Operator, re-designate as a Key Contract anything which has ceased to be designated as a Key Contract in accordance with paragraph 3 with effect from the date specified in such notice.

5 Direct Agreements

5.1 Unless the Secretary of State otherwise agrees, or unless directed to do so by the ORR, the Franchise Operator shall not enter into any prospective Key Contract unless the counterparty to that prospective Key Contract:

- (a) is a Train Operator; or
- (b) has entered into a Direct Agreement with the Secretary of State in respect of that prospective Key Contract, providing on a basis acceptable to the Secretary of State, amongst other things, for the continued provision of the Passenger Services and/or the continued operation of the Stations and Depots in the event of:
 - (i) breach, termination or expiry of such Key Contract;

- (ii) termination or expiry of the Franchise Agreement; or
- (iii) the making of a railway administration order in respect of the Franchise Operator.

5.2 Where the Secretary of State designates or re-designates as a Key Contract:

- (a) any agreement, contract, licence or other arrangement to which the Franchise Operator is already a party; or
- (b) any category of agreement, contract, licence or other arrangement where the Franchise Operator is already a party to a contract, licence or other arrangement which, by virtue of the Secretary of State's designation or re-designation, is classified in such category,

the Franchise Operator shall use all reasonable endeavours to assist the Secretary of State in entering into a Direct Agreement as envisaged by paragraph 5.1(b).

5.3 The Franchise Operator shall pay to the Secretary of State an amount equal to any losses, costs, liabilities, charges or expenses which may be suffered or incurred by the Secretary of State under the provisions of any Direct Agreement and which may be notified to the Franchise Operator as a result of, or in connection with:

- (a) any breach by the Franchise Operator of the terms of the Key Contract to which the relevant Direct Agreement relates; or
- (b) any unsuccessful claim being brought by the Franchise Operator against the counterparty of any such Key Contract in relation to the termination of such Key Contract.

6 Emergencies

Where any emergency may arise in connection with the provision and operation of the Franchise Services, the Franchise Operator:

- (a) may enter into on a short-term basis such contracts, licences or other arrangements as it considers necessary or appropriate to deal with the emergency;
- (b) need not procure that the relevant counterparty enters into a Direct Agreement in respect of such contracts or use all reasonable endeavours to assist the Secretary of State in entering into the same;
- (c) shall promptly inform the Secretary of State of any such emergency and contracts, licences or other arrangements which it proposes to enter into; and

(d) shall take such action in relation to such emergency, contracts, licences or other arrangements as the Secretary of State may request.

7 No Amendment

The Franchise Operator shall not, without the prior consent of the Secretary of State (which shall not be unreasonably withheld), vary or purport to vary, the terms or conditions of any Key Contract at any time, unless directed to do so by the ORR.

8 Replacement of Key Contracts

The Franchise Operator shall, prior to the scheduled expiry date of any Key Contract (or, if earlier, such other date on which it is reasonably likely that such Key Contract will terminate), take all reasonable steps to enter into an appropriate replacement contract (whether with the counterparty to the existing Key Contract or not) and shall comply with the reasonable instructions of the Secretary of State in relation to such replacement contract.

9 Termination of Key Contracts

The Franchise Operator shall, to the extent so requested by the Secretary of State, exercise its right to terminate any Key Contract on the Expiry Date.

APPENDIX TO SCHEDULE 14.3
List of Key Contracts

The following items have as at the date of the Franchise Agreement been agreed between the parties to be Key Contracts:

- 1 any Access Agreement to which the Franchise Operator is a party other than in its capacity as a Facility Owner;
- 2 any Property Lease;
- 3 any Rolling Stock Related Contract including the Rolling Stock Leases listed in Table 1 and Table 2 of Schedule 1.7 (The Train Fleet);
- 4 any contract for the maintenance and renewal works at Stations including any framework delivery contracts for the provision of building and civil engineering works, mechanical and electrical works at Stations;
- 5 any contract or arrangement for the lending, seconding, hiring, contracting out, supervision, training, assessment, or accommodation by another Train Operator of any train drivers, conductors or other train crew used by the Franchise Operator in the provision of the Passenger Services;
- 6 any contract or arrangement for the subcontracting or delegation to another Train Operator of the provision of any of the Passenger Services (whether or not the consent of the Secretary of State is required to such subcontracting or delegation under paragraph 1 of Schedule 2.3 (Third Party Delivery of Passenger Services and Other Franchise Operators));
- 7 any contract or arrangement with a Train Operator (other than an Access Agreement) for the provision to the Franchise Operator of train dispatch, performance or supervision of platform duties, security activities, evacuation procedures, advice or assistance to customers, assistance to disabled customers, operation of customer information systems, cash management or ticket issuing systems administration;
- 8 any contract or arrangement with a Train Operator for the provision of breakdown or recovery, and track call services to assist in the provision of the Passenger Services;
- 9 any contract or arrangement for the supply of spare parts or Spares;
- 10 any contract or arrangement for the maintenance of track and other related infrastructure;
- 11 any licences of Marks to the Franchise Operator;

- 12 any licence of any CRM System or Yield Management System; and
- 13 any contract or arrangement for the provision or lending of Computer Systems (other than the CRM System and Yield Management System) used by the Franchise Operator for the delivery of the Franchise Services.

SCHEDULE 14.4

Designation of Franchise Assets

1 Franchise Assets

- 1.1 Subject to paragraph 1.2, all property, rights and liabilities of the Franchise Operator from time to time during the Franchise Period shall be designated as Franchise Assets and shall constitute Franchise Assets for the purposes of Section 27(11) of the Act.
- 1.2 The rights and liabilities of the Franchise Operator in respect of the following items shall not be designated as Franchise Assets and shall not constitute franchise assets for the purposes of Section 27(11) of the Act:
- (a) any contracts of employment;
 - (b) the Franchise Agreement and any Transfer Scheme or Supplemental Agreement;
 - (c) the Ticketing and Settlement Agreement;
 - (d) any sums placed on deposit with a bank or other financial institution;
 - (e) such other property, rights and liabilities as the Franchise Operator and the Secretary of State may agree from time to time or as the Secretary of State may de-designate as Franchise Assets under paragraph 10.2; and
 - (f) any Rolling Stock Leases.

2 Primary Franchise Assets and Investment Assets

- 2.1 The following property, rights and liabilities shall (to the extent that they constitute Franchise Assets) be designated as Primary Franchise Assets with effect from the following dates:
- (a) the property, rights and liabilities listed as such in the Appendix (List of Primary Franchise Assets) to this Schedule 14.4 (which constitute Primary Franchise Assets agreed between the parties as at the date of the Franchise Agreement), on the Start Date;
 - (b) any additional property, rights and liabilities designated under paragraph 3 during the Franchise Period, on the date of such designation;
 - (c) any property or right which is vested in the Franchise Operator and used for the purpose of maintaining, replacing, repairing or renewing any property designated as Primary Franchise Assets and which forms or replaces part or all of such designated property on

completion of such maintenance, replacement, repair or renewal, on the date of its use for such purpose;

- (d) the rights and liabilities of the Franchise Operator under any Key Contract designated under paragraph 5, on the date of such designation;
- (e) the rights and liabilities of the Franchise Operator in respect of the terms of any Fare or Discount Card designated under paragraph 6, on the date of such designation;
- (f) any CRM Data and/or Yield Management Data and, to the extent that any CRM System and/or Yield Management System is the property of the Franchise Operator, such CRM System and/or Yield Management System on the later of the Start Date and:
 - (i) in relation to CRM Data or Yield Management Data, the date on which such CRM Data or Yield Management Data (as applicable) is collected; or
 - (ii) in relation to any such CRM System or Yield Management System, the date on which such CRM System or Yield Management System is created,

save, in relation to CRM Data and Yield Management Data, any data in respect of which the Data Subject has not consented to such data being disclosed and Processed by any Successor Operator and/or the Secretary of State; and

- (g) any licence of any CRM System and/or Yield Management System, on the date of such licence.

2.2 Investment Assets

- (a) On each Investment Asset Request Date the Franchise Operator shall provide to the Secretary of State a list of all Franchise Assets acquired since the Start Date (in the case of the first such list) or the previous Investment Asset Request Date (in the case of subsequent lists) which it wishes the Secretary of State to designate as Investment Assets. Such list shall clearly identify each relevant Franchise Asset, its purpose, specification, usual location, acquisition price, any ongoing charge payable by the Franchise Operator in relation to the Franchise Asset and any other asset upon which the operation of the Franchise Asset is dependent. The Franchise Operator shall provide such additional information as the Secretary of State shall reasonably request in relation to any such Franchise Asset.
- (b) The Franchise Operator shall not be permitted to nominate as Investment Assets without the prior written consent of the Secretary of State (which the Secretary of State shall have an unfettered discretion as to whether or not to give) Franchise Assets which:

- (i) individually have an acquisition cost exceeding five million pounds (£5,000,000);
 - (ii) when aggregated with the Franchise Assets already designated as Investment Assets in a Franchise Operator Year have an aggregate acquisition cost exceeding twenty five million pounds (£25,000,000) (apportioned proportionately where a Franchise Operator Year is less than 13 Reporting Periods);
 - (iii) when aggregated with Franchise Assets already designated as Investment Assets during the Franchise Term have an aggregate acquisition cost exceeding one hundred million pounds (£100,000,000); or
 - (iv) are already designated as Primary Franchise Assets.
- (c) The Secretary of State shall designate any Franchise Asset nominated by the Franchise Operator as an Investment Asset within three months of the Investment Asset Request Date unless he serves notice on the Franchise Operator of designation of such Franchise Asset as a Primary Franchise Asset in accordance with paragraph 3 of this Schedule 14.4 or if in his reasonable opinion such Franchise Asset:
- (i) is an information technology or computer system which is of a specification which, in the reasonable opinion of the Secretary of State, materially limits its utility to a Successor Operator including because it is constructed to a bespoke specification of or otherwise intended to work with the systems of the Parent or any company of which the Parent has Control; or
 - (ii) has had branding applied to it which renders it unsuitable for continued use by a Successor Operator; or
 - (iii) is not reasonably appropriate for the purposes of delivering the Franchise Services in a reasonable, proper and cost effective manner.
- (d) The Franchise Operator acknowledges the definition of Franchise Assets and agrees not to put forward for designation as an Investment Asset any asset not falling within such definition including, without limitation, accounting entries and assets in which the Franchise Operator does not have title.
- (e) On the final Investment Asset Request Date the Franchise Operator shall in addition to the list referred to in paragraph 2.2(a) also provide an additional list in two parts confirming:
- (i) in part 1 of such additional list which Investment Assets that have already been designated as such should be designated as Primary Franchise Assets and not be capable of de-designation as such without the prior agreement of the Franchise

Operator and which Investment Assets should not be capable of being designated as Primary Franchise Assets without the prior agreement of the Franchise Operator and the Secretary of State; and

- (ii) in part 2 of such additional list which Franchise Assets which the Franchise Operator is proposing should be designated as Investment Assets should be designated as Primary Franchise Assets and not be capable of de-designation as such without the prior agreement of the Franchise Operator and which should not be capable of being designated as Primary Franchise Assets without the prior agreement of the Franchise Operator and the Secretary of State in both cases only if such Franchise Assets are designated as Investment Assets in accordance with paragraphs 2.2(a) to 2.2(c).
- (f) The Secretary of State shall comply with the requirement of the Franchise Operator set out in the list referred to in paragraph 2(e)(i) above. The Secretary of State shall comply with the requirements of the Franchise Operator in the list referred to in paragraph 2(e)(ii) above in relation to any Franchise Assets on such list which are actually designated by the Secretary of State as Investment Assets in accordance with paragraphs 2.2(a) to 2.2(c) but not otherwise. This paragraph is without prejudice to the other rights of the Secretary of State to designate Franchise Assets as Primary Franchise Assets.

3 Designation of Additional Primary Franchise Assets

Subject to paragraph 2.2(f), the Secretary of State may at any time and from time to time during the Franchise Period, by serving notice on the Franchise Operator, designate any or all of the Franchise Assets as Primary Franchise Assets. Such designation shall take effect from the delivery of such notice and may refer to all or certain categories of property, rights or liabilities. Any such notice shall specify the reasons for such designation. On or before designation of any Franchise Asset as a Primary Franchise Asset, the Secretary of State may agree not to subsequently de-designate such Primary Franchise Asset without the prior written consent of the Franchise Operator. If the Secretary of State so agrees, the notice designating the relevant Franchise Asset as a Primary Franchise Asset shall state that, the Secretary of State shall not de-designate such Primary Franchise Asset, without the prior written consent of the Franchise Operator.

4 Designation during last 12 Months of Franchise Period

If the Secretary of State designates a Franchise Asset as a Primary Franchise Asset under paragraph 3 at any time during the last 12 months of the Franchise Period then, within 28 days of such designation, the Secretary of State may de-designate such Primary Franchise Asset by

serving notice on the Franchise Operator provided that, in relation to any Primary Franchise Asset in respect of which the Secretary of State agreed pursuant to paragraph 3 that he would not de-designate without the prior written consent of the Franchise Operator, such consent has been obtained. Such de-designation shall take effect upon delivery of such notice.

5 Designation of Key Contracts as Primary Franchise Assets

The Secretary of State shall, subject to paragraphs 1.2(b) and 7, be entitled to designate any Key Contract as a Primary Franchise Asset at any time during the Franchise Period by serving notice on the Franchise Operator. Such designation shall take effect from delivery of such notice.

6 Designation of Fares and Discount Cards

The Secretary of State may designate any Fare or Discount Card as a Primary Franchise Asset at any time during the Franchise Period by serving a notice on the Franchise Operator. Such designation shall take effect from delivery of such notice.

7 Rights and Liabilities

The Secretary of State, in designating the rights and liabilities of the Franchise Operator (whether under a particular contract or other arrangement) as a Primary Franchise Asset may, in his discretion, elect to designate some but not all of the rights and liabilities under a particular contract or other arrangement, or to designate only those rights and liabilities arising after or otherwise relating to a period after a particular time (including the period after the expiry of the Franchise Period) or to those relating only to the Franchise Services or a particular part thereof.

8 Disputes over Designation

- 8.1 The Franchise Operator may object in writing to the Secretary of State to any designation pursuant to paragraph 3 or 4.
- 8.2 Such objection may be made solely on the grounds that the designation of the relevant property, rights or liabilities specified in the objection is not, in the Franchise Operator's opinion, reasonably necessary to secure the continued provision of the Franchise Services by a Successor Operator on the expiry of the Franchise Period on a basis reasonably acceptable to the Secretary of State or to facilitate the transfer to such Successor Operator of the provision of the Franchise Services at such time.
- 8.3 Any such objection may only be made within 28 days of a designation made more than 12 months prior to the end of the Franchise Period or 14 days of a designation made during the last 12 months of the Franchise Period.

- 8.4 The Secretary of State shall respond to any such objection as soon as reasonably practicable and shall take account of any representations made by the Franchise Operator regarding the use of the relevant Primary Franchise Asset otherwise than in the provision and operation of the Franchise Services.
- 8.5 If the Franchise Operator's objection cannot be resolved by agreement within a period of 14 days from the date of submission of that objection, the Franchise Operator may refer the dispute for resolution in accordance with the Dispute Resolution Rules.
- 8.6 Anybody duly appointed to resolve such dispute shall determine whether or not the designation of the relevant property, rights or liabilities was reasonably necessary for securing that the Franchise Services may continue to be provided by a Successor Operator on the expiry of the Franchise Period on a basis reasonably acceptable to the Secretary of State or otherwise facilitating the transfer of the provision of the Franchise Services at such time, and accordingly whether or not they should cease to be so designated.
- 8.7 If any dispute as to any designation pursuant to paragraph 3 remains outstanding on the expiry of the Franchise Period, then such dispute shall be deemed to cease immediately before the expiry of the Franchise Period and the relevant Franchise Assets shall continue to be designated as Primary Franchise Assets on and after the expiry of the Franchise Period.

9 Provision of Information to the Secretary of State

- 9.1 The Franchise Operator shall provide such information as the Secretary of State may reasonably require in order to satisfy the Secretary of State that any Franchise Assets which are to be designated as Primary Franchise Assets after the Start Date under this Schedule 14.4 will at the time of such designation be vested in the Franchise Operator. Such information may include details of any Security Interests over such property, rights and liabilities.
- 9.2 The Franchise Operator shall further provide such information as to the property, rights and liabilities of the Franchise Operator as the Secretary of State may reasonably require in connection with the designation of Primary Franchise Assets. Such information shall be supplied to the Secretary of State within such timescale as the Secretary of State may reasonably require.

10 De-Designation of Franchise Assets and Primary Franchise Assets

- 10.1 The Secretary of State and the Franchise Operator may agree in writing at any time during the Franchise Period that a Franchise Asset shall cease to be so designated as a Franchise Asset or that a Primary Franchise Asset shall cease to be so designated as a Primary Franchise Asset, and the relevant Franchise Asset or Primary Franchise Asset (as the case may be) shall cease to be designated upon such agreement coming into effect.

- 10.2 The Secretary of State may in addition at any time during the Franchise Period, by serving notice on the Franchise Operator, cause a Franchise Asset which is not a Primary Franchise Asset to cease to be so designated as a Franchise Asset. Such Franchise Asset shall cease to be so designated on the date specified in such notice.
- 10.3 The Secretary of State may in addition, at any time during the Franchise Period, by serving notice on the Franchise Operator, cause a particular Primary Franchise Asset to cease to be designated as such provided that, in relation to any Primary Franchise Asset in respect of which the Secretary of State agreed pursuant to paragraph 3 that he would not de designate without the prior written consent of the Franchise Operator, such consent has been obtained. Such Primary Franchise Asset shall cease to be so designated on the date specified in such notice. Such right may be exercised, in respect of any rights and liabilities in respect of a Fare or Discount Card, at any time and, in respect of any other Primary Franchise Asset, no later than one year prior to the expiry of the Franchise Term.

11 Amendment of the Appendix to this Schedule 14.4

The Appendix (List of Primary Franchise Assets) to this Schedule 14.4 shall be amended as the Secretary of State considers necessary or desirable from time to time to take account of designation and de-designation of Primary Franchise Assets pursuant to this Schedule 14.4.

12 Spares

The obligation of the Franchise Operator to maintain, preserve and protect Primary Franchise Assets under this Schedule 14.4 shall, in respect of Spares, include the obligation to replace any Spare which has been designated as a Primary Franchise Asset, which subsequent to its designation ceases to be part of the stock of Spares available to the Franchise Operator for use in the provision of the Franchise Services, with an equivalent Spare of equal or better quality than the Spare so replaced.

APPENDIX TO SCHEDULE 14.4
List of Primary Franchise Assets

| Description of Primary Franchise Asset | Commitment not to de-designate ²⁷⁴ |
|--|---|
| The infrastructure, equipment, moveable and non-moveable property forming part of the project to install by 28 March 2014 122 additional cycle parking spaces with related signage and CCTV at Newcastle Station and 30 covered cycle parking spaces with related signage and CCTV at Wakefield Westgate Station shall be included in the Supplemental Agreement and transferred to a Successor Operator at nil value. | |
| 275 | |
| DRACAS (as defined in paragraph 10.7 of Part 1 (List of Committed Obligations and Related Provisions) of Schedule 6.1 (Committed Obligations and Related Provisions)) shall be included in the Supplemental Agreement and transferred to a Successor Operator at nil value. | |
| The CCTV cameras and recording systems referred to in paragraph 12.1 of Part 1 (List of Committed Obligations and Related Provisions) of Schedule 6.1 (Committed Obligations and Related Provisions) shall be included in the Supplemental Agreement and transferred to a Successor Operator at nil value. | |
| The ticket vending machines referred to in paragraph 12.3 of Part 1 (List of Committed Obligations and Related Provisions) of Schedule 6.1 (Committed Obligations and Related Provisions) shall be included in the Supplemental Agreement and transferred to a Successor Operator at nil value. | |
| 276 | |

²⁷⁴ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁷⁵ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁷⁶ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

| Description of Primary Franchise Asset | Commitment not to de-designate ²⁷⁴ |
|--|---|
| 277 | |
| 278 | |

²⁷⁷ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁷⁸ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

SCHEDULE 14.5 Dealing with Franchise Assets

1 Assets not Designated as Primary Franchise Assets

- 1.1 This paragraph 1 relates to any Franchise Assets that are property or rights and are not designated as Primary Franchise Assets.
- 1.2 For the purposes of Section 27(3) of the Act, the Secretary of State consents to the Franchise Operator:
- (a) transferring or agreeing to transfer any such Franchise Assets or any interests in, or right over, any such Franchise Assets; and
 - (b) creating or extinguishing, or agreeing to create or extinguish, any interest in, or right over, any such Franchise Assets.

2 Liabilities not Designated as Primary Franchise Assets

- 2.1 This paragraph 2 relates to any liabilities which are not designated as Primary Franchise Assets.
- 2.2 For the purposes of Section 27(3) of the Act, the Secretary of State consents to the Franchise Operator entering into any agreement under which any such liability is released or discharged, or transferred to another person.

3 Franchise Assets and Primary Franchise Assets

- 3.1 This paragraph 3 relates to Franchise Assets (whether or not designated as Primary Franchise Assets) which are property or rights.
- 3.2 The Secretary of State hereby consents to the installation of Spares which have been designated as Primary Franchise Assets on any rolling stock vehicles. Any Spare which is so installed shall cease to be so designated on such installation.
- 3.3 For the purposes of Section 27(3) of the Act, the Secretary of State hereby consents to the Franchise Operator creating or agreeing to create any Security Interest over any of these Franchise Assets to the extent that the terms of any such Security Interest provided that:
- (a) if the relevant Franchise Asset becomes the subject of a transfer scheme made under Section 12 and Schedule 2 of the Railways Act 2005, it shall be fully and automatically released from the relevant Security Interest immediately before the coming into force of such transfer scheme;

- (b) if the relevant Franchise Asset is assigned, novated or otherwise transferred to another person pursuant to and in accordance with the Franchise Agreement, it shall be fully and automatically released from the relevant Security Interest immediately before such assignment, novation or transfer; and
- (c) such Security Interest shall not be enforced or enforceable until the date on which such Franchise Asset ceases to be designated as a Franchise Asset.

4 Prohibition on Other Security Interests

The Franchise Operator shall not create or agree to create a Security Interest over any Franchise Asset except on the terms permitted under paragraph 3.3.

5 Miscellaneous

The Franchise Operator shall promptly inform the Secretary of State of any Security Interest arising at any time over any of its property or rights and shall provide the Secretary of State with such information in relation thereto as he may reasonably require.

Schedule 15
Obligations Associated with Termination

| | |
|---------------|--|
| Schedule 15.1 | Reletting Provisions |
| Schedule 15.2 | Last 12 or 13 Months of Franchise Period |
| Schedule 15.3 | Handover Package |
| | Appendix: Form of Handover Package |
| Schedule 15.4 | Provisions Applying on and after Termination |
| | Appendix 1: Form of Transfer Scheme |
| | Appendix 2: Form of Supplemental Agreement |

SCHEDULE 15.1 Reletting Provisions

1 Reletting of Franchise

- 1.1 The Franchise Operator acknowledges that the Secretary of State may wish, at or before the expiry of the Franchise Period, either to invite persons to tender for the right to provide all or some of the Passenger Services under a franchise agreement or alternatively to enter into a franchise agreement in respect of all or some of the Passenger Services without having gone through a tendering process.
- 1.2 The Franchise Operator further acknowledges that the Secretary of State has in certain circumstances a duty under Section 30 of the Act to secure the continued provision of services equivalent to the Passenger Services on expiry or termination of the Franchise Agreement. The Franchise Operator accordingly accepts and agrees to the restrictions and obligations imposed on it under Schedule 1.6 (Franchise Services), Schedule 14 (Preservation of Assets) and this Schedule 15.

2 Preparation for Reletting

- 2.1 The Franchise Operator shall, if so requested by the Secretary of State:
- (a) provide the Secretary of State and his representatives and advisers with access to officers, the Franchise Employees and all books, records and other materials kept by or on behalf of the Franchise Operator in connection with the Franchise Services (including electronic or magnetic records, any CRM System and any Yield Management System) for the purpose of assisting such representatives and advisers:
 - (i) to prepare reports or other documents in connection with any invitation to potential Successor Operators to tender for the right and obligation to operate all or any of the Franchise Services;
 - (ii) to prepare invitations to other potential franchisees to tender for the right and obligation to provide any other railway passenger services or operate any other additional railway asset; or
 - (iii) to enter into any franchise agreement or other agreement (including any agreement entered into by the Secretary of State in fulfilment of his duties under section 30 of the Act) relating to the services equivalent to the Franchise Services, without undergoing a tendering process,

provided that the exercise of such access rights by the Secretary of State and his representatives and advisers shall not unduly interfere with the continuing provision and operation of the Franchise Services by the Franchise Operator.

2.2

- (a) The Franchise Operator shall make available to the Secretary of State and his representatives and advisers such Data Site Information (as defined at paragraph (e)) as they shall reasonably require in connection with the matters referred to in ²⁷⁹**paragraph 2.1**.
- (b) The Franchise Operator shall prepare and present such information in such manner (including in disaggregated form) as the Secretary of State may require, and shall provide such assistance as the Secretary of State may require in connection with the verification of such information.
- (c) The Franchise Operator shall provide such confirmation in relation to the accuracy of:
 - (i) the contents of the documents referred to in paragraph 2.1 and,
 - (ii) any Data Site Information uploaded to such electronic data site as the Secretary of State may require pursuant to paragraph 2.2(d),in each case as the Secretary of State shall require from time to time.
- (d) The Franchise Operator shall upload such Data Site Information as the Secretary of State may require to such electronic data site as he may specify and shall make a sufficient number of appropriate staff available for that purpose. The Franchise Operator shall ensure that such staff are trained in the use of such data site (such training to be at the expense of the Secretary of State). For the avoidance of doubt, the Data Site Information required by the Secretary of State under this paragraph may cover the entire Franchise Period or any part of it.
- (e) **Data Site Information** means information relating to any of the following:
 - (i) the Franchise or the Franchise Operator, any Affiliate of the Franchise Operator or their respective businesses (including their audited and management accounts, asset registers and contract lists);

²⁷⁹ "this" deleted in letter dated 30 March 2015

- (ii) past and present demand for the Franchise Services or any similar services (including passenger count data, Yield Management Data and CRM Data);
- (iii) information required to be provided by the Franchise Operator pursuant to Schedule 1.5 (Information about Passengers);
- (iv) the total revenue (being all revenue whatsoever from any source obtained from any commercial or non-commercial activity or undertaking of the Franchise Operator) received or which the Franchise Operator expects to receive during the Franchise Period;
- (v) the Franchise Operator's safety authorisation, safety certificate or safety management system (in each case as defined in the Safety Regulations);
- (vi) any other safety matter;
- (vii) the arrangements contained within the Railways Pension Scheme, the Pension Trust, the Franchise Sections, or any other pension arrangement in respect of employees of the Franchise Operator or employees of any person who was a franchisee or franchise operator in relation to a Previous Franchise Agreement;
- (viii) the management structure of the Franchise Operator's business (including organograms and any planned changes);
- (ix) employees and contractors (including details of responsibilities, job title, remuneration, grade, qualifications and any other personnel records);
- (x) terms and conditions of employment and human resources policies;
- (xi) public and working timetables;
- (xii) driver, other train crew and rolling stock diagrams;
- (xiii) rolling stock (including train and vehicle miles, restrictions of use, fleet examinations and servicing, fleet performance, casualty data and any relevant reports);
- (xiv) any station (including any leases, documents of title, maintenance arrangements, station facilities, plans and contingency or security plans relating to any station);
- (xv) health and safety and environmental information;

- (xvi) copies of contracts (including Access Agreements, policies of insurance, property, rolling stock and other leases, catering contracts, contracts for outsourced services, and rolling stock maintenance and spares contracts);
- (xvii) Network Rail charges and requirements (including rules of the route/plan);
- (xviii) any information technology system (hardware or software) used or owned by the Franchise Operator or any Affiliate of the Franchise Operator (including any software licences);
- (xix) performance data;
- (xx) customer service (including staffing levels, call volumes and opening hours);
- (xxi) fares and fares baskets;
- (xxii) relationships with stakeholders (including minutes of meetings with unions, Passenger Transport Executives, local authorities or Transport for London); or
- (xxiii) any other matter which the Secretary of State may specify from time to time,

and in this paragraph (e) the term “employee” includes any person engaged by the Franchise Operator pursuant to a contract of personal service.

- (f) The Franchise Operator shall:
 - (i) comply with its obligations under this paragraph 2.1 or this paragraph 2.2 promptly and in any case in accordance with any reasonable timetable with which the Secretary of State requires the Franchise Operator by notice in writing to comply; and
 - (ii) where the Secretary of State raises with the Franchise Operator any query in relation to any Data Site Information, make a full and substantive response to such query within 5 working days. Such response shall include any further information requested by the Secretary of State in relation to such query; and
 - (iii) nominate a person to whom:
 - (A) all queries or requests for information pursuant to paragraph 2.2(f)(ii);
 - (B) requests for access to premises pursuant to paragraph 4; and
 - (C) requests for access to employees,

shall be addressed and who shall be responsible for complying with any such queries or requests for information and such requests for access to employees and premises. The Franchise Operator shall notify the Secretary of State (his representatives and advisers) of the name and contact details of such person.

2.3 In connection with any proposal (whether or not yet finalised) to enter into separate franchise agreements and/or other agreements with more than one Successor Operator, each relating to some only of services equivalent to the Franchise Services (whether or not together with other railway passenger services) at or following the end of the Franchise Period, the Franchise Operator agrees and acknowledges that the Secretary of State may require:

- (a) that the Franchise Operator provides the Secretary of State with additional information and reports and analysis in respect of such Service Groups as the Secretary of State may specify. This may include:
 - (i) information relating to the operational and financial performance of the Franchise Operator in relation to such Service Groups; and
 - (ii) identification of those employees, assets and liabilities which relate to such Service Groups together with an indication of the extent to which the same are shared between the operation of different Service Groups; and
- (b) subject to paragraph 2.5, that the Franchise Operator reorganises the business of providing the services equivalent to Franchise Services in order to facilitate the transfer anticipated by this Schedule 15.1 on an ongoing basis of the business of providing the Franchise Services within each of such Service Groups to separate Successor Operators. This may include, to the extent reasonably practicable:
 - (i) the re-organisation of personnel such that an appropriate number of employees (having sufficient skills, qualifications and experience) will transfer by operation of Law to each Successor Operator of each such Service Group; and/or
 - (ii) entering into additional or clarificatory contractual or other arrangements so that the Successor Operator of each such Service Group will have the necessary assets and rights to operate the Franchise Services within that Service Group; and
- (c) that the Franchise Operator uploads Data Site Information to more than one data site.

2.4 Subject to paragraph 2.6, the Secretary of State shall reimburse any reasonable out-of-pocket expenses that the Franchise Operator may incur in complying with its obligations under this paragraph 2.

2.5 Without prejudice to any other rights the Secretary of State may have (under the Franchise Agreement or otherwise) in respect of any contravention by the Franchise Operator of its obligations under this paragraph 2, if the Secretary of State is of the reasonable opinion that the Franchise Operator does not have sufficient resources to enable its compliance with its obligations under this paragraph 2 he may:

- (a) require the Franchise Operator (at its own cost) to employ; or
- (b) after notification to the Franchise Operator, employ,

such suitable additional resource as may be required to ensure that the Franchise Operator can comply with its obligations under this paragraph 2. The Franchise Operator shall reimburse to the Secretary of State, by way of adjustment to Franchise Payments, any proper costs (including staff costs) incurred by him in the employment of any such additional resource pursuant to paragraph 2.3b).

2.6 To the extent reasonably practicable, prior to taking any of the actions referred to in paragraph 2.5, the Secretary of State shall allow the Franchise Operator a reasonable opportunity to make representations to him concerning the exercise by the Secretary of State of his rights under paragraph 2.5 but the Secretary of State shall not be obliged by those representations to refrain from exercising any of the actions specified under paragraph 2.5.

3 Non-Frustration of Transfer to Successor Operator

3.1 The Franchise Operator shall take no action or steps which is or are designed, directly or indirectly:

- (a) to prevent, prejudice or frustrate the transfer as a going concern of the business of providing the Franchise Services at the end of the Franchise Period to a Successor Operator; or
- (b) to avoid, frustrate or circumvent any provision of the Franchise Agreement (including in particular the provisions of Schedule 14 (Preservation of Assets) and this Schedule 15 (Obligations Associated with Termination)) which is included in whole or in part for the purpose of preventing any such preventive, prejudicial or frustrating action or steps.

3.2 Subject to the restrictions set out in paragraph 3.1 and the other provisions of the Franchise Agreement, the Franchise Operator may take such action as it may require for the purposes of bidding to become, or becoming, a Successor Operator.

4 Inspection Rights at premises used prior to the provision of the Franchise Services

- 4.1 Without limiting any other rights of the Secretary of State under the Franchise Agreement and subject to paragraph 4.2, the Franchise Operator shall, if so requested by the Secretary of State, permit the Secretary of State (or his nominee, which for these purposes shall include potential Successor Operators including potential bidders who have expressed an interest in tendering for the right and obligation to operate any or all of the Franchise Services) to have access to such premises owned or occupied by the Franchise Operator and/or any of its Affiliates (including Stations and Depots and which for these purposes shall include any premises used in connection with the provision of Franchise Services by the Franchisee and/or the Franchisee Operator or any of their Affiliates) as the Secretary of State may reasonably require in connection with any Tendering/Reletting Process including for the purposes of inspecting such premises (including the taking of inventories) and undertaking such surveys as may be necessary or desirable for the purposes of ascertaining the condition of any such premises.
- 4.2 The Secretary of State shall use reasonable endeavours to ensure that any access rights required pursuant to paragraph 4.1 shall be undertaken so as not to unduly interfere with the continuing provision and operation of the Franchise Services by the Franchise Operator.

SCHEDULE 15.2
Last 12 or 13 Months Of Franchise Period and Other Conduct Of Business Provisions

1 Last 12 or 13 Month Period

- 1.1 Where reference is made in the Franchise Agreement to the last 12 or 13 months of the Franchise Period, such period shall be deemed to commence on the earliest of the following dates:
- (a) the date which is 12 or 13 months, as the case may be, prior to the Expiry Date or if the actual date of expiry of the Franchise Period is known the date which is 12 or 13 months prior to that date;
 - (b) the date on which the Secretary of State notifies the Franchise Operator that such period of 12 or 13 months shall be deemed to commence on the grounds that the Secretary of State reasonably considers that an Event of Default may occur within the following 12 months; or
 - (c) the date on which the Secretary of State notifies the Franchise Operator that such period of 12 or 13 months shall be deemed to commence on the grounds that the Secretary of State considers it reasonably likely that the Franchise Agreement will be terminated by agreement between the parties within such period.
- 1.2 Any such period (which may be longer or shorter than 12 or 13 months, as the case may be) shall expire on the Expiry Date or, if earlier:
- (a) in the case of periods commencing under paragraph 1.1(b) or (c), the date falling 12 or 13 months after the date of any notice under paragraph 1.1(b) or (c); or
 - (b) such earlier date as the Secretary of State may determine.

2 Franchise Employees

Terms of Employment of Existing Employees

- 2.1 The Franchise Operator shall not, and shall secure that each other relevant employer shall not, without the prior consent of the Secretary of State (which shall not be unreasonably withheld), vary or purport or promise to vary the terms or conditions of employment of any Franchise Employee (in particular, the Franchise Operator shall not promise to make any additional payment or provide any additional benefit or vary any term or condition relating to holiday, leave or hours to be worked) where such variation or addition:

- (a) takes effect in the last 12 months of the Franchise Period unless it is in the ordinary course of business and, when aggregated with any other variation or addition which takes effect during such period, represents an increase in the remuneration of a Franchise Employee of no more than the amount determined in accordance with the following formula:

$$\frac{MAWE + JAWE + SAWE + DAWE}{4}$$

where:

MAWE is the change in the Average Weekly Earnings between March in the preceding 12 months and the corresponding March one year before, expressed as a percentage;

JAWE is the change in the Average Weekly Earnings between June in the preceding 12 months and the corresponding June one year before, expressed as a percentage;

SAWE is the change in the Average Weekly Earnings between September in the preceding 12 months and the corresponding September one year before, expressed as a percentage; and

DAWE is the change in the Average Weekly Earnings between December in the preceding 12 months and the corresponding December one year before, expressed as a percentage;

- (b) wholly or partly first takes effect after the end of the Franchise Period;
- (c) results in any such employment not being terminable by the Franchise Operator or other relevant employer within six months of the expiry of the Franchise Period;
- (d) relates to a payment or the provision of a benefit triggered by termination of employment;
- (e) relates to the provision of a benefit (excluding base salary) which any such employee will or may have a contractual right to receive after the expiry of the Franchise Period; or
- (f) prevents, restricts or hinders any such employee from working for a Successor Operator or from performing the duties which such employee performed for the Franchise Operator.

It is agreed that the Franchise Operator will be permitted to make a decrease in the remuneration of any Franchise Employee that takes effect in the last 12 months of the Franchise Period without first obtaining the consent of the Secretary of State in circumstances where such decrease is in the ordinary course of business and when aggregated with any other variation which takes effect

during such period, represents a decrease in the remuneration of a Franchise Employee of no more than the amount determined in accordance with the formula contained in paragraph 2.1(a) where a calculation pursuant to such formula gives rise to a negative percentage. In any other circumstances the prior consent of the Secretary of State will be required to any decrease in the remuneration of a Franchise Employee in the last 12 months of the Franchise Period.

2.2 Without limiting the foregoing, the Franchise Operator shall consult the Secretary of State as soon as reasonably practicable in any circumstances in which the Secretary of State's consent under paragraph 2.1 may be required. Further, it shall always be deemed to be reasonable for the Secretary of State to withhold his consent to a variation or addition which is prohibited without such consent under paragraph 2.1(a) provided the Secretary of State:

- (a) makes an overall increase in Franchise Payments equal to the amount of the direct net losses suffered by the Franchise Operator on the days when the Passenger Services are affected by Industrial Action taken by the Franchise Employees which is a consequence of a refusal by the Secretary of State to agree to the variation or addition; and
- (b) agrees that, to the extent that the Franchise Operator would otherwise be in contravention of the Franchise Agreement as a consequence of the Industrial Action referred to in this paragraph 2.2, no such contravention shall have occurred, save where such contravention relates to safety requirements.

2.3 The expression "promise to vary" when used in paragraph 2.1 includes any offer or indication of willingness to vary (whether or not such offer or willingness is made conditional upon obtaining the Secretary of State's consent).

Terms of Employment of New Employees

2.4 The Franchise Operator shall not, and shall secure that each other relevant employer shall not, without the prior consent of the Secretary of State (which shall not be unreasonably withheld), create or grant, or promise to create or grant, terms or conditions of employment for any Franchise Employee where the employment of such Franchise Employee by the Franchise Operator or such other relevant employer may commence on or after the Start Date if and to the extent that:

- (a) such terms or conditions are, in the reasonable opinion of the Franchise Operator, materially different from the terms or conditions of employment of equivalent or nearest equivalent Franchise Employees at the date on which such employment is scheduled to commence; and

- (b) if such terms or conditions were granted to such equivalent Franchise Employees already employed by the Franchise Operator by way of variation to their terms or conditions of employment, the Franchise Operator would be in contravention of paragraph 2.1.

Changes in Numbers and Total Cost of Employees

2.5 Subject to and excluding any increase in the remuneration of Franchise Employees permitted under paragraph 2.1, the Franchise Operator shall not, and shall secure that each other relevant employer shall not, without the prior written consent of the Secretary of State (which shall not be unreasonably withheld) increase or decrease in the last 12 months of the Franchise Period the number of Franchise Employees such that:

- (a) the total number of Franchise Employees or the total cost per annum to the Franchise Operator and each other relevant employer of employing all Franchise Employees is increased; or
- (b) the total number of Franchise Employees is decreased,

in each case, by more than five per cent during such period of 12 months provided that where the last 12 months or 13 months of the Franchise Period has been deemed to have commenced under paragraph 1.1 and the period of the restriction contemplated by this paragraph 2.5 lasts longer than 12 months such restriction shall apply in respect of the longer period.

3 Fares

Reduction in Prices of Fares

3.1

- (a) During the last 13 months of the Franchise Period, the Franchise Operator shall not, without the prior written consent of the Secretary of State (not to be unreasonably withheld), set the Price or Child Price of or sell (except to the extent required to do so under the terms of the Ticketing and Settlement Agreement as a result of the Price or Child Price of a Fare being set by another person) any Fare which would entitle the purchaser of such Fare to travel on all or any of the Passenger Services after the Franchise Period for an amount which is less than the Price or the Child Price of that Fare immediately before the commencement of such 13 month period or, in the case of a new Fare, the Price of its nearest equivalent immediately before the commencement of such period.
- (b) Paragraph 3.1(a) shall not prevent the Franchise Operator from giving any discount or reduction to which the purchaser of a Fare may be entitled by virtue of:

- (i) presenting a Discount Card (or any equivalent replacement thereof) issued by the Franchise Operator before the commencement of such 13 month period and to which the purchaser would have been entitled before the commencement of such period;
 - (ii) presenting a Discount Card issued by another train operator;
 - (iii) the Passenger's Charter or the passenger's charter of any other train operator; or
 - (iv) any relevant conditions of carriage.
- (c) The Franchise Operator shall procure that persons acting as its agent (except persons acting in such capacity by virtue of having been appointed under Parts II to VI of Chapter 9 of the Ticketing and Settlement Agreement or by being party to the Ticketing and Settlement Agreement) shall comply with the provisions of paragraph 3.1(a) to the extent that such provisions apply to the selling of Fares by the Franchise Operator.

Percentage Allocations

3.2

- (a) Except to the extent that the Secretary of State may consent from time to time (such consent not to be unreasonably withheld), the Franchise Operator shall not, in the last 13 Reporting Periods of the Franchise Period, take any action or step which may result in its Percentage Allocation (as defined in the Ticketing and Settlement Agreement) in respect of any Rail Product (as defined in the Ticketing and Settlement Agreement) being reduced.
- (b) The Franchise Operator shall notify the Secretary of State before taking any such action or step in the last 13 Reporting Periods of the Franchise Period and upon becoming aware of any other person proposing to take any action or step which may have the same effect. The Franchise Operator shall take such action as the Secretary of State may reasonably request in order to prevent any such reduction, including submitting any dispute to any relevant dispute resolution procedures.

Restrictions in respect of Sale of Advance Purchase Train-specific Fares

3.3

- (a) It is acknowledged that the Franchise Operator will make available for sale prior to the end of the Franchise Period Advance Purchase Train-specific Fares which are valid for travel after the end of the Franchise Period.

- (b) In making such Advance Purchase Train-specific Fares available for purchase the Franchise Operator shall not change its commercial practice in terms of the number of such Advance Purchase Train-specific Fares made available or the Passenger Services on which they are valid for use when compared with its previous commercial practice in respect of Advance Purchase Train-specific Fares valid for travel prior to the end of the Franchise Period.
- (c) The Franchise Operator will be permitted to take into account reasonable seasonal factors in determining its previous commercial practice. In assessing reasonableness, account will be taken of the Franchise Operator's practice in addressing such seasonal factors in the corresponding period in the previous year.

4 Inter-Operator Schemes

Voting on Scheme Councils

4.1 Subject to paragraph 4.6, during the last 12 months of the Franchise Period, the Franchise Operator shall give the Secretary of State reasonable notice of:

- (a) any meeting of:
 - (i) a scheme council of an Inter-Operator Scheme on which the Franchise Operator is represented; or
 - (ii) a scheme management group of any Inter-Operator Scheme:
 - (A) in which the Franchise Operator has a permanent position; or
 - (B) where the Franchise Operator employs a member of such group;
- (b) the resolutions to be voted upon at any such meeting; and
- (c) the Franchise Operator's voting intentions.

4.2 Subject to paragraph 4.3, the Franchise Operator shall vote at any such meeting in the manner required by the Secretary of State.

Successor Operator

4.3 Where the Franchise Operator has been notified by the Secretary of State that a Successor Operator has been selected (whether a Franchise Operator or otherwise and whether or not such selection is conditional), the Franchise Operator shall give such Successor Operator reasonable notice of:

- (a) any meeting referred to in paragraph 4.1(a);
 - (b) any resolutions to be voted upon at any such meeting where such resolutions might reasonably be considered to affect the interests of such Successor Operator; and
 - (c) the Franchise Operator's voting intentions.
- 4.4 The Franchise Operator shall discuss with the Successor Operator in good faith with a view to agreeing the way the Franchise Operator should vote on the resolutions referred to in paragraph 4.3(b). In the absence of any agreement, the Franchise Operator shall, as soon as reasonably practicable thereafter, having regard to the deadline for voting on such resolutions, refer the matter to the Secretary of State for determination.
- 4.5 The Secretary of State shall reasonably determine the way the Franchise Operator should vote on any resolutions referred to him in accordance with paragraph 4.4, having regard to the transfer of the Franchise Services as a going concern at the end of the Franchise Period.
- 4.6 Where paragraph 4.3 applies, the Franchise Operator shall vote at any meeting referred to in paragraph 4.1(a) in accordance with any agreement pursuant to paragraph 4.4 or determination pursuant paragraph 4.5.

SCHEDULE 15.3 Handover Package

1 Handover Package Status

- 1.1 The Franchise Operator shall:
- (a) on or before the Start Date, provide to the Secretary of State:
 - (i) the Handover Package; and
 - (ii) a letter in a form approved by and addressed to the Secretary of State confirming the details of any insurer providing insurance to the Franchise Operator and authorising the insurer (and any relevant broker) to release any insurance-related information to any of the Secretary of State, a Successor Operator or its agent on demand;
 - (b) maintain the Handover Package and update it at least every three Reporting Periods; and
 - (c) in respect of the information required pursuant to paragraph 1.1(a)(ii), supply revised information and/or letters to the Secretary of State as and when required in order to ensure that such information and letters remain accurate and up to date.
- 1.2 The Franchise Operator shall ensure that any Successor Operator will have immediate access to the Handover Package on the expiry of the Franchise Period.
- 1.3 The Franchise Operator shall also ensure that the Key Contacts List is provided to the Secretary of State within 24 hours of the receipt of any Termination Notice.

2 Director's Certificate

Once in each Franchise Operator Year, the Franchise Operator shall provide to the Secretary of State a certificate signed by a nominated and duly authorised director of the Franchise Operator, addressed to the Secretary of State, which confirms that the Handover Package contains the information and objects specified in the Appendix (Form of Handover Package) to this Schedule 15.3 and that such information is accurate as at the date of the certificate.

APPENDIX TO SCHEDULE 15.3
Form of Handover Package

1 Property

A list of all property owned, leased, operated or occupied by the Franchise Operator which shall include the address and contact telephone number of each property. Where applicable, the list will also include the name, address and telephone number of the lessor and/or the party which has granted authority to use or occupy the property, and any relevant reference numbers applicable to that lease or occupation.

2 Contracts

A printed or electronic list (in a format acceptable to the Secretary of State) of all contracts (sales, purchases or otherwise including leases and licences) between the Franchise Operator and the counterparty or counterparties to each such contract, showing the name, address and telephone number of each counterparty; the contract reference number of the Franchise Operator and each counterparty (if any); and the contract price/value, term and expiry date. This requirement shall apply to all contracts unless otherwise agreed by the Secretary of State.

3 Systems

A list of the electronic systems in use by the Franchise Operator, together with the name, office address and telephone number of the Franchise Operator's Information Technology Manager (or the holder of any equivalent post) who is responsible for administration of each such system.

4 Daily Operations

A printed or electronic list (in a format acceptable to the Secretary of State) of all assets owned or operated by the Franchise Operator, together with their location.

5 Insurance

A list of the names, addresses and telephone numbers of all insurers and any relevant broker providing insurance to the Franchise Operator, together with the relevant policy numbers and other references and details of any outstanding claims or unresolved disputes.

SCHEDULE 15.4
Provisions Applying on and After Termination

1 Novation of Access Agreements on Termination of the Franchise Agreement

- 1.1 The Franchise Operator shall, to the extent so requested by the Secretary of State on termination of the Franchise Agreement, in relation to any Access Agreement to which it is a party, novate its interest under any relevant Access Agreement (and any related Collateral Agreement) to the Secretary of State or as he may direct.
- 1.2 Such obligation to novate shall be subject to the agreement of any counterparty to such Access Agreement or Collateral Agreement and, to the extent applicable, the ORR.
- 1.3 Such novation shall be on such terms as the Secretary of State may reasonably require, including:
- (a) that the Franchise Operator shall not be released from any accrued but unperformed obligation, the consequences of any breach of the relevant agreement which is the subject of arbitration or litigation between the parties or any liability in respect of any act or omission under or in relation to the relevant agreement prior to, or as at the date of, any such novation (except to the extent that the Secretary of State or his nominee agrees to assume responsibility for such unperformed obligation, such liability or the consequences of such breach in connection with the relevant novation); and
 - (b) that neither the Secretary of State nor his nominee shall be obliged, in connection with such novation, to agree to assume responsibility for any unperformed obligation, liability or consequences of a breach referred to in paragraph 1.3(a),
- but shall not, unless the Franchise Operator otherwise agrees, be on terms which release any counterparty to the relevant agreement from any liability to the Franchise Operator arising prior to the date of such novation.
- 1.4 The Franchise Operator shall, on the occurrence of any of the circumstances specified in paragraph 1.1 in relation to any other Train Operator who is a party to an Access Agreement to which the Franchise Operator is also party, agree to the novation of the relevant Train Operator's interest under the relevant Access Agreement to the Secretary of State or as he may direct, subject, to the extent applicable, to the consent of the ORR. The provisions of paragraph 1.3 shall apply to any such novation.
- 1.5 The Franchise Operator shall notify the Secretary of State on becoming aware of any circumstances which might lead to the Secretary of State being able to require the Franchise

Operator to novate its interest or agree to the novation of another Train Operator's interest under this paragraph 1.

2 Co-Operation with Successor Operator

2.1 In order to ensure the continuity of, and an orderly handover of control over, the Franchise Services, the Franchise Operator shall co-operate with:

- (a) where a Successor Operator has been appointed, such Successor Operator; or
- (b) where a Successor Operator has not been so appointed, the Secretary of State,

and shall take such steps as may be reasonably requested by the Secretary of State in connection therewith.

2.2 In satisfaction of its obligations under paragraph 2.1, the Franchise Operator shall:

- (a) not used;
- (b) make appropriately skilled and qualified Franchise Employees reasonably available to attend such meetings with the Secretary of State, the Successor Operator, Network Rail, any rolling stock lessor and/or and other relevant third party as are reasonably required in order to determine:
 - (i) those actions that are required in order to facilitate such continuity and orderly handover, in particular those actions arising under, but not limited to, the following agreements:
 - (A) Access Agreements;
 - (B) Property Leases;
 - (C) agreements in relation to Shared Facilities;
 - (D) Rolling Stock Leases;
 - (E) Rolling Stock Related Contracts;
 - (F) any other Key Contract;
 - (G) the Train Availability and Reliability Agreement and the Relevant Operator Direct Agreement; and

- (ii) without prejudice to the Secretary of State's rights under this Schedule 15.4, those rights and liabilities as may be specified in any Transfer Scheme.

3 Transfer of Primary Franchise Assets

Option Arrangements

3.1

- (a) The Secretary of State hereby grants to the Franchise Operator the right to require the Secretary of State to make, and the Franchise Operator hereby grants to the Secretary of State the right to make, a Transfer Scheme in accordance with Section 12 and Schedule 2 of the Railways Act 2005 for the transfer of any or all Primary Franchise Assets on the expiry of the Franchise Period.
- (b) On or within 14 days before the expiry of the Franchise Period:
 - (i) either party may serve notice on the other party specifying the Primary Franchise Assets to be transferred; and
 - (ii) the other party may (within such timescale) serve a subsequent notice specifying any additional Primary Franchise Assets to be transferred.
- (c) The Secretary of State may (and shall if required by the Franchise Operator) make one or more such Transfer Schemes for the transfer of the Primary Franchise Assets specified in any such notice within 14 days after service of such notice (except in relation to any such Primary Franchise Assets which are, in accordance with Schedule 14.4 (Designation of Franchise Assets), de-designated as such prior to the end of the Franchise Period).
- (d) Any Franchise Assets or Primary Franchise Assets which are not so transferred shall cease to be designated as such 14 days after service of such notice.

Supplemental Agreement

- 3.2 Without prejudice to the duties, powers, rights and obligations of the Secretary of State under the Railways Act 2005 in respect of any Transfer Scheme, any Transfer Scheme shall impose on the Franchise Operator and the transferee an obligation to enter into an agreement substantially in the form of the Supplemental Agreement which shall provide for the determination of amounts to be paid in respect of the property, rights and liabilities which are transferred under such Transfer Scheme. The Franchise Operator shall enter into any such Supplemental Agreement and shall comply with its obligations thereunder.

Payment of Estimated Transfer Price

3.3

- (a) The Secretary of State may require the Franchise Operator to pay to any transferee under a Transfer Scheme, or may require any such transferee to pay to the Franchise Operator, on the day on which the Transfer Scheme comes into force such sum as the Secretary of State may determine should be so paid having regard to:
 - (i) his estimate of the sum likely to be paid under the relevant Supplemental Agreement in respect of the Primary Franchise Assets being transferred under the relevant Transfer Scheme;
 - (ii) his estimate of any other sums likely to be paid thereunder;
 - (iii) the financial condition of the Franchise Operator and the transferee and whether any estimate so paid would be likely to be repaid, if in excess of the sums eventually payable thereunder; and
 - (iv) such other matters as the Secretary of State may consider appropriate.
- (b) The Franchise Operator shall pay to any such transferee the sum determined by the Secretary of State in accordance with paragraph 3.3(a) on the day on which the relevant Transfer Scheme comes into force.

Possession of Franchise Assets

- 3.4 On the coming into force of a Transfer Scheme, the Franchise Operator shall deliver up to the Secretary of State (or his nominee) possession of the Primary Franchise Assets transferred under such Transfer Scheme.

4 Associated Obligations on Termination

Assistance in Securing Continuity

4.1

- (a) In order to facilitate the continuity of the Franchise Services on expiry of the Franchise Period, the Franchise Operator shall take such steps, both before and after the expiry of the Franchise Period, as the Secretary of State may reasonably require, to assist and advise any Successor Operator in providing and operating the Franchise Services.

- (b) In particular, the Franchise Operator shall provide any Successor Operator with such records and information relating to or connected with the Franchise Services as the Secretary of State may reasonably require (other than confidential financial information but including all records relating to the Franchise Employees).

Access

- 4.2 On the expiry of the Franchise Period, the Franchise Operator shall grant the Secretary of State and his representatives such access as the Secretary of State may reasonably request to any property owned, leased or operated by the Franchise Operator at such time, for the purpose of facilitating the continued provision of the Franchise Services.

Key Contracts

- 4.3
 - (a) The Franchise Operator shall provide such assistance to any Successor Operator as the Secretary of State may reasonably require in ensuring that, pursuant to any Direct Agreements, such Successor Operator may enter into (or enjoy the benefit of) contracts equivalent to the relevant Key Contracts (or part thereof).
 - (b) In satisfaction of its obligations under paragraph 4.3(a), the Franchise Operator shall terminate, surrender, cancel or undertake not to enforce its rights under any Key Contract (or part thereof) provided that nothing in this paragraph shall require the Franchise Operator to undertake not to enforce any rights under a Key Contract relating to the period prior to the expiry of the Franchise Period.

Change of Name

- 4.4 Each of the Franchise Operator and the Franchisee shall cease to use any trade marks which are licensed to it under any of the Brand Licences forthwith upon expiry of the Franchise Period and shall take all necessary steps to change any company name which incorporates any such marks as soon as practicable.

Property Leases

- 4.5
 - (a) The Franchise Operator shall, on the expiry of the Franchise Period, if requested by the Secretary of State, assign its interest under all or any Property Leases to the Secretary of State or as he may direct, subject where applicable to the agreement of any other party to such Property Lease or the ORR.

- (b) Such assignment shall be on such terms as the Secretary of State may reasonably require, including:
 - (i) that the Franchise Operator shall not be released from any accrued but unperformed obligation, the consequences of any antecedent breach of a covenant or obligation in the Property Leases or any liability in respect of any act or omission under or in relation to the Property Lease prior to, or as at the date of, any such assignment (except to the extent that the Secretary of State or his nominee agrees to assume responsibility for such unperformed obligation, such liability or the consequences of such breach in connection with the relevant assignment); and
 - (ii) that neither the Secretary of State nor his nominee shall be obliged, in connection with such assignment, to agree to assume responsibility for any unperformed obligation, liability or consequences of a breach referred to in paragraph 4.5(b)(i), and the Franchise Operator shall indemnify the Secretary of State or his nominee, as the case may be, on demand, on an after-tax basis against any costs, losses, liabilities or expenses suffered or incurred in relation thereto.
- (c) The Franchise Operator shall, on the occurrence of any of the circumstances specified in paragraph 4.5(a) in relation to any other Train Operator who is a party to a Property Lease to which the Franchise Operator is also party, agree to the assignment of such Train Operator's interest under the relevant Property Lease to the Secretary of State or as he may direct, subject, where applicable, to the consent of Network Rail. The provisions of paragraph 4.5(b) shall apply to any such assignment.
- (d) The Franchise Operator shall notify the Secretary of State on becoming aware of any circumstances which might lead to the Secretary of State being able to require the Franchise Operator to assign its interest or agree to the assignment of another Train Operator's interest under this paragraph 4.

5 Actions required immediately on Handover

- 5.1 The Franchise Operator shall immediately on the expiry of the Franchise Period make available to the Secretary of State:
 - (a) information as to the status of each purchase order or contract, including its award date, anticipated delivery date, confirmation of receipt of goods or services and the payment records for each purchase order, together with any matters in dispute with the appointed subcontractor and, to the extent that the Franchise Operator is a subcontractor to another Train Operator, equivalent information in respect of that Train Operator; and

- (b) information concerning any contract necessary for the continued operation of the Franchise where a procurement or bidding process has been initiated.

5.2 The Franchise Operator agrees that the Secretary of State or his agents may have access to and use free of charge any information contained in any Computer System or in hard copy format as he sees fit (for the purposes of continuing the operation of the Franchise Services).

6 Maintenance Records

The Franchise Operator shall immediately on expiry of the Franchise Period provide to the Secretary of State:

- (a) records of the status of the maintenance of the rolling stock vehicles used in the provision of the Passenger Services;
- (b) records of the status of the maintenance of any lifting equipment;
- (c) a list of any deferred maintenance; and
- (d) records of the status of the maintenance of any depot or station which is a Franchise Asset,

including the extent of completion of examinations and the modification status of each such rolling stock vehicle

7 Ticketing Arrangements

The Franchise Operator shall provide immediately on expiry of the Franchise Period a statement certifying:

- (a) all ticketing transactions with the public or credit card agencies that are in process and not yet complete, together with any allocations on multi-modal travel with other agencies or local authorities;
- (b) the extent of any outstanding claims with ticketing settlement agencies;
- (c) refund arrangements (whether under the Passenger's Charter or not) with members of the public or other Train Operators or ticketing settlement agencies that are in process and not yet complete; and
- (d) commissions owed and/or due.

8 Franchise Operator's Intellectual Property

8.1

- (a) On the expiry of the Franchise Period, the Franchise Operator will grant to any Successor Operator licences of any intellectual property which:
 - (i) is owned by or licensed to the Franchise Operator;
 - (ii) was not owned by or licensed to it immediately prior to the Start Date;
 - (iii) has not been designated as a Primary Franchise Asset;
 - (iv) does not represent or constitute a Mark; and
 - (v) may, in the reasonable opinion of the Secretary of State, be necessary for any Successor Operator to operate the Franchise Services on an efficient and economic basis after the expiry of the Franchise Period.
- (b) When agreeing the terms on which intellectual property is to be licensed to it, the Franchise Operator shall use all reasonable endeavours to ensure that such terms include the right to sub-license such intellectual property in accordance with this paragraph 8.1. The Franchise Operator shall not enter into a licence that does not include such a provision without first obtaining the Secretary of State's prior written consent (such consent not to be unreasonably withheld).

8.2

- (a) Any such licence shall be granted to the relevant Successor Operator for such period as the Secretary of State may determine to be reasonably necessary for the purpose of securing continuity of the provision of the Franchise Services and shall be free of charge and royalty-free for a period of one month or less.
- (b) If such licence is for a period in excess of one month, the grant of the licence shall be subject to payment of a reasonable royalty (backdated to the expiry of the Franchise Period) on the basis of a willing licensor and licensee entering into a licence on comparable terms to similar licences of such intellectual property. If the Franchise Operator and the relevant Successor Operator are unable to agree such royalty, the Franchise Operator shall submit such dispute for resolution in accordance with such dispute resolution rules as the Secretary of State may require.

8.3 Any such licence shall be in such form as the Secretary of State shall reasonably determine and shall:

- (a) be non-exclusive and limited to use solely for the purposes of the provision and operation of the Franchise Services and will not provide for any right to use such intellectual property for any other purpose (including its marketing or exploitation for any other purpose);
- (b) be terminable on material breach by the Successor Operator;
- (c) contain an indemnity from the Franchise Operator to the effect that to the best of its knowledge and belief it owns the relevant intellectual property or has the right to license it and the licensing of it and the subsequent use of the intellectual property will not infringe any third party intellectual property rights; and
- (d) require the Successor Operator, to the extent that it relates to any trade marks, to use such trade marks in such manner as may reasonably be required by the Franchise Operator provided that it shall not be reasonable for the Franchise Operator to require any such trade mark to be used in a manner materially different from its use during the Franchise Period.

9 Information about Passengers

The Franchise Operator shall immediately on the expiry of the Franchise Period make available to the Secretary of State and/or his nominee:

- (a) passenger numbers information specified in paragraph 8 of Schedule 1.5 (Information about Passengers), in such format and to such level of disaggregation as the Secretary of State and/or his nominee may reasonably require;
- (b) the CRM Data and Yield Management Data.

**APPENDIX 1 TO SCHEDULE 15.4
Form of Transfer Scheme**

Dated _____ 20[•]

**TRANSFER SCHEME
OF
THE SECRETARY OF STATE FOR TRANSPORT
MADE PURSUANT TO SCHEDULE 2 OF THE RAILWAYS ACT 2005
IN FAVOUR OF
[SUCCESSOR OPERATOR]
IN RESPECT OF
CERTAIN PROPERTY, RIGHTS AND LIABILITIES
OF
[FRANCHISE OPERATOR]**

*Secretary of State for Transport
33 Horseferry Road
London SW1P 4DR*

TRANSFER SCHEME

Whereas:

- (A) **[Franchise Operator]** (the **Transferor**) has been providing certain services for the carriage of passengers by railway and operating certain stations and light maintenance depots pursuant to a franchise agreement with the Secretary of State for Transport (the **Secretary of State**) dated [_____] (the **Franchise Agreement**).
- (B) The Franchise Agreement terminated or is to terminate on [_____] and [Successor Operator] (the **Transferee**) is to continue the provision of all or part of such services or the operation of all or some of such stations and light maintenance depots under a new franchise agreement or in connection with the performance or exercise of the duties and powers of the Secretary of State to secure the provision of such services or the operation of such stations or light maintenance depots.
- (C) Certain property, rights and liabilities of the Transferor which were designated as franchise assets for the purpose of the Franchise Agreement are to be transferred to the Transferee under a transfer scheme made by the Secretary of State under Section 12 and Schedule 2 of the Railways Act 2005.

The Secretary of State, in exercise of the powers conferred on him by Schedule 2 of the Railways Act 2005, hereby makes the following scheme:

1 Definitions and Interpretation

In this Transfer Scheme functions has the meaning ascribed to it in the Railways Act 2005 and relevant enactment has the meaning ascribed to it in paragraph 6 of Schedule 2 of the Railways Act 2005.

2 Transfer of Property, Rights and Liabilities

With effect from [_____] the property, rights and liabilities of the Transferor specified or described in the Schedule shall be transferred to, and vest in, the Transferee.

3 Statutory Functions

Subject to any amendment to the relevant enactment which comes into force on or after the date on which this Transfer Scheme is made, there shall be transferred to the Transferee all the functions of the Transferor under any relevant enactments if and to the extent that any such relevant enactment:

- (a) relates to any property which is to be transferred by this Transfer Scheme; or
- (b) authorises the carrying out of works designed to be used in connection with any such property or the acquisition of land for the purpose of carrying out any such works.

4 Supplemental Agreement

Each of the Transferor and the Transferee shall enter into the Supplemental Agreement (as defined in the Franchise Agreement) on the coming into force of this Transfer Scheme.

This Transfer Scheme is made by the Secretary of State on [____ ____].

THE CORPORATE SEAL
OF THE SECRETARY OF
STATE FOR TRANSPORT
IS HEREUNTO AFFIXED:

.....

Authenticated by authority of the
Secretary of State for Transport

SCHEDULE TO THE TRANSFER SCHEME

[List relevant Franchise Assets to be transferred to Successor Operator]

**APPENDIX 2 TO SCHEDULE 15.4
Form of Supplemental Agreement**

Dated _____ 20[•]

[OUTGOING FRANCHISE OPERATOR]

and

[SUCCESSOR OPERATOR]

SUPPLEMENTAL AGREEMENT

to the transfer scheme dated [•] made
by the Secretary of State for Transport in respect of
certain property rights and liabilities of
[OUTGOING FRANCHISE OPERATOR]

Secretary of State for Transport
33 Horseferry Road
London SW1P 4DR

This Supplemental Agreement is made on [_____] 20[____]

BETWEEN

- (1) [OUTGOING FRANCHISE OPERATOR] whose registered office is at [registered office] (the “**Transferor**”); and
- (2) [SUCCESSOR OPERATOR] whose registered office is at [registered office] (the **Transferee**).

WHEREAS

- (A) The Transferor has been providing certain services and the carriage of passengers by railway and operating certain stations and light maintenance depots pursuant to a franchise agreement with the Secretary of State for Transport (the **Secretary of State**) dated [_____] (the **Franchise Agreement**).
- (B) The Franchise Agreement terminated or is to terminate on [_____] and the Transferee has been selected by the Secretary of State to continue the provision of all or part of such services pursuant either to a franchise agreement with the Secretary of State or arrangements made with the Secretary of State in connection with the Secretary of State's duties and powers.
- (C) Certain property, rights and liabilities of the Transferor are to be transferred to the Transferee pursuant to a transfer scheme made by the Secretary of State on [_____] under Section 12 and Schedule 2 of the Railways Act 2005 (the **Transfer Scheme**).
- (D) This Agreement is supplemental to the Transfer Scheme and sets out certain terms between the Transferor and the Transferee in relation to the transfer of such property, rights and liabilities under the Transfer Scheme and the transfer of certain other property, rights and liabilities at the same time.

IT IS AGREED THAT

1 DEFINITIONS AND INTERPRETATION

Definitions

- 1.1 The following words and expressions shall have the following meaning:

Business means such of the undertaking or part of the undertaking of the Transferor prior to the Transfer Date as may be continued by the Transferee after the Transfer Date;

Credit has the meaning assigned to that term under the Ticketing and Settlement Agreement;

Debit has the meaning assigned to that term under the Ticketing and Settlement Agreement;

Estimated Completion Payment has the meaning ascribed to that term in clause 2.1;

Net Asset Statement means the statement to be drawn up pursuant to clause 2.2;

Net Asset Value means the aggregate of the amounts of the Relevant Franchise Assets, the Relevant Contract Liabilities, the Relevant Debits and Credits and the Relevant Employee Liabilities as shown in the Net Asset Statement agreed or determined pursuant to clause 2.2;

Purchase Price has the meaning ascribed to that term in clause 2.1;

Relevant Contract Liabilities means such rights and liabilities of the Transferor as may be transferred to the Transferee on the expiry of the Franchise Period in relation to any Licence, Access Agreement or Property Lease under paragraphs 1 and 4.5 of Schedule 15.4 (Provisions Applying on and after Termination) of the Franchise Agreement;

Relevant Debits and Credits means such Debits and Credits of the Transferor which relate to Fares sold before the Transfer Date and which may be received by the Transferee as a result of Clause 11-33 of the Ticketing and Settlement Agreement;

Relevant Employee Liabilities means such rights and liabilities of the Transferor (or any other relevant employer or person) under any contracts of employment relating to the Relevant Employees which have been or are to be transferred to the Transferee by virtue of the operation of Law (including the Transfer Regulations);

Relevant Employees means all persons employed in the Business immediately before the Transfer Date (whether employed by the Transferor or otherwise) whose contract of employment has been or is to be transferred to the Transferee by virtue of the operation of Law (including the Transfer Regulations) or any other person employed at any time in the Business in respect of whom liabilities arising from a contract of employment or employment relationship have or will be transferred by virtue of the operation of Law (including the Transfer Regulations);

Relevant Franchise Assets means such of the property, rights and liabilities that are legally or beneficially owned by the Transferor and which are or are to be transferred to the Transferee under the Transfer Scheme;

Reporting Accountants means such firm of accountants as may be selected by agreement between the parties within four weeks of the preparation of the Net Asset Statement or, in the absence of such agreement, selected by the Secretary of State upon the request of either party;

Season Ticket Fare means a Fare which entitles the purchaser to make an unlimited number of journeys in any direction during the period for which, and between the stations and/or the zones for which, such Fare is valid;

Stored Credit Balance means any monetary amount held by the Franchise Operator which a passenger can apply at a future date to the purchase of a Fare (stored in any medium);

Taxation comprises all forms of taxation, duties, contributions and levies of the United Kingdom whenever imposed and (except in so far as attributable to the unreasonable delay or default of the Transferee) all penalties and interest relating thereto;

TOGC has the meaning assigned to that term in clause 6.2;

Transfer Date means the date and, where relevant, the time on or at which the Transfer Scheme comes into force;

Transfer Regulations means the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended, replaced or substituted from time to time);

Transferring Assets and Liabilities has the meaning assigned to that term in clause 2.1; and

Undisclosed Employee has the meaning assigned to that term in clause 7.1(d).

Construction and Interpretation

- 1.2 In this Agreement terms and expressions defined in the Franchise Agreement shall have the same meaning and the terms "contract of employment", "collective agreement", "employee representatives" and "trade union" shall have the same meanings respectively as in the Transfer Regulations.

2 Transfer Price

Amount and Payment

- 2.1 The price for the transfer of:
- (a) the Relevant Franchise Assets;
 - (b) the Relevant Contract Liabilities;
 - (c) the Relevant Debits and Credits; and
 - (d) the Relevant Employee Liabilities,

(together the **Transferring Assets and Liabilities**) shall (subject to adjustment as expressly provided in this Agreement) be an amount equal to the Net Asset Value (the **Purchase Price**). The sum of £[amount], as determined under paragraph 3.3 of Schedule 15.4 (Provisions Applying on and after Termination) of the Franchise Agreement (the **Estimated Completion Payment**) shall be paid in immediately available funds by the Transferor to the Transferee, or by the Transferee to the Transferor, as determined under paragraph 3.3 of Schedule 15.4 (Provisions Applying on and after Termination) of the Franchise Agreement, on the Transfer Date. On determination of the Purchase Price a balancing payment (if any) shall be made by the Transferor to the Transferee or the Transferee to the Transferor (as the case may be) in accordance with clause 2.5.

Net Asset Statement

- 2.2 The Transferee shall procure that, as soon as practicable and in any event not later than two months following the Transfer Date, there shall be drawn up a statement showing a true and fair view of the aggregate of the amount of each separate asset and liability of the Transferring Assets and Liabilities as at the Transfer Date.
- 2.3 The Net Asset Statement shall be:
- (a) drawn up in the manner described in the Schedule;
 - (b) prepared on such basis as would enable the Transferee's auditors, if so requested, to give an unqualified audit report thereon to the effect that it had been drawn up in accordance with the Schedule; and
 - (c) presented, initially as a draft, to the Transferor immediately following its preparation for review in conjunction with its auditors.
- 2.4 If the Transferor and the Transferee have failed to agree the Net Asset Statement within four weeks following such presentation, the matter shall be referred to the Reporting Accountants who shall settle and complete the Net Asset Statement as soon as practicable and shall determine the amount of the Net Asset Value as shown by the Net Asset Statement.

Adjustment of Price

- 2.5 If the Purchase Price exceeds or is less than the Estimated Completion Payment, the Transferee shall pay to the Transferor or, as the case may be, the Transferor shall pay to the Transferee, in either case within 14 days of the agreement or determination of the Net Asset Value, an amount equal to such excess or deficiency together in either case with interest thereon calculated from the Transfer Date at the Interest Rate.

3 References to the Reporting Accountants

Whenever any matter is referred under this Agreement to the decision of the Reporting Accountants:

- (a) the Reporting Accountants shall be engaged jointly by the parties on the terms set out in this Agreement and otherwise on such terms as shall be agreed, provided that neither party shall unreasonably (having regard, amongst other things, to the provisions of this Agreement) refuse its agreement to terms proposed by the Reporting Accountants or by the other party. If the terms of engagement of the Reporting Accountants have not been settled within 14 days of their appointment having been determined (or such longer period as the parties may agree) then, unless one party is unreasonably refusing its agreement to those terms, such accountants shall be deemed never to have been appointed as Reporting Accountants, save that the accountants shall be entitled to their reasonable expenses under clause 3(d), and new Reporting Accountants shall be selected in accordance with the provisions of this Agreement;
- (b) if Reporting Accountants acting or appointed to act under this Agreement resign, withdraw, refuse to act, or are disqualified for any reason from performing their duties then, except as may be agreed between the parties, the parties shall appoint a replacement in accordance with the definition of Reporting Accountants;
- (c) the Reporting Accountants shall be deemed to act as experts and not as arbitrators;
- (d) the Reporting Accountants shall have power to allocate their fees and expenses for payment in whole or in part by any party at their discretion. If not otherwise allocated they shall be paid as to half by the Transferor and as to half by the Transferee;
- (e) each of the parties shall promptly on request supply to the Reporting Accountants all such documents and information as they may require for the purpose of the reference;
- (f) the decision of the Reporting Accountants shall (in the absence of objection on the grounds of any manifest error discovered within 14 days of the issue of their decision) be conclusive and binding (and in accordance with clause 3(g) below) and shall not be the subject of any appeal by way of legal proceeding or arbitration or otherwise; and
- (g) without prejudice to clauses 3(a) to 3(f) above, either party may, prior to or during the course of the reference to the Reporting Accountants, seek a declaration from the court on a relevant point of law, including but not limited to a point of legal interpretation. Upon such application for a declaration being issued and served all applicable time limits relative to the reference to the Reporting Accountant shall be stayed pending the outcome of such

application (including any appeal). The Reporting Accountants are bound to make their determination in a manner consistent with the findings of the Court.

4 WARRANTY

The Transferor warrants and represents to the Transferee that the Relevant Contract Liabilities and the Relevant Franchise Assets are, to the extent they are property or rights, transferring to the Transferee free and clear of all Security Interests.

5 INTEREST

If the Transferor or the Transferee defaults in the payment when due of any sum payable under this Agreement (whether determined by agreement or pursuant to an order of a court or otherwise) the liability of the Transferor or the Transferee (as the case may be) shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (after as well as before judgement) at a rate equal to the Interest Rate. Such interest shall accrue from day to day.

6 VALUE ADDED TAX

- 6.1 All amounts under this Agreement are expressed as exclusive of Value Added Tax where Value Added Tax is applicable.
- 6.2 The Transferor and the Transferee shall use all reasonable endeavours to secure that the transfer of the Transferring Assets and Liabilities is treated for Value Added Tax purposes as the transfer of a business as a going concern ("**TOGC**") and accordingly as neither a supply of goods nor a supply of services for the purposes of Value Added Tax.
- 6.3 If HM Revenue & Customs direct that the transfer of the Transferring Assets and Liabilities cannot be treated as a TOGC, the Transferor shall provide the Transferee with a copy of such direction within five days of receipt thereof by the Transferor.
- 6.4 The Transferee shall thereafter pay upon the receipt of a valid tax invoice the amount of any Value Added Tax which as a result of that direction may be chargeable on the transfer of the Transferring Assets and Liabilities. If the aforementioned direction was issued as a result of any action or inaction of the Transferee then the Transferee shall in addition to the Value Added Tax indemnify the Transferor for any penalties and interest that may be incurred upon receipt of such evidence from HM Revenue & Customs.
- 6.5 If the Transferee considers the direction issued by HM Revenue & Customs referred to in clause 6.3 to be incorrect then, without prejudice to the Transferee's obligation under clause 6.4

to pay to the Transferor the amount of any Value Added Tax which as a result such direction may be chargeable on the transfer of the Transferring Assets and Liabilities, the Transferee may, within 30 days of receipt of such direction by the Transferor, give notice to the Transferor that it requires the Transferor to appeal such direction. Upon requesting such an appeal the Transferee agrees to indemnify the Transferor for all reasonable costs that the Transferor may incur in taking such action upon receipt of evidence of those costs. If such an appeal is successful the Transferor agrees to reimburse the Transferee for such reasonable costs and penalties and interest to the extent that those costs have been reimbursed by HM Revenue & Customs.

6.6 If any amount paid by the Transferee to the Transferor in respect of Value Added Tax pursuant to this Agreement is subsequently found to have been paid in error the Transferor shall issue a valid tax credit note for the appropriate sum to the Transferee and promptly repay such amount to the Transferee.

6.7 If any amount is payable by the Transferor to the Transferee in respect of the transfer of the Relevant Franchise Assets, Relevant Contract Liabilities, Relevant Debits and Credits and Relevant Employee Liabilities pursuant to this Agreement, clauses 6.3 to 6.6 inclusive shall apply mutatis mutandis to such payment substituting Transferor for Transferee and vice versa.

6.8 Not used.

6.9 All of the records referred to in Section 49 of the Value Added Tax Act 1994 relating to the Business (being the purchase records) shall be retained by the Transferor and the Transferor shall undertake to the Transferee to:

- (a) preserve those records in such manner and for such periods as may be required by law; and
- (b) give the Transferee as from the Transfer Date reasonable access during normal business hours to such records and to take copies of such records.

7 EMPLOYEES

Transfer Regulations

7.1 The parties accept that, to the extent that the undertaking or part of the undertaking of the Transferor is continued by the Transferee after the Transfer Date, this Agreement and the transfer of the Business which is effected in connection with the Transfer Scheme are governed by the Transfer Regulations and the following provisions shall apply in connection therewith:

- (a) the contract of employment of each of the Relevant Employees (save, to the extent provided by the Transfer Regulations, insofar as such contract relates to any occupational pension scheme) shall be transferred to the Transferee with effect from the Transfer Date which shall be the "time of transfer" under the Transfer Regulations and the Transferee shall employ each such Relevant Employee on the terms of those contracts of employment (save, to the extent provided by the Transfer Regulations, insofar as such contract relates to any occupational pension scheme) with effect from the Transfer Date;
- (b) the Transferor shall perform and discharge all its obligations in respect of all the Relevant Employees for its own account up to and including the Transfer Date including, without limitation, discharging all wages and salaries of the Relevant Employees, all employer's contributions to any relevant occupational pension scheme and all other costs and expenses related to their employment (including, without limitation, any Taxation, accrued holiday pay, accrued bonus, commission or other sums payable in respect of service prior to the close of business on the Transfer Date) and shall indemnify the Transferee and keep the Transferee indemnified against each and every action, proceeding, liability (including, without limitation, any Taxation), cost, claim, expense (including, without limitation, reasonable legal fees) or demand arising from the Transferor's failure so to discharge;
- (c) the Transferor shall indemnify the Transferee and keep the Transferee indemnified against each and every action, proceeding, cost, claim, liability (including, without limitation, any Taxation), expense (including, without limitation, reasonable legal fees) or demand which relates to or arises out of any act or omission by the Transferor or any other event or occurrence prior to the Transfer Date and which the Transferee may incur in relation to any contract of employment or collective agreement concerning one or more of the Relevant Employees pursuant to the provisions of the Transfer Regulations or otherwise including, without limitation, any such matter relating to or arising out of:
 - (i) the Transferor's rights, powers, duties and/or liabilities (including, without limitation, any Taxation) under or in connection with any such contract of employment or collective agreement, which rights, powers, duties and/or liabilities (as the case may be) are or will be transferred to the Transferee in accordance with the Transfer Regulations; or
 - (ii) anything done or omitted before the Transfer Date by or in relation to the Transferor in respect of any such contract of employment or collective agreement or any Relevant Employee, which is deemed by the Transfer Regulations to have been done or omitted by or in relation to the Transferee save where the thing done or omitted to be done before the Transfer Date relates to the Transferee's failure to comply with its obligations referred to in clause 7.4;

- (d) if any contract of employment or collective agreement which is neither disclosed in writing to the Transferee by the Transferor prior to the Transfer Date nor made available to the Secretary of State under Schedule 15.3 (Handover Package) of the Franchise Agreement prior to the Transfer Date shall have effect as if originally made between the Transferee and any employee (the **Undisclosed Employee**) or a trade union or employee representatives as a result of the provisions of the Transfer Regulations (without prejudice to any other right or remedy which may be available to the Transferee):
- (i) the Transferee may, upon becoming aware of the application of the Transfer Regulations to any such contract of employment or collective agreement terminate such contract or agreement forthwith;
 - (ii) the Transferor shall indemnify the Transferee against each and every action, proceeding, cost, claim, liability (including, without limitation, any Taxation), expense (including, without limitation, reasonable legal fees) or demand relating to or arising out of such termination and reimburse the Transferee for all costs and expenses (including, without limitation, any Taxation) incurred in employing such employee in respect of his employment following the Transfer Date; and
 - (iii) the Transferor shall indemnify the Transferee in respect of any Undisclosed Employee on the same terms mutatis mutandis as the Transferor has indemnified the Transferee in respect of a Relevant Employee pursuant to the terms of clauses 7.1(b) and 7.1(c); and
- (e) the Transferor shall indemnify the Transferee and keep the Transferee indemnified against each and every action, proceeding, cost, claim, liability (including without limitation, any Taxation) expense (including, without limitation, reasonable legal fees) or demand which relates to or arises out of any dismissal (including, without limitation, constructive dismissal) by the Transferor of any employee (not being a Relevant Employee) and which the Transferee may incur pursuant to the provisions of the Transfer Regulations.

Transferee's Indemnities

- 7.2 The Transferee shall indemnify the Transferor and keep the Transferor indemnified against each and every action, proceeding, liability (including, without limitation, any Taxation), cost, claim, loss, expense (including reasonable legal fees) and demand arising out of or in connection with:
- (a) any substantial change in the working conditions of the Relevant Employees to his or her detriment or any of them occurring on or after the Transfer Date;

- (b) the change of employer occurring by virtue of the Transfer Regulations and/or the Franchise Agreement being significant and detrimental to any of the Relevant Employees;
- (c) the employment by the Transferee on or after the Transfer Date of any of the Relevant Employees other than on terms (including terms relating to any occupational pension scheme) at least as good as those enjoyed prior to the Transfer Date or the termination of the employment of any of them on or after the Transfer Date; or
- (d) any claim by any Relevant Employee (whether in contract or in tort or under statute (including the Treaty of the European Community or European Union and any Directives made under the Secretary of State of any such Treaty or any successor thereof)) for any remedy (including, without limitation, for unfair dismissal, redundancy, statutory redundancy, equal pay, sex or race discrimination) as a result of any act or omission by the Transferee after the Transfer Date.

7.3 The Transferee shall indemnify the Transferor and keep the Transferor indemnified against each and every action, proceeding, liability, cost, claim, loss, expense (including reasonable legal fees) and demand which arises as a result of it not providing or not having provided, in accordance with its obligations under the Transfer Regulations, the Transferor in writing with such information and at such time as will enable the Transferor to carry out its duties under Regulation 13(2)(d) and 13(6) of the Transfer Regulations concerning measures envisaged by the Transferee in relation to the Relevant Employees.

Details of Relevant Employees

7.4 Without prejudice to the Transferor's duties under the Transfer Regulations, the Transferor warrants to the Transferee that it has (to the extent not made available to the Secretary of State under Schedule 15.4 (Provisions Applying on and after Termination) of the Franchise Agreement prior to the Transfer Date) provided the Transferee prior to the Transfer Date with full particulars of:

- (a) each Relevant Employee, including name, sex, and the date on which continuity of employment began for each Relevant Employee for statutory purposes;
- (b) terms and conditions of employment of each such person;
- (c) all payments, benefits or changes to terms and conditions of employment promised to any such person;
- (d) dismissals of Relevant Employees or termination of employment effected within 12 months prior to the Transfer Date including the Transfer Date;

- (e) all agreements or arrangements entered into in relation to the Relevant Employees between the Transferor, any Affiliate of the Transferor or any other relevant employer and any trade union or association of trade unions or organisation or body of employees including employee representatives and elected representatives; and
- (f) all strikes or other Industrial Action taken by any Relevant Employee within 12 months prior to the Transfer Date including the Transfer Date.

7.5 The Transferor and Transferee shall deliver to each of the Relevant Employees letters in an agreed form from the Transferor and Transferee as soon as is practicable after the execution of this Agreement (to the extent not already delivered prior to the Transfer Date).

8 MISCELLANEOUS PROVISIONS

Variations in Writing

8.1 No variation of this Agreement shall be effective unless in writing and signed by duly authorised representatives of the parties.

Partial Invalidity

8.2 If any provision in this Agreement shall be held to be void, illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity and enforceability of the remainder of this Agreement shall not be affected.

Further Assurance

8.3 Each of the parties agrees to execute and deliver all such further instruments and do and perform all such further acts and things as shall be necessary or expedient for the carrying out of the provisions of this Agreement.

Notices

8.4 Any notice or other communication requiring to be given or served under or in connection with this Agreement shall be in writing and shall be sufficiently given or served if delivered or sent to the registered office of the recipient or:

- (a) in the case of the Transferor to [name of Transferor] at:

[address]

[fax]

Attention: [name]

(b) in the case of the Transferee to [name of Transferee] at:

[address]

[fax]

Attention: [name]

8.5 Any such notice or other communication shall be delivered by hand or sent by courier, fax or prepaid first class post. If sent by courier or fax such notice or communication shall conclusively be deemed to have been given or served at the time of despatch. If sent by post such notice or communication shall conclusively be deemed to have been received two business days from the time of posting.

Counterparts

8.6 This Agreement may be executed in any number of counterparts each of which shall be deemed an original, but all the counterparts shall together constitute one and the same instrument.

Third Parties

8.7 This Agreement does not create any rights under the Contracts (Rights of Third Parties) Act 1999 which is enforceable by any person who is not a party to it.

Governing Law

8.8 This Agreement shall be governed by and construed in accordance with the laws of England and Wales and the parties irrevocably agree that the courts of England and Wales are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement.

IN WITNESS whereof the parties hereto have executed this Agreement the day and year first before written.

SIGNED FOR AND ON

BEHALF OF THE

[TRANSFEROR]

DIRECTOR:

DIRECTOR/SECRETARY:

SIGNED FOR AND ON

BEHALF OF THE

[TRANSFeree]

DIRECTOR:

DIRECTOR/SECRETARY:

SCHEDULE TO THE SUPPLEMENTAL AGREEMENT

Net Asset Statement

The Net Asset Statement shall be drawn up (except to the extent otherwise agreed by the Transferor and the Transferee) in accordance with accounting principles generally accepted in the United Kingdom and such that the Transferring Assets and Liabilities are valued on the following basis:

- 1 Rights and liabilities relating to an obligation of carriage under the terms of any Fare shall be valued in accordance with the following formula:

$$(C - D) \times \frac{A}{B} + E$$

where:

- C equals the Credit (exclusive of any Valued Added Tax) received by the Transferor in respect of the Fare provided that:
- (a) such Credit shall be deemed not to include any reduction in respect of a discount allowed to the purchaser of the Fare pursuant to the Passenger's Charter or any other passenger's charter of the Transferor;
 - (b) if the Fare is a Season Ticket Fare, such Credit shall be the New Credit (as defined in the Ticketing and Settlement Agreement) relating to that Season Ticket Fare on the Transfer Date if different to the Credit that was in fact received by the Transferor in respect of such Season Ticket Fare;
 - (c) such Credit shall be net of any Private Settlement Credit (as defined in the Ticketing and Settlement Agreement) arising in respect of that Fare; and
 - (d) such Credit shall be deemed to exclude any Credit received by the Transferor in respect of any commission due to it in respect of the sale of such Fare (provided that for these purposes the amount of such commission shall not exceed the National Standard Rate of Commission (as defined in the Ticketing and Settlement Agreement) in respect of the Fare);
- D equals the Debit (exclusive of any Value Added Tax) received by the Transferor in respect of the commission due in respect of the sale of the Fare (provided that for these purposes the amount of such commission shall not exceed the National Standard Rate of Commission (as defined in the Ticketing and Settlement Agreement) in respect of the Fare);

$\frac{A}{B}$ equals

- (a) in the case of a Season Ticket Fare, the number of journeys which the purchaser of the Fare is estimated to make from (and including) the Transfer Date to (and including) the last day on which the Fare is valid (including any extensions to its original period of validity) divided by the total number of journeys which the purchaser of the Fare is estimated to make with that Fare (as determined in each case in accordance with Schedule 28 of the Ticketing and Settlement Agreement);
- (b) in the case of any other Fare which entitles the holder thereof to make more than two journeys, the number of days for which the Fare continues to be valid after the Transfer Date (including any extensions to its original period of validity) divided by the total number of days for which such Fare is valid on issue (except to the extent that it can reasonably be estimated what proportion of the journeys which could be made on issue of the Fare have not been made prior to the Transfer Date); or
- (c) in the case of any other Fare, zero; and

E equals, if $\frac{A}{B}$ is greater than zero:

the amount of any discount to which it can be reasonably estimated that the purchaser of the Fare would be entitled pursuant to the Passenger's Charter or any other passenger's charter of the Transferor on purchasing an equivalent Fare on the expiry of the relevant Fare.

- 2 Rights and liabilities relating to an Excess Fare, Reservation or Upgrade (as such terms are defined in the Ticketing and Settlement Agreement) shall be valued at zero unless such Excess Fare, Reservation or Upgrade involves more than two journeys, in which case they shall be valued in accordance with paragraph 1 and references to Fare in paragraph 1 shall be construed accordingly.
- 3 Rights and liabilities under a Discount Card shall be valued in accordance with the following formula:

$$(C - D) \times \frac{A}{B}$$

where:

- C equals the Credit (exclusive of any Value Added Tax) received by the Transferor in respect of the Discount Card;

D equals the Debit (exclusive of any Value Added Tax) received by the Transferor in respect of the commission due in respect of the sale of the Discount Card (provided that for these purposes the amount of such commission shall not exceed the National Standard Rate of Commission (as defined in the Ticketing and Settlement Agreement) in respect of the Discount Card); and

$\frac{A}{B}$ equals the number of days for which the Discount Card continues to be valid after the Transfer Date (including any extensions to its original period of validity) divided by the total number of days for which such Discount Card is valid on issue, or in the case of any Discount Card listed in Schedules 12 or 39 of the Ticketing and Settlement Agreement on the Start Date, zero,

and for these purposes a Credit or Debit shall be deemed to be received when the relevant Discount Card is Accepted for Clearing (as defined in the Ticketing and Settlement Agreement).

4 Relevant Debits and Credits shall be valued at the full amount of such Debits and Credits (inclusive of any Value Added Tax) but excluding any Debits and Credits arising in respect of Adjustment Amounts (as defined in the Ticketing and Settlement Agreement) which are received by the Transferee in respect of a change to the Credit which is used to value any relevant Season Ticket Fare under paragraph 1 of this Schedule to the extent such Adjustment Amounts relate to a period after the Transfer Date.

5 Rights and liabilities in respect of any contract, lease, licence or other equivalent arrangement (excluding rights and liabilities valued under paragraphs 1 to 4) shall be valued at nil except to the extent that the relevant rights and liabilities include matters specified in the left hand column of the following table, which shall be valued on the basis specified in the right hand column of the following table:

| RIGHTS AND LIABILITIES | VALUE |
|---|--|
| Any accrued rights to receive payment | Monetary amounts so accrued, subject to any provision being made for payment not being received from any other person |
| Any right to receive payment in respect of goods and/or services provided by the Transferor prior to the Transfer Date where the due date for such payment is after the Transfer Date | Amount payable under such contract, lease, licence or other equivalent arrangement for the goods and/or services so provided by the Transferor, subject to any provision being made for payment not being received from any other person |

| | |
|---|---|
| Any accrued liabilities to make payment | Monetary amounts so accrued |
| Any liability to make payment in respect of goods and/or services provided to the Transferor prior to the Transfer Date where the due date for such payment is after the Transfer Date | Amount payable under such contract, lease, licence or other equivalent arrangement for the goods and/or services provided to the Transferor |
| Any rights in respect of which payment has already been made by the Transferor | Monetary amounts so paid, subject to any provision being made for such rights not being exercisable against any other person |
| Any liabilities in respect of which payment has already been received by the Transferor | Monetary amounts so received |
| Any liability resulting from any breach of or failure by the Transferor to comply with the terms of any such contract, lease, licence or other equivalent arrangement | Amount of such liability or, to the extent that such amount is not ascertained, the parties reasonable estimate of the amount of such liability |
| 6 CRM Data and Yield Management Data shall be valued at nil. | |
| 7 The Stored Credit Balance held by the Franchise Operator at the Transfer Date shall be valued at the monetary amount so held. | |
| 8 Any liability resulting from a breach of or failure by the Franchise Operator to comply with its obligations under the Franchise Agreement to ensure that at the end of the Franchise Term the Standard of Repair is complied with shall be valued at an amount that is equal to the amount of such liability or, to the extent that such amount is not ascertained, the parties reasonable estimate of the amount of such liability. | |
| 9 Any asset arising as a result of an Approved CCIF Scheme shall be valued at nil. | |
| 10 Any ITSO equipment (including smartcard and ITSO Certified Smartmedia readers and ITSO database) and any Intellectual Property Rights associated with that ITSO Equipment transferred from the Transferor to the Transferee pursuant to the Transfer Scheme shall be valued at nil. | |
| 11 Any other property, rights or liabilities shall be valued on the basis of a willing vendor and purchaser and ongoing usage within the railway industry. | |

Schedule 16

Pensions

1 Franchise Sections

The Franchise Operator shall participate in and become the Designated Employer in relation to the East Coast Main Line Shared Cost Section of the Railway Pension Scheme (the **Franchise Sections**) in respect of the Franchise Services. Subject to paragraphs 2 and 3.2(d) membership of a Franchise Section will be offered to each employee of a Franchise Operator only.

2 Closed Schemes

- 2.1 Subject to any requirements of Her Majesty's Revenue and Customs, the Franchise Operator shall take any necessary steps (including entering into any relevant deed of participation) to allow Closed Scheme Employees to continue in membership of the British Railways Superannuation Fund or the BR (1974) Pension Fund in accordance with their terms during the Franchise Period.
- 2.2 For the purposes of this paragraph 2, Closed Scheme Employees means such of the employees of the Franchise Operator who were, immediately prior to the commencement of their employment with the Franchise Operator, members of either of the British Railways Superannuation Fund or the BR (1974) Pension Fund.

3 Variations in benefits, contributions and investment

- 3.1 If a Franchise Operator is considering making a proposal that falls within the scope of paragraphs 3.2(a) to (g) inclusive, it shall promptly consult with the Secretary of State in relation to that proposal prior to putting such a proposal to the Pensions Committee of any Franchise Section, the Trustee of the Railways Pension Scheme (the **Trustee**), or to any trade union. The Franchise Operator must otherwise consult in good time with the Secretary of State in relation to any proposal falling within the scope of paragraphs 3.2(a) to (g) inclusive.
- 3.2 Separately and in addition to complying with its obligations under paragraph 3.1, the Franchise Operator shall not, without the prior written consent of the Secretary of State (which may be given on such terms and subject to such conditions as the Secretary of State thinks fit):
- (a) restructure or change the composition of the earnings of employees of the Franchise Operator in such a way as to increase the part of those earnings which qualifies as pensionable earnings under the Rules applicable to any Franchise Section or take any action (or consent to the taking of any action) which could detrimentally affect the funding

of any Franchise Section, including varying or providing different or additional benefits under that Franchise Section or promising to do so, unless this change:

- (i) is required by Law; or
 - (ii) only affects benefits payable in respect of past service of members of that Franchise Section and on or prior to the effective date of the change the Franchise Operator pays an additional cash payment to the Trustee which, in the opinion of the Actuary, meets in full the additional funding cost imposed on that Franchise Section; or
 - (iii) would not lead to substantial changes in the funding of any Franchise Section and is the result of the normal application of that Franchise Section's Rules in the ordinary day to day running of the business of the Franchise, for example, where individual employees are, from time to time promoted or transferred to higher paid or different employment which has a different composition of earnings;
- (b) make or consent to any proposal to change any of the provisions of the Pension Trust in respect of the Franchise Sections unless the change is required by Law;
 - (c) provide retirement, death or life assurance benefits in respect of any of its employees other than under any Franchise Section or as provided in paragraph 2;
 - (d) omit to provide the above-mentioned benefits in respect of its employees save that, without prejudice to any rights which any such employee may otherwise have, the Franchise Operator shall not under this Schedule 16 be obliged for the purposes of the Franchise Agreement to offer such benefits to any employee employed on a fixed term contract of 12 months or less;
 - (e) take any action (or consent to the taking of any action) which could affect the contributions payable by Participating Employers under any Franchise Section, including exercising any discretion allowed to the Franchise Operator as Designated Employer arising out of any actuarial valuation of a Franchise Section, and varying or providing different or additional benefits under the Franchise Sections in respect of future service, unless such action is required by Law;
 - (f) close a Franchise Section to new members; or
 - (g) take (or omit to take) any action which could result in any Franchise Section being wound up, in whole or in part.

3.3 The Franchise Operator shall consult with the Secretary of State on:

- (a) any proposal made by the Trustee to change the statement of investment principles applicable to any Franchise Section; and
 - (b) any proposal to alter the rate of contributions payable by the Franchise Operator or its employees under a new schedule of contributions for the Franchise Section.
- 3.4 With respect to any proposal falling within the scope of paragraph 3.3(a) or (b), the Franchise Operator shall also consult with the Trustee on the basis of any response it receives from the Secretary of State in relation to any such proposal.

4 Funding liabilities

- 4.1 The Franchise Operator shall pay the employer contributions required under the schedule of contributions applicable to each Franchise Section (or either of the British Railways Superannuation Fund or the BR (1974) Pension Fund in which it participates) in respect of the Franchise Term subject to the provisions of paragraph 4.2 below.
- 4.2 Where, during the Franchise Term, Franchise Services are aggregated or disaggregated by the Secretary of State (for example, as a result of remapping) and, as a consequence, a Franchise Section of which the Franchise Operator is the Designated Employer is required to accept a transfer in or to make a transfer out of members, the Secretary of State shall ensure that the Franchise Operator has no liability for any resulting deterioration immediately arising in the funding level of the Franchise Section measured in accordance with the Franchise Sections' technical provisions in Part 3 of the Pensions Act 2004, or for any amount arising under article 7(4) of the Railway Pensions (Protection and Designation of Schemes) Order 1994. Notwithstanding the above the Secretary of State shall have no liability for any future deterioration in the funding levels of the Franchise Section linked to such transfer in or out of members.

5 Discharge of obligations

- 5.1 The Secretary of State may at any time during the Franchise Term seek information from the Trustee with a view to satisfying himself that the Franchise Operator and the other Participating Employers (if any) have fully discharged their respective obligations under the Railways Pension Scheme, including their obligations in respect of the payment of contributions to any Franchise Section.
- 5.2 The Franchise Operator shall, at its expense, promptly provide such information in relation to any Franchise Section, including actuarial advice and information, as the Secretary of State may from time to time request and shall authorise and consent to the Trustee doing so.

5.3 The Franchise Operator shall, in respect of the Franchise Term, use all reasonable endeavours to provide to the Secretary of State:

(a) within one month of the expiry of each Franchise Operator Year; and

(b) at other times as soon as practicable following a request by the Secretary of State,

a certificate signed by the Trustee in relation to the Franchise Sections stating either that the Franchise Operator has fully complied with its obligations under the Railways Pensions Scheme, including its obligation to contribute to the Franchise Sections or, if it has not so complied, stating the extent to which it has not done so. Where the certificate is given pursuant to paragraph 5.3(a), it shall cover the relevant Franchise Operator Year. Where the certificate has been given pursuant to paragraph 5.3(b), it shall cover such period as the Secretary of State shall specify.

5.4 If the Trustee does not certify under paragraph 5.3 in relation to the Franchise Sections that the Franchise Operator has fully complied with its obligations under the Railways Pension Scheme or if the Secretary of State otherwise reasonably considers that the Franchise Operator has not complied with such obligations, the Secretary of State may adjust Franchise Payments payable under Schedule 8 (Payments) by an amount which is, in his opinion, no greater than the amount of any contribution that the Franchise Operator has thereby failed to make or avoided making.

5.5 The Secretary of State may, under paragraph 5.4, continue to make such adjustments to Franchise Payments payable under Schedule 8 (Payments) until such time as he reasonably determines that the relevant contributions have been made in full by the Franchise Operator. Following that determination, any amounts so withheld by the Secretary of State shall become payable (without interest) on the next day on which a Franchise Payment becomes payable under Schedule 8 (Payments), being a day which falls no less than seven days after such determination or, if there is no such day, 14 days after the date of such determination. To the extent that the Secretary of State has not so determined within four weeks after the expiry of the Franchise Period, the Franchise Operator's right to receive the amount so withheld under the Franchise Agreement shall lapse and the Secretary of State shall not be obliged to pay such amount.

6 Termination of Franchise

The Secretary of State shall at the end of the Franchise Period ensure that the Franchise Operator has no liability for any deficit in the Franchise Sections (other than for contributions due and payable by the Franchise Operator to the Franchise Sections for any period prior to the end of the Franchise Term) and shall have no right to benefit from any surplus which may exist in the Franchise Sections. For the avoidance of doubt, this paragraph 6 shall apply where the Franchise Services are either aggregated or disaggregated (for example, as a result of remapping).

7 Definitions

Unless otherwise defined in the Franchise Agreement, terms used in this Schedule 16 shall have the meanings given to them in the Railways Pension Scheme.

Schedule 17

Confidentiality and Freedom of Information

1 Confidentiality

Subject to the provisions of the Act, the Transport Act, the Railways Act 2005, the Environmental Information Regulations, the Freedom of Information Act (and any code of practice or other guidance related to the same) and paragraphs 2 to 8 of this Schedule 17 inclusive, each party shall hold in confidence all documents, materials and other information, whether technical or commercial, supplied by or on behalf of the other party (including all documents and information supplied in the course of proceedings under the Dispute Resolution Rules or the rules of any other dispute resolution procedures to which a dispute is referred in accordance with the Franchise Agreement) (all together the **Confidential Information**) and shall not, except with the other party's prior written authority, publish or otherwise disclose any Confidential Information otherwise than as expressly provided for in the Franchise Agreement unless or until the recipient party can demonstrate that any such document, material or information is in the public domain through no fault of its own and through no contravention of the Franchise Agreement, whereupon to the extent that it is in the public domain this obligation shall cease.

2 Disclosure of Confidential Information

2.1 Each party may disclose any data or information acquired by it under or pursuant to the Franchise Agreement or information relating to a dispute arising under the Franchise Agreement without the prior written consent of the other party if such disclosure is made in good faith:

- (a) to any Affiliate of such party or outside consultants or advisers of such Affiliate, upon obtaining from such Affiliate and/or such outside consultants or advisers of such Affiliate an undertaking of confidentiality equivalent to that contained in paragraph 1;
- (b) to any outside consultants or advisers engaged by or on behalf of such party and acting in that capacity, upon obtaining from such consultants or advisers an undertaking of confidentiality equivalent to that contained in paragraph 1;
- (c) to any lenders, security trustee, bank or other financial institution (and its or their advisers) from which such party is seeking or obtaining finance, upon obtaining from any such person an undertaking of confidentiality equivalent to that contained in paragraph 1;

- (d) to the extent required by Law or pursuant to an order of any court of competent jurisdiction or under the Dispute Resolution Rules or the rules of any other dispute resolution procedures to which a dispute is referred in accordance with the Franchise Agreement or the rules of a recognised stock exchange or a formal or informal request of any taxation authority;
- (e) to any insurer, upon obtaining from such insurer an undertaking of confidentiality equivalent to that contained in paragraph 1;
- (f) to any director, employee or officer of such party, to the extent necessary to enable such party to perform its obligations under the Franchise Agreement or to protect or enforce its rights under the Franchise Agreement; or
- (g) by the Franchise Operator, to the ORR, the Passengers' Council or a Local Authority.

2.2 The Secretary of State may disclose the Confidential Information of the Franchisee and/or the Franchise Operator:

- (a) on a confidential basis to any Central Government Body for any proper purpose of the Secretary of State or of the relevant Central Government Body;
- (b) to Parliament and Parliamentary Committees or if required by any Parliamentary reporting requirement;
- (c) to the extent that the Secretary of State (acting reasonably) deems disclosure necessary or appropriate in the course of carrying out its public functions;
- (d) on a confidential basis to a professional adviser, consultant, supplier or other person engaged by any of the entities described in paragraph 2.2(a) of this Schedule 17 (Confidentiality and Freedom of Information) (including any benchmarking organisation) for any purpose relating to or connected with the Franchise;
- (e) on a confidential basis for the purpose of the exercise of its rights under this Agreement, including but not limited to its right of audit, assessment or inspection pursuant to paragraph 5 of Schedule 11 (Agreement Management Provisions) and its rights pursuant to Schedule 15.1 (Reletting Provisions); or
- (f) on a confidential basis to a proposed successor, transferee or assignee of the Secretary of State in connection with any assignment, novation or disposal of any of its rights, obligations or liabilities under this Agreement,

and for the purposes of the foregoing, references to disclosure on a confidential basis shall mean disclosure subject to a confidentiality agreement or arrangement containing terms no less stringent than those placed on the Secretary of State under this paragraph 2.2 of Schedule 17.

2.3 For the purposes of paragraph 2.2, the following defined terms shall have the following meanings:

Central Government Body means a body listed in one of the following sub-categories of the Central Government classification of the Public Sector Classification Guide, as published and amended from time to time by the Office for National Statistics:

- (a) Government Department;
- (b) Non-Departmental Public Body or Assembly Sponsored Public Body (advisory, executive, or tribunal);
- (c) Non-Ministerial Department; or
- (d) Executive Agency.

3 Publication of Certain Information

3.1 Notwithstanding the provisions of paragraph 1, the Secretary of State may publish (whether to the press, the public or to one or more individuals, companies or other bodies, including to any prospective Successor Operator) in such form and at such times as he sees fit, the following (irrespective of whether the same was provided to the Secretary of State by the Franchise Operator or a third party):

- (a) any or all of the Franchise Documents provided that the Secretary of State will, prior to publishing the same, redact from any Franchise Document any information contained therein which the Secretary of State and the Franchise Operator agree or failing which the Secretary of State determines, in his absolute discretion, is exempt from disclosure in accordance with the provisions of the Freedom of Information Act and/or the Environmental Information Regulations;
- (b) the amount of any Franchise Payments payable under the Franchise Agreement and the aggregate amount of Franchise Payments paid in each year under the Franchise Agreement;
- (c) such information as the Secretary of State may consider reasonably necessary to publish in connection with the performance of his functions in relation to any Closure or proposed Closure;

- (d) the amount of any payments by the Franchise Operator under the Passenger's Charter;
- (e) such information (including CRM Data and Yield Management Data) as may reasonably be required in connection with any Tendering/Reletting Process or the retendering or reletting of any other railway passenger services, provided that such information may only be published during the period of, or during the period leading up to, such retendering or reletting;
- (f) any reports and accounts delivered to him under Schedule 13 (Information and Industry Initiatives) including any analyses, statistics and other information derived from such reports and accounts;
- (g) the results of any monitoring or measurement of the performance of the Franchise Operator in the provision of the Franchise Services (including any information provided under Schedule 11 (Agreement Management Provisions));
- (h) the results, on a Service Group, Route, station or other comparable basis, of any calculation of passenger numbers under Schedule 1.5 (Information about Passengers);
- (i) the results of any survey under Schedule 7.2 (National Rail Passenger Surveys and Customer and Communities Improvement Fund);
- (j) the results of any assessment or inspection under Schedule 11 (Agreement Management Provisions);
- (k) details of the Franchise Operator's plans and performance in respect of safety;
- (l) not used;
- (m) such information as the Secretary of State may reasonably require to include in his annual report in respect of the Franchise Operator provided that, in preparing that report, the Secretary of State shall have regard to the need for excluding, so far as is practicable, the matters specified in paragraphs (a) and (b) of Section 71(2) of the Act for this purpose, taking references in those paragraphs to the ORR as references to the Secretary of State; and
- (n) such information as the Secretary of State may reasonably require to publish at or around the expiry or possible termination of the Franchise Period in order to secure continuity of the provision and operation of the Franchise Services.

3.2 Without prejudice to any other provision of this Schedule 17, the Secretary of State may publish any other information relating to the Franchise Operator if he has previously notified the Franchise

Operator and the Franchise Operator does not demonstrate to the reasonable satisfaction of the Secretary of State within 14 days of such notification that the publication of such information would, in the reasonable opinion of the Franchise Operator, be materially detrimental to its business. If the Franchise Operator attempts so to demonstrate to the Secretary of State but he is not so satisfied, the Secretary of State shall allow seven more days before publishing the relevant information.

4 Service Development Information

Nothing in this Schedule 17 shall be deemed to prohibit, prevent or hinder, or render either party liable for, the disclosure by either party to Network Rail, the ORR, other Train Operators, any operators of services for the carriage of goods by rail, the Passengers' Council and/or any Local Authority of any information relating to the development of the Train Service Requirement in accordance with Part A of Schedule 1.1 (Service Development) or the Service Level Commitment in accordance with Part B of Schedule 1.1 (Service Development).

5 Publication by Secretary Of State

Nothing in this Schedule 17 shall be deemed to prohibit, prevent or hinder, or render the Secretary of State liable for, the disclosure of any information by the Secretary of State to the ORR, the Parliamentary Commissioner for Administration, a Minister of the Crown, any department of the government of the United Kingdom, the Scottish Parliament, the National Assembly of Wales, the Mayor of London, the Greater London Authority or any department or officer of any of them or of information which is otherwise disclosed for the purpose of facilitating the carrying out of his functions.

6 Provision of Information to the ORR

Each of the Franchise Operator and the Franchisee hereby authorises the Secretary of State to provide to the ORR, to the extent so requested by the ORR, such information as may be provided to the Secretary of State in relation to the Franchise Operator and/or the Franchisee under the Franchise Agreement.

7 Disclosure by Comptroller and Auditor General

The parties recognise that the Comptroller and Auditor General may, in pursuance of his functions under the Exchequer and Audit Department Act 1921, the National Audit Act 1983 and the Government Resources and Accounts Act 2000, disclose information which he has obtained pursuant to those Acts and which a party to the Franchise Agreement would not be able to disclose otherwise than under this Schedule 17.

8 Continuing Obligation

This Schedule 17 (and any other provisions necessary to give effect hereto) shall survive the termination of the Franchise Agreement, irrespective of the reason for termination.

9 Freedom of Information - General Provisions

- 9.1 The Franchise Operator acknowledges and shall procure that its agents and subcontractors acknowledge that the Secretary of State is subject to the requirements of the Freedom of Information Act and the Environmental Information Regulations and accordingly the Franchise Operator shall and shall procure that its agents and subcontractors shall assist and co-operate with the Secretary of State to enable the Secretary of State to comply with his information disclosure obligations under the Freedom of Information Act and/or the Environmental Information Regulations.
- 9.2 Notwithstanding paragraph 10, the Franchise Operator shall and shall procure that its agents and subcontractors shall:
- (a) transfer to the Secretary of State any Requests for Information received by the Franchise Operator (or its agents or subcontractors) as soon as practicable and in any event within two working days of receiving any such Request for Information;
 - (b) provide the Secretary of State with a copy of all information in its (or their) possession or power in the form that the Secretary of State requires within five working days of the Secretary of State's request (or within such other period as he may specify); and
 - (c) provide all necessary assistance as reasonably requested by the Secretary of State to enable him to respond to any Request for Information within the time for compliance set out in section 10 of the Freedom of Information Act or regulation 5 of the Environmental Information Regulations as applicable.
- 9.3 The Secretary of State shall be responsible for determining in his absolute discretion, and notwithstanding any other provision in the Franchise Agreement or any other agreement, whether Confidential Information (as such term is defined in paragraph 1 of this Schedule 17) and/or any other information is exempt from disclosure in accordance with the provisions of the Freedom of Information Act and/or the Environmental Information Regulations.
- 9.4 The Franchise Operator shall not and shall procure that its agents and subcontractors shall not respond directly to any Request for Information unless expressly authorised to do so by the Secretary of State.

9.5 The Franchise Operator acknowledges and shall procure that its agents and subcontractors acknowledge that notwithstanding any provision to the contrary in the Franchise Agreement the Secretary of State may be obliged under the Freedom of Information Act and/or the Environmental Information Regulations and any related Code of Practice or other guidance to disclose information concerning the Franchise Operator and/or its agents and subcontractors:

- (a) in certain circumstances without consulting the Franchise Operator (or its agents and/or subcontractors where applicable); or
- (b) following consultation with the Franchise Operator and having taken its views into account (and the views of its agents and/or subcontractors where applicable),

provided always that where applicable the Secretary of State shall in accordance with the provisions of the Freedom of Information Act and/or the Environmental Information Regulations take reasonable steps where appropriate to give the Franchise Operator advance notice or failing that to draw the disclosure to the Franchise Operator's attention after any such disclosure.

10 Redactions

10.1 Subject to paragraph 9, by no later than the date which is:

- (a) 4 weeks after the date of this Agreement (in respect of the Franchise Documents referred to in paragraph (a) of the definition thereof);
- (b) 30 days after the date of notification by the Secretary of State to the Franchisee of another agreement that is required for publication (in respect of the Franchise Documents referred to in paragraph (b) of the definition thereof); and
- (c) 30 days after the date of any document varying the terms of any Franchise Document,

the Franchise Operator or the Franchisee (as the case may be) will provide to the Secretary of State details of any provisions of the Franchise Documents or any such variation which the Franchise Operator believes are exempt from disclosure in accordance with the provisions of the Freedom of Information Act, the Environmental Information Regulations and/or Section 73(3) of the Act (**Redactions**).

10.2 For each such Redaction the Franchise Operator should specify:

- (a) the exact text of the Franchise Document or variation that the Franchise Operator proposes is redacted;

- (b) whether the Franchise Operator proposes that the Redaction applies in relation to the publication of the relevant Franchise Document or variation on the website of the Department for Transport, on the register required to be maintained by the Secretary of State pursuant to Section 73 of the Act or on both such website and such register;
- (c) the reasons why the Franchise Operator believes that the proposed Redaction is justified in accordance with the Freedom of Information Act, the Environmental Information Regulations and/or Section 73(3) of the Act.

10.3 The Secretary of State shall consult with the Franchise Operator in relation to the Franchise Operator's proposed Redactions (provided that the same are provided to the Secretary of State in accordance with paragraph 10.1). If the Secretary of State and the Franchise Operator are unable to agree upon any proposed Redaction, the Secretary of State shall be entitled to determine, in his absolute discretion, whether or not to make such proposed Redaction. If the Franchise Operator does not provide its proposed Redactions to the Secretary of State in accordance with paragraph 10.1, the Franchise Operator shall be deemed to have consented to publication of the relevant document without any Redactions.

Schedule 18
Additional Reporting Periods

1 Additional 13 Reporting Periods

- 1.1 Subject to paragraph 1.2, the Franchise Agreement shall expire at 0159 on 31 March 2023.
- 1.2 If the Secretary of State gives notice to the Franchise Operator not less than three months before the date on which the Franchise Agreement is due to expire in accordance with paragraph 1.1, the Franchise Agreement shall continue after such date on the terms set out in the Franchise Agreement for not less than one and not more than 13 Reporting Periods, as the Secretary of State may stipulate.

Key Contracts

- 1.3 The Franchise Operator shall enter into any and all Key Contracts which are necessary for the Franchise Agreement to continue in accordance with paragraph 1.2 of this Schedule 18.

Schedule 19

Other Provisions

1 Rights Cumulative

The rights of the Secretary of State under the Franchise Agreement are cumulative, may be exercised as often as he considers appropriate and are in addition to his rights under the general Law. The exercise of such rights shall not limit the Secretary of State's right to make payment adjustments, claim damages in respect of contraventions of the Franchise Agreement or pursue any available remedies under general Law.

2 Disputes

Disputes under the Franchise Agreement

- 2.1 Wherever the Franchise Agreement provides that the Secretary of State may reasonably determine any matter, the Franchise Operator may, unless the Franchise Agreement expressly provides otherwise, dispute whether a determination made by the Secretary of State is reasonable, but the Secretary of State's determination shall prevail unless and until it is agreed or found to have been unreasonable.
- 2.2 Where either party is entitled, pursuant to the terms of the Franchise Agreement, to refer a dispute arising out of or in connection with the Franchise Agreement for resolution or determination in accordance with the Dispute Resolution Rules, then such dispute shall, unless the parties otherwise agree and subject to any duty of the Secretary of State under Section 55 of the Act, be resolved or determined by arbitration pursuant to the Dispute Resolution Rules.
- 2.3 Where, in the absence of an express provision in the Franchise Agreement entitling it to do so, either party wishes to refer a dispute arising out of or in connection with the Franchise Agreement to arbitration pursuant to the Dispute Resolution Rules, the following process shall apply:
- (a) the party seeking to refer to arbitration shall serve a written notice upon the other party stating (i) the nature and circumstances of the dispute, (ii) the relief sought including, to the extent possible, an indication of any amount(s) claimed, and (iii) why it is considered that the dispute should be resolved by way of arbitration rather than litigation;
 - (b) the other party shall respond within 20 working days of service of the notice confirming whether or not referral of the dispute to arbitration is agreed. In the absence of any response, the referral to arbitration shall be deemed not to have been agreed;

- (c) in the event that the parties agree to refer the dispute to arbitration then it shall be resolved or determined in accordance with the Dispute Resolution Rules;
- (d) in the event that the parties do not agree to refer the dispute to arbitration then it shall be resolved or determined in accordance with Clause 8 of the Franchise Agreement; and
- (e) nothing in this paragraph 2.3 shall preclude either party from commencing, continuing or otherwise taking any step by way of litigation in pursuit of the resolution or determination of the dispute unless an agreement is reached to refer the dispute to arbitration.

2.4 The arbitrator in any dispute referred for resolution or determination under the Dispute Resolution Rules shall be a suitably qualified person chosen by agreement between the parties or, in default of agreement, chosen by the Disputes Secretary from a panel of persons agreed from time to time for such purposes between the Secretary of State and the Franchise Operator or, in default of agreement as to the arbitrator or as to such panel, selected on the application of any party by the President of the Law Society or the President of the Institute of Chartered Accountants in England and Wales from time to time (or such other person to whom they may delegate such selection).

Disputes under Other Agreements

2.5 The Franchise Operator shall notify the Secretary of State of any disputes to which it is a party under any Inter-Operator Scheme, Access Agreement, Property Lease or Rolling Stock Related Contract, or under any other agreement in circumstances where the relevant dispute could have an adverse effect on the Franchise Operator's ability to comply with its obligations under the Franchise Agreement or on the provision of the Franchise Services and which have been submitted for resolution either to the courts or to any other procedure for dispute resolution provided for under such agreements.

2.6 Such notification shall be made both:

- (a) at the time of such submission (and such notification shall include reasonable details of the nature of the dispute); and
- (b) at the time of the resolution of the dispute (whether or not subject to appeal) (and such notification shall include reasonable details of the result of the dispute, any associated award and whether it is subject to appeal).

2.7 The Franchise Operator shall provide such further details of any dispute referred to in paragraph 2.4 as the Secretary of State may reasonably request from time to time.

3 Notices

Notices

3.1

- (a) Any notice, notification or other communication under or in connection with the matters specified in Schedule 10.2 (Termination and Expiry) or any dispute under or in connection with the Franchise Agreement shall be in writing and shall be delivered by hand or recorded delivery or sent by pre-paid first class post to the relevant party at the address for service set out below, or to such other address in the United Kingdom as each party may specify by notice in writing to the other party:

Name: The Department for Transport

Address: 33 Horseferry Road, London SW1P 4DR

E-mail: franchise.notices@dft.gsi.gov.uk

Attention: **The Manager – East Coast franchise**²⁸⁰

Name: East Coast Main Line Company Limited

Address: 25 Skeldergate, York, YO1 6DH

E-mail: ²⁸¹

Attention: ²⁸²– Franchise Compliance Manager

Name: Inter City Railways Limited

Address: Friars Bridge Court, 41-45 Blackfriars Road, London SE1 8NZ

²⁸⁰ Amended in letter of 30 March 2015

²⁸¹ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

²⁸² Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

E-mail: ²⁸³█

Attention: Managing Director

(b) Any other notice, notification or other communication under or in connection with the Franchise Agreement shall be in writing and shall be delivered:

(i) in accordance with paragraph 3.1(a); or

(ii) by electronic data transfer,

except that it shall be marked for the attention of the Contract Manager or the Franchise Manager.

Deemed Receipt

3.2 Any such notice or other communication shall be deemed to have been received by the party to whom it is addressed as follows:

(a) if sent by hand or recorded delivery, when delivered;

(b) if sent by pre-paid first class post, from and to any place within the United Kingdom, three business days after posting unless otherwise proven; and

(c) if sent by electronic data transfer, upon sending, subject to receipt by the sender of a "delivered" confirmation (provided that the sender shall not be required to produce a "read" confirmation).

4 Assignment

The Franchise Operator shall not without the prior written consent of the Secretary of State assign, hold in trust for any other person, or grant a Security Interest in or over, the Franchise Agreement or any part hereof or any benefit or interest or right herein or hereunder (other than any right of the Franchise Operator to receive monies under a Supplemental Agreement).

²⁸³ Where text has been omitted from this document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the Freedom of Information Act 2000.

5 Set Off

- 5.1 Save as otherwise expressly provided under the Franchise Agreement or required by law, all sums payable under the Franchise Agreement shall be paid in full and without any set-off or any deduction or withholding including on account of any counter-claim.
- 5.2 Notwithstanding paragraph 5.1 the Secretary of State shall be entitled to set-off against any amounts payable by him under the Franchise Agreement:
- (a) any amount or liability payable or due to him under or in relation to the Franchise Agreement (whether such amount or liability is present, contingent and/or future, liquidated or unliquidated); and
 - (b) any monetary penalty payable under the Act.

6 Miscellaneous Provisions

Waivers

- 6.1
- (a) Any party may at any time waive any obligation of any other party owed to it under the Franchise Agreement and the obligations of the parties hereunder shall be construed accordingly.
 - (b) No waiver by any party of any default by any other party in the performance of such party's obligations under the Franchise Agreement shall operate or be construed as a waiver of any other or further such default, whether of a like or different character. A failure to exercise or delay in exercising a right or remedy under the Franchise Agreement shall not constitute a waiver of any right or remedy or a waiver of any other rights or remedies and no single or partial exercise of any right or remedy under the Franchise Agreement shall prevent any further exercise of such right or remedy or the exercise of any other right or remedy.

Time Limits

- 6.2 Where in the Franchise Agreement any obligation of a party is required to be performed within a specified time limit (including an obligation to use all reasonable endeavours or best endeavours to secure a particular result within such time limit) that obligation shall be deemed to continue after the expiry of such time limit if such party fails to comply with that obligation (or secure such result, as appropriate) within such time limit.

Partial Invalidity

- 6.3 If any provision in the Franchise Agreement is held to be void, illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of Law, such provision or part shall to that extent be deemed not to form part of the Franchise Agreement but the legality, validity and enforceability of the remainder of the Franchise Agreement shall not be affected.

Further Assurance

- 6.4 Each party agrees to execute and deliver all such further instruments and do and perform all such further acts and things as shall be necessary or expedient for the carrying out of the provisions of the Franchise Agreement.

Rights of Third Parties

- 6.5
- (a) A person who is not a party to the Franchise Agreement shall have no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Franchise Agreement except to the extent set out in this paragraph 6.5.
 - (b) Any Successor Operator or potential Successor Operator nominated by the Secretary of State and notified to the Franchisee and the Franchise Operator for the purposes of this paragraph 6.5 may enforce and rely on the provisions of Schedule 15 (Obligations Associated with Termination) to the same extent as if it were a party but subject to paragraphs 6.5(c) and (d).
 - (c) The Franchise Agreement may be terminated, and any term may be amended or waived, in each case in accordance with the terms of the Franchise Agreement, without the consent of any person nominated under paragraph 6.5(b).
 - (d) The person nominated under paragraph 6.5(b) shall only be entitled to enforce and rely on Schedule 15 (Obligations Associated with Termination) to the extent determined by the Secretary of State (whether at the time of nomination or at any other time) and, to the extent that any such person is entitled to enforce and rely on Schedule 15 (Obligations Associated with Termination), any legal proceedings in relation thereto must be commenced within one year of the expiry of the Franchise Period and any such person shall not be entitled to enforce or rely on Schedule 15 (Obligations Associated with Termination) to the extent that it has consented to any particular act or omission of the Franchise Operator which may constitute a contravention of Schedule 15 (Obligations Associated with Termination) or has been afforded a reasonable opportunity to indicate to the Franchise Operator that it is not

so consenting and has not so indicated (the extent of such reasonable opportunity to be determined by the Secretary of State unless otherwise agreed).

Secretary of State's Consent or Approval

6.6 Where any provision of the Franchise Agreement provides for any matter to be subject to the consent or approval of the Secretary of State, then (subject only to the express terms of that provision as to the basis on which that consent or approval may be given or withheld) the Secretary of State shall be entitled to give that consent or approval subject to any condition or conditions as he considers appropriate, which may include the adjustment of any of the terms of the Franchise Agreement.

7 Enforcement Costs

Each of the Franchise Operator and the Franchisee shall compensate the Secretary of State for all reasonable costs incurred by the Secretary of State as a result of such party failing to perform its obligations under the Franchise Agreement in accordance with their terms in the exercise of the Secretary of State's rights under Schedule 10 (Remedies, Termination and Expiry).

8 Currency

If at any time the Bank of England or other competent monetary authority of the United Kingdom or competent organ of H. M. Government of the United Kingdom recognises the Euro as lawful currency and tender of the United Kingdom, the Secretary of State may, by reasonable notice to the Franchise Operator and the Franchise Operator may by reasonable notice to the Secretary of State, elect that all payment obligations arising under the Franchise Agreement shall be denominated and/or constituted in Euros on the basis that all outstanding amounts and obligations previously denominated and/or constituted in pounds sterling shall be translated into Euros at the exchange rate applied or recognised by the United Kingdom authority or organ which granted recognition of the Euro for the purpose of such translation on the date on which it granted recognition of the Euro.

9 Arm's Length Dealings

Each of the Franchise Operator and the Franchisee shall ensure that every contract or other arrangement or transaction to which it may become party in connection with the Franchise Agreement with any person is on bona fide arm's length terms.

10 Non discrimination

- 10.1 Neither the Franchise Operator nor the Franchisee will discriminate in seeking offers in relation to, or in awarding, a contract for the purchase or hire of goods on the grounds:
- (a) of nationality, against a person who is a national of and established in a relevant State; or
 - (b) that the goods to be supplied under the contract originate in another relevant State.
- 10.2 For the purpose of this Clause, "relevant State" has the meaning given in the Public Contracts Regulations 2006.

ⁱ By virtue of a derogation, the Secretary of State has granted the franchise operator a derogation against Sch 13 para 3.4 for a seven days extension for submission of Q3 forecast.

Start date: 03/10/2015 End date: 10/01/2015

ⁱⁱ By virtue of a derogation, the Secretary of State has granted the franchise operator a derogation against Sch 13 para 3.9 for an extension to submission date for audited accounts.

Start date 27/06/2015 End date 25/07/2015