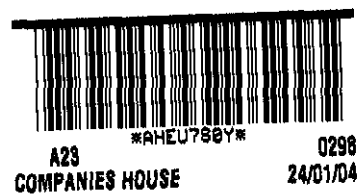


**TRAM OPERATIONS LIMITED
FINANCIAL STATEMENTS**

31 MARCH 2003

**Company Registered
Number 3097532**



TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS

31 March 2003

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TRAM OPERATIONS LIMITED

Directors' report

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2003.

Principal activities

The company is involved in providing tram operating services to the concessionaire Tramtrack Croydon Limited.

Future prospects

Tram operating services have operated satisfactorily in the year to date. The directors aim to increase the efficiency of the tram service in the future by continued investment.

Results and dividends

The results for the year are given in the profit and loss account on page 8.

The directors do not recommend payment of a final dividend (2002: £Nil).

TRAM OPERATIONS LIMITED

Directors' report (continued)

Directors

The directors who held office throughout the year (except as noted) were as follows:

Robbie Duncan	(Resigned 15 July 2002)
Nick Chevis	
John Rymer	
Michael Steward	
Alison Forster	(Resigned 9 December 2002)
Leon Daniels	
Michael Reeves	(Resigned 6 September 2002)
Michaela Wadsworth	
David Quinn	
Adrian Wlodarski	

The directors who held office at the end of the year had the following interests in the ordinary shares of FirstGroup plc:

Director	Ordinary shares		Deferred Bonus scheme	
	At end of year 5p shares	At beginning of year 5p shares	At end of year 5p shares	At beginning of year 5p shares
Nick Chevis	5,476	-	17,102	6,515
John Rymer	24,597	24,597	514	283
Michael Steward	241	16,797	-	-
David Quinn	181	130	-	-
Leon Daniels	249,932	249,932	3,532	2,088
Michaela Wadsworth	460	409	-	-
Adrian Wlodarski	96	45	-	-

TRAM OPERATIONS LIMITED

Directors' report (continued)

Share options under Executive scheme

Director	At end Of year 5p shares	Granted during year 5p shares	Lapsed/ Waived during year 5p shares	Exercised /exchanged for cash	At beginning of year 5p shares
Nick Chevis	36,268	20,684	-	-	15,584
John Rymer	4,786	1,178	-	-	3,608
Leon Daniels	13,019	3,207	-	-	9,812

Share options under savings related share option scheme

Director	At end Of year 5p shares	Granted during year 5p shares	Lapsed/ Waived during year 5p shares	Exercised /exchanged for cash	At beginning of year 5p shares
Nick Chevis	1,968	1,968	-	-	-
John Rymer	323	-	-	-	323
Michaela Wadsworth	107	-	-	-	107

Share options under long term incentive plan

Director	At end of year 5p shares	Granted during year 5p shares	Lapsed/Waived during year 5p shares	Exercised /exchanged for cash	At beginning of year 5p shares
Nick Chevis	10,593	-	(13,123)	(8,970)	32,686
John Rymer	6,354	-	-	-	6,354
Leon Daniels	9,532	-	-	-	9,532

None of the directors had any interest in the shares of the company.

TRAM OPERATIONS LIMITED

Directors' report (continued)

Information, including details of exercise prices, relating to the savings related share option scheme and the long term incentive plan are given in note 31 to the financial statements of FirstGroup plc.

There is no contract or arrangements with the company or any of its fellow group undertakings, other than service contracts, in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually. Deloitte & Touche have indicated their willingness to continue as auditors of the company and are therefore deemed to be re-appointed for a further term. Deloitte & Touche have informed the Directors that they have transferred their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, known as Deloitte & Touche LLP. It is the current intention of the Directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

Approved by the Board of Directors
and signed on behalf of the Board



Adrian Wlodarski
Director

4th November 2003

Macmillan House
Paddington Station
London W2 1TY

TRAM OPERATIONS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TRAM OPERATIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAM OPERATIONS LIMITED

We have audited the financial statements of Tram Operations Limited for the year ended 31 March 2003 which comprise the profit and loss account, the balance sheet and related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

TRAM OPERATIONS LIMITED

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF TRAM OPERATIONS LIMITED (continued)**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
London

4 November 2003

TRAM OPERATIONS LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2003

	Notes	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
Turnover	2	6,908	6,805
Operating costs	3	(6,209)	(6,285)
Profit on ordinary activities before taxation	6	699	520
Tax on profit on ordinary activities	7	(209)	(156)
Profit on ordinary activities after taxation and for the financial year	14	490	364

No statement of total recognised gains and losses is given as all gains or losses for the current and preceding year passed through the profit and loss account. There are no movements in shareholder funds in either the current or preceding year other than the profit shown above.

TRAM OPERATIONS LIMITED

BALANCE SHEET

At 31 March 2003

	Notes	31 March 2003		31 March 2002	
		£000	£000	£000	£000
Assets employed:					
Fixed assets					
Tangible assets	8		42		93
Current assets					
Debtors	9	3,678		3,850	
Cash at bank and in hand		<u>2,972</u>		<u>1,956</u>	
		6,650		5,806	
Creditors: amounts falling due within one year	10	<u>(4,878)</u>		<u>(4,575)</u>	
Net current assets					
Due within one year			1,521		972
Amounts due after more than one year			251		259
Net current assets			<u>1,772</u>		<u>1,231</u>
Total assets less current liabilities			1,814		1,324
Total net assets			<u>1,814</u>		<u>1,324</u>
Financed by:					
Capital and reserves					
Called up share capital	13		-		-
Profit and loss account	14		1,814		1,324
Equity shareholders' funds			<u>1,814</u>		<u>1,324</u>

These financial statements were approved by the board of directors on 4th November 2003 and were signed on its behalf by:



A Wlodarski
Director

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS

31 March 2003

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(a) Basis of preparation

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

(b) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Other plant and equipment - 3 to 8 years straight line

(c) Investments

Fixed asset investments are shown at cost less provision for any impairment.

(d) Leases and hire purchase

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

(e) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

(f) Pension costs

Retirement benefits are provided for most employees of the company by a defined benefit scheme and a defined contribution scheme. The defined benefit scheme is funded by contributions from the company and employees. The company's contributions are charged to the profit and loss account, based on recommendations by an independent actuary, in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. The difference between the charge to the profit and loss account and the contributions paid by the company is shown as an asset or liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

In respect of the defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

(g) Deferred contract costs

Deferred contract costs represent costs incurred on a long-term contract, and are deferred and amortised over the contract term.

2 Turnover

Turnover represents the amounts receivable for services supplied to customers during the year.

The whole of the turnover and profit on ordinary activities before taxation derives from the company's principal activities within the United Kingdom. The company has one principal class of business, namely, the provision of passenger transport services.

3 Operating costs

	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
Staff costs (note 4)	3,991	4,015
External charges	2,160	2,169
Depreciation	58	101
	<u>6,209</u>	<u>6,285</u>

TRAM OPERATIONS LIMITED**NOTES TO THE ACCOUNTS (continued)****31 March 2003**

4 Employee numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Year ended 31 March 2003	Year ended 31 March 2002
	Number	Number
Operations	136	132
Maintenance	2	3
Administration	14	15
	<u>152</u>	<u>150</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2003	Year ended 31 March 2002
	£000	£000
Wages and salaries	3,511	3,567
Social security costs	342	341
Other pension costs	138	107
	<u>3,991</u>	<u>4,015</u>

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

5 Directors' remuneration

The remuneration of the directors during the year was as follows:

	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
Aggregate emoluments (excluding pension contributions)	212	212
Company pension contributions to Final Salary schemes	23	27
Company pension contributions to Money Purchase Scheme	2	2
	<u>237</u>	<u>241</u>

Number of directors in money purchase pension scheme during year was 1 (2002:1)

Retirement benefits accrue to 3 directors (2002:3) under a defined benefit scheme.

The emoluments of the highest paid director amounted to:

	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
Aggregate emoluments	74	63
Company pension contributions to Final Salary scheme	9	9
	<u>83</u>	<u>72</u>

One Director exercised share options.

Details of directors' share options are given in the Directors' report.

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

6 Profit on ordinary activities before taxation

	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration		
- Deloitte & Touche audit fee	4	3
Depreciation on owned fixed assets	58	101
Rentals payable under operating leases		
- plant and machinery	6	3
- buildings	<u>25</u>	<u>25</u>

7 Tax on profit on ordinary activities

	Year ended 31 March 2003 £000	Year ended 31 March 2002 £000
Current Taxation		
UK corporation tax charge for the year	243	165
Adjustment in respect of prior years	<u>31</u>	<u>(1)</u>
Total current taxation	274	164
Deferred tax		
Origination and reversal of timing differences	(33)	(8)
Adjustment in respect of prior years	<u>(32)</u>	<u>=</u>
Total deferred taxation	(65)	(8)
Tax on profit on ordinary activities	<u>209</u>	<u>156</u>

TRAM OPERATIONS LIMITED**NOTES TO THE ACCOUNTS (continued)****31 March 2003****Note 7 (continued)**

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30%. The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 March 2003 %	Year ended 31 March 2002 %
Standard rate of taxation	30.0	30.0
Factors affecting charge		
-Disallowable expenses	0.1	-
-Capital allowances in excess of depreciation	0.9	2.7
-Other timing differences	3.8	(1.0)
-Adjustments to the tax charge in respect of prior periods	4.4	(0.2)
Current taxation rate for the year	<u>39.2</u>	<u>31.5</u>

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

8 Tangible fixed assets

Other
plant and
equipment
£000

Cost

At beginning of year	356
Additions	7
At end of year	<u>363</u>

Depreciation

At beginning of year	263
Charge for year	58
At end of year	<u>321</u>

Net book value

At 31 March 2003	<u>42</u>
At 31 March 2002	<u>93</u>

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

9 Debtors

	31 March 2003 £000	31 March 2002 £000
Amounts due within one year		
Trade debtors	818	962
Amounts owed by group undertakings	2,492	2,492
Other debtors	22	95
Deferred tax asset (note 12)	70	5
Prepayments and accrued income	25	37
	<u>3,427</u>	<u>3,591</u>
Amounts due after more than one year		
Deferred contract costs	251	259
	<u>3,678</u>	<u>3,850</u>

10 Creditors

	31 March 2003 £000	31 March 2002 £000
Amounts falling due within one year		
Trade creditors	556	284
Amounts owed to group undertakings	2,319	2,311
Corporation tax	244	166
Other creditors	284	179
Accruals and deferred income	1,475	1,635
	<u>4,878</u>	<u>4,575</u>

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

11 Provisions for liabilities and charges

	Deferred Tax £000
At 31 March 2002	(5)
Provided in the year	(65)
	<u>(70)</u>
At 31 March 2003	<u>(70)</u>

Details of the deferred tax asset are given in note 12. The balance is included in note 9 with Debtors.

12 Deferred taxation

The provision for deferred tax consists of the following amounts:

	31 March 2003 £000	31 March 2002 £000
Capital allowances in excess of depreciation	(20)	(11)
Other timing differences	(50)	6
	<u>(70)</u>	<u>(5)</u>

13 Called up share capital

	31 March 2003 £000	31 March 2002 £000
Authorised		
1,000,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	£000	£000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	<u>-</u>	<u>-</u>

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

14 Profit and loss account

	£000
At beginning of year	1,324
Retained profit for the year	490
At end of year	<u>1,814</u>

15 Cashflow

The company is exempt from the requirement to produce a cashflow statement under FRS 1 Cashflow Statements (Revised) on the grounds that its parent company includes the company in its own consolidated financial statements' or similar.

16 Operating leases

Commitments for payments in the next year under operating leases are as follows:

	31 March 2003		31 March 2002	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	-	-	-
Within two to five years	25	6	25	5
	<u>25</u>	<u>6</u>	<u>25</u>	<u>5</u>

NOTES TO THE ACCOUNTS (continued)

31 March 2003

17 Pension scheme

The company is a member of the pension scheme operated by centrewest London Buses Limited, which has a defined benefit section and defined contribution section, which is funded. The scheme's assets are held and managed independently of Centrewest London Buses Limited's finances by independent investment managers appointed by the trustees of the scheme. All eligible employees are offered membership of the relevant scheme. The Company can report on the independent valuation of the defined benefit scheme as at 30 June 2002 in respect of costs in the accounts of Centrewest London Buses Limited. At the date of this actuarial valuation the market value of the scheme's assets totalled £27.0m. The actuarial value of these assets was sufficient to cover 80% of the benefits which had accrued to the scheme's members. The deficit is £6.6m. The company's contribution to the scheme will be increased to cover the deficit.

Contributions are paid to the scheme at a rate recommended by the actuary and the pension charge for the year is equal to the contributions paid.

The actuarial assumptions used in determining the costs used in these accounts were that the rate of return on investments will be 6.5% post retirement and 5.5% pre retirement per annum: the rate of earnings increase will be 4.0% per annum and the rate of inflation will be 2.5% per annum. The valuation was made using the projected unit method.

The total pension cost in the year was £138,000 (2002-£107,000) of which £63,000 (2002 - £56,000) relates to the defined benefit scheme and £75,000 (2002 - £51,000) relates to the money purchase scheme.

Transitional FRS 17 disclosures

The additional disclosures required by FRS 17 during the transitional period for the defined benefit scheme are not reported as the company is unable to identify its share of the underlying assets and liabilities of the multi-employer defined benefit scheme. Accordingly, the defined benefit scheme is accounted for as a defined contribution scheme.

The deficit on the group scheme of £6.6m (2002: deficit of £3.0m) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under FRS 17 have been made on a group basis in the accounts of FirstGroup plc.

TRAM OPERATIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

31 March 2003

18 Capital commitments

There were no non-cancellable commitments for capital expenditure at the year end.

19 Related party transactions

Advantage has been taken of the exemption under Financial Reporting Standard No.8 not to disclose transactions between entities, 90% or more of whose voting rights are controlled within the group.

20 Ultimate and immediate parent company and controlling party

The ultimate parent company and ultimate controlling party is FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Copies of the accounts of FirstGroup plc can be obtained from the London office of this company at Macmillian House,Paddington Station London, W2 1TY. The company's immediate parent company is CentreWest Limited. CentreWest Limited is a wholly' owned subsidiary of FirstGroup plc and therefore does not prepare consolidated accounts.