# TRAM OPERATIONS LIMITED

## REPORT AND FINANCIAL STATEMENTS

## 31 MARCH 2008



**Company Registered Number: 3097532**

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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## DIRECTORS' REPORT
## 31 March 2008

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2008.

### Principal activities

The company is part of FirstGroup plc, and is involved in providing tram operating services to the concessionaire Tramtrack Croydon Limited and, ultimately, to Transport for London.

### Business review and future prospects

Tram operating services have operated satisfactorily in the year to date. Turnover increased by 6.5% (2007 7.5%). Operating profit margin decreased to 7.5% (2007 8%).
In March 2008, the company agreed its quinquennial costs with the concessionaire for the five years from 10 May 2005. The financial statements for the year ended 31st March 2008 reflect this agreement.
The company introduced service improvements during July 2008, increasing the off peak service on the Beckenham Junction and Elmers End lines. The company anticipates further improvements to its service following Transport for London's acquisition of the concessionaire in June 2008.

### Financial matters

The results for the year are given in the profit and loss account on page 6.

The directors have recommended payment of a final dividend of £500,000 (2007: £2,500,000).

### Financial instruments

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts.

**DIRECTORS' REPORT**
**31 March 2008**

### Directors

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

| | |
|---|---|
| James Morgan | |
| Nick Chevis | |
| John Rymer | |
| Michael Steward | |
| David Gausby | |
| Leon Daniels | |
| Michaela Wadsworth | (Resigned 1 February 2008) |
| Adrian Wlodarski | |
| Andrew James | |
| Stephen Duckering | (Appointed 1 February 2008) |

### Audit information

Each of the persons who is a director at the date of approval of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of S234ZA of the Companies Act 1985.

### Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually; Deloitte LLP have indicated their willingness to continue as auditors of the company and are therefore deemed to be reappointed for a further term.

Approved by the Board of Directors
And signed by order of the Board

Tramlink Depot
Coomber Way
Croydon
CRO 4TQ

A Wlodarski
Secretary
27th January 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors Report and the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed; and

(d) 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## 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 2008, which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds, and the related notes 1 to 21. 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 our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgements 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.

## 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

**Deloitte LLP**
Chartered Accountants and Registered Auditors
London
29th January 2009

## PROFIT AND LOSS ACCOUNT
**For the year ended 31 March 2008**

| | Notes | 2008 £000 | 2007 £000 |
|---|---|---|---|
| **Turnover** | 2 | 8,616 | 8,087 |
| Operating costs | 3 | (7,967) | (7,402) |
| **Profit on ordinary activities before taxation** | 7 | 649 | 685 |
| Tax charge on profit on ordinary activities | 8 | (189) | (188) |
| **Profit on ordinary activities after taxation and for the financial year** | 15 | 460 | 497 |

All activities in the current and preceding year relate to continuing operations.

No separate 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.

**BALANCE SHEET**
**At 31 March 2008**

| | Notes | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Assets employed:** | | | | | |
| **Fixed assets** | | | | | |
| Tangible assets | 10 | | 7 | | 5 |
| **Current assets** | | | | | |
| Debtors – due within one year | 11 | 3,740 | | 3,739 | |
| Debtors – due after one year | 11 | 187 | | 196 | |
| Cash at bank and in hand | | 4,986 | | 6,370 | |
| | | 8,913 | | 10,305 | |
| **Creditors**: amounts falling due within one year | 12 | (7,757) | | (9,118) | |
| **Current assets less current liabilities** | | | 1,156 | | 1,187 |
| **Net assets** | | | 1,163 | | 1,192 |
| **Financed by:** | | | | | |
| **Capital and reserves** | | | | | |
| Called up share capital | 14 | | - | | - |
| Profit and loss account | 15 | | 1,163 | | 1,192 |
| **Shareholders' funds** | | | 1,163 | | 1,192 |

These financial statements were approved by the Board of directors on 27th January 2009 and were signed on its behalf by:

A Wlodarski
Director

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
**For the year ended 31 March 2008**

| | 2008 | 2007 |
|---|---|---|
| | £000 | £000 |
| Profit for the financial year | 460 | 497 |
| Dividends Paid (note 9) | (500) | (2,500) |
| FRS 20 Share based payment charge | 11 | 8 |
| Net (reduction) in shareholders' funds | (29) | (1,995) |
| Opening shareholders' funds | 1,192 | 3,187 |
| Closing shareholders' funds | 1,163 | 1,192 |

## 1 Principal accounting policies

The following accounting policies have been applied consistently throughout the current and preceding year.

### (a) Basis of preparation

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

The level of economic activity affects the number of tram journeys taken by passengers. There is currently uncertainty in the economic environment however the company operates a Retail Price Index linked government backed contract until at least 2030 with the ability to renegotiate for changes in the cost base every five years. Hence the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt a going concern basis in the financial statements

### (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.

| | | |
|---|---|---|
| Plant and equipment | - | 2 to 8 years straight line |

### (c) Leases

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.

### (d) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking.

**NOTES TO THE ACCOUNTS**
**31 March 2008**

## 3 Operating costs

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Staff costs (note 4) | 5,863 | 5,458 |
| External charges | 2,100 | 1,942 |
| Depreciation | 4 | 2 |
| | 7,967 | 7,402 |

## 4 Employee numbers and costs

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

| | 2008 Number | 2007 Number |
|---|---|---|
| Operations | 147 | 144 |
| Maintenance | 1 | 1 |
| Administration | 12 | 13 |
| | 160 | 158 |

The aggregate payroll costs of these persons were as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Wages and salaries | 5,031 | 4,701 |
| Social security costs | 474 | 473 |
| Other pension costs | 358 | 284 |
| | 5,863 | 5,458 |

## 5 Directors' remuneration

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Aggregate emoluments (excluding pension contributions) | 269 | 238 |
| Company pension contributions to Final Salary schemes | 40 | 38 |
| | 309 | 276 |

Retirement benefits accrue to four directors (2007: four) under a defined benefit scheme.

## 1 Principal accounting policies (continued)

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 taxation 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.

### (e) Pension costs

The company participates in the FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme.

The company is unable to separately identify its share of the scheme assets and liabilities. It therefore accounts for the scheme as if it were a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

### (f) Deferred contract costs

Deferred contract costs represent pre-contract expenditure incurred and are deferred and amortised over the contract term.

### (g) Share based payment

The company's parent issues equity-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of share that will eventually vest and is adjusted for the effects of non-market based vesting conditions.
Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations (refer to note 6).

## 2 Turnover

The whole of the turnover and profit 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.

## 6 Directors' remuneration (continued)

Emoluments of the highest paid director amounted to:

| | £'000 | £'000 |
|---|---|---|
| Aggregate emoluments (excluding pension contributions) | 114 | 96 |
| Company pension contributions to Final Salary schemes | 16 | 15 |
| | 130 | 111 |

Accrued pension balance and lump sum at the end of year amounted to £15,667 (2007:£13,861) and £73,087 (2007:£64,664), respectively.

## 5 Share based payments

Save as you earn (SAYE)

The company's ultimate parent operates an Inland Revenue approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006 and December 2006. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Lloyds TSB. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

Details of the share options of the group outstanding during the year are as follows:

| | SAYE 2003 Options No. | SAYE 2004 Options No. | SAYE April 2006 Options No. | SAYE Dec 2006 Options No. | SAYE Dec 2007 Options No. |
|---|---|---|---|---|---|
| Outstanding at the beginning of the year | 102,946 | 2,295787 | 1,881,793 | 2,455,488 | - |
| Awarded during the year | - | - | - | - | 2,391,606 |
| Exercised during the year | (49,288) | (2,037,986) | (9,424) | (4,842) | - |
| Lapsed during the year | (53,658) | (52,830) | (122,796) | (164,906) | (28,489) |
| Outstanding at the end of the year | - | 204,971 | 1,749,573 | 2,285,740 | 2,363,117 |
| Exercisable at the end of the year | - | 204,971 | - | - | - |
| Weighted average exercise price (pence) | 232.0 | 267.0 | 325.0 | 444.0 | 583.0 |
| Weighted average share price at date of exercise (pence) | 665.9 | 623.7 | 641.2 | 625.0 | N/A |

## 5 Share based payments (continued)

The inputs into the Black-Scholes model are as follows:

| | 2008 | 2007 |
|---|---|---|
| Weighted average share price (pence): | | |
| SAYE April 2006 | - | 406.2 |
| SAYE December 2006 | - | 555.0 |
| SAYE December 2007 | 714.0 | |
| Expected volatility December 2007 | 25% | |
| Expected life | | |
| – SAYE schemes | 3 years | 3 years |
| Risk-free rate of interest | | |
| – SAYE April 2006 | - | 4.4% |
| – SAYE December 2006 | - | 5.0% |
| – SAYE December 2007 | 4.5% | |
| Expected dividend yield | | |
| – SAYE April 2006 | - | 4.5% |
| – SAYE December 2006 | - | 3.5% |
| – SAYE December 2007 | 2.5% | - |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients, some are expected to leave before an entitlement vests.

The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive and deferred share plans exclude any allowance for the pre-vesting forfeitures.

The company has recognised a total expense of £11,000 (2007: £8,000) relating to equity-settled share-based payment transactions.

## 7 Profit on ordinary activities before taxation

| This is stated after charging: | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Auditors' remuneration for audit of company's annual accounts. | 4 | 4 |
| Depreciation | 4 | 2 |
| Rentals payable under operating leases | | |
| -plant and machinery | 19 | 16 |
| -other | 31 | 28 |

## 8 Tax charge on profit on ordinary activities

| | 2008 | 2007 |
|---|---|---|
| | £000 | £000 |
| Current taxation | | |
| Group relief payable | 190 | 200 |
| Adjustment in respect of prior years | (14) | (18) |
| | 176 | 182 |
| Deferred taxation | | |
| Origination and reversal of timing differences | (1) | 4 |
| Effect on decrease in tax rate on opening asset | 2 | - |
| Adjustment in respect of prior years | 12 | 2 |
| Total deferred taxation | 13 | 6 |
| Total tax charge on profit on ordinary activities | 189 | 188 |

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2007: 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:

| | 2008 | 2007 |
|---|---|---|
| | % | % |
| Standard rate of taxation | 30.0 | 30.0 |
| Factors affecting charge | | |
| - expenses not deductible for tax purposes | (0.9) | (0.3) |
| - capital allowances in excess of depreciation | (0.4) | (0.5 |
| - other timing differences | 0.6 | - |
| - prior years' tax charge | (2.2) | (2.6) |
| Current taxation rate for the year | 27.1 | 26.6 |

The UK corporation tax rate reduced from 30% to 28% with effect from 1 April 2008. As the rate change was enacted by the balance sheet date, the effect of the reduction in the UK corporation tax rate was to reduce the deferred tax asset on UK timing differences.

NOTES TO THE ACCOUNTS
31 March 2008

## 9 Dividends

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 March 2008 | 500 | 2,500 |
| Dividend per share | 250 | 1,250 |

## 10 Tangible fixed assets

| | Plant and equipment £'000 |
|---|---|
| **Cost** | |
| At 1 April 2007 | 353 |
| Additions | 6 |
| Disposals | (49) |
| At 31 March 2008 | 310 |
| **Depreciation** | |
| At 1 April 2007 | 348 |
| Charge for the year | 4 |
| Disposals | (49) |
| At 31 March 2008 | 303 |
| **Net book value** | |
| At 31 March 2008 | 7 |
| At 31 March 2007 | 5 |

## 11 Debtors

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **Amounts due within one year** | | |
| Trade debtors | 1,132 | 1,094 |
| Amounts owed by group undertakings | 2,492 | 2,492 |
| Other debtors | 77 | 92 |
| Deferred tax asset (note 13) | 22 | 35 |
| Prepayments and accrued income | 17 | 26 |
| | 3,740 | 3,739 |
| **Amounts due after one year** | | |
| Deferred contract costs | 187 | 196 |
| | 3,927 | 3,935 |

## NOTES TO THE ACCOUNTS
**31 March 2008**

### 12 Creditors

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade creditors | 543 | 549 |
| Amounts owed to group undertakings | 4,032 | 6,359 |
| Corporation tax | 1 | 1 |
| Other creditors | 1,115 | 482 |
| Accruals and deferred income | 2,066 | 1,727 |
| | 7,757 | 9,118 |

### 13 Deferred taxation

| | £000 |
|---|---|
| At 1 April 2007 | 35 |
| Charged to the profit and loss account | (13) |
| At 31 March 2008 | 22 |

The deferred tax asset consists of the following amounts:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| Depreciation in excess of capital allowances | 8 | 11 |
| Other timing differences | 14 | 24 |
| Deferred tax asset | 22 | 35 |

The balance is included within Debtors note 11.

### 14 Called up share capital

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Authorised:** | | |
| 1,000,000 Ordinary shares of £1 each | 1,000 | 1,000 |
| **Allotted, called up and fully paid:** | | |
| 2 Ordinary shares of £1 each | - | - |

### 15 Profit and loss account

| | £000 |
|---|---|
| At 1 April 2007 | 1,192 |
| Retained profit for the year | 460 |
| Dividends Paid | (500) |
| Share based payment charge | 11 |
| At 31 March 2008 | 1,163 |

NOTES TO THE ACCOUNTS
31 March 2008

## 16 Cash flow statement

The company is a wholly owned subsidiary of FirstGroup plc, a company registered in Scotland. Accordingly, the company has taken advantage of the exemption offered by Financial Reporting Standard 1 (revised), enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its Group financial statements.

## 17 Operating leases

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

| | | 2008 | | 2007 |
|---|---|---|---|---|
| | Land and buildings | Other | Land and buildings | Other |
| Operating leases which expire | £000 | £000 | £000 | £000 |
| Within one year | - | - | - | 1 |
| Within two to five years | 31 | 10 | 31 | 11 |

## 18 Pension scheme

**Group scheme – FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme**

The company is unable to separately identify its share of the scheme assets and liabilities. It therefore accounts for the scheme as if it were a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

The surplus on the group scheme of £1.1m (2007: £1.1m) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under FRS17 have been made on a group basis in the accounts of FirstGroup plc.

The total pension cost in the year was £0.358 m (2007: £0.284m) all of which relates to defined benefit schemes.

## NOTES TO THE ACCOUNTS
## 31 March 2008

### 19 Capital commitments

There were no non-cancellable commitments for capital expenditure at 31 March 2008 (2007:£nil).

### 20 Related party transactions

The company is taking advantage of the exemption under FRS8 not to disclose transactions with group companies that are related parties

### 21 Ultimate and immediate parent company and controlling party

The directors regard FirstGroup plc, a company incorporated in Great Britain and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared.

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.

Copies of the accounts of FirstGroup plc can be obtained on request from 50 Eastbourne Terrace, Paddington, London, W2 6LX.