TRAM OPERATIONS LIMITED

Annual Report and Financial Statements

for the Year Ended 31 March 2016

Company Registered Number: 03097532

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

Contents

STRATEGIC REPORT
31 March 2016

The directors in preparing this strategic report have complied with s414C of the Companies Act 2006.

Tramlink incident at Sandilands Junction on 9 November 2016

On 9 November 2016 a tram derailed on the Tramlink network in Croydon, which the company operates on behalf of Transport for London, resulting in tragic loss of lives and injuries. The thoughts of everyone at the company are with those affected, their families, friends and colleagues. We are working with Transport for London and the authorities to provide assistance in any way possible to those who have been affected and to the ongoing investigations by the Rail Accident Investigation Branch, British Transport Police and the Office of Rail and Road.

The Rail Accident Investigation Branch issued their interim report on 16 November 2016 and we continue to provide full support to their ongoing investigation. Before full services resumed on 18 November 2016, additional speed restrictions and associated signage were introduced near Sandilands. These precautionary measures have also been implemented at three other locations on the tram network. All tram drivers were fully briefed prior to resumption and additional staff from Transport for London and FirstGroup were made available across the network to provide support and information for customers and employees. The company is carrying out enhanced speed monitoring across the tram network.

Principal activities

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

Business review and future prospects

In the year ended 31 March 2016, Tram services operated satisfactorily. Turnover increased by 6.8% (2015: 8.9%). Operating profit margin decreased to 12.2% (2015: 13.0% restated). Additional Wimbledon services had a full year impact.

The results showed a profit before tax of £1,849,000 (2015: £1,808,000 restated), which is detailed in the profit and loss account on page 9.

The year saw a slightly lower margin due to the continued downward pressure from increases in wages, which will have an effect on future years with the quinquennial review of costs concluded and a new operating fee agreed for the next five years from May 2015.

Transport for London has published its plans for the Croydon Tramlink in its document Trams for Growth. This envisages a significant increase in capacity over the next 15 years although no substantive capacity changes are envisaged in the next year. The company will continue to work with Transport for London in its capacity as the operator of the services.

Key performance indicators

In addition to the principal financial performance measures, the company monitors the following key performance indicator: operator controlled performance of scheduled kilometres in the year was 98.70% (2015: 98.33%). This improvement was due principally to increased tram vehicle reliability.

Principal risks and uncertainties

To fully consider both opportunities and risks, the management team consult regularly. Risk is an inherent part of doing business. The management of the risks is based on a balance of risk and reward determined through careful consideration of both the potential likelihood and impact.

The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority. Other pressures relate to possible changes in UK Government and EU regulation (payroll), pensions and for external charges on policing.

Information technology
The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error, could result in a service interruption, accident or misappropriation of confidential information (including credit card data). Process failure, security breach or other operational difficulties may also lead to revenue loss. Extensive security controls are in place, which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

Customer service
The company's revenues are at risk if it does not continue to provide the level of service expected by the customer through its contractual obligations. There were no payments made by way of penalties for unsatisfactory delivery.

Litigation
The company has three main insurable risks: third party claims arising from passenger accidents, employee injuries and property damage. The company has a very strong focus on safety - it is one of our core values. The company self-insures these risks up to certain limits. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers.

Environment and sustainability
The key risk facing the company in this area relates to reducing the environmental impact of the business with a focus on reducing waste and energy usage across its trams and office. A number of initiatives are in place, led by the Safety Executive Group to meet our customers' requirements in this area.

STRATEGIC REPORT
31 March 2016

Principal risks and uncertainties (continued)

Business continuity and acts of terrorism
A major incident or act of terrorism could impact on the company's ability to trade. In the event of a potentially disruptive incident, detailed plans are in place to maintain business continuity.

Legislation and regulation
The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations. To help mitigate the risk of legislative or regulatory changes the company regularly lobbies both government and transport bodies.

Business strategy
If the company adopts the wrong business strategy or does not implement its strategies effectively, the business may be negatively impacted. Strategic risk needs to be properly understood and managed to sustain long-term benefit for all stakeholders. A clear strategy is in place to regularly monitor costs and business performance.

Economic and market risks
Challenges to household/business disposable income and competitor pricing positions can affect the performance of the company in terms of costs, only. Focus continues on delivering a punctual service with excellent customer service standards and mitigating any cost pressures. This is achieved through effective management of the businesses activities.

Financial risk management objectives and policies

The company's principal financial assets are bank balances, trade debtors and intercompany receivables. 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. The company has sufficient processes in place to ensure debtors are collected in a timely manner. The credit risk on liquid funds is limited because the counterparties are banks.

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

Tramlink Depot
Coomber Way
Croydon
CRO 4TQ

A James
A James
Director
20 February 2017

DIRECTORS' REPORT
31 March 2016

The directors submit their annual report and financial statements for the year ended 31 March 2016. A review of the business for the year and future developments have been considered in the Strategic Report.

Results and dividends

The results showed a profit before tax of £1,849,000 (2015: £1,808,000 restated), which is detailed in the profit and loss account on page 9.

The directors have not recommended payment of a dividend (2015: nil).

Directors

The directors who held office throughout the year and subsequently were:

Nick Chevis
Stephen Duckering
David Gausby
Andrew James
Stephen Montgomery (appointed 13 October 2015)
John Rymer
Michael Steward
Adrian Wlodarski

Going concern

As at 31st March 2016 the company had cash of £5,201,000 and net assets of £4,672,000, but uncertainty in the economic environment still exists. The company operates a Retail Price Index linked government backed contract with the ability to renegotiate for changes in the cost base every five years. The most recent changes to the base contract were agreed from May 2015. Additionally, the directors have considered the consequences to the company of the incident at Sandilands Junction on 9 November 2016. There is no reliable estimate for the eventual costs of the incident. The directors consider the comprehensive insurance in place and current and projected cash balances provide adequate headroom to meet the ongoing costs of the investigations. Hence, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in the financial statements.

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Colleague engagement, retention and capability

The company employs around 215 colleagues who are critical to the success of the business. Maintaining good relations with colleagues and investing in their training and development is essential to the efficiency and sustainability of the company's operations. The company's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the company uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

Post balance sheet events

Details of the tragic incident at Sandilands Junction on 9 November 2016 are included in the Strategic Report on page 1 and in note 20 to the financial statements on page 25.

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

Auditor

The company has passed an elective resolution dispensing with the requirement to appoint an auditor annually, Deloitte LLP have indicated their willingness to continue as auditor 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 M James

A James
Director
20 February 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF TRAM OPERATIONS LIMITED

We have audited the financial statements of Tram Operations Limited for the year ended 31 March 2016, which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAM OPERATIONS LIMITED (continued)

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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed in the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jennifer Chase

Jennifer Chase (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 February 2017

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2016

	Notes	2016 £000	Restated* 2015 £000
Turnover	2	15,329	14,352
Operating costs	3	(13,452)	(12,485)
Operating profit		1,877	1,867
Interest payable and similar charges	6	(28)	(59)
Profit on ordinary activities before taxation	8	1,849	1,808
Tax charge on profit on ordinary activities	9	(381)	(384)
Profit on ordinary activities after taxation and for the financial year		1,468	1,424

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

Statement of comprehensive income
For the year ended 31 March 2016

	2016 £000	Restated* 2015 £000
Profit for the financial year	1,468	1,424
Re-measurement loss recognised on defined pension scheme	(242)	573
Movement on deferred tax relating to pension scheme	44	(115)
Reduced deferred tax asset arising from rate change	(19)	-
Total other comprehensive (cost) / income	(217)	458
Total comprehensive income for the year	1,251	1,882

* Details of the restatement are disclosed in note 18.

BALANCE SHEET
At 31 March 2016

Company Registered Number: 03097532

	Notes	£000	2016 £000	£000	Restated* 2015 £000
Fixed assets					
Tangible assets	10		18		24
Current assets					
Debtors	11				
-due within one year		4,432		4,121	
-due after one year		116		125	
Cash at bank and in hand		5,201		3,132	
		9,749		7,378	
Creditors:					
Amounts falling due within one year	12	(4,868)		(3,666)	
Net current assets			4,881		3,712
Total assets less current liabilities			4,899		3,736
Provisions for liabilities and charges	14		(227)		(331)
Net assets			4,672		3,405
Capital and reserves					
Called up share capital	15		-		-
Profit and loss account			4,672		3,405
Shareholder's funds			4,672		3,405

* Details of the restatement are disclosed in note 18.

These financial statements of Tram Operations Limited registered number 03097532 were approved by the Board of Directors on 20 February 2017 and were signed on its behalf by:

A James

A James
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2016

	Called up share capital £000	Restated* Profit and loss account £000	Total £000
Balance at 31 March 2014, as previously reported	-	2,738	2,738
Transition to FRS 102 (note 18)	-	(1,224)	(1,224)
Balance at 31 March 2014, as restated	-	1,514	1,514
Total comprehensive income for the year	-	1,882	1,882
Share-based payment charge	-	9	9
Balance at 31 March 2015	-	3,405	3,405
Total comprehensive income for the year	-	1,251	1,251
Share-based payment charge	-	16	16
Balance at 31 March 2016	-	4,672	4,672

* Details of the restatement are disclosed in note 18.

1 Principal accounting policies

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

(a) General information and basis of preparation

Tram Operations Limited is a company incorporated in the United Kingdom under the Companies Act. The registered office address is Tramlink Depot, Coomber Way, Croydon CR0 4TQ. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1. The functional currency of Tram Operations Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The financial statements have been prepared on the historical cost basis and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

This is the first year that the company has presented its financial statements in accordance with FRS 102. As a consequence of adopting FRS 102 restatements have been made to prior year numbers, as explained in note 18. Details of the FRS 102 exemptions taken are included in note 18, also.

The financial statements have been prepared on the going concern basis as described in the going concern statement in the Directors' Report on page 4.

(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) Financial assets and liabilities

All financial assets and liabilities are measured at transaction price (including transaction cost).

(e) Deferred contract costs

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

1 Principal accounting policies (continued)

(f) 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.

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.

(g) Employee benefits

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

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. The interest cost on the net pension scheme liability is shown in net interest receivable. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. For defined contribution schemes, contributions are charged to the profit and loss account as they become payable.

(h) Share-based payment

The company's parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are at the date of grant. The fair value determined at the grant date of the measured at fair value equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the estimate of shares 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 or other appropriate valuation models. 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.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

1 Principal accounting policies (continued)

(i) Turnover

Turnover includes amounts attributable to contracted income predominantly based on providing drivers and support services to run trams to a timetable. It includes a small amount of other variable income, also.

2 Turnover

Turnover is stated net of VAT. The whole of the turnover derives within the United Kingdom and is based on an annual RPI inflated fee agreed every five years. The company has one principal class of business, namely, the provision of passenger transport services.

3 Operating costs

	2016 £000	Restated 2015 £000
Staff costs (note 4)	10,409	9,511
Operating Expenses	3,033	2,958
Depreciation	10	16
	13,452	12,485

4 Employee numbers and costs

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

	2016 Number	2015 Number
Operations	199	187
Maintenance	1	1
Administration	15	14
	215	202

The aggregate payroll costs of these persons were as follows:

	2016 £'000	Restated 2015 £'000
Wages and salaries	9,001	8,196
Social security costs	915	852
Other pension costs	477	454
Share-based payment charge	16	9
	10,409	9,511

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

5 Directors' remuneration

Certain directors received remuneration from other group companies in the current and prior years, details of which are disclosed in their accounts. It is not considered practical to allocate this between services provided to those companies and services provided in their capacity as directors to Tram Operations Limited.

The remuneration of the other directors paid by Tram Operations Limited was as follows:

	2016 £'000	2015 £'000
Aggregate emoluments (excluding pension contributions)	321	320
Company pension contributions to Final Salary schemes	75	76
	396	396

Retirement benefits accrue to three directors (2015: three) under a defined benefit scheme.

Emoluments of the highest paid director amounted to:

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	142	142
Company pension contributions to Final Salary schemes	30	30
	172	172

Accrued pension balance and lump sum at the end of the year amounted to £45,737 (2015: £32,265) and £214,027 (2015: £156,043), respectively.

6. Interest payable and similar charges

	2016 £'000	Restated 2015 £'000
Notional interest on pensions	28	59

7 Share-based payments

Equity-settled share option plans

The Group, defined as the ultimate parent company FirstGroup plc and its subsidiary undertakings, operates an HMRC approved savings-related share option scheme. The scheme is based on eligible employees being granted options to save over a specified period of time.

The group has allocated the expense over its participating trading subsidiaries based on employee members. The company has recognised a total expense of £16,000 (2015: £9,000) relating to equity-settled share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

8 Profit on ordinary activities before taxation

This is stated after charging	2016 £'000	2015 £'000
Auditor's remuneration for audit of company's annual accounts (No other services were provided by Deloitte LLP in either year)	3	3
Depreciation	10	16
Rentals payable under operating leases		
- plant and machinery	38	36
- other	31	31

9 Tax charge on profit on ordinary activities

	2016 £000	Restated 2015 £000
Current taxation		
Group relief payable	357	373
Adjustment in respect of prior years	4	(17)
	361	356
Deferred taxation		
Origination and reversal of timing differences	15	8
Effect on decrease in tax rate on opening asset	6	-
Adjustment in respect of prior years	(1)	20
Total deferred taxation (note 13)	20	28
Tax charge on profit on ordinary activities	381	384

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2015: 21%). During the period the UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 18% from 1 April 2020. Subsequent to the year end the UK Government announced a further reduction to the standard rate of corporation tax from 1 April 2020 to 17%. The impact of this rate reduction to 18% has reduced the deferred tax asset on UK timing differences.

	2016 £000	2015 £000
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	370	380
Factors affecting charge:		
- Expenses not deductible	2	1
- Prior year adjustments	3	3
- Effect of decrease in tax rate on origination and reversal of timing differences	6	-
Total tax charge on profit on ordinary activities	381	384

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2015	313
Additions	4
Disposals	(13)
At 31 March 2016	304
Depreciation	
At 1 April 2015	289
Charge for the year	10
Disposals	(13)
At 31 March 2016	286
Net book value	
At 31 March 2016	18
At 31 March 2015	24

11 Debtors

	2016 £000	Restated 2015 £000
Amounts due within one year		
Trade debtors	1,597	1,296
Amounts owed by group undertakings	2,492	2,492
Deferred tax asset (note 13)	261	256
Prepayments and accrued income	82	77
	4,432	4,121
Amounts due after one year		
Deferred contract costs	116	125
Total Debtors	4,548	4,246

The deferred tax asset has been recognised because it is anticipated that the tax deductions generated by the reversal of the timing differences will be offset against future taxable profits of the company by way of group relief. All intercompany balances are interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

12 Creditors

Amounts falling due within one year	2016 £000	2015 £000
Trade creditors	342	291
Amounts owed to group undertakings	949	413
Other creditors	502	562
Accruals and deferred income	2,005	1,486
Defined benefit pension obligation	1,070	914
	4,868	3,666

The intercompany balances are interest-free and repayable on demand.

13 Deferred tax

	Deferred tax £000
At 1 April 2015	256
Debited to the profit and loss account	(20)
Credited to other comprehensive income	25
At 31 March 2016	261

The deferred tax asset consists of the following amounts:

	2016 £000	2015 £000
Pension	193	183
Depreciation in excess of capital allowances	11	10
Other timing differences	57	63
Deferred tax asset	261	256

The deferred tax balance is included within Debtors note 11.

14 Provisions for liabilities and charges

	Insurance claims provision £000
At 1 April 2015	(331)
Utilised	59
Released to the profit and loss account	45
At 31 March 2016	(227)

The insurance claims provision arises from estimated exposures for incidents occurring prior to 31 March 2016. It is anticipated that the majority of such claims will be settled within the next three years.

15 Called up share capital

	2016 £000	2015 £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	-	-

NOTES TO THE FINANCIAL STATEMENTS
31 March 2016

16 Operating leases

Commitments for payments under operating leases fall due as follows:

	2016		Restated 2015	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Within one year	17	10	31	29
Within two to five years	-	-	14	16
Total	17	10	45	45

A new lease on land and buildings started from 16th September 2016 for five years at an annual rental of £33,000.

17 Pension scheme

Railways Pension Scheme

Defined Contribution Scheme- Tram Operations Limited Section.

The company operates a defined contribution scheme for all qualifying employees. The total expense charged during the year ended 31st March 2016 was £149,000 (2015: £nil).

FirstGroup Pension Schemes

The company is a member of defined benefit pension schemes, which are funded. Details of the FirstGroup flexible benefit scheme are disclosed in the financial statements of FirstGroup Holdings Limited (company registration number 02029363) and is funded separately by defined contributions, which have been expensed during the year ended 31st March 2016. The FirstGroup UK Bus pension scheme is included in these financial statements as required under FRS 102 and has been based on the proportion of pensionable pay relating to members of Tram Operations Limited. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out in 2016 using the projected unit method. The valuation will be updated at each financial period end for FRS 102 purposes.

The key financial assumptions used in this update were as follows
:

	2016	2015
Discount rate	3.70%	3.50%
Expected rate of salary increases	1.75%	1.85%
Inflation - RPI	2.85%	2.95%
Rate of increase of pensions in payment	1.75%	1.85%
Rate of increase of pensions in deferment	1.75%	1.85%

17 Pension scheme (continued)

(a) Income statement

Amounts credited / (charged) to the income statement in respect of these defined benefit schemes are as follows:

	2016	2015
	£000	£000
Current service cost	(119)	(182)
Net interest cost	(28)	(59)
	(147)	(241)
Net interest cost comprises:		
Interest cost	(688)	(765)
Interest income on assets	660	706
	(28)	(59)

During the year £58,000 (2015: £66,000) of administrative expenses were incurred. Actuarial gains and losses have been reported in the statement of comprehensive income.

Reconciliation of the actual return on scheme assets:

	2016	2015
Interest income on assets	660	706
Actuarial (loss) / gain on assets	(1,109)	2,472
Actual return on scheme assets	(449)	3,178

(b) Balance sheet

The amounts included in the balance sheet arising from the company's obligation of its defined benefit pension scheme are as follows:

	2016	2015
	£000	£000
Fair value of scheme assets	18,322	18,925
Present value of defined benefit obligations	(19,392)	(19,839)
Deficit in the scheme	(1,070)	(914)
Related deferred tax liability	193	183
Net pension liability	(877)	(731)

(c) Asset allocation

The majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the scheme's assets at the balance sheet date were as follows:

	2016	2015
The assets in the scheme at the balance sheet date were:	£000	£000
Equities and other return seeking assets	6,702	9,519
Bonds	6,896	8,762
Property	405	530
Cash	4,319	114
	18,322	18,925

17 Pension scheme (continued)

(d) Defined benefit obligations (DBO)

Movement in the present value of DBO were as follows:

	2016 £000	2015 £000
At 1 April	19,839	17,487
Current service cost	119	182
Interest cost	688	765
Employee contributions	182	160
Experience gain / (loss) on DBO	228	(205)
(Loss) / gain on change of assumptions (financial)	(1,095)	1,908
Gain on change of assumptions (demographic)	-	196
Benefit payments	(569)	(654)
At 31 March	19,392	19,839

(e) Fair value of scheme assets

Movements in the fair value of scheme assets were as follows:

	2016 £000	2015 £000
At 1 April	18,925	15,957
Interest income on assets	660	706
Company contributions	291	350
Employee contributions	182	160
Actuarial (loss)/gain	(1,109)	2,472
Benefit payments	(569)	(654)
Employer administration expenses	(58)	(66)
At 31 March	18,322	18,925

(f) Statement of comprehensive income

Amounts presented in the statement of comprehensive income comprise:

	2016 £000	2015 £000
Actuarial gain / (loss) on DBO	867	(1,899)
Actuarial (loss) / gain on assets	(1,109)	2,472
Actuarial (losses) / gains on defined benefit schemes	(242)	573

18 Explanation of transition to FRS 102

This is the first period that the company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the period of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition was therefore 31 March 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

The company has applied the following optional exemptions from retrospective application:

a) Statement of cash flow exemption

The company has applied the statement of cash flow exemption due to being 100% owned by another group company. The shareholders of the company have agreed to accept the exemption. The consolidated cash flow statement is included in the financial statements of FirstGroup plc.

b) Related party disclosure exemption

The company has elected to apply the related party disclosure exemption due to being 100% owned by another group company.

c) Share-based payment transaction exemption

The company has elected to apply the share-based payment exemption in FRS 102. The full disclosure is included in the financial statements of FirstGroup plc.

d) Reconciliation of operating leases at 31 March 2015

The previously reported values for operating leases have been the payments for the next financial year, whereas the restated values under FRS 102 are the total future minimum lease payments under non-cancellable operating leases.

	Previously reported 31 March 2015		Restated under FRS 102 31 March 2015	
	Land and buildings	Other	Land and buildings	Other
Operating leases:	£000	£000	£000	£000
Within one year	-	16	31	29
Between two and five years	31	16	14	16
	31	32	45	45

18 Explanation of transition to FRS 102 (continued)

e) Reconciliation of balance sheet at 31 March 2015 restated under FRS 102

The effect of the transition to FRS 102 has meant the pension liability is to be disclosed as part of the current liability and that deferred tax on the pension scheme can no longer be reported netted against the pension asset to which it relates.

	Previously reported £000	Effect of transition £000	Restated under FRS 102 £000
Fixed assets			
Tangible assets	24	-	24
Current assets			
Debtors			
- due within one year	3,938	183	4,121
- due after one year	125	-	125
Cash at bank and in hand	3,132	-	3,132
	7,195	183	7,378
Total assets	7,219	183	7,402
Creditors:			
Amounts falling due within one year	(2,752)	(914)	(3,666)
Total assets less current liabilities	4,467	(731)	3,736
Provisions for liabilities and charges	(331)	-	(331)
Net assets	4,136	(731)	3,405
Equity:			
Called up share capital	-	-	-
Profit and loss account	4,136	(731)	3,405
Total equity	4,136	(731)	3,405

(f) Reconciliation of profit and loss reserve restated under FRS 102:

	31 March 2014 £000	31 March 2015 £000
Profit and loss reserve, as previously reported	2,738	4,136
Adjustment from prior period	-	(1,224)
Change in pension liability	(1,530)	616
Deferred tax on change in pension liability	306	(123)
Restated profit and loss reserve	1,514	3,405

18 Explanation of transition to FRS 102 (continued)

(g) Reconciliation of profit for year ended 31 March 2015:

	£000
Profit for the year ended 31 March 2015 under previous UK GAAP	1,389
Notional interest on pensions	(59)
Staff costs: other pension costs	102
Tax on above changes	(8)
Profit for the year ended 31 March 2015 restated under FRS 102	1,424

(h) Reconciliation of debtors and creditors at 31 March 2015 restated under FRS 102:

Debtors	2015 £000	Effect of transition £000	Restated 2015 £000
Amounts falling due within one year			
Trade debtors	1,296		1,296
Amounts owed by group undertakings	2,492	-	2,492
Deferred tax asset (note 13)	73	183	256
Prepayments and accrued income	77	-	77
	3,938	183	4,121

Creditors	2015 £000	Effect of transition £000	Restated 2015 £000
Amounts falling due within one year			
Trade creditors	291	-	291
Amounts owed to group undertakings	413	-	413
Other creditors	562	-	562
Accruals and deferred income	1,486	-	1,486
Defined benefit obligation	-	914	914
	2,752	914	3,666

19 Capital commitments

There were no non-cancellable commitments for capital expenditure at 31 March 2016 (2015: £nil).

20 Post balance sheet events

On 9 November 2016 a tram derailed on the Tramlink network. Details of this incident are included in the Strategic Report on page 1 and in the going concern assessment in the Directors' Report on page 4. Appropriate insurance is in place which the company expects will provide full compensation to those affected in due course. The company expects to incur uninsured costs in excess of £2m in the year ending 31 March 2017 as it assists with the investigations. Further costs will be incurred subsequent to 31 March 2017, although it is not possible to provide a reliable estimate until the outcome of the investigations is known.

21 Ultimate and immediate parent company and controlling party

The directors regard FirstGroup plc, a company incorporated in the United Kingdom 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 6LG.