

TRAM OPERATIONS LIMITED

**Annual Report and Financial Statements
for the Year Ended 31 March 2020**



**Company Registered
Number: 03097532**

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2020

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STRATEGIC REPORT**For the year ended 31 March 2020**

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

Companies Act 2006 Section 172 statement

The directors have a duty to promote the success of the company for the benefit of its members as a whole. The Board understands the need to act fairly between the members of the company when assessing the consequences of a decision over the longer term. The Board believes that its key stakeholders are:

- Customers (passengers, Tramtrack Croydon Limited and Transport for London)
- Investors (CentreWest Limited and, ultimately, FirstGroup plc)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

The Board believe that strong engagement, collaboration and dialogue are critical to the effectiveness of our long-term relationships with key stakeholders. The Board has adopted the FirstGroup processes, policies and governance structures that are relevant to our business and contributes to their development and refinement.

Engaging ethically

In line with our values and the expectations of our customers and partners, we are committed to conducting our relationships with our stakeholders with high ethical and moral standards in all our interactions. Our values and ethical commitment shape not only what we do, but also how we do it.

The company has adopted the FirstGroup Code of Ethics which applies to everybody working for, or on behalf of, the company. The code sets out the standards that our customers and stakeholders expect of us, and which we expect of each other. It is supported by detailed policies and procedures which are implemented and managed by the senior management team, including our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and our Anti-Bribery Policy.

We are committed to recognising human rights. We are committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which we are involved. We have a zero-tolerance approach to any violations within our company or by business partners.

We have a zero-tolerance approach to bribery, and never offer or accept any form of payment or incentive intended to improperly influence a business decision. Equally, we support free and open competition, gaining our competitive advantage by providing the highest level of service, not through unethical or illegal business practices.

STRATEGIC REPORT**For the year ended 31 March 2020****Companies Act 2006 Section 172 Statement (continued)**

We have internal control systems and procedures in place to counter bribery and corruption. Similarly, we respect and protect the privacy of our customers, employees and stakeholders, and are committed to conducting our business in accordance with all applicable data protection legislation, including the General Data Protection Regulation and the UK Data Protection Act. We have an externally managed whistleblowing service for colleagues available with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

The primary methods in which the Company engages with its stakeholders are outlined below:

Customers

- Regular passenger satisfaction surveys to identify what we do well and where we can improve
- Robust customer feedback processes through online and traditional channels

Investors

- Alignment of strategy and the governance structure to deliver the strategy
- Agreement on budgets and forecasts and the reporting of actual performance

Government and political stakeholders

- Engagement with industry forums
- Direct engagement with policymakers
- Strong links with regional governments

Our People

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including with the trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including our intranet, briefings, newsletters and our employee mobile apps
- Individual performance reviews and development discussions or Time with Your Manager meetings

Communities

- Targeted engagement plans and activities
- Regular dialogue, events and direct engagement activities
- Community investment, charitable engagement and employee volunteering

Strategic partners and suppliers

- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

STRATEGIC REPORT**For the year ended 31 March 2020****Companies Act 2006 Section 172 Statement (continued)**

Below we describe the effect of having regard to Section 172 on the company's decisions and strategies during the financial year:

The company has remained focussed on delivering a safe and reliable service for its passengers including working with Transport for London on the implementation of physical prevention of over speeding systems. It has introduced a Just Culture programme and introduced the use of body-worn cameras to reduce incidence of assaults.

During March 2020 as the spread of Coronavirus was approaching its peak, the company engaged with Transport for London, employee representatives and FirstGroup to establish a revised timetable which provided ongoing Tram access to key workers to allow them to get to work. The revised timetable allowed the company to minimize ongoing exposure to the virus for the company's on-tram employees through a reduction of the onboard services being provided, including ticket checking.

In addition, new cleaning regimes were established in Tram stops and in our offices to lower the risk of infection for both our passengers and our employees. The company also procured additional IT equipment to enable office-based staff to work from home to help mitigate the risk of the infection spreading within the office environments.

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

In the year ended 31 March 2020, turnover increased by 4.50% due to an increase in contract payments (2019: 4.5%). Operating profit margin was 8.1% (2019 – Operating profit margin 3.9%), with the increase due to the RPI revenue indexation and additional services for engineering works.

The results showed a profit before tax of £1,358,000 (2019: £596,000), which is detailed in the profit and loss account on page 15. The year showed an increase in profit due to insurance recovery of legal costs from the investigations into the Sandilands incident (note 19) and better trading performance.

STRATEGIC REPORT**For the year ended 31 March 2020****Tramlink incident at Sandilands Junction on 9 November 2016**

Investigations into the incident are ongoing and it is uncertain when they will be concluded. Following nearly four years of enquiries, a decision was made by the Crown Prosecution Service on 31st October 2019, that the driver of the tram will not be charged with gross negligence manslaughter or any lesser charges. Further, it has also been concluded that no charge for corporate manslaughter will be brought against Tram Operations Limited nor Transport for London.

The Coroner's Inquest due to start in November 2020 has been postponed until spring 2021. At this stage of proceedings, it is not possible to assess whether any financial penalties or related costs could be incurred.

Future developments

The trading environment for the next 12 months is set to continue to be challenging due to the impact of the pandemic on operations. In spite of this, the directors remain optimistic about the current and future opportunities to grow the business with innovative ideas, improved service quality and reliability while retaining a tight control on costs.

The directors remain confident that the company's activities will generate a satisfactory result in the coming period.

Key performance indicators

In addition to the principal financial performance measures as detailed above, the company monitors one non-financial key performance indicator, operator controlled performance of the scheduled tram requirement (defined as the calculation of the number of trams that could have departed from the depot in a period against the number that did depart). In the year, this was 99.03% (2019: 99.42%).

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.

STRATEGIC REPORT**For the year ended 31 March 2020**

Principal risks and uncertainties (continued)**Coronavirus Pandemic**

Government and societal responses to the pandemic have had a significant impact on the company's activities and will continue to do so for some time to come. Passenger volumes have reduced very substantially and while guidance to limit travel and socially distance remains in place, this will have a significant impact on our service capacity. At the same time, the government recognises the need to maintain our services and is enabling this through contractual support to Transport for London. The company's turnover is based on a retail price index linked fee, which is renegotiated every five years with Transport for London. This fee arrangement substantially mitigates the financial consequences of the pandemic to the company.

Coronavirus has impacted and will continue to impact some of the company's key risk areas, notably:

- The company's first priority from the start of the coronavirus outbreak was the health and safety of our passengers, employees and the communities in which we operate. The company, in conjunction with FirstGroup, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure that we could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely.
- We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our operations. We followed, and in some cases developed, best practice areas such as the cleaning and decontamination of the depot and offices. Engineering colleagues worked with cleaning suppliers on a new improved and efficient cleaning regime.

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.

STRATEGIC REPORT**For the year ended 31 March 2020****Principal risks and uncertainties (continued)**

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.

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 business's activities.

STRATEGIC REPORT**For the year ended 31 March 2020****Principal risks and uncertainties (continued)**

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. FirstGroup has a treasury department which manages these risks.

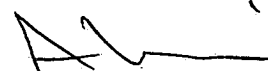
General Political Risk

The UK's departure from the European Union may adversely impact the UK's economic position which in turn may have an adverse impact on the company's operations due to reduced customer demand.

Economic conditions may also result in a tightening of labour markets resulting in employee shortages, rising pay, or affect the availability of public funding for transport services. The group has formed a Brexit Steering Committee to monitor and manage the potential impact of Brexit.

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

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ



A Wlodarski
Director

20 January 2021

DIRECTORS' REPORT**For the year ended 31 March 2020**

The directors submit their annual report and the audited financial statements for the year ended 31 March 2020. A review of the business for the year, future developments and principal risks have been considered in the Strategic Report.

Results and dividends

The results showed a profit before tax of £1,358,000 (2019: profit of £596,000), which is detailed in the profit and loss account on page 15.

The directors have not recommended payment of a dividend (2019: nil).

Directors

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

Nicholas Chevis
Andrew James
Andrew Mellors (appointed 6 January 2020)
Stephen Montgomery
Jacqueline Townsend
Adrian Wlodarski

Going concern

As at 31st March 2020 the company had cash of £6,497,000 (2019: £5,834,000) and net assets of £4,346,000 (2019: £2,448,000). The company made a profit of £1,358,000 in the year and trading since year end has been in line with management forecasts.

The company's revenues are earned under a Retail Price Index linked government backed contract with the ability to renegotiate for any changes in the cost base every five years. The most recent changes to the base contract which runs to May 2030 were agreed from May 2015 to May 2020. The company has made a submission of cost changes for May 2020 to May 2025, which remain to be agreed with the concessionaire, Tramtrack Croydon Limited.

The directors have made enquiries and note that the FirstGroup plc 2020 Annual Report and Accounts state that material uncertainties exist in its ability to continue as a going concern in the event of certain circumstances (as explained in pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts). The company is not dependent on FirstGroup plc for support given its available cash at 31 March 2020 and its financial forecasts prepared for business modelling and liquidity purposes.

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.

DIRECTORS' REPORT**For the year ended 31 March 2020**

Going concern (continued)

The directors have considered the impact of Covid-19 on the going concern assumption and consider that, since the company earns revenues based on an RPI index-linked contract, it is not affected by Covid-19. Hence, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future (defined as 12 months from the date of approval of these financial statements) 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 must 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's employees 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.

Directors' and officers' liability insurance

The company's ultimate parent company, FirstGroup plc, has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

DIRECTORS' REPORT

For the year ended 31 March 2020

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/she ought to have taken as a director in order to make himself/herself 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

FirstGroup plc undertook a full audit tender process during the year to select a new audit firm to succeed Deloitte, who have been the Group's auditor since 1999. As a result, PwC was selected as the preferred firm and their appointment was confirmed at this year's FirstGroup AGM. The company is grateful to Deloitte for their work as External Auditor over a number of years and we look forward to working with PwC.

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

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



A Wlodarski
Director
20 January 2021

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 FRS102 "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; 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. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report on the audit of the financial statements**Opinion**

In our opinion the financial statements of Tram Operations Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

Matters on which we are required to report by exception

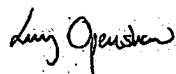
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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



Lucy Openshaw, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
20 January 2021

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Turnover	2	17,732	16,976
Operating costs	3	<u>(16,294)</u>	<u>(16,317)</u>
Operating profit		1,438	659
Interest payable and similar charges	6	(80)	(63)
Profit before taxation	8	<u>1,358</u>	<u>596</u>
Tax charge on profit	9	<u>(288)</u>	<u>(90)</u>
Profit after taxation and for the financial year		<u>1,070</u>	<u>506</u>

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

Statement of comprehensive income
For the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Profit for the financial year		1,070	506
Gain/(loss) recognised on defined pension scheme	18	914	(948)
Movement on deferred tax relating to pension scheme	14	<u>(105)</u>	<u>161</u>
Total other comprehensive income/(expense)		<u>809</u>	<u>(787)</u>
Total comprehensive income/(expense) for the year		<u>1,879</u>	<u>(281)</u>

BALANCE SHEET
As at 31 March 2020

Company Registered Number: 03097532

	Notes	2020 £000	2019 £000
Fixed assets			
Tangible assets	10	72	94
Intangible assets	11	<u>80</u>	<u>89</u>
		152	183
Current assets			
Debtors	12	5,400	4,875
Cash at bank and in hand		<u>6,497</u>	<u>5,834</u>
		11,897	10,709
Creditors:			
Amounts falling due within one year	13	<u>(5,149)</u>	<u>(4,715)</u>
Net current assets		<u>6,748</u>	<u>5,994</u>
Total assets less current liabilities		6,900	6,177
Defined benefit pension obligations	18	(2,407)	(3,449)
Provisions for liabilities	15	(147)	(280)
Net assets		<u>4,346</u>	<u>2,448</u>
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		4,346	2,448
Shareholder's funds		<u>4,346</u>	<u>2,448</u>

These financial statements of Tram Operations Limited registered number 03097532 were approved by the Board of Directors on 20 January 2021 and were signed on its behalf by:



A Wlodarski
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2020

	Called up share capital £000	Profit and loss account £000	Total £000
Balance at 1 April 2018	-	2,709	2,709
Total comprehensive expense for the year	-	(281)	(281)
Share-based payment charge	-	20	20
Balance at 31 March 2019	-	2,448	2,448
Total comprehensive income for the year	-	1,879	1,879
Share-based payment charge	-	19	19
Balance at 31 March 2020	-	4,346	4,346

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020**

1 Principal accounting policies

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

Significant judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with general accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from these estimates. The key source of estimation uncertainty is considered to relate to the defined benefit pension scheme assumptions such as the discount rate and mortality rates. These are discussed further in note 18. There are no significant judgements.

(a) General information and basis of preparation

Tram Operations Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. 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 as set out below and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The financial statements have been prepared on the going concern basis as described in the going concern statement in the Directors' Report on pages 8 and 9.

The company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions in relation to share-based payments, financial instruments, preparation of a cashflow statement and remuneration of key management personnel which have been disclosed in First Group PLC Accounts.

(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.
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

1 Principal accounting policies (continued)**(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) and subsequently measured at amortised cost.

(e) Intangible fixed assets and depreciation

Intangible fixed assets are stated at cost, net of amortisation and any provision for impairment.

Amortisation is provided to recognise the cost less the residual value of intangible fixed assets over the shorter of their estimated lives or the duration of the franchise. Our amortisation policy is as follows:

Computer software - 3 to 5 years straight line/duration of the franchise

(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.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020****1 Principal accounting policies (continued)****(g) Employee benefits (continued)**

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 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 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.

(i) Turnover

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

(j) Provisions

Provisions are recognised when the company have a present obligation as a result of a past event and it is probable that we will be required to settle that obligation.

2 Turnover

Turnover is stated net of VAT. The whole of the Operating fee turnover originates 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

	2020 £000	2019 £000
Staff costs (note 4)	13,611	13,326
Operating Expenses	2,658	2,977
Depreciation (note 10)	25	14
	<u>16,294</u>	<u>16,317</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020****4 Employee numbers and costs**

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

	2020 Number	2019 Number
Operations	215	216
Maintenance	1	1
Administration	15	15
	<u>231</u>	<u>232</u>

The aggregate payroll costs of these persons were as follows:

	2020 £'000	2019 £'000
Wages and salaries	11,676	11,213
Social security costs	1,237	1,160
Other pension costs	679	933
Share-based payment charge	19	20
	<u>13,611</u>	<u>13,326</u>

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. No directors were granted any shares options in the year.

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

	2020 £'000	2019 £'000
Aggregate emoluments (excluding pension contributions)	244	277
Company pension contributions	15	15
	<u>259</u>	<u>292</u>

Retirement benefits accrue to two directors under a defined contribution scheme.

Emoluments of the highest paid director amounted to:

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	167	164
Company pension contributions	6	6
	<u>173</u>	<u>170</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

6. Interest payable and similar charges

	2020 £'000	2019 £'000
Notional interest on pensions	80	63

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 numbers. The company has recognised a total expense of £19,000 (2019: £20,000) relating to equity-settled share-based payment transactions.

8 Profit before taxation

	2020 £'000	2019 £'000
This is stated after charging		
Auditor's remuneration for audit of company's annual accounts (no other services were provided by Deloitte LLP in either year)	24	14
Amortisation	9	9
Rentals payable under operating leases		
- plant and machinery	22	25
- other	33	33

9 Tax charge on profit

	2020 £000	2019 £000
Current taxation		
Group relief payable	237	148
Adjustment in respect of prior years	(1)	-
	236	148
Deferred taxation		
Origination and reversal of timing differences	24	(28)
Impact on deferred tax arising from rate change	(2)	-
Adjustment in respect of prior years	30	(30)
Total deferred taxation (note 14)	52	(58)
Tax charge on profit	288	90

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

9 Tax charge on profit (continued)

The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2020 and deferred tax is now calculated at 19%. Under the enacted legislation at 30 March 2019 the rate was set to reduce to 17% from 1 April 2020 resulting in deferred tax being calculated at 17% in the prior year.

	2020 £000	2019 £000
Profit for the year multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	258	113
Factors affecting charge:		
- Expenses not deductible	3	4
- Prior year adjustments	29	(30)
- Impact on deferred tax arising from rate change	(2)	-
- Effect of decrease in tax rate on origination and reversal of timing differences	-	3
Total tax charge on profit	<u>288</u>	<u>90</u>

10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2019	283
Additions	3
Disposals	-
At 31 March 2020	<u>286</u>
Depreciation	
At 1 April 2019	189
Charge for the year	25
Disposals	-
At 31 March 2020	<u>214</u>
Net book value	
At 31 March 2020	<u>72</u>
At 31 March 2019	<u>94</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

11 Intangible assets

	Deferred contract costs £'000
Cost	
At 1 April 2019 and 31 March 2020	<u>261</u>
Amortisation	
At 1 April 2019	172
Charge for the year	<u>9</u>
At 31 March 2020	<u>181</u>
Net book value	
At 31 March 2020	<u>80</u>
At 31 March 2019	<u>89</u>

The amortisation of intangible assets is included within operating expenses in the statement of comprehensive income.

Deferred contract costs are development costs which were incurred at the beginning of the contract.

12 Debtors

	2020 £000	2019 £000
Amounts due within one year		
Trade debtors	2,366	1,578
Amounts owed by parent company	2,492	2,492
Deferred tax asset (note 14)	478	635
Prepayments and accrued income	<u>64</u>	<u>170</u>
Total Debtors	<u>5,400</u>	<u>4,875</u>

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.

13 Creditors

	2020 £000	2019 £000
Amounts falling due within one year		
Trade creditors	750	465
Amounts owed to fellow group undertakings	1,861	1,628
Other creditors	61	56
Tax and social security	548	524
Accruals and deferred income	<u>1,929</u>	<u>2,042</u>
	<u>5,149</u>	<u>4,715</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

14 Deferred tax

	Deferred tax £000
As at 1 April 2019	635
Debited to the profit and loss account	(52)
Debited to other comprehensive income	(105)
As at 31 March 2020	<u>478</u>

The deferred tax asset consists of the following amounts:

	2020 £000	2019 £000
Pension	457	586
Depreciation in excess of capital allowances	10	8
Other timing differences	11	41
Deferred tax asset	<u>478</u>	<u>635</u>

The deferred tax balance is included within Debtors note 12.

15 Provisions for liabilities and charges

	Insurance claims provision £000
As at 1 April 2019	(280)
Additions	(14)
Released to the profit and loss account	147
As at 31 March 2020	<u>(147)</u>
Current	(19)
Non-Current	(128)

The insurance claims provision arises from estimated exposures for incidents occurring prior to 31 March 2020. It is anticipated that most of these claims will be settled within the next three years.

16 Called up share capital

	2020 £000	2019 £000
Authorised:		
1,000,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	<u>-</u>	<u>-</u>

The company's ordinary shareholders have no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020****17 Operating leases**

Future minimum lease payments are as follows:

	2020		2019	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	33	22	33	24
Within two to five years	15	19	48	62
Total	48	41	81	86

18 Pension schemes**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 2020 was £499,091 (2019: £480,589). Amounts due as at 31st March 2020 £12,683 (2019: £10,551).

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 2020. 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 funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme closed to defined benefit accrual on 5 April 2018.

As from April 2018 all new and existing members have been enrolled in the defined contribution scheme SIPP.

Please see First Group Financial Statements for details of actuarial valuation and adjustments.

The First UK Bus Pension Scheme

This provides pension benefits to employees in Tram Operations Limited. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section.

The funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme closed to defined benefit accrual on 5 April 2018.

As from April 2018 all new and existing members have been enrolled in a defined contribution scheme SIPP.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020****18 Pension schemes (continued)****The First UK Bus Pension Scheme (continued)**

As at 31 March 2020 FirstGroup is committed to make deficit recovery payments with a net present value of £145.8m (2019: £204m), over the period to 5 July 2035, in respect of the First UK Bus Pension Scheme. The company contributed £290,440 in respect of these deficit contributions in the current year.

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

	2020	2019
Discount rate	2.40%	2.40%
Expected rate of salary increases	1.80%	2.15%
Inflation – CPI	1.80%	2.15%
Rate of increase of pensions in payment	1.80%	2.15%

(a) Profit and Loss account

Amounts (charged)/credited to the Profit and Loss account in respect of these defined benefit schemes are as follows:

	2020 £000	2019 £000
Current service cost	nil	(351)
Administrative cost	(82)	(102)
	<u>(82)</u>	<u>(453)</u>
Net interest cost comprises:		
Interest cost	(563)	(608)
Interest income on assets	482	545
	<u>(81)</u>	<u>(63)</u>

During the year £82,000 (2019: £102,000) 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:

Interest income on assets	482	545
Actuarial loss on assets	(352)	(29)
Actual return on scheme assets	<u>130</u>	<u>516</u>

(b) Balance sheet

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

	2020 £000	2019 £000
Fair value of scheme assets	19,827	20,400
Present value of defined benefit obligations	(22,234)	(23,849)
Deficit in the scheme	(2,407)	(3,449)
Related deferred tax asset	457	586
Net pension liability	<u>(1,950)</u>	<u>(2,863)</u>

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 March 2020****18 Pension schemes (continued)****(c) Asset allocation**

The majority of the assets held by the closing 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:

	2020	2019
	£000	£000
The assets in the scheme at the balance sheet date were:		
Equities and other return seeking assets	2,685	3,428
Bonds	-	-
Fixed Income	12,275	11,809
Property	583	601
Other	4,170	4,288
Cash	114	274
	<u>19,827</u>	<u>20,400</u>

(d) Defined benefit obligations (DBO)

Movement in the present value of DBO were as follows:

	2020	2019
	£000	£000
As at 1 April 2019	23,849	22,812
Current service cost	nil	351
Employer administration expenses	82	102
Interest cost	563	608
Employee contributions	-	-
Experience (loss)/gain on DBO	(81)	79
(Gain)/loss on change of assumptions (financial)	(1,186)	1403
Gain on change of assumptions (demographic)	nil	(563)
Benefit payments	(993)	(943)
As at 31 March 2020	<u>22,234</u>	<u>23,849</u>

(e) Fair value of scheme assets

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

	2020	2019
	£000	£000
As at 1 April 2019	20,400	20,487
Interest income on assets	482	545
Company contributions	290	340
Employee contributions	-	-
Actuarial (loss)	(352)	(29)
Benefit payments	(993)	(943)
As at 31 March 2020	<u>19,827</u>	<u>20,400</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

18 Pension schemes (continued)

(f) Statement of comprehensive income

Amounts presented in the statement of comprehensive income comprise:

	2020 £000	2019 £000
Actuarial gain/(loss) on DBO	1,266	(919)
Actuarial (loss) on assets	(352)	(29)
Actuarial gain/(loss) on defined benefit schemes	<u>914</u>	<u>(948)</u>

19 Contingent Liabilities

Various investigations into the Sandilands Junction incident on 9 November 2016 are ongoing. On 31 October 2019, the Crown Prosecution Service concluded there would be no prosecution of criminal offences (by them) against the driver nor the company. The Office of Rail & Road (ORR) investigations are ongoing and it is uncertain when they will be concluded. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred. The inquest has been postponed to spring 2021.

20 Related party transactions

The company is taking advantage of exemption under FRS102 paragraph 33.1A not to disclose transactions with wholly owned group companies that are related parties. Details of outstanding balances with related parties can be found in notes 12 and 13.

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's registered address is: 8th Floor The Point, 37 North Wharf Road, London, United Kingdom W2 1AF. It 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 from its registered address: 395 King Street, Aberdeen AB24 5RP.