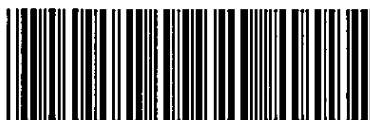


TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2007

MONDAY



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COMPANIES HOUSE

**Company Registered
Number: 3097532**

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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DIRECTORS' REPORT
31 March 2007

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2007

Principal activities

The company is part of First Group PLC, which is involved in providing tram operating services to the concessionaire Tramtrack Croydon Limited and ultimately to Transport for London

Business Review and Future Prospects

Tram operating services have operated satisfactorily in the year to date. Turnover increased by 7.5% (2006 3.7%) due to the increase in Tram service from July 2006. Operating profit margin decreased to 8% (2006 11%).

The company has an agreement to run tram operating services for thirty-years from 10th May 2000. Within this agreement there is a requirement with its concessionaire to review its quinquennial costs as at 10th May 2005 and agree its fee for the next five years. As at the date of signing these accounts the quinquennial costs and fee are still to be agreed.

Financial matters

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

The directors have recommended payment of a final dividend of £2,500,000 (2006 £nil).

Financial instruments

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

Directors

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

James Morgan

Nick Chevis

John Rymer

Michael Steward

David Gausby

Leon Daniels

Michaela Wadsworth

Adrian Wlodarski

Andrew James

(Appointed 1 November 2006)

DIRECTORS' REPORT
31 March 2007

Audit information

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

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

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

Auditors

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

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

Macmillan House
Paddington Station
London
W2 1TY



A Wlodarski
Secretary

24th January 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and estimates that are reasonable and prudent,
- (c) state whether applicable accounting standards have been followed, and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAM OPERATIONS LIMITED

We have audited the financial statements of Tram Operations Limited for the year ended 31 March 2007, which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds, statement of total recognised gains and losses, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

25 January 2008

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2007

	Notes	2007 £000	2006 (Restated) (note 19) £000
Turnover	2	8,087	7,520
Operating costs	3	<u>(7,402)</u>	<u>(6,711)</u>
Profit on ordinary activities before taxation	7	685	809
Tax charge on profit on ordinary activities	8	<u>(188)</u>	<u>(243)</u>
Profit on ordinary activities after taxation and for the financial year	15	<u>497</u>	<u>566</u>

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

BALANCE SHEET
At 31 March 2007

	Notes	2007	2006 (Restated) (Note 19)
		£000	£000
Assets employed:			
Fixed assets			
Tangible assets	10	5	4
Current assets			
Debtors – due within one year	11	3,739	3,583
Debtors – due after one year	11	196	205
Cash at bank and in hand		6,370	5,471
		<u>10,305</u>	<u>9,259</u>
Creditors amounts falling due within one year	12	<u>(9,118)</u>	<u>(6,076)</u>
Current assets less current liabilities		1,187	3,183
Net assets		<u>1,192</u>	<u>3,187</u>
Financed by:			
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account	15	1,192	3,187
Shareholders' funds		<u>1,192</u>	<u>3,187</u>

These financial statements were approved by the Board of directors on 24th January 2008 and were signed on its behalf by



A Wlodarski
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2007

	2007	2006 (Restated) (Note 19)
	£000	£000
Profit for the financial year	497	566
Dividends Paid (note 9)	(2,500)	-
FRS 20 Share based payment charge	8	9
Net (reduction) / addition to shareholders' funds	<u>(1,995)</u>	<u>575</u>
Shareholders' funds as previously stated	3,184	2,612
Prior year adjustment (note 19)	3	-
Opening shareholders' funds as restated	<u>3,187</u>	<u>2,612</u>
Closing shareholders' funds	<u>1,192</u>	<u>3,187</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2007

	2007	2006 (Restated) (Note 19)
	£000	£000
Profit for the financial year	497	566
Total recognised gains and losses for the year	<u>497</u>	<u>566</u>
Prior year adjustment (note 19)	3	-
Total gains and losses recognised since last report	<u>500</u>	-

NOTES TO THE ACCOUNTS31 March 2007

1 Principal accounting policies

The following accounting policies have been applied consistently throughout the current and preceding year, with the exception of the adoption of FRS 20 Share based payments. The prior year financial statements have been restated to reflect the impact of the adoption of this accounting policy.

(a) Basis of preparation

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

(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	-	3 to 8 years straight line
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(c) Leases and hire purchase

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

(d) Taxation

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

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

The charge for taxation is based on the loss 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.

NOTES TO THE ACCOUNTS
31 March 2007

1 Principal accounting policies (continued)

(e) Pension costs

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

(f) Deferred contract costs

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

(g) Share based payment

The company's parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of share that will eventually vest and is adjusted for the effects of non-market based vesting conditions. Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations refer to note 19.

2 Turnover

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

3 Operating costs

	2007 £000	2006 (Restated) £000
Staff costs (note 4)	5,458	4,847
External charges	1,942	1,859
Depreciation	2	5
	<u>7,402</u>	<u>6,711</u>

NOTES TO THE ACCOUNTS

31 March 2007

4 Employee numbers and costs

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

	2007 number	2006 number
Operations	144	142
Maintenance	1	1
Administration	13	11
	<u>158</u>	<u>154</u>

The aggregate payroll costs of these persons were as follows

	2007 £'000	2006 £'000
Wages and salaries	4,701	4,148
Social security costs	473	426
Other pension costs	284	273
	<u>5,458</u>	<u>4,847</u>

5 Directors' remuneration

The remuneration of the directors during the year was as follows

	2007 £'000	2006 £'000
Aggregate emoluments (excluding pension contributions)	238	230
Company pension contributions to Final Salary schemes	38	36
	<u>276</u>	<u>266</u>

Retirement benefits accrue to four directors (2006 four) under a defined benefit scheme

Emoluments of the highest paid director amounted to

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	96	97
Company pension contributions to Final Salary schemes	15	14
	<u>111</u>	<u>111</u>

Accrued pension balance and lump sum at the end of year amounted to £13,861 and £64,664, respectively

NOTES TO THE ACCOUNTS

31 March 2007

6 Share based payments**Save as you earn (SAYE)**

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

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

	SAYE 2002 Options No	SAYE 2003 Options No	SAYE 2004 Options No	SAYE April 2006 Options No	SAYE Dec 2006 Options No
Outstanding at the beginning of the year	343,812	1,193,778	2,469,178	-	-
Awarded during the year	-	-	-	1,996,187	2,478,422
Exercised during the year	(193,336)	(1,054,698)	(16,601)	(2,142)	-
Lapsed during the year	(150,476)	(36,134)	(156,790)	(112,252)	(22,934)
Outstanding at the end of the year	-	102,946	2,295,787	1,881,793	2,455,488
Exercisable at the end of the year	-	102,946	-	-	-
Weighted average exercise price (pence)	192.0	232.0	267.0	325.0	444.0
Weighted average share price at date of exercise (pence)	426.5	598.4	562.3	611.6	N/A

The inputs into the Black-Scholes model are as follows

	2007	2006
Weighted average share price (pence)		
SAYE April 2006	406.2	-
SAYE December 2006	555.0	-
SAYE April 2006	325.0	-
SAYE December 2006	444.0	-
Expected volatility – all options	35%	35%
Expected life		
– SAYE schemes	3 years	-
Risk-free rate of interest		
– SAYE April 2006	4.4%	-
– SAYE December 2006	5.0%	-
Expected dividend yield		
– SAYE April 2006	4.5%	-
– SAYE December 2006	3.5%	-

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

NOTES TO THE ACCOUNTS

31 March 2007

Share based payments (continued)

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

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

The company has recognised a total expense of £8,000 (2006 £9,000) relating to equity-settled share-based payment transactions

7 Profit on ordinary activities before taxation

	2007 £'000	2006 £'000
Is stated after charging		
Auditors' remuneration for audit services	4	4
Depreciation	2	5
Rentals payable under operating leases		
-plant and machinery	16	15
-other	28	25

8 Tax charge on profit on ordinary activities

	2007 £000	2006 (Restated) £000
Current taxation		
Group relief payable	200	218
Adjustment in respect of prior years	(18)	8
	<u>182</u>	<u>226</u>
Deferred taxation		
Origination and reversal of timing differences	4	26
Adjustment in respect of prior years	2	(9)
Total deferred taxation	<u>6</u>	<u>17</u>
Total tax charge on profit on ordinary activities	<u>188</u>	<u>243</u>

NOTES TO THE ACCOUNTS

31 March 2007

Tax charge on profit on ordinary activities (continued)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2006 30%) The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation

	2007 %	2006 (Restated) %
Standard rate of taxation	30.0	30.0
Factors affecting charge		
- expenses not deductible for tax purposes	(0.3)	0.2
- capital allowances in excess of depreciation	(0.5)	(0.4)
- other timing differences	-	(2.9)
- prior years' tax charge	(2.6)	1.0
Current taxation rate for the year	<u>26.6</u>	<u>27.9</u>

9 Dividends

2007 £000	2006 £000
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Amounts recognised as distributions to equity holders in the period

Final dividend for the year ended 31 March 2007	<u>2,500</u>	<u>Nil</u>
Dividend per share	1,250	Nil

10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2006	350
Additions	3
At 31 March 2007	<u>353</u>
Depreciation	
At 1 April 2006	346
Charge for the year	2
At 31 March 2007	<u>348</u>
Net book value	
At 31 March 2007	<u>5</u>
At 31 March 2007	<u>4</u>

NOTES TO THE ACCOUNTS
31 March 2007

11 Debtors

	2007	2006 (Restated)
	£000	£000
Amounts due within one year		
Trade debtors	1,094	983
Amounts owed by group undertakings	2,492	2,492
Other debtors	92	42
Deferred tax asset (note 13)	35	41
Prepayments and accrued income	26	25
	<u>3,739</u>	<u>3,583</u>
Amounts due after one year		
Deferred contract costs	196	205
	<u>3,935</u>	<u>3,788</u>

12 Creditors

	2007	2006
	£000	£000
Amounts falling due within one year		
Trade creditors	549	597
Amounts owed to group undertakings	6,359	3,206
Corporation tax	1	1
Other creditors	482	420
Accruals and deferred income	1,727	1,852
	<u>9,118</u>	<u>6,076</u>

13 Deferred taxation

	£000
At 1 April 2006 (restated note 19)	41
Charged to the profit and loss account	(6)
At 31 March 2007	<u>35</u>

The deferred tax asset consists of the following amounts

	2007	2006
	£000	£000
Depreciation in excess of capital allowances	11	14
Other timing differences	24	27
Deferred tax asset	<u>35</u>	<u>41</u>

The balance is included within Debtors note 11

NOTES TO THE ACCOUNTS

31 March 2007

14 Called up share capital

	2007 £000	2006 £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>

15 Profit and loss account

	£000
At 1 April 2006 as previously stated	3,184
Prior year adjustment (note 19)	<u>3</u>
At 1 April 2006 restated	3,187
Retained profit for the year	
Dividends Paid	497
Share based payment charge	(2,500)
	<u>8</u>
At 31 March 2007	<u>1,192</u>

16 Cash flow statement

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

17 Operating leases

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

	2007		2006	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	-	1	-	-
Within two to five years	<u>31</u>	<u>11</u>	<u>-</u>	<u>4</u>

NOTES TO THE ACCOUNTS

31 March 2007

18 Pension scheme

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

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

The surplus/(deficit) on the group scheme of £1.1m (2006: £(106.8)m) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under FRS17 have been made on a group basis in the accounts of FirstGroup plc.

The total pension cost in the year was £0.284m (2006: £0.273m) all of which relates to defined benefit schemes.

19 Restatement

Adoption of Financial Reporting Standard 20 – Share Based Payment

As a result of adopting FRS20, the profit and loss account and balance sheet have been restated to reflect the impact. The effects of this change in accounting policy are disclosed in the following table below.

	2006 financial statements £000	Adoption of FRS 20 £000	Restated 2006 financial statements £000
Profit and loss account			
Operating profit	818	(9)	809
Tax charge	(246)	3	(243)
Profit for the financial year	<u>572</u>	<u>(6)</u>	<u>566</u>
Balance sheet			
Deferred tax asset	<u>38</u>	<u>3</u>	<u>41</u>
Net assets	<u>3,184</u>	<u>3</u>	<u>3,187</u>

NOTES TO THE ACCOUNTS

31 March 2007

20 Capital commitments

There were no non-cancellable commitments for capital expenditure at 31 March 2007 or 31 March 2006

21 Related party transactions

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

22 Ultimate and immediate parent company and controlling party

The directors regard FirstGroup plc, a company incorporated in Great Britain and registered in Scotland, as the ultimate and immediate 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

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