TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2010

Company Registered Number: 3097532

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

Contents

DIRECTORS' REPORT
31 March 2010

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2010

Principal activities

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

Business review, future prospects and going concern

Tram operating services have operated satisfactorily in the year to date Turnover decreased by 4 64% (2009 increased 19 8%) Operating profit margin decreased to 7 4% (2009 25 8%)
The level of economic activity affects the number of tram journeys taken by passengers There is currently uncertainty in the economic environment However, the company operates a Retail Price Index linked government backed contract until at least 2030 with the ability to renegotiate for changes in the cost base every five years Hence, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt a going concern basis in the financial statements

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 £1,500,000 (2009 £1,000,000)

Financial risk management objectives and policies

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 Tram Operations have sufficient processes in place to ensure debtors are collected in a timely manner Management report to Group on a monthly basis which includes variance analysis, this allows effective cash management

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment and abide by the terms of payment Trade creditors of the company at 31 March 2010 were equivalent to 43 (2009 270) days' purchases

DIRECTORS' REPORT
31 March 2010

Directors

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

Nick Chevis
John Rymer
Michael Steward
David Gausby
Leon Daniels
Adrian Wlodarski
Andrew James
Stephen Duckering

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 s418 of the Companies Act 2006

Auditors

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

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

Tramlink Depot
Coomber Way
Croydon
CRO 4TQ

A Wlodarski
Director
9th December 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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) 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 judgments 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 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 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 2010, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds, 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)

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 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

As more fully explained in the Directors' Responsibilities Statements, 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 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 (APB'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

INDEPENDENT AUDITORS' 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 2010 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 matters prescribed in the Companies Act 2006

- In our opinion the information in 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

N J Mercer

Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
9 December 2010

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Turnover	2	9,845	10,324
Operating costs	3	(9,115)	(7,662)
Profit on ordinary activities before taxation	7	730	2,662
Tax charge on profit on ordinary activities	8	(203)	(742)
Profit on ordinary activities after taxation and for the financial year	15	527	1,920

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

No separate Statement of Total Recognised Gains and Losses is given as all gains or losses for the current and preceding year passed through the profit and loss account

BALANCE SHEET
At 31 March 2010

Company Registered Number: 3097532

	Notes		2010		2009
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		14		14
Current assets					
Debtors – due within one year	11	3,985		2,773	
Debtors – due after one year	11	169		178	
Cash at bank and in hand		5,331		7,178	
		9,485		10,129	
Creditors amounts falling due within one year	12	(8,363)		(8,047)	
Net Current Assets			1,122		2,082
Net assets			1,136		2,096
Capital and reserves					
Called up share capital	14		-		-
Profit and loss account	15		1,136		2,096
Shareholders' funds			1,136		2,096

These financial statements of Tram Operations Limited registered number 3097532 were approved by the Board of Directors on 9th December 2010 and were signed on its behalf by

A Wlodarski
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2010

	2010	2009
	£000	£000
Profit for the financial year	527	1,920
Dividends Paid (note 9)	(1,500)	(1,000)
FRS 20 Share based payment charge	13	13
Net (reduction/increase in shareholders' funds	(960)	933
Opening shareholders' funds	2,096	1,163
Closing shareholders' funds	1,136	2,096

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis and in accordance with United Kingdom Generally Accepted Accounting Practice They have been prepared on a going concern basis as described in the going concern statement in the Directors' Report on page 1

(b) Tangible fixed assets and depreciation

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

Plant and equipment - 2 to 8 years straight line

(c) Leases

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

(d) Taxation

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

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

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

1 Principal accounting policies (continued)

(e) Pension costs

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

The company is unable to separately identify its share of the schemes' assets and liabilities It therefore accounts for the schemes as if they were defined contribution schemes 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 First Group plc '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 behavioral considerations (refer to note 6)

2 Turnover

Turnover is stated net of VAT 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

	2010 £000	2009 £000
Staff costs (note 4)	6,406	6,229
External charges	2,702	1,428
Depreciation	7	5
	9,115	7,662

NOTES TO THE ACCOUNTS
31 March 2010

4 Employee numbers and costs

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

	2010 Number	2009 Number
Operations	151	151
Maintenance	1	1
Administration	13	12
	165	164

The aggregate payroll costs of these persons were as follows

	2010 £'000	2009 £'000
Wages and salaries	5,540	5,364
Social security costs	538	516
Other pension costs	328	349
	6,406	6,229

5 Directors' remuneration

The remuneration of the directors during the year was as follows

	2010 £'000	2009 £'000
Aggregate emoluments (excluding pension contributions)	293	260
Company pension contributions to Final Salary schemes	35	36
	328	296

Retirement benefits accrue to three directors (2009 four) under a defined benefit scheme

Emoluments of the highest paid director amounted to

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	125	116
Company pension contributions to Final Salary schemes	14	14
	139	130

Accrued pension balance and lump sum at the end of the year amounted to £20,464 (2009 £18,388) and £95,405 (2009 £85,782), respectively

NOTES TO THE ACCOUNTS
31 March 2010

6 Share based payments

Tram Operations Limited is part of the First Group share based payment scheme The following disclosure has been taken directly from the First Group Plc financial statements for the year ended 31 March 2010

Equity-settled share option plans

The Group recognised total expenses of £5 5m (2009 £6 3m, 2008 £4 2m) related to equity-settled share-based payment transactions

(a) Save as you earn (SAYE)
The Group operates an Inland Revenue approved savings related share option scheme Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008 and December 2009 The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period Sharesave accounts are held with Lloyds TSB and Yorkshire Building Society 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

	SAYE April 2006 Options No	SAYE Dec 2006 Options No	SAYE Dec 2007 Options No	SAYE Dec 2008 Options No	SAYE Dec 2009 Options No
Outstanding at the beginning of the year	1,600,018	1,978,079	1,774,431	2,494,322	
Awarded during the year	-	-	-		2,938,166
Exercised during the year	(724,134)	(334)	(315)	(584)	-
Lapsed during the year	(874,619)	(188,382)	(259,500)	(269,123)	(37,472)
Outstanding at the end of the year	1,265	1,789,363	1,514,616	2,224,615	2,900,694
Exercisable at the end of the year	1,265	1,789,363	-	-	-
Weighted average exercise price (pence)	325 0	444 0	583 0	371 0	310 0
Weighted average share price at date of exercise (pence)	385 0	374 1	396 0	385 8	N/A

6 Share based payments (continued)

(b) Executive share option scheme (ESOS)
Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met

	ESOS 2001 Options No	ESOS 2002 Options No	ESOS 2003 Options No	ESOS 2004 Options No
Outstanding at the beginning of the year	248,991	349,362	480,376	588,489
Forfeited during the year	-	-	(2,805)	(1,934)
Exercised during the year	-	-	(20,989)	(85,579)
Outstanding at the end of the year	248,911	349,362	456,582	500,976
Exercisable at the end of the year	248,911	349,362	456,582	500,976
Weighted average exercise price (pence)	346 5	269 0	287 0	275 1
Weighted average share price at date of exercise (pence)	N/A	N/A	383 3	374 6

(c) Deferred bonus shares (DBS)

	DBS 2004 Options No	DBS 2005 Options No	DBS 2006 Options No	DBS 2007 Options No	DBS 2008 Options No	DBS 2009 Options No
Outstanding at the beginning of the year	55,125	110,855	658,032	502,612	419,475	-
Granted during the year	-	-	-	-	-	399,890
Forfeited during the year	-	-	(22,715)	(22,682)	(22,449)	(29,223)
Exercised during the year	(7,616)	(15,662)	-	-	-	-
Outstanding at the end of the year	47,509	95,193	635,317	479,930	397,026	370,667
Exercisable at the end of the year	47,509	95,193	-	-	-	-
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	369 5	378 0	N/A	N/A	N/A	N/A

(d) Buy As You Earn (BAYE) scheme
BAYE enables eligible employees to purchase shares from their gross income The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month If the shares are held in trust for five years or more, no income tax and national insurance will be payable The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award

At 31 March 2010 there were 7,833 (2009 7,436, 2008 6,388) participants in the BAYE scheme who have cumulatively purchased 4,583,431 (2009 3,494,553, 2008 2,643,102) shares with the Company contributing 1,349,661 (2009 1,011,049, 2008 755,953) matching shares on a cumulative basis

(e) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March 2011 and 31 March 2012 with 50% of the award being dependent upon EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to the comparator group of 100 companies

	LTIP 2008 Options No	LTIP 2009 Options No
Outstanding at the beginning of the year	1,733,667	-
Granted during the year	-	3,696,075
Forfeited during the year	(201,227)	(202,358)
Outstanding at the end of the year	1,532,440	3,493,717

6 Share based payments (continued)

The fair values of the options granted during the last two years were measured using a Black-Scholes model The inputs into the Black-Scholes model were as follows

	2010	2009
Weighted average share price (pence)		
– DBS	**365 0**	564 0
– SAYE December 2008	–	407 3
– SAYE December 2009	**395 0**	–
– LTIP	**392 3**	564 0
Weighted average exercise price (pence)		
– DBS	–	–
– SAYE December 2008	–	371 0
– SAYE December 2009	**310 0**	–
– LTIP	–	–
Expected volatility		
– DBS	**35%**	25%
– SAYE December 2008	–	30%
– SAYE December 2009	**35%**	–
– LTIP	**35%**	25%
Expected life		
– SAYE schemes	**3 years**	3 years
– DBS	**3 years**	3 years
– LTIP	**3 years**	3 years
Rate of interest		
– DBS	**2 0%**	4 0%
– SAYE December 2008	–	2 7%
– SAYE December 2009	**2 0%**	–
– LTIP	**2 0%**	4 0%
Expected dividend yield		
– DBS	**3 0%**	3 0%
– SAYE December 2008	–	3 0%
– SAYE December 2009	**4 8%**	–
– LTIP	**4 8%**	3 0%

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

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it Fair values for the SAYE include a 10% p a pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for pre-vesting forfeitures

The Group used the inputs noted above to measure the fair value of the new share options

The company has recognised a total expense of £13,000 (2009 £13,000) relating to equity-settled share-based payment transactions

7 Profit on ordinary activities before taxation

This is stated after charging	2010 £'000	2009 £'000
Auditors' remuneration for audit of company's annual accounts	4	4
Depreciation	7	5
Rentals payable under operating leases		
- plant and machinery	25	23
- other	31	31

8 Tax charge on profit on ordinary activities

	2010 £000	2009 £000
Current taxation		
Group relief payable	207	751
Adjustment in respect of prior years	46	(16)
	263	735
Deferred taxation		
Origination and reversal of timing differences	(2)	(3)
Effect on decrease in tax rate on opening asset	-	-
Adjustment in respect of prior years	(48)	10
Total deferred taxation	(50)	7
Total tax charge on profit on ordinary activities	203	742

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2009 28%) 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

	2010 %	2009 %
Standard rate of taxation	28 0	28 0
Factors affecting charge		
- expenses not deductible for tax purposes	-	0 1
- capital allowances in excess of depreciation	(0 2)	-
- other timing differences	0 6	0 1
- prior years' tax charge	6 3	(0 6)
Current taxation rate for the year	34 7	27 6

9 Dividends

	2010 £000	2009 £000
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year	1,500	1,000
Dividend per share	750	500

10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2009	312
Additions	7
Disposals	(3)
At 31 March 2010	316
Depreciation	
At 1 April 2009	298
Charge for the year	7
Disposals	(3)
At 31 March 2009	302
Net book value	
At 31 March 2010	14
At 31 March 2009	14

11 Debtors

	2010 £000	2009 £000
Amounts due within one year		
Trade debtors	1,389	232
Amounts owed by group undertakings	2,511	2,492
Other debtors	-	17
Deferred tax asset (note 13)	65	15
Prepayments and accrued income	20	17
	3,985	2,773
Amounts due after one year		
Deferred contract costs	169	178
	4,154	2,951

12 Creditors

	2010 £000	2009 £000
Amounts falling due within one year		
Trade creditors	321	1,062
Amounts owed to group undertakings	5,417	5,341
Corporation tax	1	1
Other creditors	265	167
Accruals and deferred income	2,359	1,476
	8,363	8,047

13 Deferred taxation

	£000
At 1 April 2009	15
Credited to the profit and loss account	50
At 31 March 2010	65

The deferred tax asset consists of the following amounts

	2010 £000	2009 £000
Depreciation in excess of capital allowances	5	7
Other timing differences	60	8
Deferred tax asset	65	15

The balance is included within Debtors note 11

14 Called up share capital

	2010 £000	2009 £000
Authorised:		
1,000,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	-	-

15 Profit and loss account

	£000
At 1 April 2009	2,096
Retained profit for the year	527
Dividends Paid	(1,500)
Share based payment charge	13
At 31 March 2010	1,136

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

	2010		2009	
	Land and buildings	Other	Land and buildings	Other
Operating leases which expire	£000	£000	£000	£000
Within one year	-	-	-	-
Within two to five years	31	25	31	23

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 schemes' assets and liabilities It therefore accounts for the schemes as if they were defined contribution schemes Contributions are charged to the profit and loss account as they become payable

The deficit on the group schemes of £330 8m (2009 £168 7m) 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 328m (2009 £0 349m) all of which relates to defined benefit schemes

19 Capital commitments

There were no non-cancellable commitments for capital expenditure at 31 March 2010 (2009 £nil)

20 Related party transactions

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

21 Ultimate and immediate parent company and controlling party

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

The company's immediate parent company is CentreWest Limited CentreWest Limited is a wholly owned subsidiary of FirstGroup plc and therefore does not prepare consolidated accounts

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