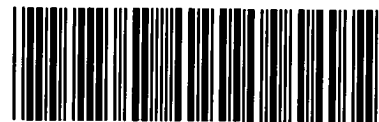


TRAM OPERATIONS LIMITED

**Annual Report and Financial Statements
for the Year Ended 31 March 2023**

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COMPANIES HOUSE

**Company Registered
Number: 03097532**

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2023

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STRATEGIC REPORT**For the year ended 31 March 2023**

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

Principal activities

Tram Operations Limited (the “Company” or “TOL”) is an indirect, wholly-owned subsidiary of FirstGroup plc and provides tram operating services (the provision of passenger transport services on Croydon tram link) to the concessionaire, Tramtrack Croydon Limited, and, ultimately, to Transport for London (“TfL”).

Tramlink incident at Sandilands Junction on 9 November 2016

The inquest relating to the death of seven passengers in the Sandilands Junction derailment in November 2016 (the “Sandilands Incident”) completed on 22 July 2021. The Office of Rail and Road (“ORR”) prosecuted the Company, TfL and the driver for breaches of Health and Safety law. The Company pleaded guilty to the charge laid against it. TfL pleaded guilty for the charge laid against it, also. The driver pleaded not guilty and his trial concluded in June 2023 at which he was found not guilty. A sentencing hearing for the Company and TfL concluded on 27 July 2023, which resulted in the Company being ordered to pay a fine of £4,000k, plus a portion of the ORR’s costs. This has been treated as an adjusting post balance sheet event (notes 6 and 25).

Business review

In the year ended 31 March 2023, turnover increased by 5.7% (2022: increased by 13.1%). The prior year included the operating fee settlement with Tramtrack Croydon Limited of the Quinquennial Review (“QR”) for the period from May 2020 to May 2025, which resulted in a backdated increase to the operating fee. Operating margin decreased to 4.0% due to the £4,000k fine offset by £2,913k insurance recoveries of legal costs relating to the Sandilands Incident (2022 – Operating margin of 9.4%). The operating margin excluding the fine and the insurance recoveries was 9.2%, similar to the prior year.

The results showed a profit before tax of £894k (2022: profit before tax £1,819k), which is detailed in the profit and loss account on page 15. As at 31st March 2023 the Company had cash of £8,375k (2022: £9,346k) and net assets of £4,412k (2022: £5,854k). The decrease in net assets of £1,442k is due to the loss for the year of £87k plus the actuarial loss on the defined benefit pension scheme, net of deferred tax, of £1,355k.

The Company’s employees are critical to the success of the business, as more fully explained in the Directors’ report on page 9. Additionally, the Company encourages the involvement of its employees in the performance of the Company’s wider owning group through participation in employee share schemes, as disclosed in note 11 to the financial statements.

Future developments

The directors remain optimistic about the opportunities to grow the business with innovative ideas, improved service quality and reliability while retaining a tight control on costs. In the immediate term, there have been challenges in daily availability of trams to operate the advertised services. In the longer term, a project is in progress to replace the existing trams. The directors remain confident that the Company’s activities will generate a satisfactory result in the coming period.

STRATEGIC REPORT**For the year ended 31 March 2023**

Key performance indicators

In addition to the principal financial performance measures as detailed in the Business review (turnover, operating margin, profit before tax, cash and net assets), the Company monitors one non-financial key performance indicator: percentage of scheduled kilometrage operated (excluding loss due to tram availability). In the year, this was 99.44% against a target of 99% (2022: 99.17% against a target of 99%).

Principal risks and uncertainties

To fully consider both opportunities and risks, the management team consults regularly. Risk is an inherent part of doing business. The management of 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 regulation, pensions and for external charges on policing.

Safety

We continued to prioritise reductions in customer injuries on our trams and tram stops where we know slips, trips and falls are the most common cause of injury. Our staff are focused on identifying and assisting vulnerable customers where possible. This applies especially for elderly customers.

The elimination of Signals Passed at Stop (SPAS) risk continues to be at the forefront of management activities, with monitoring arrangements rigidly applied to both supporting performance metrics and the implementation of safety plans.

Trams are fitted with Seeing Machines' guardian device, a real-time driver fatigue and distraction technology solution, which monitors drivers' attentiveness and intervenes if it detects a fatigue or distraction event. A bespoke Physical Prevention of Overspeed System (PPOS) has been installed on the Croydon Tram network. This system provides a high level of safety assurance by automatically braking the tram to a stand in a controlled manner, when an over-speed event is detected at 13 pre-identified locations, where the risk of overturning has been assessed as high.

We are constantly striving for ways to continue to improve safety and make the safest possible environment for customers, employees and all those who interact with our business.

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. The Company was unable to provide a full service on four days of industrial action in the year. There were payments made by way of penalties of £41k.

STRATEGIC REPORT**For the year ended 31 March 2023**

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 a core value. 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 Company's impact on its environment is limited given it operates a fleet of electric trams. The Company is focused 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. The Company engages with TfL in its long-term project to replace the existing tram fleet.

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. Emergency incident planning events are undertaken to test the effectiveness of those plans involving colleagues and third parties.

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 monitor costs and business performance, which is regularly reviewed at board meetings throughout the year.

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.

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 include no 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 with a minimum credit rating of "A". FirstGroup plc, the Company's ultimate parent, has a treasury department which manages these risks.

STRATEGIC REPORT**For the year ended 31 March 2023**

Principal risks and uncertainties (continued)**Labour costs, employee relations, recruitment and retention**

Labour costs represent a significant component of the Company's operating costs. Labour shortages, or low unemployment rates, could hinder the Company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. Industrial action could adversely impact customer service and have a financial impact on the Company's operations. To mitigate this risk, the Company seeks to structure its recruitment and retention policies, training schemes and working practices. The Company's employees are key to service delivery and therefore it is important that good employee relations are maintained. The Company's working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences and employee surveys.

General political risk

Changes in economic activity may impact upon the passenger numbers and hence our operations. Economic conditions may result in a tightening of labour markets, resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services. The same factors could also affect our key suppliers. To mitigate these risks, we continue to focus on delivering our contractual obligations and controlling costs to ensure we remain competitive.

Companies Act 2006 Section 172(1) 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 TfL)
- Investors (CentreWest Limited and, ultimately, FirstGroup plc)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

The Board believes 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 plc 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 plc 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.

STRATEGIC REPORT**For the year ended 31 March 2023****Companies Act 2006 Section 172(1) statement (continued)****Engaging ethically (continued)**

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.

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 UK 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 REPORT

For the year ended 31 March 2023

Companies Act 2006 Section 172(1) statement (continued)

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

Below we describe the effect of having regard to Section 172(1) 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 TfL on the fitment to the remainder of the fleet of correct side door enable, which automatically opens Tram doors at stops on the correct platform removing the need for the driver to open doors. It continues to invest in its employees through training and the "Just Culture" programme.

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

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



A James
Director
22 March 2024

DIRECTORS' REPORT
For the year ended 31 March 2023

The directors submit their annual report and the audited financial statements for the year ended 31 March 2023. 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 £894k (2022: profit before tax of £1,819k), which is detailed in the profit and loss account on page 15.

The directors have not recommended payment of a dividend (2022: nil).

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Martijn Gilbert (appointed 28 March 2023)
Ben Groome (appointed 10 October 2023)
Andrew James
Andrew Mellors (resigned 20 November 2023)
Stephen Montgomery
Jacqueline Townsend (resigned 31 January 2023)
Adrian Wlodarski

Statement of corporate governance arrangements

The Company is a subsidiary of FirstGroup plc, a UK premium listed company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the Listing Rules, FirstGroup plc has included a detailed corporate governance report in its 2023 Annual Report and Accounts describing how FirstGroup plc has applied the Code's main principles and highlighting any non-compliance with the Code. The 2023 Annual Report and Accounts are available on FirstGroup plc's website (www.firstgroupplc.com).

As FirstGroup plc applies the Code throughout the Group, its corporate governance report also describes corporate governance at subsidiary level. The Company has not adopted any corporate governance code; however, it has applied the principles of the Code adopted by FirstGroup plc.

The Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only and which are therefore not applicable to the Company. These particular principles and provisions of the Code are applied by FirstGroup plc on a comply or explain basis. They relate, for example, to the role of the FirstGroup plc board in engaging with shareholders, processes for board appointments, succession and evaluation, director remuneration and the role of the board's audit committee. Given the nature of the Company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company. Other parts of the Code can be seen to apply to the FirstGroup plc's group of companies as a whole, including the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the Company's values.

DIRECTORS' REPORT
For the year ended 31 March 2023**Subsidiary level governance framework**

The Board of TOL comprises five Directors as at 31 March 2023 and their role is to:

- Execute TOL's strategic direction
- Ensure the values and culture aligned with that of the Group
- Establish a framework of prudent and effective controls to enable TOL's risks to be assessed and managed
- Engage effectively with shareholders and stakeholders
- Ensure workforce policies and practices are implemented which are consistent with the values and support TOL's long-term sustainable success
- Ensure there are mechanisms in place that allow the workforce to raise any matters of concern
- Provide effective governance and stewardship of TOL's assets
- Ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations

Going concern

As at 31st March 2023 the Company had cash of £8,375k (2022: £9,346k) and net assets of £4,412k (2022: £5,854k). The Company made a profit before taxation of £894k in the year. Trading since year end has been in line with management forecasts.

The Company directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Background for going concern

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 2020 to May 2025.

In relation to the tragic incident at Sandilands Junction on 9 November 2016, a sentencing hearing for the Company and TfL concluded on 27 July 2023, which resulted in the Company being ordered to pay a fine of £4,000k.

The Company participates in a notional cash pool arrangement and overdraft facility with its ultimate parent company, FirstGroup plc, and other group companies. The Company has jointly and severally guaranteed the liabilities of the other parties under these arrangements. Due to these arrangements, the Company is dependent on its ultimate parent, FirstGroup plc, for support.

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the Company's ability to continue as a going concern for the twelve months from the date of the financial statements.

DIRECTORS' REPORT

For the year ended 31 March 2023

Going concern (continued)

Background for going concern

The major assumptions and key areas of judgement incorporated in the modelling included:

- the potential impacts on financial and trading performance; and
- the timing of working capital flows

These financial forecasts assume continued support from FirstGroup plc due to the cash pooling arrangements. Given the extent to which current FirstGroup plc support underpins the business, it was not considered necessary to run alternative stress tests.

The Company is dependent on its ultimate parent company, FirstGroup plc, for ongoing financial support. This has been taken into account in the going concern assessment for the Company (see below).

Significant going concern judgements

In using these financial forecasts for the going concern assessment, the Company directors have made significant judgements in forming assumptions regarding revenue and cost growth. FirstGroup plc has provided the directors of the Company with a letter confirming that it will provide support to the Company, such that it is able to meet its obligations for a period of at least 12 months from the date of signing of these financial statements. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support.

Going concern statement

Based on their review of the financial forecasts, the support to the Company from FirstGroup plc and having regard to the risks and uncertainties to which the Company is exposed the Company directors believe that the Company has adequate resources to continue in operational existence for the 12 month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

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' indemnities

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 2023

Engagement with customers, suppliers and other key stakeholders

The Section 172(1) report contained within the Strategic report on pages 4 to 6 outlines the primary ways in which the Company fosters its business relationships with its key stakeholders.

Future events

The directors are satisfied with the performance of the Company for the year. Future events have been considered by the directors within the Strategic report and can be found on page 1.

Financial risk management

Financial risk management objectives and policies have been considered by the directors within the Strategic report and can be found on page 3.

Events subsequent to the end of the year

The inquest relating to the death of seven passengers in the Sandilands Junction derailment in November 2016 (the "Sandilands Incident") completed on 22 July 2021. The Office of Rail and Road ("ORR") prosecuted the Company, TfL and the driver for breaches of Health and Safety law. The Company pleaded guilty to the charge laid against it. TfL pleaded guilty for the charge laid against it, also. The driver pleaded not guilty and his trial concluded in June 2023 at which he was found not guilty. A sentencing hearing for the Company and TfL concluded on 27 July 2023, which resulted in the Company being ordered to pay a fine of £4,000k, plus a portion of the ORR's costs.

On 21 March 2024, the directors recommended payment of a dividend of £4,000k.

Auditors' 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/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 auditors are 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.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was passed at FirstGroup plc's Annual General Meeting on 21 July 2023.

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

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


A James
Director
22 March 2024

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' responsibilities statement and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

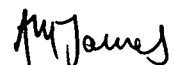
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates 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 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 also 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.

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

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



A James
Director
22 March 2024

Independent auditors' report to the members of Tram Operations Limited

Report on the audit of the financial statements

Opinion

In our opinion, Tram Operations Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2023; the Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to General Data Protection Regulation (GDPR) and Health and Safety at Work Act 1974, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of the financial statement line items through journal postings and the use of inappropriate assumptions or management bias in determining accounting estimates. Audit procedures performed by the engagement team included:

-
- Enquiry with management and those charged with governance around any known or suspected instances of non-compliance with laws and regulations or fraud;
 - Identifying and testing journal entries, in particular certain journal entries posted with unusual account combinations in relation to revenue and cash;
 - Understanding of management's tax compliance controls along with review of correspondence with tax authorities and understanding of the applicable tax laws;
 - Challenging assumptions made by management in determining their significant judgements and accounting estimates;
 - Reviewing minutes of meetings of those charged with governance;
 - Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations; and
 - Incorporating unpredictable procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
22 March 2024

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2023

| | Note | 2023 £000 | 2022 £000 |
|---|------|-----------------|-----------------|
| Turnover | 5 | 20,884 | 19,763 |
| Operating costs before fine | | (18,964) | (17,911) |
| Fine | | (4,000) | - |
| Operating costs | 6 | <u>(22,964)</u> | <u>(17,911)</u> |
| Other operating income | 7 | 2,913 | - |
| Operating profit | | <u>833</u> | <u>1,852</u> |
| Net interest income / (expense) | 10 | <u>61</u> | <u>(33)</u> |
| Profit before tax | 12 | 894 | 1,819 |
| Tax on profit | 13 | <u>(981)</u> | <u>(421)</u> |
| (Loss) / profit for the financial year | | <u>(87)</u> | <u>1,398</u> |

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

Statement of comprehensive income
For the year ended 31 March 2023

| | Note | 2023 £000 | 2022 £000 |
|--|------|----------------|--------------|
| (Loss) / profit for the financial year | | <u>(87)</u> | <u>1,398</u> |
| (Loss) / gain recognised on defined pension scheme | 22 | (1,807) | 1,737 |
| Movement on deferred tax relating to pension deficit | 18 | <u>452</u> | <u>(220)</u> |
| Total other comprehensive (expense) / income | | <u>(1,355)</u> | <u>1,517</u> |
| Total comprehensive (expense) / income for the year | | <u>(1,442)</u> | <u>2,915</u> |

BALANCE SHEET
As at 31 March 2023

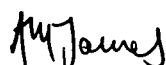
Company Registered Number: 03097532

| | Note | 2023 | 2022 |
|---|------|----------------|-----------------|
| | | | Restated * |
| | | £000 | £000 |
| Fixed assets | | | |
| Intangible assets | 14 | 54 | 63 |
| Tangible assets | 15 | 44 | 84 |
| | | <u>98</u> | <u>147</u> |
| Current assets | | | |
| Post-employment benefits due after one year * | 22 | 224 | 2,033 |
| Debtors | 16 | 5,020 | 4,598 |
| Cash at bank and in hand | | <u>8,375</u> | <u>9,346</u> |
| | | 13,619 | 15,977 |
| Creditors: | | | |
| Amounts falling due within one year | 17 | <u>(9,256)</u> | <u>(10,164)</u> |
| Net current assets | | <u>4,363</u> | <u>5,813</u> |
| Total assets less current liabilities | | 4,461 | 5,960 |
| Provisions for liabilities | 19 | (49) | (106) |
| Net assets | | <u>4,412</u> | <u>5,854</u> |
| Capital and reserves | | | |
| Called up share capital | 20 | - | - |
| Profit and loss account | | 4,412 | 5,854 |
| Total shareholder's funds | | <u>4,412</u> | <u>5,854</u> |

* The presentation of post-employment benefits in the prior year has been changed from fixed assets to current assets.

The accompanying notes on pages 18 to 30 form an integral part of these financial statements.

These financial statements of Tram Operations Limited registered number 03097532 on pages 15 to 30 were approved by the Board of Directors on 22 March 2024 and were signed on its behalf by:



A James
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2023

| | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|--|---------------------------------------|------------------------------------|---------------|
| Balance at 1 April 2021 | - | 2,939 | 2,939 |
| Profit for the financial year | - | 1,398 | 1,398 |
| Other comprehensive income for the year | - | 1,517 | 1,517 |
| Total comprehensive income for the year | - | 2,915 | 2,915 |
| Balance at 31 March 2022 | - | 5,854 | 5,854 |
| Loss for the financial year | - | (87) | (87) |
| Other comprehensive expense for the year | - | (1,355) | (1,355) |
| Total comprehensive expense for the year | - | (1,442) | (1,442) |
| Balance at 31 March 2023 | - | 4,412 | 4,412 |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2023

1 General information

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.

2 Statement of compliance

The financial statements of Tram Operations Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

3 Principal accounting policies

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

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, modified to include certain items at fair value in accordance with FRS 102.

The functional and presentation 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.

(b) Going concern

The Company currently meets its day-to-day working capital requirements through its bank overdraft facilities and support from its ultimate parent, FirstGroup plc. The Company's business modelling forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Exemptions for qualifying entities under FRS 102

The Company meets the definition of a qualifying entity under FRS 102 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 FirstGroup plc's financial statements.

(d) 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. |
|---------------------|---|-----------------------------|

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2023

3 Principal accounting policies (continued)**(e) Intangible fixed assets and amortisation**

Intangible assets are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided to write off the cost less residual value of intangible assets on a straight-line basis over the shorter of their estimated useful economic lives or the duration of the contract. Our amortisation policy is as follows:

Deferred Contract Costs - duration of contract (30 years) on a straight-line basis

(f) Leases

The Company continues to account for leases under FRS 102 where 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. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

(g) Financial assets and liabilities

All financial assets and liabilities are measured at transaction price (including transaction cost). All the financial assets and liabilities are classified as 'basic' under Section 11 and Section 12 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method.

(h) Impairment of financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

3 Principal accounting policies (continued)

(j) Pension costs

Group schemes

First UK Bus Pension Scheme

The Company participates in a group defined benefit scheme, the First UK Bus Pension Scheme, which is held in separately administered funds. 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. This scheme has been allocated across all participating employing entities based on the proportion of pensionable pay relating to the members employed by that entity as at 31 March 2018. The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount as other financial costs or credits included within interest payable. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at 31 March each year for the purposes of inclusion in the financial statements under FRS 102. The last formal actuarial valuation was at 5 April 2021.

FirstGroup Pension Scheme

The Company participates in a group multi-employer defined benefit scheme, the FirstGroup Pension Scheme. This scheme is disclosed in FirstGroup Holdings Limited's financial statements and is funded separately by defined contributions which have been expensed to the profit and loss account of FirstGroup Holdings Limited during the period to 25 March 2023. There is no charge in the Company's profit and loss. The assets and liabilities of the scheme are held separately and cannot be allocated out; accordingly, the scheme is treated as a defined contribution scheme in the financial statements.

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. Payments to the defined contribution scheme are charged as an expense as they fall due. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments. There is no legal or constructive obligation to pay additional contributions into the defined contribution scheme if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

(k) Share-based payment

The Company's ultimate 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

3 Principal accounting policies (continued)

(l) Turnover

Turnover (Revenue) is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business and is shown net of VAT where appropriate.

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.

(m) Other operating income

Other operating income is recognised when the right to receive payment is established.

(n) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Provisions are split between those falling due within one year and those falling due after more than one year.

4 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 22.

There are no other significant judgements.

5 Turnover

Turnover is stated net of VAT and it originates within the United Kingdom. Turnover 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 on Croydon tram link via the concession.

6 Operating costs

| | 2023 | 2022 |
|---|---------------|---------------|
| | £000 | £000 |
| Staff costs (note 8) | 15,408 | 14,471 |
| Operating expenses | 7,516 | 3,410 |
| Depreciation on tangible assets (note 15) | 40 | 30 |
| | <u>22,964</u> | <u>17,911</u> |

Operating expenses in 2023 includes the £4,000k fine (2022: £nil) for breaches of Health and Safety law – see note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

7 Other operating income

| | 2023 | 2022 |
|----------------------|--------------|----------|
| | £000 | £000 |
| Insurance recoveries | 2,913 | - |
| | <u>2,913</u> | <u>-</u> |

Certain legal costs in relation to the Tramlink incident have been recovered from insurers totalling £2,913k (2022: £nil).

8 Employee numbers and costs

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

| | 2023 | 2022 |
|----------------|------------|------------|
| | Number | Number |
| Operations | 231 | 230 |
| Maintenance | 1 | 1 |
| Administration | 19 | 20 |
| | <u>251</u> | <u>251</u> |

The aggregate payroll costs of these persons were as follows:

| | 2023 | 2022 |
|-----------------------|---------------|---------------|
| | £000 | £000 |
| Wages and salaries | 13,167 | 12,364 |
| Social security costs | 1,517 | 1,351 |
| Other pension costs | 724 | 756 |
| | <u>15,408</u> | <u>14,471</u> |

9 Directors' remuneration

Four directors received remuneration from other group companies in the current year (2022: three), details of which are disclosed in their financial statements. To the extent they are employed by those other group companies as an employee, their remuneration is included in those companies' wages and salaries. Services provided by those directors are considered incidental to Tram Operations Limited.

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

| | 2023 | 2022 |
|--|------------|------------|
| | £000 | £000 |
| Aggregate emoluments (excluding pension contributions) | 252 | 216 |
| Company pension contributions | 15 | 15 |
| | <u>267</u> | <u>231</u> |

Retirement benefits accrue to two directors under a defined contribution scheme. No share options were exercised in either year.

Emoluments of the highest paid director amounted to:

| | 2023 | 2022 |
|--|------------|------------|
| | £000 | £000 |
| Aggregate emoluments (excluding pension contributions) | 179 | 145 |
| Company pension contributions | 6 | 6 |
| | <u>185</u> | <u>151</u> |

The highest paid director received compensation for loss of office of £111k (2022: £nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

10 Net interest income / (expense)

| | 2023 £000 | 2022 £000 |
|---|--------------|--------------|
| Net interest income / (expense) on post-employment benefits (Note 22) | 61 | (33) |
| | <u>61</u> | <u>(33)</u> |

11 Share-based payments

Equity-settled share option plans

Save as you earn (SAYE)

The Company's ultimate parent company operates an HMRC approved savings-related share option scheme. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with the administrator, Computershare. 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 outstanding during the year are disclosed in the published financial statements for FirstGroup plc.

Buy as you earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares in FirstGroup plc for every three shares bought by employees, subject to a maximum Company contribution or shares to a value of £20 per employee per month. If the shares are held in a trust for five years or more, no income tax or 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.

The group has allocated the expense over its participating trading subsidiaries based on employee numbers. The Company has recognised a total expense of £nil (2022: £nil) relating to equity-settled share-based payment transactions.

12 Profit before tax

This is stated after charging:

| | 2023 £000 | 2022 £000 |
|---|--------------|--------------|
| Audit fees for audit of Company's annual financial statements | 24 | 24 |
| Amortisation on intangible assets (note 14) | 9 | 8 |
| Depreciation on tangible assets (note 15) | 40 | 30 |
| Rentals payable under operating leases | | |
| - plant and machinery | 11 | 19 |
| - other | <u>56</u> | <u>18</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

| 13 | Tax on profit | 2023 £000 | 2022 £000 |
|----|---|--------------|--------------|
| | Current taxation | | |
| | Group relief payable | 774 | 97 |
| | Adjustment in respect of prior years | (14) | (1) |
| | | <u>760</u> | <u>96</u> |
| | Deferred taxation | | |
| | Origination and reversal of timing differences | 211 | 331 |
| | Impact on deferred tax arising from rate change | - | (6) |
| | Adjustment in respect of prior years | 10 | - |
| | Total deferred taxation (note 18) | <u>221</u> | <u>325</u> |
| | Tax charge on profit | <u>981</u> | <u>421</u> |

From 1 April 2023 the corporation tax rate will increase to 25%. Deferred tax has been provided for at 25%.

In the period commencing 1 April 2023, the net reversal of the deferred tax asset is expected to decrease the corporation tax charge for the period by £206,000. This is primarily due to depreciation, pensions and capital allowances.

The actual tax charge for the current and previous years differs from the standard rate for the reasons set out in the following reconciliation:

| | 2023 £000 | 2022 £000 |
|---|--------------|--------------|
| Profit before tax | 894 | 1,819 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2022: 19%) | 170 | 346 |
| Factors affecting charge: | | |
| - Expenses not deductible | 764 | 3 |
| - Adjustments in respect of prior years | (4) | (1) |
| - Impact on deferred tax arising from rate change | - | (6) |
| - Effect of increase in tax rate on origination and reversal of timing differences | 51 | 79 |
| Total tax charge on profit | <u>981</u> | <u>421</u> |

14 Intangible assets

| | Deferred contract costs £000 |
|-----------------------------------|---------------------------------|
| Cost | |
| At 1 April 2022 and 31 March 2023 | <u>261</u> |
| Accumulated amortisation | |
| At 1 April 2022 | 198 |
| Charge for the year | 9 |
| At 31 March 2023 | <u>207</u> |
| Net book value | |
| At 31 March 2023 | <u>54</u> |
| At 31 March 2022 | <u>63</u> |

Deferred contract costs are development costs which were incurred at the beginning of the contract. Amortisation charge is included within operating expenses in the profit and loss account. Six years remains unamortised at 31 March 2023 (2022: seven years).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2023

15 Tangible assets

| | Plant and equipment £000 |
|---------------------------------|--------------------------------|
| Cost | |
| At 1 April 2022 | 353 |
| Additions | - |
| At 31 March 2023 | <u>353</u> |
| Accumulated depreciation | |
| At 1 April 2022 | 269 |
| Charge for the year | 40 |
| At 31 March 2023 | <u>309</u> |
| Net book value | |
| At 31 March 2023 | <u>44</u> |
| At 31 March 2022 | <u>84</u> |

16 Debtors

| | 2023 £000 | 2022 £000 |
|------------------------------------|--------------|--------------|
| Trade debtors | 2,061 | 1,869 |
| Amounts owed by group undertakings | 2,492 | 2,537 |
| Deferred tax asset (note 18) | 382 | 151 |
| Other debtors | 3 | - |
| Prepayments and accrued income | 82 | 41 |
| | <u>5,020</u> | <u>4,598</u> |

Debtors are due within one year other than the deferred tax asset, which falls due after more than one year. Amounts owed by group undertakings are interest-free and repayable on demand.

17 Creditors: amounts falling due within one year

| | 2023 £000 | 2022 £000 |
|------------------------------------|--------------|---------------|
| Trade creditors | 410 | 428 |
| Amounts owed to group undertakings | 1,513 | 6,378 |
| Other creditors | 4,011 | 391 |
| Taxation and social security | 756 | 353 |
| Accruals and deferred income | 2,566 | 2,614 |
| | <u>9,256</u> | <u>10,164</u> |

Amounts owed to group undertakings are interest-free and repayable on demand. Other creditors includes the £4,000k fine (2022: £nil) in relation to the Sandilands incident – see note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

18 Deferred tax

| | Deferred tax £000 |
|---|----------------------|
| As at 1 April 2022 | 151 |
| Charged to the profit and loss account | (221) |
| Credited to the statement of comprehensive income | 452 |
| As at 31 March 2023 | <u>382</u> |

The deferred tax asset consists of the following amounts:

| | 2023 £000 | 2022 £000 |
|--|--------------|--------------|
| Pension | 368 | 129 |
| Depreciation in excess of capital allowances | 8 | 14 |
| Other timing differences | 6 | 8 |
| Deferred tax asset | <u>382</u> | <u>151</u> |

The deferred tax asset is included within Debtors note 16.

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.

19 Provisions for liabilities

| | Insurance claims provision £000 |
|---|------------------------------------|
| As at 1 April 2022 | 106 |
| Utilised | (11) |
| Released to the profit and loss account | (46) |
| As at 31 March 2023 | <u>49</u> |
| Current | - |
| Non-Current | <u>49</u> |

The insurance claims provision arises from estimated exposures for incidents occurring prior to 31 March 2023. It is anticipated these claims will be settled within the next three years.

20 Called up share capital

| | 2023 £ | 2022 £ |
|--|-----------|-----------|
| Authorised: | | |
| 1,000,000 (2022: 1,000,000) ordinary shares of £1 each | 1,000,000 | 1,000,000 |
| Allotted, called up and fully paid: | | |
| 2 (2022: 2) ordinary shares of £1 each | <u>2</u> | <u>2</u> |

The ordinary shares have no right to fixed income nor any redemption rights.

21 Operating lease commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | 2023 | | 2022 | |
|--------------------------|-------------------------------|---------------|-------------------------------|---------------|
| | Land and buildings £000 | Other £000 | Land and buildings £000 | Other £000 |
| Within one year | 47 | 17 | 70 | 18 |
| Within two to five years | 95 | 3 | 142 | 2 |
| Total | <u>142</u> | <u>20</u> | <u>212</u> | <u>20</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

22 Post-employment benefits

Defined Contribution Scheme- Tram Operations Limited Section within Railway Pensions Scheme

The Company operates a defined contribution scheme for all qualifying employees. The total expense charged during the year ended 31st March 2023 was £623k (2022: £550k). Amounts due as at 31st March 2023 were £23k (2022: £7k).

Defined benefit schemes

FirstGroup Pension Scheme

The Company participates in a group multi-employer defined benefit scheme, the FirstGroup Pension Scheme. This scheme is disclosed in FirstGroup Holdings Limited's financial statements and is funded separately by defined contributions which have been expensed to the profit and loss account of FirstGroup Holdings Limited during the period to 25 March 2023. There is no charge in the Company's profit and loss account. The assets and liabilities of the scheme are held separately and cannot be allocated out; accordingly, the scheme is treated as a defined contribution scheme in the financial statements.

The surplus on the FirstGroup Pension Scheme of £8.9 million (2022: £37.8 million) is reported within FirstGroup Holdings Limited financial statements.

The First UK Bus Pension Scheme

The First UK Bus Pension Scheme is included as part of its disclosure under FRS 102. The scheme closed to defined benefit accrual on 5 April 2018 and so the disclosure has been based on the proportion of pensionable pay relating to Tram Operations Limited members as at 31 March 2018. 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 actuarial valuations are obtained at least triennially. The last formal actuarial valuation was at 5 April 2021. The valuations are updated at each 31st March for FRS 102 purposes.

The rules governing the scheme grants the employer influence over the allocation of any residual surplus once the beneficiaries' rights have been secured. Accordingly, the net surplus/deficit is recognised in full for this scheme.

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

| | 2023 | 2022 |
|---|-------|-------|
| Discount rate | 4.79% | 2.95% |
| Inflation – CPI | 2.70% | 2.94% |
| Rate of increase of pensions in payment | 2.70% | 2.68% |
| Post-retirement mortality (life expectancy in years): | | |
| Current pensioners aged 65 | 20.7 | 19.9 |
| Future pensioners at 65 aged 45 now | 22.2 | 21.4 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

22 Post-employment benefits (continued)

Defined benefit schemes (continued)

The First UK Bus Pension Scheme (continued)

(a) Profit and loss account

Amounts charged to the profit and loss account in respect of these defined benefit schemes are as follows:

| | 2023 £000 | 2022 £000 |
|--|--------------|--------------|
| Administrative expenses | (63) | (53) |
| | <u>(63)</u> | <u>(53)</u> |
| Net interest income / (cost) comprises: | 2023 £000 | 2022 £000 |
| Interest cost | (681) | (515) |
| Interest income on scheme assets | 742 | 482 |
| | <u>61</u> | <u>(33)</u> |

During the year £63k (2022: £53k) of administrative expenses were incurred.

Actuarial gains and losses have been reported in the statement of comprehensive income.

| | 2023 £000 | 2022 £000 |
|---|----------------|--------------|
| Reconciliation of the actual return on scheme assets: | | |
| Interest income on scheme assets | 742 | 482 |
| Return on scheme assets excluding interest income | (7,246) | 88 |
| | <u>(6,504)</u> | <u>570</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:

| | 2023 £000 | 2022 £000 |
|--|--------------|--------------|
| Fair value of scheme assets | 18,088 | 25,567 |
| Present value of defined benefit obligations | (17,864) | (23,534) |
| Surplus in the scheme | 224 | 2,033 |
| Related deferred tax asset (note 18) | 368 | 129 |
| Net pension asset | <u>592</u> | <u>2,162</u> |

(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:

| | 2023 £000 | 2022 £000 |
|--|---------------|---------------|
| The assets in the scheme at the balance sheet date were: | | |
| Equities | 2,635 | 4,758 |
| Fixed income | 13,441 | 11,911 |
| Property | 28 | 44 |
| Cash | 1,333 | 498 |
| Other return seeking assets | 651 | 8,356 |
| | <u>18,088</u> | <u>25,567</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023

22 Post-employment benefits (continued)

Defined benefit schemes (continued)

The First UK Bus Pension Scheme (continued)

(d) Defined benefit obligations (DBO)

| | | |
|--|---------------|---------------|
| Movements in the present value of DBO were as follows: | £000 | £000 |
| As at 1 April 2022 / 2021 | 23,534 | 25,562 |
| Employer administration expenses | 63 | 53 |
| Interest cost | 681 | 515 |
| Experience loss on DBO | 1,033 | 507 |
| Gain on change of assumptions (financial) | (6,472) | (2,156) |
| Benefit payments | (975) | (947) |
| As at 31 March 2023 / 2022 | <u>17,864</u> | <u>23,534</u> |

(e) Fair value of scheme assets

| | | |
|---|---------------|---------------|
| Movements in the fair value of scheme assets were as follows: | £000 | £000 |
| As at 1 April 2022 / 2021 | 25,567 | 22,003 |
| Interest income on assets | 742 | 482 |
| Employer contributions | - | 3,941 |
| Actuarial (loss) / gain | (7,246) | 88 |
| Benefit payments | (975) | (947) |
| As at 31 March 2023 / 2022 | <u>18,088</u> | <u>25,567</u> |

(f) Statement of comprehensive income

| | | |
|--|----------------|--------------|
| Amounts presented in the statement of comprehensive income comprise: | 2023 £000 | 2022 £000 |
| Net Actuarial gain on DBO | 5,439 | 1,649 |
| Actuarial (loss) / gain on scheme assets | (7,246) | 88 |
| | <u>(1,807)</u> | <u>1,737</u> |

23 Other commitments

The Company participates in a notional cash pool arrangement and overdraft facility with its ultimate parent company, FirstGroup plc, and other group companies. The Company has jointly and severally guaranteed the liabilities of the other parties under these arrangements.

24 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 16 Debtors and 17 Creditors.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2023

25 Events subsequent to the end of the year

The inquest relating to the death of seven passengers in the Sandilands Junction derailment in November 2016 (the “Sandilands Incident”) completed on 22 July 2021. The Office of Rail and Road (“ORR”) prosecuted the Company, TfL and the driver for breaches of Health and Safety law. The Company pleaded guilty to the charge laid against it. TfL pleaded guilty for the charge laid against it, also. The driver pleaded not guilty and his trial concluded in June 2023 at which he was found not guilty. A sentencing hearing for the Company and TfL concluded on 27 July 2023, which resulted in the Company being ordered to pay a fine of £4,000k, plus a portion of the ORR’s costs.

On 21 March 2024, the directors recommended payment of a dividend of £4,000k.

26 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 exemption is taken to not prepare consolidated financial statements.

Copies of the financial statements of FirstGroup plc can be obtained from its registered address: 395 King Street, Aberdeen AB24 5RP.