EDINBURGH TRAMS LIMITED

Financial Statements

For the year ended 31 December 2015

Registered number SC451434

EDINBURGH TRAMS LIMITED

Financial Statements

For the year ended 31 December 2015

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EDINBURGH TRAMS LIMITED

Company Information

For the year ended 31 December 2015

Board of Directors:	Charles Monheim (appointed 1/7/15) Andrew Neal (appointed 1/7/15) Charlene Wallace (appointed 1/7/15) George Lowder (appointed 26/2/16) Thomas Norris (resigned 26/6/15) Norman Strachan (resigned 23/8/15) Ian Craig (resigned 31/1/16) William Campbell (resigned 31/3/16)
Company Registration:	Registered Office: 55 Annandale Street Edinburgh EH7 4AZ
	Registration Number: 451434 in Scotland
	Secretary: Norman Strachan (resigned 23/8/15) DW Company Services Limited (appointed 16/12/15)
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

EDINBURGH TRAMS LIMITED

Directors' report

For the year ended 31 December 2015

Directors' report

The directors present their annual report and audited financial statements for the year from 1 January 2015 to 31 December 2015.

Principal Activities

The principal activity of the company during the year under review was operating trams in Edinburgh. The company has operated a successful frequent tram service operating 7 days a week from 5am till midnight from Edinburgh Airport to York Place via Haymarket and Princes Street.

Future Prospects

The directors are pleased with the progress and patronage growth achieved and aim to continue to provide an efficient service that integrates with bus, rail and air services in Edinburgh and achieve the growth projected in the budget for 2016.

Directors

The directors of the company are set out on page 2.

Remuneration was paid to the following Directors:

	2015 £	2014 £
Thomas Norris	47,088	107,560
Charles Monheim	6,000	-
Andrew Neal	3,000	-
Charlene Wallace	2,156	-
Aggregate emoluments, benefits and pension contributions	58,244	107,560

Responsibilities of the directors

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs 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.

Responsibilities of the directors (continued)

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.

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

Charles Monheim

Date: 29 April 2016

Charles Monheim
Director

EDINBURGH TRAMS LIMITED

Independent Auditor's Report to the Members of Edinburgh Trams Limited

For the year ended 31 December 2015

We have audited the financial statements of Edinburgh Trams Limited for the year ended 31 December 2015 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit on the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2015 and of the company's results for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter(s) Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period 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 company 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Nick Bennett

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 2 May 2016

EDINBURGH TRAMS LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 £	2014 £
Continuing Operations			
Revenue	1f	9,226,954	6,426,654
Administrative expenses		(9,249,107)	(6,990,673)
Loss before income tax expense		(22,153)	(564,019)
Income tax expense	3	(2,769)	114,941
Loss for the year		(24,922)	(449,078)
Attributable to:			
Equity holders of the parent		(24,922)	(449,078)

The accompanying notes on pages 11 to 27 form part of these financial statements

EDINBURGH TRAMS LIMITED

Statement of Financial Position

As at 31 December 2015

	Note	As at 31 December 2015 £	As at 31 December 2014 £
Non-current assets			
Property, plant and equipment	6	111,530	183,734
Total non-current assets		111,530	183,734
Current assets			
Cash and cash equivalents	5	428,911	542,634
Trade and other receivables	7	778,223	1,298,653
Total current assets		1,207,134	1,841,287
Total assets		1,318,664	2,025,021
Equity and liabilities			
Contributed equity	10	1	1
Retained earnings	12	(474,000)	(449,078)
Total equity		(473,999)	(449,077)
Liabilities			
Non-current Liabilities			
Amounts due to parent company	9	990,000	990,000
Current liabilities			
Trade and other payables	8	802,663	1,484,098
Total current liabilities		802,663	1,484,098
Total liabilities		1,792,663	2,474,098
Total equity and liabilities		1,318,664	2,025,021

The financial statements were authorised for issue by the Board of Directors on 29 April 2016 and were signed on its behalf by:

Charles Monheim

Charles Monheim, Director

Registered number SC451434

The accompanying notes on pages 11 to 27 form part of these financial statements

EDINBURGH TRAMS LIMITED

Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 January 2014		1	-	1
Comprehensive income				
Loss for the year		-	(449,078)	(449,078)
Balance at 31 December 2014		1	(449,078)	(449,077)
Comprehensive income				
Loss for the year	12	-	(24,922)	(24,922)
Balance at 31 December 2015		1	(474,000)	(473,999)

The accompanying notes on pages 11 to 27 form part of these financial statements

EDINBURGH TRAMS LIMITED

Statement of Cash Flows

For the year ended 31 December 2015

	Year to 2015 £	Year to 2014 £
Cash flow from operating activities		
Loss from operations	(22,153)	(564,019)
Adjustments for:		
Depreciation and amortisation	72,204	48,543
Changes in assets and liabilities:		
Decrease/(increase) in receivables and other financial assets	405,489	(1,015,999)
(Decrease)/increase in payables	(684,204)	2,109,032
Cash flows from operations	(228,664)	577,557
Income tax received	114,941	-
Net cash flows from operating activities	(113,723)	577,557
Cash flow from investing activities:		
Purchase of property plant and equipment (Note 6)	-	(232,277)
Net cash flows from investing activities	-	(232,277)
Cash flow from financing activities:		
Share capital issued	-	-
Net cash flows from financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(113,723)	345,280
Cash and cash equivalents at beginning of period	542,634	197,354
Cash and cash equivalents at end of period	428,911	542,634
Bank balances and cash	428,911	542,634

The accompanying notes on pages 11 to 27 form part of these financial statements.

1. Statement of significant accounting policies

The financial statements of Edinburgh Trams Limited have been prepared in accordance with IFRSs, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

Adoption of new and revised standards

The company has adopted the following new and amended IFRSs as of 1 January 2015:

- IAS 16, 'Property, Plant and Equipment'. The minor clarification sets out how accumulated depreciation is adjusted when an asset is revalued applying the gross approach. The amendment requires that the gross carrying amount of the asset be restated by reference to observable market data or proportionately to the change in the carrying amount of the asset. The accumulated depreciation is then adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after considering accumulated impairment losses.

- IAS 19, 'Employee Benefits'. The amendment clarifies the accounting for contributions from employees or third parties that are linked to service, where the amount of the contributions is independent of the number of years of service. The amendment states that if the contributions are independent of years of service the contributions may be recognised as a reduction in the service cost in the period in which the related service is rendered. If the contribution is linked to years of service the contribution continues to be recognised as part of the gross benefit attributed to the employee.

- IAS 24, 'Related Party Disclosures'. The definition of a related party has been expanded to include an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity. Reporting entities are required to disclose the service fees incurred for key management personnel services provided by an entity in total, rather than broken down by category of costs that make up key management personnel compensation.

- IFRS 13, 'Fair Value Measurement'. The amendment returns to the status quo ante prior to the application of IFRS 13, which allowed contracts that do not meet the definition of a financial asset or financial liability, but are however within the scope of IAS 39 or IFRS 9, to apply the portfolio exception within IFRS 13. The exception allows groups of financial assets and financial liabilities to be measured at fair value on a net basis when certain criteria are met.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2015, and with a potential effect.

The directors do not expect that the adoption of the following standards and interpretations in future periods will have a significant impact on the company's financial statements.

- IAS 1, 'Presentation of Financial Statements'. The standard has been amended twice. The first amendment arises from the issue of IFRS 9. The main changes deal with the abolition of the available for sale category of financial assets, amend the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost, and take account of the revised reclassification rules under IFRS 9 as compared with IAS 39. These changes take effect at the same time as IFRS 9 is applied. The second amendment is part of the disclosure initiative and is effective for annual periods beginning on or after 1 January 2016. The minor amendments address a number of areas which include the disclosure of significant accounting policies, the application of materiality to financial statements, the presentation of sub-totals, information to be presented in the other comprehensive income section of the performance statement and the structure of the financial statements. Entities are required to present significant accounting policies that form part of a complete set of financial statements, rather than a summary of significant accounting policies.

1. Statement of significant accounting policies (continued)

The amendment clarifies the application of materiality to the disclosures required by certain IFRSs. Such information need not be disclosed if the disclosure is not material to the entity. The amendment sets out criteria that should be applied when sub-totals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. Sub-totals must be clear and understandable, consistent from period to period, not be displayed with more prominence than sub-totals required by IFRS and should include line items that are recognised in accordance with IFRS. The amendment also clarifies the presentation of other comprehensive income, which should be presented by nature, separately presenting an entity's share of its associates' or joint ventures' other comprehensive income. The disclosed categories of other comprehensive income are grouped by those items that are not subsequently reclassified to profit or loss, and those that may be subsequently reclassified to profit of loss.

- IAS 16, 'Property, Plant and Equipment'. There are two amendments to the standard. The first amendment clarifies the suitability of using a revenue-based method of depreciation. The amendment is effective prospectively for annual periods beginning on or after 1 January 2016. The IASB has clarified that a depreciation method based on revenue is not an appropriate method in determining a pattern in which the asset's future economic benefits are consumed. The amendment clarifies that those factors have no impact on the way the asset is consumed, but instead could indicate technological or commercial obsolescence of the asset that reflects a reduction of the future economic benefits of the asset. The second amendment defines and brings bearer plants into the scope of IAS 16 rather than IAS 41. The amendment is effective retrospectively for periods beginning on or after 1 January 2016.

- IAS 19, 'Employee Benefits'. The annual improvements project clarifies the discount rate to be used in regional markets, and is effective for annual periods beginning on or after 1 January 2016. The amendment clarifies that the discount rate to be used for post-employment benefit obligations must be assessed at a currency level and not a country/regional market level when determining the rate based on high quality corporate bonds or government bonds when there is no deep market in high quality corporate bonds in that currency.

- IAS 27, 'Separate Financial Statements'. The IAS 27 amendment addresses the measurement of investments in separate entity financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment reinstates a previous option to allow an entity to measure its investments in subsidiaries, associates or joint ventures in the separate financial statements applying the equity method of accounting, this option is in addition to the cost and fair value method currently allowed. The accounting policy choice must be applied to each class of investment. The amendment also clarifies that when an investor becomes or ceases to be an investment entity such a change in accounting must start from the date the change in status occurs.

- IAS 39, 'Financial Instruments: Recognition and Measurement'. A major change to IAS 39 arises out of IFRS 9. The amendments primarily remove items from the scope of the standard, insofar as they are dealt with by IFRS 9. However, these changes apply only when IFRS 9 is adopted.

- IFRS 7, 'Financial Instruments: Disclosures'. There are a number of changes to IFRS 7. Firstly a major change to IFRS 7 arises out of IFRS 9. There are significant changes to the standard, reflecting the replacement of the four categories of financial asset under IAS 39 with the three under IFRS 9. All of the IFRS 7 disclosures by category of financial asset have had to be altered to reflect the new categorisation. There are also changes associated with the potentially different measurement bases applied by IFRS 9. IFRS 7 also has a number of disclosures which deal with the transition from IAS 39 to IFRS 9 for financial assets, and will be required only for the year of change. Secondly the annual improvements project clarifies the concept of continuing involvement in transferred financial assets for disclosure purposes. This amendment applies for periods beginning on or after 1 January 2016. Continuing involvement does not exist in a transferred financial asset when the entity does not have an interest in the future performance of the transferred financial asset nor the responsibility to make payments in respect of the financial asset in the future. The amendment clarifies the latter requirement relating to making a "payment" in respect of the financial asset. Payment in this context does not include cash flows of the transferred financial as set that are collected by the entity and remitted to the transferee.

1. Statement of significant accounting policies (continued)

- IFRS 9, 'Financial Instruments'. The IASB has completed IFRS 9 Financial Instruments, the replacement for IAS 39, dealing with the classification, recognition and measurement, de-recognition, impairment and hedge accounting (except for macro hedging). Macro hedging (described as dynamic risk management) is now being considered as a separate project, and a standard dealing with that matter will be issued in due course. The new standard is effective for accounting periods beginning on or after 1 January 2018.

  Objective and Scope
  IFRS 9 has the objective of establishing principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The scope of the standard is similar to that of IAS 39, however, there are some changes:
    - it is now made clearer that the exclusion for forward contracts for business combinations applies;
    - only to such combinations which are within the scope of IFRS 3;
    - loan commitments now fall within the scope of the impairment requirements (as well as the de-recognition;
    - requirements, which also applied under IAS 39); and
    - entities may now, at inception, irrevocably designate a contract to buy or sell a non-financial item that would normally be excluded from the scope if this eliminates or reduces a recognition inconsistency (or accounting mismatch).

  Recognition and de-recognition
  IFRS 9 does not make any substantive changes to the IAS 39 requirements in respect of recognition and de-recognition of financial assets or liabilities, instead more disclosures are required by IFRS 7 on de-recognition.

  Classification of Financial Assets
  The four categories of financial asset set out in IAS 39 do not survive into IFRS 9. Instead there are three categories:
    - at amortised cost;
    - at fair value through other comprehensive income; and
    - at fair value through profit or loss.

  Classification of Financial Liabilities
  The requirements in respect of classification of financial liabilities of IAS 39 have, largely, been carried forward without change into IFRS 9. However, consistent with the change in the treatment of unquoted equity investments, the standard does change the treatment of derivative liabilities that are linked to, and must be settled by delivery of, unquoted equity instruments. Under IAS 39, such instruments were potentially subject to an exemption on fair value measurement. That exemption does not survive. The exceptions related to financial guarantee contracts and below-market loan commitments survive, with the only change (other than references to IAS 18 changing to IFRS 15) being that no reference is made to the amount that would be determined under IAS 37. Instead, these are subject to the impairment, or loss allowance, requirements set out in IFRS 9. Entities will still have the option to designate liabilities that would otherwise have been stated at amortised cost, as at fair value through profit or loss. The conditions that must be satisfied to do this are substantively unchanged from those in IAS 39.

1. Statement of significant accounting policies (continued)

Impairment
IFRS 9 moves to an expected loss model of accounting for impairments compared with IAS 39 incurred loss model. Under the new model, expected credit losses are recognised from the point at which a financial asset is initially recognised. This applies to financial assets measured at amortised cost, lease receivables, contract assets, loan commitments, financial guarantee contracts and financial assets measured at fair value through other comprehensive income. Deciding whether there has been a significant increase in credit risk is not always going to be an easy exercise and requires judgement. The determination must be made by comparing the risk of default at the reporting date with the risk at the recognition date, taking into account all reasonable and supportable information that is available without undue cost or effort. It should be noted that credit risk must be assessed without regard to collateral. Regardless of the period covered by the allowance account, credit losses should be measured by reference to:

- an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Hedge Accounting
IFRS 9 contains hedge accounting conditions that are more liberal than those of IAS 39. Whilst hedge accounting remains optional, the simplicity that IFRS 9 introduces is likely to extend its use. IFRS 9 allows an entity to apply hedge accounting where it designates a hedging relationship between a hedging instrument and a hedged item that meets all the qualifying criteria:

- the relationship consists only of eligible hedging instruments and eligible hedged items;
- there is formal designation and documentation at inception; and
- the hedge meets the effectiveness requirements.

A qualifying hedging instrument can be a derivative measured at fair value through profit or loss or a non-derivative instrument measured at fair value through profit or loss unless it is a financial liability for which the amount of its change in fair value attributable to changes in the credit risk is presented in other comprehensive income. For a hedge of foreign currency risk, the hedging instrument cannot be an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. Only contracts with a party external to the entity can be designated as hedging instruments. The hedged item must be reliably measurable. For the purpose of hedge accounting there are three types of hedging relationship:

- fair value hedges;
- cash flow hedges; and
- hedges of a net investment in a foreign operation.

IFRS 9 also deals with the option to designate a credit exposure as measured at fair value through profit or loss.

1. *Statement of significant accounting policies (continued)*

- IFRS 10, 'Consolidated Financial Statements'. The amendment clarifies the application of the consolidation exemption for investment entities. The amendment is effective retrospectively for accounting periods beginning on or after 1 January 2016, with early application permitted. The amendment makes clear that an investment entity parent is exempt from preparing consolidated financial statements if that investment entity's ultimate or intermediate parent produces financial statements (consolidated or unconsolidated) that are available for public use and comply with IFRS. Previously the ultimate or intermediate parent financial statements needed to be consolidated financial statements, which was inconsistent with the investment entity exemption when the ultimate or intermediate parent is an investment entity applying the IFRS 10 consolidation exemption. The amendment also clarifies that a subsidiary of an investment entity whose main purpose and activities are providing services that relate to the parent entity's investment activities, must be consolidated by the investment entity parent.

- IFRS 12, 'Disclosure of Interests in Other Entities'. The standard has been amended as part of the IFRS 10 consolidation exemption for investment entities amendment and is effective retrospectively for accounting periods beginning on or after 1 January 2016, with early application permitted. The amendment ensures consistency with IAS 27, in that disclosure is to be provided in accordance with IFRS 12, when an investment entity measures all its subsidiaries in its financial statements at fair value through profit or loss in accordance with the IFRS 10 investment entity consolidation exemption.

1. Statement of significant accounting policies (continued)

Going concern

The Directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

Edinburgh Trams Limited made a loss of £25k for 2015 and had net liabilities of £474k as at 31 December 2015. The company has an agreement with Transport for Edinburgh Limited whereby they will provide Edinburgh Trams Limited with a loan of up to £3m which they can draw down during a five year period from 29 May 2014 to 29 May 2019. In addition, Transport for Edinburgh Limited will make available £1m to cover short term working capital requirements which is available for one year period from 29 May 2014 to 29 May 2015.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IFRIC interpretations and the Companies Act 2006 as augmented to apply to entities reporting in accordance with IFRS.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies that have been applied consistently by the Company to all periods presented in these financial statements are set out below.

a. Income tax

The charge for income tax expense for the year is based on the loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

b. Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

1. Statement of significant accounting policies (continued)

Plant and Equipment

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation

The depreciable amount of all fixed assets and capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
Motor vehicles	4 years
Plant, machinery and other equipment	3 – 10 years

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

c. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value. Impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

1. Statement of significant accounting policies (continued)

d. Employee entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to the balance sheet date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at an amount that is considered to approximate the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the economic entity to employee pension funds and are charged as expenses when incurred.

e. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions and is net of bank overdrafts.

f. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of value added tax (VAT).

g. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

h. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised at cost.

1. Statement of significant accounting policies (continued)

i. Employee benefits

The company contributes to a money purchase scheme for employees, managed by Scottish Widows. Contributions to the scheme are charged to the statement of comprehensive income account as they arise.

j. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key estimates – Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

k. Financial instruments

Classification

The company classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

ii. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

l. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

m. Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

n. Share capital

Ordinary shares are classified as equity.

2. Loss on ordinary activities

	2015 £	2014 £
The loss is stated after charging		
Auditor's remuneration:		
Audit services	4,150	7,750
Non-audit services	850	1,000
Depreciation and other amounts written off tangible fixed assets:	72,204	48,543

3. Income tax expense

	2015 £	2014 £
Current tax:		
Corporation tax expense	2,769	-
Group relief receivable	-	(114,941)
Tax on loss for the year	2,769	(114,941)

The effective tax rate for the year ended 31 December 2015 is calculated at 20% (2014: 21.49%) of the estimated assessable profit for the year.

The charge/(credit) for the year can be reconciled to the loss per the income statement as follows:

	2015 £	2014 £
Loss for the year before taxation	(22,153)	(564,019)
Tax on loss for the year at the effective rate of 20% (2014 – 21.49%)	(4,431)	(121,208)
Effects of:		
Expenses not deductible for tax purposes	357	413
Other short term timing differences	-	715
Depreciation in excess of capital allowances	6,843	5,139
Tax charge/(credit) for the year	2,769	(114,941)

4. Employee benefits expense

The aggregate payroll costs of these persons were as follows:	2015 £	2014 £
Wages and salaries	3,092,281	2,784,297
Social security costs	258,931	280,493
Other pension costs	52,783	52,522
	3,403,995	3,117,312

Four directors (2014: one) were paid through Edinburgh Trams Limited. Further details are provided below and in the directors' report. The other directors received remuneration from Lothian Buses Limited, a company under common control. Their remuneration is disclosed in the financial statements of Lothian Buses Limited. The average number of persons employed by the company (including directors) during the year was 128 (2014: 116).

Directors' remuneration:	2015 £	2014 £
Aggregate emoluments and benefits	54,630	100,160
Aggregate pension contributions	3,614	7,400
	58,244	107,560
Highest paid Directors emoluments and benefits	43,474	100,160
Pension contributions	3,614	7,400
	47,088	107,560

5. Cash and cash equivalents

	2015 £	2014 £
Cash at bank and in hand	428,911	542,634

6. Property, plant and equipment

	Motor Vehicles £	Plant & Equipment £	Total £
Cost or valuation			
At 1 January 2015 and 31 December 2015	**34,570**	**197,707**	**232,277**
Accumulated depreciation			
At 1 January 2015	5,318	43,225	48,543
Charge for year	8,809	63,395	72,204
At 31 December 2015	**14,127**	**106,620**	**120,747**
Net book value			
At 31 December 2015	**20,443**	**91,087**	**111,530**
At 31 December 2014	**29,252**	**154,482**	**183,734**

6. Property, plant and equipment (continued)

	Motor Vehicles £	Plant & Equipment £	Total £
Cost or valuation			
At 1 January 2014	-	-	-
Additions	34,570	197,707	232,277
At 31 December 2014	**34,570**	**197,707**	**232,277**
Accumulated depreciation			
At 1 January 2014	-	-	-
Charge for year	5,318	43,225	48,543
At 31 December 2014	**5,318**	**43,225**	**48,543**
Net book value			
At 31 December 2014	**29,252**	**154,482**	**183,734**
At 31 December 2013	-	-	-

7. Trade and other receivables

	2015 £	2014 £
Trade receivables	-	1,800
Other Debtors	375	134
Prepayments and accrued income	466,981	498,736
VAT recoverable	129,590	262,315
Amounts due from Lothian Buses Limited	128,961	101,428
Amounts due from City of Edinburgh Council	52,316	319,299
Group relief receivable	-	114,941
	778,223	1,298,653

Analysed as:

	2015 £	2014 £
Current	778,223	1,298,653
	778,223	1,298,653

The company considers the fair value of receivables to be in line with carrying values.

8. Current liabilities

	2015 £	2014 £
Amounts due to Lothian Buses Limited	6,032	42,083
Amounts due to City of Edinburgh Council	293,649	151,491
Trade and other payables	132,174	90,018
Current tax payable	2,769	-
Taxation and social security	69,877	63,673
Accruals and deferred income	298,162	1,136,833
	802,663	1,484,098

Current liabilities aged as:

	2015 £	2014 £
Less than three months	802,663	1,484,098

The company considers the fair value of payables to be in line with carrying values.

9. Non-current liabilities

	2015 £	2014 £
Amounts due to Transport for Edinburgh Limited	990,000	990,000
	990,000	990,000

10. Share capital

	2015 £	2014 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	1	1

11. Pension – defined contribution

As explained in the Accounting Policies, employees of the company can participate in a pension scheme which is managed by Scottish Widows. This is a defined contribution scheme.

The charge to the Profit and Loss Account represents the contributions payable relating to the accounting period.

	£
Contributions to Scottish Widows Pension charged to the profit and loss account	52,783
Amount outstanding at the balance sheet date	5,373

12. Reserves

	Retained Earnings £
At 31 December 2013	-
Loss for the year	(449,078)
At 31 December 2014	(449,078)
Loss for the year	(24,922)
At 31 December 2015	(474,000)

13. Ultimate parent undertaking

Edinburgh Trams Limited is a wholly owned subsidiary company of Transport for Edinburgh Limited. By virtue of its controlling interest in the parent's equity capital, The City of Edinburgh Council is the ultimate controlling party. Group accounts are available to the public from the Director of Finance, Waverley Court, Edinburgh EH8 8BG.

14. Related parties

The following transactions were carried out with related parties:

	2015 £	2014 £
a) Reimbursement of expenses incurred:		
City of Edinburgh Council	927,003	1,950,722
b) Purchases of goods and services:		
Lothian Buses Limited	844,181	1,246,382
City of Edinburgh Council	4,131,700	2,051,990
c) Year end balances arising from purchase/sales of goods and services:		
Receivables:		
City of Edinburgh Council	52,316	319,299
Lothian Buses Limited	128,961	101,428
Payables:		
Lothian Buses Limited	(6,032)	(42,083)
City of Edinburgh Council	(293,649)	(151,491)
Transport for Edinburgh Limited	(990,000)	(990,000)

All transactions are conducted on an arm's length basis.

15. Operating leases

Commitments under non-cancellable operating leases are payable as follows:

	2015 £	2014 £
- Not later than one year	1,802	1,820
- Later than one year and not later than five years	5,406	7,280
	7,208	9,100

Total operating lease payments in the year to 31 December 2015 recognised through the Statement of Comprehensive Income and Expenditure were £1,802 (2014: £42).

16. Financial risk management

Financial instruments consist mainly of deposits with banks, short-term investments and accounts receivable and payable.

The main purpose of non-derivative financial instruments is in respect to the company's trading activities and to raise finance for company operations. The company does not have any derivative instruments at 31 December 2015.

The totals for each category of financial instruments, measured in accordance with IAS 39 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2015 £	2014 £
Financial assets			
Cash and cash equivalents	5	428,911	542,634
Trade and other receivables	7	778,223	1,298,653
Total financial assets		1,207,134	1,841,287
Non-current financial liabilities			
Amounts due to parent company	9	990,000	990,000
Current financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	8	802,663	1,484,098
Total financial liabilities		1,792,663	2,474,098

Financial risk management policies

The company's overall risk management strategy seeks to assist the consolidated company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Treasury risk management

Senior management meet on a regular basis to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Financial risk exposures and management

The main risks that Edinburgh Tram's is exposed to through its financial instruments are credit risk and liquidity risk and market risk consisting of interest rate risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.

Credit risk is managed on a company basis and reviewed regularly by senior management. It arises from exposures to customers.

Senior management monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only banks and institutions with an acceptable credit rating are utilised;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and
- customers that do not meet Edinburgh Trams Limited strict credit policies may only purchase in cash or using recognised credit cards.

The credit risk for all counter parties included in trade and other receivables at 31 December 2015 is not rated.

16. Financial risk management (continued)

b. Liquidity risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

Financial liability and financial asset maturity analysis

	Note	Within 1 Year 2015 £	1 to 5 Years 2015 £	Total 2015 £
Financial liabilities due for payment				
Trade and other payables	8	802,663	990,000	1,792,663
Total expected outflows		802,663	990,000	1,792,663
Financial assets — cash flows realisable				
Cash and cash equivalents	5	428,911	-	428,911
Trade, term and loan receivables	7	778,223	-	778,223
Total anticipated inflows		1,207,134	-	1,207,134
Net inflow/(outflow) of financial instruments		404,471	(990,000)	(585,529)

c. Market risk

The overall objective of the Company is to secure shareholder value through the effective management and deployment of tram assets over the long term. Key market variables which affect this outcome include; passenger numbers, traction costs and inflation, along with general macro-economic factors.