Financial Statements

For the year ended 31 December 2018

Registered number SC451434

Financial Statements

For the year ended 31 December 2018

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Company Information

For the year ended 31 December 2018

Board of Directors: Charles Monheim (resigned 30 June 2018)

Andrew David Neal Charlene Wallace George Lowder Mark Lea Harrison

Peter Cushing (appointed 20 July 2018) Martin Richard Dean (appointed 20 July 2018)

Company Registration: Registered 55 Annandale Street

Office Edinburgh EH7 4AZ

Registration 451434 in Scotland Number

Secretary CMS LLP

Bankers: The Royal Bank of Scotland plc

Auditor: Scott-Moncrieff

Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

Strategic Report

For the year ended 31 December 2018

Principle Activity

Edinburgh Trams is the award-winning Operator and Infrastructure Manager of the city's tramway. Our vision is to be a world class, integrated, environmentally-friendly and socially inclusive transport provider playing a central role in the future prosperity of Edinburgh and the Lothians. In 2018 we continued to build on the successes of operations since May 2014, recording exceptional patronage and revenue growth year on year, giving our owners the confidence to invest in our system, in both the short and long term, as detailed within this report.

Company Fleet

Edinburgh Trams has a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of the City in under 35 minutes. Edinburgh Trams recorded 98.84 per cent service reliability and 98.89 per cent punctuality in 2018.

Our Values

At Edinburgh Trams our corporate values are: Trusted, Innovative, Passionate and Smart. We share these values with the TfE Group and believe they summarise the attitudes, behaviour and characteristics, that we require and expect of all our employees that will ensure the continued success of the business.

Business Strategy

Our overriding strategy remains to provide a world class, integrated, environment friendly and socially inclusive transport operation, meeting and exceeding the expectations of both customers and Stakeholders making Edinburgh "proud of their trams".

Previously under the term "Operator Only" Edinburgh Trams would have returned an Operating Profit in excess of £3m, up from £1.6m in 2017 and £252k in 2016.

This statement demonstrates the strength and depth of Edinburgh Trams as a business, gaining approval from our stakeholder they are content with the continued progress being achieved by the current management of Edinburgh Trams.

With the maturing of the tram system and noting likely future decisions to develop the system, a decision was taken by City of Edinburgh Council (CEC), owners of Edinburgh Trams, in late 2018, to consolidate the full costs of operating and maintaining the system. This has been expedited by recharging the full costs associated with the maintenance of the tram infrastructure and trams, resulting in Edinburgh Trams returning a loss for this financial year.

With an increase confidence gained from past performance our reporting now includes full maintenance costs and a recharged infrastructure access cost from CEC thus resulting in a swing from an Operating Profit to an Operating Loss of £9.4m for the year.

As a business this again passes responsibility to the tram management team, eliminates additional third-party involvement allowing full control of operations, revenue streams including passenger income and advertising as well as all costs. This all translates to the ability to deliver a more robust, contained, all round business for our owner, CEC.

Our main aim short term is to return the trams to a level of profit under to include all maintenance costs followed by the inclusion of the additional infrastructure costings. Whilst challenging the management are confident these goals will be achieved within our Stakeholders aspirations for the longer-term success of the trams.

Strategic Report

For the year ended 31 December 2018 (continued)

Trams to Newhaven Project

Throughout 2018 the Management Team from Edinburgh Trams have been working in partnership with the Project Team at CEC on the Business case for the completion of Line 1 to Newhaven. A Final Financial Business Case was developed and extensively reviewed by CEC with a vote to invest £209m on a completion project to be opened early 2023. Further details of this project are noted within this report.

Operational Overview

Edinburgh Trams continues to outperform the expectations set by the CEC prior to the commencement of service in May 2014. These targets are being exceeded through a robust business plan aimed at obtaining both the profit requirements of the business, a safe operation, strong brand perception, environmental targets, CSR and the overarching Transport for Edinburgh Strategy for Delivery 2017 - 2021.

Central to our continued success in 2018 has been the robustness of our service. Improvements have increased our journeys by 23 per cent and reduced end to end journey times by 16 per cent, from 42 to 36 minutes. This included a core 7.5 minute frequency throughout the day, 7 days a week. This was further enhanced in the second half of the year by services running from every 3.75 minutes during morning and evening peaks to meet growing demand. We have continued to support major events at Murrayfield Stadium utilising 19 trams, as well as introducing night trams on Saturdays during the peak Edinburgh Festivals period and for Edinburgh's Hogmanay.

In relation to the safety and security of both staff, employees and neighbours, the Edinburgh Tram Network is equipped with emergency call points, information help points, CCTV systems on tram and platforms recording 24 hours a day, 7 days a week. Edinburgh Trams also adopts a policy of staffing each passenger service vehicle with a Ticketing Services Assistant (TSA) which gives our customers a feeling of safety.

Continued monitoring of data throughout the year, stands us in excellent stead to move forward into 2019 and continue to meet our customer demands. This, once again, includes enhancing services in the morning and evening peak. A new operational strategy that improves the efficiency of our operations on event days was introduced in the latter period of the year which has allowed us to operate more tailored journeys for each event. All night trams for Hogmanay and Saturdays during the Edinburgh Festival period also operated again this year which generated positive customer responses.

The tram network requires Edinburgh Trams to work alongside Parkeon for Ticketing Systems maintenance, Siemens for Mechanical & Electrical maintenance, CAF Rail for tram maintenance and Bilfinger for Facilities Management and Civil Structural, Landscape and Drainage maintenance. Regular communication between all parties ensures the assets of the system are maintained to a standard expected from our passengers and stakeholders, ensuring a dependable delivery of service both now and for the future.

Supporting our strategy will be the production, delivery and regular review of the Edinburgh Trams Marketing & Communication Plan. This plan will target potential passenger groups at key "hotspot" locations identified along the system, including Edinburgh Airport, the five dedicated transport interchanges and Ingliston Park and Ride.

This strategy will also identify key price points and promotions including Edinburgh Ticket – our new pre-purchase, print at home ticket along with ongoing ticketing options being explored train operating companies to allow a more seamless travel flow. All these commercial based options are geared towards increasing awareness and making Edinburgh Trams the preferred choice of travel and will be promoted and communicated via channels such as social media and tram stop literature.

Board Changes

In July 2018 The Board was increased by two additional Non-Executive Directors following the retirement of the Chairman upon completion of his term of office. New expertise has now been added, reflecting the move to operate and maintain and the completion of Line 1 to Newhaven, giving a total of one Chairperson and 5 Directors on the main Board of Edinburgh Trams.

Strategic Report

For the year ended 31 December 2018 (continued)

Financial Overview

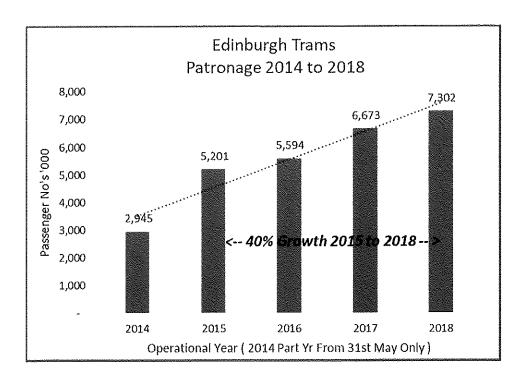
The final results for Edinburgh Trams for 2018 reported a loss of £7.6m after tax. This is a marked difference from the £1.3m profit after tax reported for 2017. The loss should be seen in the context of Edinburgh Trams increasing maturity as a business and the complementary decision to recharge Edinburgh Trams' full maintenance costs and access charges. An increased access charge was due to be incurred in 2019 will now become obsolete as incorporated within new costing structure. The Edinburgh Trams Management Team aims to return the company back to an operating profit in the future that will include the full costs of tram operations. This new operating model is defined as a full Operator, Maintenance and Infrastructure regime and is how Edinburgh Trams performance will now be judged. Our new budgets reflect our new strategy which the Board will review on a regular basis.

Edinburgh Trams Limited is the Operating Company of the trams system which is fully owned by the City of Edinburgh Council (CEC). Edinburgh Trams is responsible for ensuring we operate a transport service to the people of Edinburgh, residents from surrounding areas and beyond, visitors and commuters that maximises the assets of the company and returns a robust, safe and financially viable operation in line with CEC expectations for both the current and future years of the tram system. The financial statements noted herein form a true and fair statement of Edinburgh Trams Limited.

Reviewing our 2018 performance in detail we can confirm that Edinburgh Trams continues to exceed the original business plan as set out in 2013 by the City of Edinburgh Council. Revenue and patronage continue to increase above expectations with Service Income increasing by 18% from 12.9m in 2017 to 15.1m in 2018.

Patronage levels increased to 7.3m from 6.6m in 2017, up almost 10%. The graph below demonstrates the exceptional growth recorded on our tram network from service commencement in May 2014. The investment in fares, ticket channels and customer relations and engagement, increased services and the decision to strengthen an already robust service, particularly during peak times, gives rise to the high growth Edinburgh Trams can report. We have created a resilient service capable of maximising its full potential across the network.

Patronage Overview 2014 through 2018



Strategic Report

For the year ended 31 December 2018 (continued)

Asset Management

Edinburgh Trams is now recognised as a company delivering an excellent level of customer satisfaction and a leader in this field within our industry. The ability to continue delivering such a service is dependent on the main assets of the company being maintained in a satisfactory condition. Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014 giving an average age just now of over 10 years old.

It is imperative to Edinburgh Trams that the renewals\asset life cycle programme which is administered by City of Edinburgh Council, is controlled, monitored and actioned where necessary in a timely manner, thus ensuring Edinburgh Trams can continue to deliver the excellent level of service currently being experienced by our passengers.

Edinburgh Trams (ET) are working with City Edinburgh Council (CEC) to transfer the ownership and management of the maintenance contracts from CEC to ET. The process for this transfer may vary on a contract by contract basis, options available are:

- novation with the agreement intact;
- novation with an intent to re-negotiate terms
- termination by CEC and re-procurement by ET (with CEC support).

The Heads of Terms which outline the necessary amendments to the Operating Agreement between ET and CEC has been signed by both parties. A full variation to the Operating Agreement (based upon the Heads of Terms) is currently being drafted by CEC legal team. The full variation will need to be in place prior to the formal variation or procurement of any of the maintenance sub-contracts. We have every confidence based on current progress we are on track to deliver the above.

ET has agreed to bear the full cost of each of the contracts (from 1s January 2018), in place of the contribution made previously via the contractual Access Fees.

ET will be liable for the cost of asset maintenance only, any cost relating to asset renewal/lifecycle will be borne by CEC. As ET will be responsible for the upkeep of the asset(s) a process will be agreed to allow ET to draw on CEC funding for asset renewal activities.

ET has agreed that where feasible, subject to value and working within the confines of CEC procurement policy we will use the current contract discussions with sub-contractors to incorporate the maintenance of the York Place to Newhaven extension from 2023.

Financial Results

	Year to 2018 £	Year to 2017 £
Revenue Costs	15,811,287 (25,214,575)	12,989,004 (11,389,455)
(Loss)/Profit from operations – (operating loss)	(9,403,288)	1,599,549
Gain on disposal of property, plant and equipment		11,217
(Loss)/Profit before income tax	(9,403,288)	1,610,766
Income tax	1,779,479	(318,515)
(Loss)/Profit for the full year	(7,623,809)	1,292,251

Strategic Report

For the year ended 31 December 2018 (continued)

KPIs	2018	2017
Revenue Yr on Yr increase	15.8m 22%	12.9m
Operating profit\loss	-9.4M	1.6m
Operating profit\loss %	-59.4%	12.3%
Patronage Yr on Yr increase	7.30m 9.4%	6.67m
Health and Safety benchmarks 11 out of 12 achieved in 2017		92%
11 out of 11 achieved in 2018	100%	
Mileage operated Yr on Yr increase 1.97%	881k	864k
Customer Experience	97.2%	98.3%
Institute of Customer Service UK CSI	87.9%	85.8%
Reliability performance	98.84%	99.3%
Tram – Peak Vehicle Requirement (PVR)	15	15
Special Event Trams (Match day utilisation)	19	18

Financial Special Project & Sustainability

Edinburgh Trams in partnership with Transport for Edinburgh and Marketing Edinburgh were granted the licences to deliver internal and external advertising on the fleet of 27 trams. In this the first full year of management under the control of ET and TfE the revenue has grown to £670k compared to £120k in 2017. It is Edinburgh Trams' longer term strategy to obtain full advertising rights to include a third element, Tram Stop Advertising. The ability to offer a full suite of advertising products will enhance our commercial opportunities and one we will strive to take control of to maximise full yield for advertising rights. High profile names like CR Smith, Diageo, Qatar Airlines, Macdonalds Hotels and Parabola all have contracts with Edinburgh Trams for a combination of external and internal advertising on trams.

Edinburgh Trams is also the first tramway in the world to roll out DriveSmart. DriveSmart is a unique, cost effective approach to reducing traction energy costs. Trials have shown that traction energy can be reduced by between 15 and 21 per cent on the Edinburgh Tram Network.

Health & Safety\Environmental Policy Statements

Safety is fundamental to everything we do and is always our foremost consideration, without exception. Formal arrangements and systems have been put in place to manage health & safety within Edinburgh Trams in order to control risks associated with the scope and scale of our operation, to a level that is So Far As Is Reasonably Practicable (SFAIRP). To achieve this, we are committed to providing every Edinburgh Trams employee with a safe and healthy working environment. Safe methods of working have been assessed for risks and includes suitable and sufficient control measures, appropriate tools and equipment. Information, training facilities and supervision are provided for other necessary for work that is required to be carried out. Regular two-way communication and information on safety matters is routinely provided. Our organisational structure provides for

Strategic Report

For the year ended 31 December 2018 (continued)

these commitments to be fulfilled and is underpinned by our safety management system and the management and supervisory teams working closely with employees, in order to identify and address safety issues.

Edinburgh Trams is committed to protecting the environment, including the prevention of pollution and to meeting all relevant compliance obligations. We commit to continual improvement of the environmental management system, to enhance our performance through the implementation of our policies and practices. This includes the setting and tracking of key objectives that are measurable and achievable. We will maintain our certification to ISO 14001 through rigorous monitoring and review of our performance. It is our policy to reduce both domestic and traction energy consumption through on-going monitoring and analysis, maximise recycling opportunity, reducing the amount of waste disposed of in landfill wherever possible, promote environmental awareness for our colleagues and contractors, implement processes to prevent environmental non-conformances and ensure that we are suitably prepared to deal with potential environmental emergencies.

These policies are regularly reviewed and updated to take account of organisational priorities, changes in our activities and environmental compliance obligations.

One of Edinburgh Trams' key safety principles is ensuring that all of our colleagues, especially those in a safety critical job role, are fit for duty. Mainline rosters have all been constructed in consultation with the end user and none of our shift patterns throw up any concerns in relation to fatigue risk. To assist with this, we have a policy that all drivers must live within an hour radius of the depot to reduce the likelihood of fatigue. We also continuously monitor the drivers' fitness and there are stringent medicals for all safety roles, which place great emphasis on individual responsibility. We trust in the professionalism of our colleagues.

Unlike some other rail operators, Edinburgh Trams does not employ a remote sign-on system. Many of our colleagues – including all Drivers, TSAs and Controllers – have to attend the depot, ring the bell and sign themselves on; and in doing so they are declaring themselves to be fit for work. If the controller has any reason to believe that it is necessary then they will challenge the individual accordingly, and any drug use need to be declared at this stage also. For instance, if a driver had taken a couple of Ibuprofen because their knee has flared up, then they'd have to declare that. There is a list of medicines that you are permitted to still drive a tram having taken. Drivers who are not sure about the medication must raise this to an operational controller. They then contact the company's occupational health provider and the controller will be informed if the driver is fit to commence work.

To supplement the fitness for work element we have recently enhanced our 'random drugs and alcohol' screening. All colleagues are made aware, early in the induction process that we have a zero tolerance to being 'under the influence'. Random screening for both drugs and alcohol used to be undertaken by a third party but we have recently trained up a number of management and support staff to carry these out. This means that we have been able to set a KPI for Random Drugs & Alcohol Screening, reported upon on a monthly basis. We have committed to screening 15% of the safety critical workforce and the same percentage of non-safety critical colleagues each year as an absolute minimum. Additionally, the same pool of management and support staff are utilised to carry out 'for cause' drugs and alcohol screening, following an adverse event. A real-life example is when a third party, such as a taxi attempting a U-turn, hits a tram, the reason being so that we can immediately discount driver drug/alcohol impairment as causation.

Employees

Edinburgh Trams employs staff across many areas from Drivers to Engineers, Ticketing Services Assistants to Administration and Managerial roles. In 2018 our Chair retired following a three-year period of office. Two new Directors have joined the Board giving a total of six Directors. Repetition Our Board is now made up of the following; one Chair, one Executive and four Non-Executive Directors. These positions will remain in place for a further three years. Two of these Directors are new to the Board bring additional expertise in transport as well as increasing the business acumen which currently exists within the Board. Out-with the Board there are five Senior Managers covering Safety & Standards, Finance, Operations, Projects and Engineering. These are further complimented with HR, IT and Customer Experience Management roles with additional expertise as and when required sought from external sources thus meeting all areas of the business requirements.

Strategic Report

For the year ended 31 December 2018 (continued)

A decision to invest in our training department, bringing more control "In House" was carried out during 2018. Investing in our staff is an integral part of the company ethos, especially our customer facing colleagues who receive regular training updates and assessments under our Competency Management System.

Edinburgh Trams is committed to a Health and Wellbeing programme for our employees, encouraging and promoting staff to remain as healthy as possible with both their physical and mental health. This initiative has seen the introduction of an Employee Assistance Programme to provide counselling and advice on all life matters, including counselling, financial, legal and family support. Another commitment to our employees wellbeing has been the introduction of fresh fruit once being delivered once a week to the office which has proved highly popular with all staff together with a further new introduction of a "Healthy Nibbles" vending machine offering a healthier choice snacks to staff.

In addition to this Edinburgh Trams also offer facilities such as free flu jabs, the opportunity to take free health assessments on a health kiosk, reduced gym fees via agreements with local providers for tram staff. We also offer salary sacrifice schemes for Cycle to Work or Kiddie Vouchers which give a financial benefit to the staff.

We have started a reward and recognition scheme for staff to nominate their peers for demonstrating behaviour aligned to our Values: Trusted, Innovative, Passion and Smart. The scheme rewards on a monthly basis and then an annual award from all the monthly winners is chosen.

A behavioural framework has been introduced for all staff to have a twice-yearly meeting with their line manager to discuss and measure performance and behaviours aligned with a framework aligned to the Company values.

Employee Pension

In line with our statutory requirements the company introduced pension auto enrolment statutory guidelines. As at the end of our financial year more than 90% of our employees were both contributing and benefitting from the company pension scheme. As part of our longer-term strategy and working in partnership with Unite in promoting the benefits of a pension scheme Edinburgh Trams will also offer all staff the opportunity to increase pension contributions above the combined 8% minimum to 10% with a match 5% and 5%. We believe this offers staff a longer-term benefit and one more prevalent to today's working conditions.

Risks and Uncertainties

The company is subject to risk factors both internal and external. External risks include political and economic conditions, supply interruption, service competition, strike action and litigation. Internal risks include regulatory compliance failure and failure of internal controls.

The Board reviews the company's Risk Register which details and identifies risks from all areas of the company's operations. This register is regularly reviewed, evaluated and managed with action plans collated and monitored throughout the year.

2018 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject line, closely monitored and action taken where necessary to ensure all aspects of the business from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation they likewise have taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives.

Awards & Recognition

In 2018, Edinburgh Trams are proud to have been recognised as one of the best transport operators. At the Global Light Rail Awards Edinburgh Trams was recognised in all four of the categories we were shortlisted in winning Operator of the Year and Highly Commended certificates in Environmental and Sustainability, Most Improved System, and Technical Innovation Infrastructure.

Strategic Report

For the year ended 31 December 2018 (continued)

We have previously won Operator of the Year in 2015 and 2017 with the criteria covering excellence in safety, customer experience, corporate values, as well as a proven record in reliability and financial performance.

At the Edinburgh Chamber of Commerce Business Awards Edinburgh Trams was awarded with Excellence in Health and Safety for the defibrillators project undertaken with St John Ambulance.

In 2018 Edinburgh Trams took part in the Institute of Customer Service benchmarking survey for customer satisfaction and were awarded a score of 87.9 – more than 15 points above the transport industry average and 10 points higher than the multi-sector average.

Corporate & Social Responsibility (CSR)

Edinburgh Trams, continues to invest time, financial support and resource in environmental, charitable and community projects aligned to the company.

As part of our commitment to the people of Edinburgh and offering an increased service to the community, we operated free Hogmanay trams to all party goers following the iconic Edinburgh's Hogmanay celebrations.

During The peak Edinburgh Festival period, we operated all-night festival trams, to ensure the festival revellers had the opportunity to enjoy the late night festival shows on offer, including The Royal Edinburgh Military Tattoo.

When challenged by the "Beast from the East" our team kept trams running recording more than 30,000 customer journeys during three days of extreme weather conditions. The team worked tirelessly to keep tracks clear of snow, allowing trams to run through the city. With passenger service continuously running for 43 hours and free services throughout during the night the worst of the inclement weather conditions, trams provided a lifeline to many customers.

For the first time we took part in the popular Edinburgh Door's Open Day weekend. Our guided tours, run by staff volunteers sold out within three weeks of release. Members of the public were invited to see Edinburgh Trams from a different perspective.

2018 also saw Edinburgh Trams award The Multiple Sclerosis Therapy Centre Lothian as our "Local Charity of the Year" as selected by the staff of Edinburgh Trams. During the year we have supported our staff in various charitable activities including a company bake off competition, World Cup sweep stakes and weight loss challenge. Over the total period the amount paid over will be in excess of £6K.

Moving Forward

On the 14 March 2019 the elected members of City of Edinburgh Council voted in favour to proceed with the Trams to Newhaven Project.

After a full review of the Final Business Case made their final decision on the project. With approval now granted to proceed with completing the Line 1a to Newhaven, the project will begin in the Autumn 2019 with a six-month Early Contractor Involvement (ECI) period where the two contractors (Sacyr, Farrans, Neopul Joint Venture for the Infrastructure and Systems Contract and Morrison Utility Services Ltd for the Swept Path Contract) will work closely with the Council and other key stakeholders, including ourselves to finalise plans for construction.

Construction work is set to get under way after the ECI has concluded and Edinburgh Trams are timetabled to take their first passengers to and from Newhaven in 2023.

Nearly 16 million people are forecast to use the completed Edinburgh Airport to Newhaven tramline in its first year of operation - almost double the number predicted for the existing Airport to York Place route in the same period.

This decision cemented a year of hard work undertaken by the Edinburgh Trams management team, Transport for Edinburgh and colleagues at City of Edinburgh Council.

The evidence the team were able to provide regarding the successful build up of demand and effective operation based on our first 4.5 years of operation would have given CEC and the population of Edinburgh confidence in

Strategic Report

For the year ended 31 December 2018 (continued)

the feasibility of the extension project and the ability of the management team to manage a bigger network. This is supported by the way we are currently dealing with the day to day operations providing service enhancements, commitment to customer service, maturity of system and company consistently exceeding expectations with the ability to deliver an award winning service that the city can be proud of.

Signed on behalf of the Edinburgh Trams Limited Board by:-

Lea Harrison

Managing Director

Edinburgh Trams

Directors' Report

For the year ended 31 December 2018

Directors

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

Remuneration was paid to the following directors:

2018 £	2017 £
127,962	96,229
6,000	12,000
6,000	6,000
6,000	4,311
2,679	-
2,679	-
151,320	118,540
	127,962 6,000 6,000 6,000 2,679 2,679

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 or loss of the company for that period. In preparing these financial statements, the directors are required to:

- · select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

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.

Directors' Report

For the year ended 31 December 2018 (continued)

Auditor

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

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

Date: 2 בו אול

Charlene Wallace Director

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

For the year ended 31 December 2018

Opinion

We have audited the financial statements of Edinburgh Trams Limited for the year ended 31 December 2018 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

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

Other information

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

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

For the year ended 31 December 2018 (continued)

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

For the year ended 31 December 2018 (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

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: 30 April 2019

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £	2017 £
Continuing operations Revenue	1g	15,811,287	12,989,004
Administrative expenses		(25,214,575)	(11,389,455)
(Loss)/Profit from operations	2	(9,403,288)	1,599,549
Gain on disposal of property, plant and equipment			11,217
(Loss)/Profit before income tax expense		(9,403,288)	1,610,766
Income tax	3	1,779,479	(318,515)
(Loss)/Profit for the year		(7,623,809)	1,292,251
Attributable to: Equity holders		(7,623,809)	1,292,251

There are no other items of comprehensive income or expense in the current year or prior year and therefore no Statement of Comprehensive Income is shown.

Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 £	As at 31 December 2017 £
Non-current assets Property, plant and equipment	6	2 89,996	~ 43,310
Total non-current assets		89,996	43,310
Current assets Cash and cash equivalents Trade and other receivables	5 7	3,431,672 6,230,800	1,964,291 1,306,429
Total current assets		9,662,472	3,270,720
Total assets		9,752,468	3,314,030
Equity and liabilities Contributed equity Retained earnings	11 13	1 (6,759,492)	1 864,317
Total equity		(6,759,491)	864,318
Liabilities			
Non-current liabilities Amounts due to parent company	9	-	1,000,000
Current liabilities Trade and other payables Provisions	8 10	16,329,205 182,754	1,386,961 62,751
Total current liabilities		16,511,959	1,449,712
Total liabilities		16,511,959	2,449,712
Total equity and liabilities		9,752,468	3,314,030

The financial statements were authorised for issue by the Board of Directors on 26 April 2019 and were signed on its behalf by:

Charlene Wallace, Director

Registered number SC451434

The accompanying notes on pages 21 to 35 form part of these financial statements

Raide hallas

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 January 2017 Comprehensive income		1	(277,934)	(277,933)
Profit for the year Dividends			1,292,251 (150,000)	1,292,251 (150,000)
Balance at 31 December 2017 Comprehensive income		1	864,317	864,318
Loss for the year Dividends	13 18	-	(7,623,809)	(7,623,809)
Balance at 31 December 2018		1 	(6,759,492)	(6,759,491)

Statement of Cash Flows

For the year ended 31 December 2018

	Note	Year to 2018 £	Year to 2017 £
Cash flow from operating activities			
(Loss)/profit from operations		(9,403,288)	1,599,549
Adjustments for: Depreciation and amortisation		26,887	35,711
Changes in assets and liabilities: (Increase) in receivables and other financial assets Increase in payables Increase in provisions		(2,883,095) 15,158,060 120,003	(369,038) 50,705 55,751
Cash flows from operations		3,018,567	1,372,678
Income tax (paid)		(477,613)	(158,734)
Net cash flows from operating activities		2,540,954	1,213,944
Cash flow from investing activities:			-
Purchase of property plant and equipment (Note 6) Disposal of property plant and equipment		(73,573)	(23,168) 13,128
Net cash flows from investing activities		(73,573)	(10,040)
Cash flow from financing activities: Loan paid to parent company Dividends paid to parent company	19	(1,000,000)	(150,000)
Net cash flows from financing activities		(1,000,000)	(150,000)
Net increase in cash and cash equivalents Cash and cash equivalents at beginning of period		1,467,381 1,964,291	1,053,904 910,387
Cash and cash equivalents at end of period		3,431,672	1,964,291
Bank balances and cash	5	3,431,672	1,964,291

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of significant accounting policies

Edinburgh Trams Limited is a limited company incorporated in Scotland. The address of its registered office and principle place of business are disclosed on page 2. The principal activities of the company are described within the Strategic Report on pages 3 to 11.

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 preparation of financial statements in uniformity with IFRS require the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Adoption of new and revised standards

The company has adopted the following new and amended IFRSs as of 1 January 2018:

IAS 1, Presentation of Financial Statements

IAS 1 has been amended after the issue of IFRS 9 with the main effect on the company being to amend the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost which on initial application has no material impact on the company's financial statements in the year.

- IAS 39, Financial Instruments: Recognition and Measurement
- IFRS 7, Financial Instruments: Disclosures
- IFRS 9, Financial Instruments

IAS 39 requirements were replaced by IFRS 9 on Financial Instruments, with the main effect on the company being the requirement to re-categorise financial assets and liabilities together with IFRS 7 on Financial Instruments Disclosures. On initial application there has been no material impact or significant disclosure changes. The new impairment treatment required under IFRS 9 with impairment provisions for trade and other receivables based on expected credit losses has had no material impact on the company's financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 on revenue from contracts with customers has not had a material impact on the company's financial statements in the year with initial application having no material impact on the income statement and there was no adjustment required to prior year opening reserves. In recognising revenue the contract with the customer was identified, the performance obligations identified, the transaction price was determined and then allocated to each performance obligation and revenue recognised in the period when the performance obligation was satisfied when the customer obtained control of the goods or services.

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 2018, and with potential effect.

International Accounting Standards and Interpretations

IFRS 16, Leases IAS 12, Income Taxes*

*Not yet adopted for use in the European Union

Effective for annual periods beginning on or after

1 January 2019 1 January 2019

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of significant accounting policies (continued)

The Directors have reviewed the requirements of the new standards and interpretations listed above and their effect is as follows:

IFRS 16, Leases replaces IAS 17 and is expected to have a material impact on the financial statements on initial application in 2019 due to the change in classification of operating leases. As detailed in Note 16, the value of operating lease commitments is significant and therefore the company will be required to recognise an asset to record the right of use and record a liability for the payments under the lease. Under the new lessee accounting model the present value of the asset and liability will be recognised and depreciation of lease assets recognised separately from interest in the company's financial statements. This will have on impact on the company's reserves at the point of transition.

IAS 12 on Income Taxes states that all tax consequences of a dividend should be recognised at the time the liability to pay the dividend is recorded or paid if no liability is recorded prior. All income tax consequences of the dividend will be recorded in profit or loss, other comprehensive income or equity according to where the distributable profits were created.

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2019 are considered to have no significant or material effect on the company's financial statements.

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. 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.

The Board can give assurance with regards to ETL remaining a "Going Concern" in respect of the operational business aspect of ETL.

As noted within our Strategic Report, ETL will now switch from being solely the Operator of Edinburgh Trams to being the Operator and Maintainer of the Edinburgh tram system. In addition to this, an infrastructure access fee of £8.5m will also be charged to ETL each year for the next 5 years, then reviewed.

The City of Edinburgh Council who are the owners of ETL will purchase Ordinary B shares in Edinburgh Trams to provide sufficient cash to meet all of ETL costs, both to settle the current outstanding invoices and future invoices issued during 2019 and beyond.

The Board have also received written confirmation from CEC they will not enforce payment of any money due from Edinburgh Trams until such time as The Company is in a position to commence repayment whilst still meeting its other liabilities as they fall due.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of significant accounting policies (continued)

b. Current and deferred income tax

The charge for income tax expense for the year is based on the profit 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.

c. Property, plant and equipment

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

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.

Notes to the Financial Statements

For the year ended 31 December 2018

Statement of significant accounting policies (continued)

c. Property, plant and equipment (continued)

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.

d. 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.

e. 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.

f. 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.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of significant accounting policies (continued)

g. Revenue

Revenue is derived principally from the provision of transport services in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer with reference to the stage of completion of travel provided under contractual terms and when relevant shown net of refunds. The majority of revenue is generated from cash fares received from customers at the point of travel when the revenue is recognised.

All revenue recognised from the provision of transport services is based on pre-determined ticket/service prices which are publically available at www.edinburghtrams.co.uk

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).

h. 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.

i. 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.

j. 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. Other schemes e.g. Cycle to Work and Kiddie Vouchers are operated under the HMRC guidelines.

k. 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.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Statement of significant accounting policies (continued)

k. Critical accounting estimates and judgements (continued)

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.

I. 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.

m. 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.

n. 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.

Operating agreements are reviewed in line with IFRIC 4 to determine whether the agreement contains a lease. When the conditions of IFRIC 4 are met the operating agreement is accounted for in line with IAS 17 as an operating lease.

o. Share capital

Ordinary shares are classified as equity.

Notes to the Financial Statements

For the year ended 31 December 2018

2.	(Loss)/profit on ordinary activities
----	--------------------------------------

3.

(2000) profit on ordinary doublines	2018 £	2017 £
The (loss)/profit is stated after charging		
Auditor's remuneration:		
Audit services	9,780	8,500
Non-audit services	4,945	1,000
Depreciation and other amounts written off tangible fixed assets	26,887	35,711
Operating lease rentals	8,501,820	1,457,938
Infrastructure maintenance	5,146,198 	
Income tax	2018 £	2017 £
Current tax:	-	_
Corporation tax expense	-	318,515
Corporation tax credit	(318,515)	-
Group relief receivable	(1,460,964)	
Tax on (loss)/profit for the year	(1,779,479)	318,515

The effective tax rate for the year ended 31 December 2018 is calculated at 19% (2017: 19.25%) of the estimated assessable (loss)/profit for the year.

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

	2018 £	2017 £
(Loss)/profit for the year before taxation	(9,403,288)	1,610,766
Tax on (loss)/profit for the year at the effective rate of 19% (2017 – 19.25%) Effects of:	(1,786,625)	310,072
Expenses not deductible for tax purposes	519	421
Other short term timing differences	30,984	64
Adjustments in respect of prior periods	(4,081)	-
Depreciation in excess of capital allowances	3,143	2,511
Deferred tax not recognised	(22,299)	6,878
Qualifying land remediation expenditure	(1,120)	(1,431)
Tax for the year	(1,779,479)	318,515

4. Employee benefits expense

The aggregate payroll costs of these persons were as follows:	2018 £	2017 £
Wages and salaries Social security costs Other pension costs	4,578,048 417,465 130,420	4,037,213 379,207 96,644
	5,125,933	4,513,064

Notes to the Financial Statements

For the year ended 31 December 2018

4. Employee benefits expense (continued)

The average number of persons employed by the company (including directors) during the year was 189 (2017: 163).

Director's remuneration costs disclosed below exclude employer's national insurance costs of £16,522 (2017: £12,645).

Employer's national insurance costs in respect of the highest paid director totalled £16,020 (2017: £12,081). The directors of Edinburgh Trams Limited are also considered to be the company's key management personnel.

Six directors (2017: three) were paid through Edinburgh Trams Limited. Further details are provided below and in the directors' report. One director received remuneration from Lothian Buses Limited, a company under common control. This remuneration is disclosed in the financial statements of Lothian Buses Limited. One director received remuneration from Transport for Edinburgh Limited, the immediate parent company, details of which can be found in the financial statements of Transport for Edinburgh Limited.

	Directors' remuneration:		2018 £	2017 £
	Aggregate emoluments and benefits Aggregate pension contributions		151,320 11,056	118,540 8,175
			162,376	126,715
	Highest paid directors emoluments and benefits Pension contributions		127,962 10,996	96,229 8,175
			138,958	104,404
5.	Cash and cash equivalents		2018 £	2017 £
	Cash at bank and in hand		3,431,672	1,964,291
6.	Property, plant and equipment	Motor Vehicles	Plant & Equipment	Total
	Cost or valuation	£	£	£
	At 1 January 2018	40,453	202,073	242,526
	Additions	7,640	65,933	73,573
	Disposals			-
	At 31 December 2018	48,093	268,006	316,099
	Accumulated depreciation	•••••		
	At 1 January 2018	(16,105)	(183,111)	(199,216)
	Charge for year	(8,425)	(18,462)	(26,887)
	Disposals	-	-	-
	At 31 December 2018	(24,530)	(201,573)	(226,103)
	Net book value at 31 December 2018	23,563	66,433	89,996
•	Description of the section of the se	***************************************		

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Property, plant and equipment (continued)

6.

Notes to the Financial Statements

For the year ended 31 December 2018

		Motor Vehicles £	Plant & Equipment £	Total £
	Cost or valuation	-		
	At 1 January 2017	34,570	202,073	236,643
	Additions	23,168	-	23,168
	Disposals	(17,285)		(17,285)
	At 31 December 2017	40,453	202,073	242,526
	Accumulated depreciation			
	At 1 January 2017	(22,770)	(156,108)	(178,878)
	Charge for year	(8,708)	(27,003)	(35,711)
	Disposals	15,373	-	15,373
	At 31 December 2017	(16,105)	(183,111)	(199,216)
	Net book value at 31 December 2017	24,348	18,962	43,310
7.	Trade and other receivables		2018 £	2017 £
			~	~
	Trade receivables		312,959	115,880
	Other receivables		262,826	28,641
	Prepayments and accrued income		513,383	492,707
	VAT recoverable		2,699,674	305,007
	Amounts due from Lothian Buses Limited		1,708,323	265,312
	Amounts due from City of Edinburgh Council		118,723	98,882
	Amounts due from Transport for Edinburgh		34,599	-
	Corporation tax recoverable		580,313	
			6,230,800	1,306,429
	Analysed as:			
	,,		2018 £	2017 £
	Current		6,230,800	1,306,429
			6,230,800	1,306,429

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

Notes to the Financial Statements

For the year ended 31 December 2018

8.	Current	t Iial	hili	ties
v.	Ouncil	Liiu	MILL	HC3

0.	Current nabilities	2018 £	2017 £
	Amounts due to Lothian Buses Limited Amounts due to City of Edinburgh Council	9,332 15,472,320 382,915	16,091 378,258 348,634
	Trade and other payables Current tax payable	302,913	215,816
	Taxation and social security Accruals and deferred income	129,508 335,130	108,655 319,507
		16,329,205	1,386,961
	Current liabilities aged as:	2042	0047
		2018 £	2017 £
	Less than three months	16,329,205	1,386,961
	The company considers the fair value of payables to be in line with carrying	values.	
9.	Non-current liabilities	2018 £	2017 £
	Amounts due to Transport for Edinburgh Limited (due in 2-5years)	-	1,000,000
		-	1,000,000
10.	Provisions		
		2018 £	2017 £
	Claims At the beginning of the year Charge for the year Paid during the year	62,751 120,003	7,000 120,000 (64,249)
	At the end of year	182,754	62,751

Claims

Settlement of such claims is dependent on negotiations and, potentially, litigation with third parties, the time frame of which cannot be predicted accurately.

The Directors and Management are fully aware of the ongoing claims and legal action being undertaken with regards to cyclists claims being pursued through the courts with hearings due to be heard during 2019. Under the terms of our insurance Edinburgh Trams liability exposure is limited to £120,000 in any given calendar year with if applicable, any further liabilities covered by third parties.

The Board and Management also note the fatality that occurred in May 2018 and can advise the company are fully cooperating with all relevant parties during ongoing investigations.

Notes to the Financial Statements

For the year ended 31 December 2018

11. Share capital

	2018 £	2017 £
Allotted, called up and fully paid Ordinary shares of £1 each	1	1

12. 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.

	L.
Contributions to Scottish Widows Pension charged to the profit and loss account	132,707
Amount outstanding at the balance sheet date	17.523
Amount outstanding at the balance sheet date	

13. Reserves

Treserves	Retained Earnings £
At 31 December 2016	(277,934)
Profit for the year Dividends	1,292,251 (150,000)
At 31 December 2017	864,317
Loss for the year	(7,623,809)
At 31 December 2018	(6,759,492)

14. 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.

Notes to the Financial Statements

For the year ended 31 December 2018

15. Related parties

The following transactions were carried out with related parties:

1110	Tollowing transactions were carried out with related parties.	2018 £	2017 £
a)	Reimbursement of expenses incurred: City of Edinburgh Council (ultimate parent)	672,080	719,732
b)	Purchases of goods and services: Lothian Buses Limited (fellow subsidiary) City of Edinburgh Council (ultimate parent)	442,483 16,535,824	734,958 3,317,766
c)	Year end balances arising from purchase/sales of goods and services: Receivables: City of Edinburgh Council (ultimate parent) Lothian Buses Limited (fellow subsidiary)	118,723 281,958	98,882 265,312
		2018 £	2017 £
	yables: hian Buses Limited (fellow subsidiary)	9,332	16,091
	y of Edinburgh Council (ultimate parent)	15,472,320	378,258
Tra	ensport for Edinburgh Limited (parent)	<u> </u>	1,000,000

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

16. Operating leases

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

	2018 £	Restated 2017 £
Not later than one year Later than one year and not later than five years	8,501,802 34,000,000	1,497,235 6,398,351
Later than five years	71,541,667	11,803,747
	114,043,469	19,699,333

Total operating lease payments in the year to 31 December 2018 recognised through the Statement of Profit or Loss were £8,501,802 (2017: £1,457,938).

Notes to the Financial Statements

For the year ended 31 December 2018

17. Financial risk management

Financial instruments consist mainly of deposits with banks, short-term investments and accounts receivable and payable. Financial instruments do not include prepayments, VAT recoverable, taxation and social security.

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 2018.

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:

	2018 £	2017 £
Financial assets Cash and cash equivalents Trade and other receivables	3,431,672 2,437,430	1,964,291 588,588
Total financial assets	5,869,102	2,552,879
Non-current financial liabilities Amounts due to parent company	-	1,000,000
Current financial liabilities Trade and other payables Provisions	16,199,695 182,754	1,062,489 62,751
Total financial liabilities	16,382,449	1,125,240

Financial risk management policies

The company's overall risk management strategy seeks to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Regular management meetings and production of internal financial reports ensure the any risk factors that arise are addressed at earliest opportunity.

Financial risk exposures and management

The main risks that Edinburgh Tram's is exposed to through its financial instruments are credit risk, liquidity risk and market 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 Statement of Financial Position and Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2018

17. Financial risk management (continued)

Financial risk exposures and management (continued)

a. Credit risk (continued)

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 2018 is not rated.

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.

	Within 1 Year 2018	1 to 5 Years 2018	Total 2018
Financial liabilities due for payment Trade and other payables Provisions	(16,199,695) (182,754)	. <u>-</u>	(16,199,695) (182,754)
Total expected outflows	(16,382,449)		(16,382,449)
Financial assets – cash flows realisable Cash and cash equivalents Trade, term and loan receivables	3,431,672 2,437,430	<u>-</u>	3,431,672 2,437,430
Total anticipated inflows	5,869,102	-	5,869,102
Net outflow of financial instruments	(10,513,347)	-	(10,513,347)

Notes to the Financial Statements

For the year ended 31 December 2018

17. Financial risk management (continued)

Financial risk exposures and management (continued)

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.

18. Dividends

	Ordinary Share Capital	2018 £	2017 £
	No dividend was paid in 2018. (2017: £150,000)	-	150,000
19.	Movements in liabilities arising from financing activities		
	Non-current loans & borrowings	2018 £	2017 £
	At the beginning of year	1,000,000	1,000,000
	Cash flows	(1,000,000)	
	At the end of year		1,000,000

20. Prior year restatement

The prior year restatement relates to the disclosure of the operating lease detailed in note 16. The company pays The City of Edinburgh Council for the use of the tramline and related infrastructure. In the prior year's financial statements this agreement was not recognised as an operating lease and therefore the prior year commitment in note 16 has been restated. This has had no impact on the reserves of the company or any line item in both the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position.

21. Post balance sheet events

In March 2019, the elected members of the City of Edinburgh Council voted to proceed with the Trams to Newhaven Project. Edinburgh Trams is now the Operator and Maintainer of the Trams System and the operator for the new Tram Extension.

On 25 March 2019 a payment of £8.8m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams.