

EDINBURGH TRAMS LIMITED

Financial Statements

For the year ended 31 December 2019

Registered number SC451434

EDINBURGH TRAMS LIMITED

Financial Statements

For the year ended 31 December 2019

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EDINBURGH TRAMS LIMITED

Company Information

For the year ended 31 December 2019

Board of Directors: Andrew David Neal
Charlene Wallace (resigned 14 January 2020)
George Lowder
Mark Lea Harrison
Peter Cushing
Martin Richard Dean

Company Registration:

Registered Office	55 Annandale Street Edinburgh EH7 4AZ
Registration Number	451434 in Scotland
Secretary	CMS LLP

Bankers: The Royal Bank of Scotland plc

Auditor: Scott-Moncrieff
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

EDINBURGH TRAMS LIMITED

Strategic Report

For the year ended 31 December 2019 (continued)

Principle Activity

Edinburgh Trams is the 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 2019 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 99.35 per cent service reliability and 98.33 per cent punctuality in 2019.

Our Values

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

Business Strategy

Since opening for service in 2014 our principal strategy is simply to exceed expectations, both commercially for the Shareholder and Owner and through providing an outstanding service for the customer. Striving to deliver these is fundamental to the future success of Edinburgh Trams, as the line continues to develop across The City, both stimulating and supporting the economic growth of Scotland's capital.

The Statutory Accounts will show a loss before tax of £7.9m against the reported loss of £9.4m in 2018. Under new financial standards which have come into force from January 2019 (IFRS16) Edinburgh Trams now recognise the trams system as an asset within our balance sheet. This has created some significant accounting entries detailed within the Asset and Liability sections of our annual accounts. In direct comparison to 2018 the net effect after tax is an increased loss of £370k due to the finance costs related to the asset being classed as leased. Under the Finance Lease Agreement obligations, the charge for 2019 of £1.9m will significantly reduce year on year.

An additional financial point of note for 2019 relates to a significant saving derived from our asset renewal programmes, attained via the tram maintainer costs. Previous years' charges have included an element for asset renewals, however, following consultation, this element has been removed and will be accounted for via new arrangements with City of Edinburgh Council (CEC). This resulted in a benefit for Edinburgh Trams of £0.9m in this financial year as opposed to prior years.

Under new Financial controls (IFRS16) the balance sheet of Edinburgh Trams will now include the "Right of Use" of the Tram System. An asset of £77.4m is now included under "Remeasurement" within "Property, Plant & Equipment" with a lease liability also of £77.4m being recorded. Prior year accounts have recorded a £8.5m charge called a Tram Access charge. This charge will now comprise of Depreciation and Finance costs.

Edinburgh Trams financial performance also includes significant investments in our IT systems, with the inclusion of new servers and hardware, new Financial & Payroll Systems, updated HR Business programmes and modern Operations systems have all been incorporated within this year's costings, giving added resilience, robustness and added self-reliance to the business as we deal with both current and future requirements.

Edinburgh Trams patronage continued to increase rising from 7.3m in 2018 to 7.45m in 2019, a rise of 2.1% year on year. Although Edinburgh Trams commenced service on the 31 May 2014 we can demonstrate growth of 43% from 2015 onwards as passengers numbers increased 5.2m in 2018 to 7.45m overall increase of 43%.

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Strategic Report

For the year ended 31 December 2019 (continued)

The success factors for Edinburgh Trams can be outlined as follows:

- i. Good Safety Record**
 - Ensuring that health and safety is at the heart of everything we do
 - Working positively with regulators and meeting all compliance standards
 - Creating a robust safety culture with our colleagues
- ii. Financials in line with, or ahead of the budget**
 - Manage operating costs
 - Optimise income through service enhancements
 - Seek opportunities to support growth
- iii. Strong brand, positive market perception, pillar of transport network**
 - Increase demand with an attractive commercial offering
 - Develop strong partnerships within the City
 - Continue to invest in technological solutions for the benefit of the customer
- iv. People and Accommodation**
 - Encourage internal career progression
 - Develop and invest in colleagues
 - Recognise and reward exceptional performance
- v. Exceed the customers' expectations**
 - Operate a safe and reliable system
 - Provide excellent customer service
 - Establish both an excellent internal and external customer service culture

Trams to Newhaven Project

In March 2019 the elected members of The City of Edinburgh Council (CEC) voted to proceed with the Trams to Newhaven Project.

With approval granted to complete the Line 1a to Newhaven, the project began in the Autumn 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) worked closely with CEC and other key Stakeholders, including ourselves to finalise plans for construction.

Edinburgh Trams are timetabled to take their first passengers to and from Newhaven in early 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.

Throughout 2019 the Management Team from Edinburgh Trams worked in partnership with the Project Team at CEC and the contractors as a key contributor. This is expected to continue throughout the lifecycle of the project and increase as it moves into the Testing and Commissioning Phase.

The continued success of Edinburgh Trams has been a consistently reliable factor in the approval to proceed with the Trams to Newhaven Project. By providing a high quality and consistent service, Edinburgh Trams has exceeded expectations and changed the perceptions previously held on the tramway in Edinburgh.

Board Changes

There were no changes to the Edinburgh Trams Board in 2019. However, in early 2020 Non-Executive Director and Chair, Charlene Wallace resigned as a member of the Board. The Board will work with Transport for Edinburgh and CEC on any future board recruitment, to ensure there are no skill or knowledge gaps in the Edinburgh Trams Board.

EDINBURGH TRAMS LIMITED

Strategic Report

For the year ended 31 December 2019 (continued)

Financial Overview

Edinburgh Trams loss before new "Finance Costs" was -£7.9m from -£9.4m in 2018 a reduction of £1.5m. The inclusion of "Finance Costs" under the new IFRS16 regulations increase the loss to -£9.77m against the -£9.4m in 2018. It should be noted that overall the maturity of the business remains exceeding the expectations of its owner, CEC. In light of the patronage decline within the public transport sector, it is extremely pleasing to note that Edinburgh Trams remains a company in growth, with patronage for the year recorded as 7.452m. In terms of highlighting how the trams system has developed from our first full year of operations, our patronage is now 43% higher than that recorded for 2015 demonstrating that the tram system is an integral part of the transport network in Edinburgh and a valuable asset to the city.

Total Revenue has risen by 6% overall, driven mainly by an excellent start to the year. Commencement of service at the beginning of the year recorded double digit revenue growth. Due to various factors; from poor weather, city centre congestion and reduced airport patronage in the latter months of the year, this has impacted on our overall performance.

Developments within our commercial sector have included new sales opportunities specifically aimed at passenger multi use tickets; i.e. wishing to use the Trams as their preferred choice of transport. Such new opportunities include a 3,4 and 5 day pass. It is our aim to commercially grow and expand this market as we strive to gain a higher share of pre-purchased tickets in 2020.

Revenue within our Tram Advertising sector remains encouraging with sales of over £700k being accomplished in the year.

Costs decreased over all by 2% which included a significant investment in such areas as Training, IT and savings from maintenance contracts, with the management team at Edinburgh Trams having an increased involvement in financial decisions with our maintainers. Significant time and effort from both ETL and CEC have led to a saving of £854k in relation to the asset renewal programme. This value has been credited back to Edinburgh Trams by CEC, who will hold the sum within their balance sheet, as a deduction from CAF. As part of the ongoing Trams to Newhaven project this value will be built upon from now until 2032 when the midlife asset renewals project will come into force.

As outlined in our opening statement under new financial regulations (IFRS16) we have accounted for additional depreciation costs of £7.404m and Finance leasing costs of £1.895m in this financial year. These costs are partly negated with the cancellation of a £8.5m charge from CEC. Overall for 2019 this represents an increase of £0.9m before tax as measured against 2018. Under IFRS16 the schedule of costs pertaining to future years will reduce over the next 10 years. Again as noted in in opening statement the balance sheet of Edinburgh Trams will now include an asset in relation to the "Right of Use" of the Tram System valued at £77.4m under Property, Plant & Equipment. A lease liability also of £77.4m has also be accounted for under IFRS16.

The Trams to Newhaven project was successfully granted to proceed in full in March 2019. Although we have had an increase in professional fees for the year, these were required, to ensure the correct professional undertakings with regards to contracts were in order, with all being subject to rigorous audit checks throughout the whole process. Overall we remain in line with project expectations with no major concerns being noted within any correspondence at as December 2019.

Edinburgh Trams is also driving ahead with investments in creating and developing our own dedicated systems. Building on the strategy of resilience, control and ensuring that the resilience of the business is such that it can continue to progress, improve and mature in line with both our and CEC objectives for the Tram system. The year has seen the implementation of a dedicated financial system, direct banking control as well as the financial statutory requirements of the company. Improvements within our training department have led to more In-House training days. The year has also seen significant investment and progressions with new systems, including; Rostering (OMNI DAS), HR Business Systems (Cascade) and Payroll (Mazars\Cascade) which together will give further independence to Edinburgh Trams.

Once again, the overall performance of Edinburgh Trams should be seen in the context of Edinburgh Trams maturity as a business. The Edinburgh Trams Management Team aim is to return the company back to an

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Strategic Report

For the year ended 31 December 2019 (continued)

operating profit in the future at an Operating and Maintenance level with an ultimate aim of being a profitable company to include all maintenance and infrastructure charges.

The main Board is well aware of our goals and regularly meet with the Managing Director and Senior Managers giving advice and guidance on all areas of the business ensuring our strategy and plans are kept on track for both now and the future.

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 2019 performance in detail we can confirm that Edinburgh Trams continues to meet CEC expectations as set out in our new business strategy.

COVID-19

Although the full effects of COVID-19 commenced in March 2020, post year end, documented below is a summary of known effects, management action taken and recovery plan.

Financial Impact

Revenue & Patronage – From late March 2020, we have recorded a decline in Patronage of 97% with Revenue at 98%. Yearly effect for 2020 estimated to be £7m.

Cost – Swift management action across all areas of costs were implemented from the “furloughing” of all staff who eligible for the Government Scheme, to cancellation of external requirements ie Cleaning Contractor, Security, Direct Operational savings such as electricity, maintenance etc. At the start of April over 50% of eligible staff had been placed on the Coronavirus Job Retention Scheme. Initial savings to projected budget estimated to be in excess of £2m.

Operational Impact

For Edinburgh Trams the Board and Management recognise the roll we play supporting key workers in the city and the transport service we provide allowing the city ensuring people remain mobile within our operational area.

As step down approach on service was implemented going from a 7min day service to a 15min service. From mid-April this was reduced to a 15min service main day and a 30min service in the evening. A decision was also made to continue to operate our published first and last tram again maintaining a service to the city.

Ramp Up

A detailed plan was also developed to allow our service to return to normal based around demand. We expect the business community to return ahead of social travel therefore peak demand ie 7am-9am and 4pm-6pm will return to 7mins service with day time service returning dependant on increase demand from the retail and tourist sectors.

External Organisations

During these unprecedented times we engaged fully with all relevant organisations from DfT, UK Tram, local companies such as Edinburgh Airport and Lothian Buses. Our parent company, Transport for Edinburgh and our Owner CEC were also kept fully abreast of all developments and were supportive in deferring payments due, ensuring ETL’s cashflow position was not compromised and we were able to pay staff salaries and creditors as required.

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For the year ended 31 December 2019 (continued)

Patronage Overview 2014 through 2019

Patronage levels increased to 7.45m from 7.30m 2018, up 2.1%. The table 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.

Full Years Patronage since commencement

Year	Patronage '000
• 2015	5,201
• 2016	5,594
• 2017	6,673
• 2018	7,301
• 2019	7,452

Asset Management

Edinburgh Trams is once again recognised as a company delivering an award-winning level of customer satisfaction and a leader in this field within our industry. During 2019 the management of Edinburgh Trams have worked with the Council with aim of securing a specific, detached, funding profile for asset renewals segregated from standard maintenance charges.

For 2019 this has resulted in a credit against standard maintenance costs of £845k which will be held on the balance sheet of CEC awaiting as a provision against future asset related charges being incurred. This will ensure we maintain the ability to deliver passenger expectations both now and in the future.

Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014 giving an average age just now of over 11 years old. Identifying the specific need for management of our asset renewal programme we will now deploy a manager to specifically manage these requirements working in full partnership i.e. ETL, CAF, Siemens & CEC, This again will ensure this requirement is controlled, monitored and actioned where necessary in a timely manner, ensuring cost management is also adhered to.

Edinburgh Trams (ET) continue also to work with City Edinburgh Council (CEC) in transferring the ownership and management of all maintenance contracts from CEC to ET. Whilst good progress has been made during 2019 there remains more preparatory work required to organise and have approved by all involved parties to fully conclude and sign off. The process for this transfer remains the same as advised previously with options being:

- 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 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.

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For the year ended 31 December 2019 (continued)

Financial Results

	Year to 2019 £	Year to 2018 £
Revenue	16,753,302	15,811,287
Costs	(24,629,562)	(25,214,575)
(Loss)/Profit from operations – (operating loss)	(7,876,200)	(9,403,288)
Gain on disposal of property, plant and equipment	-	-
(Loss)/Profit before income tax	(7,876,200)	(9,403,288)
Finance Costs	(1,895,170)	-
Loss Before Income Tax Expense	(9,771,370)	(9,403,288)
Income tax	775,967	1,779,479
(Loss)/Profit for the full year	(8,995,403)	(7,623,809)

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For the year ended 31 December 2019 (continued)

KPIs	2019	2018
Revenue	16.7m	15.8m
Yr on Yr increase	6%	22%
Operating profit/loss	-9.77M	-9.4M
Operating profit/loss %	-58.3%	-59.4%
Patronage	7.45m	7.30m
Yr on Yr increase	2.1%	
Health and Safety benchmarks		
11 out of 11 achieved in 2018	100%	100%
11 out of 11 achieved in 2019	100%	100%
Mileage operated	889k	881k
Yr on Yr increase 1.97%		
Customer Experience	97.2%	97.2%
Institute of Customer Service – UK CSI Points Score	87.1	87.9
Reliability Performance	99.35%	98.84%
Punctuality Performance	98.33%	98.89%
Tram – Peak Vehicle Requirement (PVR)	15	15
Special Event Trams (Match Day Utilisation)	20	19

Financial Special Projects

Edinburgh Trams has seen much success by bringing the management of tram advertising in house. 2019 saw more national clients now choosing Edinburgh Trams for short term campaigns. These included multiple exterior wraps for Spotify, EE, and two campaigns for American Express. Interior options continue to be popular for both local and national campaigns such as LNER, Gap, Underbelly and STV. The company also offers free internal advertising space to local charities.

As part of the preparation for the Trams to Newhaven Project the company has invested in a simulator to support Testing, Commissioning and Driver Familiarisation of the new route, hence de-risking any potential delays to the final programme. The Tram Pro driving simulator will also be used as part of the communications engagement tool kit and will bring Trams to Newhaven to life.

Edinburgh Trams and the City of Edinburgh Council are looking to support the development of a solution to enable the identification of early symptoms of fatigue, loss of focus and/or wellbeing in drivers and proactively take appropriate steps to address these through real time alerts to the driver and controller to enable positive intervention.

The Driver Innovation Safety Challenge (DISC) will provide a solution to alert the driver and control room if a driver has a reduced capability to operate the tram safely. Providers are expected to develop a Green/Amber/Red alert scoring methodology reflecting the risk and produce an actionable alert to both driver and controller.

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Strategic Report

For the year ended 31 December 2019 (continued)

Health & Safety/Environmental Policy Statements

The company continues to develop safety behaviours and culture with accountability across all levels of the business. This is underpinned by a Safety Management System (SMS), risk assessments, rigorous policy reviews and inspections.

Edinburgh Trams produce an annual safety plan to detail the delivery of wider improvements in health, safety and wellbeing for colleagues, customers and other key stakeholders.

There has been significant work carried out on crossing safety, driver awareness, fatigue management and the Hazard Log. The management team have engaged and contributed to the 2019 Safety Plan which has achieved all its objectives and identified areas for continued monitoring.

Edinburgh Trams have completed the improvements required following the Rail Accident Investigation Branch (RAIB) Report from 2018 in relation to the accident at Saughton Crossing, with the Office of Rail Regulators (ORR) 'Noting and Supporting' implementation.

All safety KPI benchmarks for 2019 were met and new challenging benchmarks introduced for 2020 based on 2019 performance.

New driver rosters were introduced which incorporated best practice from within the ORR publication 'Managing Rail Staff Fatigue' January 2012. Staff are monitored to ensure they do not display signs of fatigue and encouraged to report tiredness. Following on from this review will be the rostering of other safety critical roles within the organisation.

A full root and branch audit of the Environmental Management System (EMS) was undertaken resulting in 24 recommendations. All recommendations have been closed out, enabling retention of the ISO 14001 Environmental Management certification.

Edinburgh Trams continues to support the Light Rail Safety and Standards Board in the production and review of industry best practice guidance.

Employees

For the year ended 31 December 2019 Edinburgh Trams had 210 employees compared to 189 in 2018.

Edinburgh Trams has appropriate policies in place for the management and fair treatment of employees and routinely reviews these to ensure they are in line with published guidelines and advice from ACAS as well as operational best practice. The company has an agreement in place with the relevant Trade Union and meets regularly to maintain a positive working relationship.

The company has comprehensive employee health and wellbeing provisions covering both physical and mental support with occupational health, employee assistance programmes and an onsite mental health and wellbeing programme.

All Edinburgh Trams employees receive the opportunity to discuss performance, training and development. The company supports the Modern Apprenticeship Programme and currently has one employee working their way through the training.

Company vacancies are predominately advertised and filled internally unless there is a skills gap and an external candidate is sought. Edinburgh Trams uses a selection process in line with company values, incorporating equal opportunities and diversity.

Edinburgh Trams is committed to sharing information with employees about performance, initiatives and any factors which may affect them through internal notices, consultative workshops and internal social media.

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For the year ended 31 December 2019 (continued)

Employee Pension

In line with our statutory requirements the company introduced pension auto enrolment statutory guidelines. During this financial year the Management decided to offer a matched pension contribution of 5% and 5% which has now been taken up by more than half of our employees. In total over 90% of all employees are now contributing into the company's pension scheme.

As a company we once again 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.

2019 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 we 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. Where possible and in keeping within government guidelines we have kept our staff fully informed of any requirements as laid down the government, with our HR team available on a one to one basis to assist with any queries our staff encounter or seek guidance on.

Covid-19. As noted previously, post year end seen the effects of Covid19 resulting in a significant reduction in revenue, an effect being recorded throughout the Transport Industry. Whilst there is a risk and uncertainty to the business swift action by Management in the form of a Step Down and Ramp Up process in readiness of returning to full operations whilst maintaining a critical transport provision to the City was implemented. Cost reductions were put in place to negate the revenue loss including the furloughing of staff with reimbursement of 80% of costs via HMRC.

Awards & Recognition

2019 saw Edinburgh Trams for the second time pick up the award for High Growth at the Edinburgh Chamber of Commerce Business Awards. Judge's feedback noted that we demonstrated a strong development plan and a clear strategy for future growth. For the first time at the Scottish Transport Awards, Edinburgh Trams was successful in the category of Excellence in Travel Information and Marketing.

In 2019 Edinburgh Trams took part in the Institute of Customer Service benchmarking survey for customer satisfaction, Edinburgh Trams scored 87.1 out of a possible 100. This is 15 points higher than the UK transport average and second to none when benchmarked against national brands such as John Lewis, Next and Amazon.

After a yearlong project to enhance the customer service culture, strategy and processes, Edinburgh Trams also achieved benchmark in the internal survey too. Employees scored the organisation with a score of six points higher than the previous year meaning they could make steps towards submitting a ServiceMark application.

ServiceMark is awarded by the Institute of Customer Service based on customer satisfaction feedback and an assessment of employee engagement with an organisation's customer service strategy. After a final report, The Institute's Board of Directors made the decision to award Edinburgh Trams with the accreditation. Edinburgh Trams is the first UK light rail operator to achieve ServiceMark accreditation. Furthermore, they are the first transport operator in Scotland and only the second in the UK to make the list.

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For the year ended 31 December 2019 (continued)

In 2019 Edinburgh Trams became an accredited partner of Visit Scotland's iKnow Partner Programme.

The iKnow Partner Programme has been developed to recognise and support the great effort that businesses across all sectors undertake to bring Scotland to life and help visitors make informed choices to ensure they get the most from their visit. Edinburgh Trams' staff now wear the iKnow purple badge making them easily identifiable to visitors as being able to offer expert advice on Scotland's hidden gems to help make every trip memorable, and with a multi-national team of customer facing staff we are well placed to assist visitors with their onward travels.

Corporate & Social Responsibility (CSR)

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

Working in partnership with Police Scotland Edinburgh Trams provided free advertising and familiarisation of their workforce for the 'I Am Me Scotland' campaign. The 'Keep Safe' cards as part of this campaign, are available to all members of the community and details information about communication requirements, health concerns and who to contact in an emergency. Anyone needing assistance can enter a Keep Safe place and show their card. Staff members will be able to assist or call the named contact person on the card.

In early 2019, Edinburgh Trams announced Edinburgh Children's Hospital Charity as their charity of the year, as voted for by our colleagues. To celebrate turning five and to continue to educate users on how to listen out for trams, the Marketing and Communications team produced a children's book with a proportion of the proceeds going to the charity. Unique on-tram story telling events were organised with a contribution from tickets sales being donated to the charity. For the second year Edinburgh Trams ran the Santa Tram event in partnership with Gyle Shopping Centre with tickets selling out in under 12 hours, and all monies donated to the charity. Over £10,000 was raised for Edinburgh Children's Hospital Charity.

As an early adopter of accepting bikes on board, and as part of our continued commitment to active travel, Edinburgh Trams supported the Pedal for Scotland event with special services and ticketing for participants.

With many of our colleagues previously ex-service personnel Edinburgh Trams offers free travel on Remembrance Sunday, to those in armed forces uniform to mark our respect and appreciation.

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.

Moving Forward

2019 was operationally challenging for Edinburgh Trams with increasing congestion within the City Centre impacting on service reliability and punctuality. Further work with Transport for Edinburgh and City of Edinburgh Council will be undertaken to review how public transport can be prioritised in the city to encourage greater usage.

The company will continue to focus on supporting the capital's busy events and festivals calendar. In particular we will work together with BT Murrayfield, event organisers, Police Scotland and other agencies on events held at the stadium to ensure these are managed safely and efficiently.

COVID-19.

The effects of COVID-19 have been documented above however we believe that we will recover as we move forward and although there will be challenging times ahead Edinburgh Trams is confident we are more than equipped to deal with these challenges and to help the City recover over a period of time.

As the Trams to Newhaven Project continues, Edinburgh Trams will begin to prepare to undertake our obligations as a key partner in the process. The company has already appointed a Projects Manager, who is supported by an independent advisor. Edinburgh Trams provides support from an operations viewpoint to project processes

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For the year ended 31 December 2019 (continued)

and plans. As the project develops additional operations and engineering resources will be deployed at the appropriate time.

The City of Edinburgh Council have expressed a desire to continue to extend the tram network in the future through their City Mobility Plan seeing it as a sustainable travel mode which will support the city in its desire to be carbon neutral by 2030.

Our continued long-term strategy remains to operate a tram service which the residents of Edinburgh can be proud of. Furthermore, to work with our shareholder to continue to exceed commercial expectations and be an economic contributor to the future success of Edinburgh.

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



Lea Harrison
Managing Director
Edinburgh Trams

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Directors' Report

For the year ended 31 December 2019

Directors

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

Remuneration was paid to the following directors:

	2019 £	2018 £
Mark Lea Harrison	180,920	127,962
Charles Monheim	0	6,000
Andrew Neal	6,000	6,000
Charlene Wallace	12,000	6,000
Peter Cushing	6,000	2,679
Martin Richard Dean	6,000	2,679
	<hr/>	<hr/>
Aggregate emoluments, benefits and pension contributions	210,920	151,320
	<hr/> <hr/>	<hr/> <hr/>

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.

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Directors' Report

For the year ended 31 December 2019 (continued)

Auditor

During the year the appointed auditor Scott-Moncrieff tendered their resignation and were replaced by Scott-Moncrieff Audit Services. Scott-Moncrieff Audit Services have expressed their willingness to continue in office as auditor.

The auditor, Scott-Moncrieff Audit Services, 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:

A handwritten signature in black ink on a light blue rectangular background. The signature reads "Martin Dean" in a cursive style.

Date: 24/04/2020

**Martin Dean
Chairperson**

EDINBURGH TRAMS LIMITED

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

For the year ended 31 December 2019

Opinion

We have audited the financial statements of Edinburgh Trams Limited for the year ended 31 December 2019 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 2019 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example the ongoing effect of COVID-19 pandemic and the uncertainty about its duration means that it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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.

EDINBURGH TRAMS LIMITED

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

For the year ended 31 December 2019 (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 13, 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.

EDINBURGH TRAMS LIMITED

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

For the year ended 31 December 2019 (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 Audit Services
Statutory Auditor
Exchange Place 3
Seample Street
Edinburgh
EH3 8BL

Date: 29 April 2020

EDINBURGH TRAMS LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 £	2018 £
Continuing operations			
Revenue	1	16,753,362	15,811,287
Administrative expenses		<u>(24,629,562)</u>	<u>(25,214,575)</u>
(Loss)/profit before income tax expenses	2	(7,876,200)	(9,403,288)
Finance Costs	3	<u>(1,895,170)</u>	-
Loss before Income Tax Expense		(9,771,370)	(9,403,288)
Income Tax	4	<u>775,967</u>	<u>1,779,479</u>
(Loss)/profit for the year		(8,995,403)	(7,623,809)
		<u><u> </u></u>	<u><u> </u></u>
Attributable to:			
Equity holders		<u><u>(8,995,403)</u></u>	<u><u>(7,623,809)</u></u>

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.

The accompanying notes on pages 22 to 40 form part of these financial statements

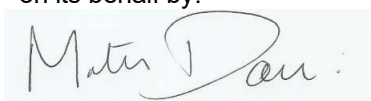
EDINBURGH TRAMS LIMITED

Statement of Financial Position

As at 31 December 2019

	Note	As at 31 December 2019 £	As at 31 December 2018 £
Non-current assets			
Property, plant and equipment	7	70,234,554	89,996
Total non-current assets		<u>70,234,555</u>	<u>89,996</u>
Current assets			
Cash and cash equivalents	6	4,813,445	3,431,672
Trade and other receivables	8	5,906,612	6,230,800
Total current assets		<u>10,720,057</u>	<u>9,662,472</u>
Total assets		<u>80,954,611</u>	<u>9,752,468</u>
Equity and liabilities			
Contributed equity	12	8,800,001	1
Retained earnings	14	(14,825,625)	(6,759,492)
Total equity		<u>(6,025,624)</u>	<u>(6,759,491)</u>
Liabilities			
Non-current liabilities			
Lease liabilities	10	63,982,382	-
Total non-current liabilities		<u>63,982,382</u>	<u>-</u>
Current liabilities			
Trade and other payables	9	16,042,924	16,329,205
Provisions	11	188,280	182,754
Lease liabilities	10	6,766,649	-
Total current liabilities		<u>22,997,853</u>	<u>16,511,959</u>
Total liabilities		<u>86,980,235</u>	<u>16,511,959</u>
Total equity and liabilities		<u>80,954,611</u>	<u>9,752,468</u>

The financial statements were authorised for issue by the Board of Directors on 24 April 2020 and were signed on its behalf by:



Martin Dean, Chair

Registered number SC451434

The accompanying notes on pages 22 to 40 form part of these financial statements

EDINBURGH TRAMS LIMITED

Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 January 2018		1	864,317	864,318
Comprehensive income				
Loss for the year		-	(7,623,809)	(7,623,809)
Balance at 31 December 2018		1	(6,759,492)	(6,759,491)
Issue of share capital	12	8,800,000	-	8,800,000
Comprehensive income				
Loss for the year	14	-	(8,995,403)	(8,995,403)
Balance at 31 December 2019		<u>8,800,001</u>	<u>(15,754,895)</u>	<u>(6,954,894)</u>

The accompanying notes on pages 22 to 40 form part of these financial statements

EDINBURGH TRAMS LIMITED

Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year to 2019 £	Year to 2018 £
Cash flow from operating activities			
Loss from operations		(8,995,403)	(9,403,288)
Adjustments for:			
Depreciation and amortisation	7	7,449,916	26,887
Finance costs	3	1,895,170	-
Changes in assets and liabilities:			
(Increase) in receivables and other financial assets		(1,253,438)	(2,883,095)
(Decrease)/increase in payables		(286,281)	15,158,060
Increase in provisions		5,526	120,003
Cash flows from operations		<u>1,322,386</u>	<u>3,018,567</u>
Income tax (paid)		0	(477,613)
Net cash flows from operating activities		<u><u>1,322,386</u></u>	<u><u>2,540,954</u></u>
Cash flow from investing activities:			
Purchase of property plant and equipment	7	(240,613)	(73,573)
Net cash flows from investing activities		<u><u>(240,613)</u></u>	<u><u>(73,573)</u></u>
Cash flow from financing activities			
Loan paid to parent company	20	-	(1,000,000)
Issue of share capital		8,800,000	-
Payments of lease liabilities	17	(8,500,000)	-
Net cash flows from financing activities		<u><u>300,000</u></u>	<u><u>(1,000,000)</u></u>
Net increase in cash and cash equivalents		1,381,773	1,467,381
Cash and cash equivalents at beginning of period		3,431,672	1,964,291
Cash and cash equivalents at end of period		<u><u>4,813,445</u></u>	<u><u>3,431,672</u></u>
Bank balances and cash	6	<u><u>4,813,445</u></u>	<u><u>3,431,672</u></u>

The accompanying notes on pages 22 to 39 form part of these financial statements

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

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 12.

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 2019:

- IFRS 16, Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new standard has resulted in the company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. As a result, there is no impact on equity at the date of initial application.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.45%.

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

1. Statement of significant accounting policies (continued)

The following is a reconciliation of the financial statement line from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount at 31 December 2018	Remeasurement	IFRS 16 carrying amount at 1 January 2019
	£	£	£
Property, plant and equipment	89,996	77,353,861	77,443,857
Total assets	89,996	77,353,861	77,443,857
Lease liabilities	-	77,353,861	77,353,861
Total	-	77,353,861	77,353,861

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	£	£
Total operating lease commitments disclosed at 31 December 2018		114,043,469
Recognition exemptions:		-
Leases with remaining lease term of less than 12 months	(1,802)	-
Operating lease liabilities before discounting		114,041,667
Discounted using incremental borrowing rate	(36,687,806)	
Total lease liabilities recognised under IFRS 16 at 1 January 2019		77,353,861

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 2019, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IFRS 3, Amendments to IFRS 3 – definition of a business	1 January 2020
IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020
Conceptual Framework, Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17, Insurance Contracts	1 January 2021

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the company's financial statements in the period of initial application.

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

1. Statement of significant accounting policies (continued)

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.

However, because not all future events or conditions can be predicted, this is not a guarantee as to the group's ability to continue as a going concern. For example the ongoing effect of COVID-19 on financial stability worldwide is ever-changing and therefore it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 in form of a lease will be accountable by ETL. Shares of £8.5m have been purchased by CEC in form of 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.

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.

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

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.

1. Statement of significant accounting policies (continued)

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.

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

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

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.

1. Statement of significant accounting policies (continued)

d. Impairment (continued)

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. Leases

As a lessee

For any new contracts entered into on or after 1 January 2019, the company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the company;
- the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the company has the right to direct the use of the identified asset throughout the period of use. The company will assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the company's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in lease liabilities.

1. Statement of significant accounting policies (continued)

f. 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.

g. 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.

h. 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 publicly 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).

i. 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.

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

j. 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)

k. 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.

l. 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.

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

m. Share capital

Ordinary shares are classified as equity

2. (Loss)/profit on ordinary activities

	2019	2018
	£	£
The loss is stated after charging		
Auditor's remuneration:		
Audit services	8,489	9,780
Non-audit services	5,236	4,945
Depreciation and other amounts written off tangible fixed assets		
Owned	46,075	26,887
Right-of-use assets	7,403,841	-
Infrastructure maintenance	4,548,189	5,146,198
Operating lease rentals	-	8,501,820
	<u> </u>	<u> </u>

3. Finance Costs

	2019	2018
	£	£
Lease charges	1,895,170	-
	<u> </u>	<u> </u>

4. Income tax

	2019	2018
	£	£
Current tax:		
Corporation tax expense	-	-
Corporation tax credit	-	(318,515)
Group relief receivable	(775,967)	(1,460,964)
	<u> </u>	<u> </u>
Tax on (loss)/profit for the year	(775,967)	(1,779,479)
	<u> </u>	<u> </u>

The effective tax rate for the year ended 31 December 2019 is calculated at 19% (2018: 19%) 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:

	2019	2018
	£	£
(Loss)/profit for the year before taxation	(9,771,370)	(9,403,288)
	<u> </u>	<u> </u>
Tax on (loss)/profit for the year at the effective rate of 19% (2017 – 19.25%)	(1,856,560)	(1,786,625)
Effects of:		
Expenses not deductible for tax purposes	738	519
Other short term timing differences	113,876	30,984
Adjustments in respect of prior periods	-	(4,081)
Depreciation in excess of capital allowances	-	3,143
Deferred tax not recognised	967,235	(22,299)
Qualifying land remediation expenditure	(1,256)	(1,120)
	<u> </u>	<u> </u>
Tax for the year	(775,967)	(1,779,479)
	<u> </u>	<u> </u>

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

5. Employee benefits expense

The aggregate payroll costs of these persons were as follows:	2019	2018
	£	£
Wages and salaries	5,218,423	4,578,048
Social security costs	474,237	417,465
Other pension costs	207,244	130,420
	<u>5,899,904</u>	<u>5,125,933</u>

The average number of persons employed by the company (including directors) during the year was 210 (2018: 189).

Director's remuneration costs disclosed below exclude employer's national insurance costs of £25,057 (2018: £16,522).

Employer's national insurance costs in respect of the highest paid director totalled £24,832 (2018: £16,020). The directors of Edinburgh Trams Limited are also considered to be the company's key management personnel.

Five directors (2018: six) were paid through Edinburgh Trams Limited. Further details are provided below and in the directors' report. 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:	2019	2018
	£	£
Aggregate emoluments and benefits	210,920	151,320
Aggregate pension contributions	13,223	11,056
	<u>224,143</u>	<u>162,376</u>
Highest paid directors emoluments and benefits	180,920	127,962
Pension contributions	13,203	10,996
	<u>194,123</u>	<u>138,958</u>

6. Cash and Cash Equivalents

	2019	2018
	£	£
Cash at bank and in hand	<u>4,813,445</u>	<u>3,431,672</u>

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

7. Property, plant and equipment

	Right-of-use Passenger Vehicles and Related Infrastructure £	Motor Vehicles £	Plant & Equipment £	Total £
Cost or valuation				
At 1 January 2019	-	48,093	268,006	316,099
Recognition of right-of-use asset on initial application of IFRS 16	77,353,861	-	-	77,353,861
Adjusted balance at 1 January 2019	77,353,861	48,093	268,006	77,669,960
Additions	-	23,426	217,187	240,613
At 31 December 2019	77,353,861	71,519	485,193	77,910,573
Accumulated depreciation				
At 1 January 2019	-	(24,530)	(201,573)	(226,103)
Charge for year	(7,403,841)	(8,524)	(37,551)	(7,449,916)
At 31 December 2019	(7,403,841)	(33,054)	(239,124)	(7,676,019)
Net book value at 31 December 2019	69,950,020	38,465	246,069	70,234,554

	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
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)	(18,562)	(26,887)
At 31 December 2018	(24,530)	(201,573)	(226,103)
Net book value at 31 December 2018	23,563	66,433	89,996

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

8. Trade and other receivables

	2019	2018
	£	£
Trade receivables	307,605	312,959
Other receivables	3,215	262,826
Prepayments and accrued income	729,205	513,383
VAT recoverable	798,959	2,699,674
Amounts due from Lothian Buses Limited	580,434	1,708,323
Amounts due from City of Edinburgh Council	1,437,618	118,723
Amounts due from Transport for Edinburgh	54,132	34,599
Amounts due from East Coast Buses	119,785	-
Amounts due from Edinburgh Bus Tours	366,076	-
Corporation tax recoverable	2,285,550	580,313
	<u>4,977,342</u>	<u>6,230,800</u>

Analysed as:

	2019	2018
	£	£
Current	4,977,342	6,230,800
	<u>4,977,342</u>	<u>6,230,800</u>

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

9. Current liabilities

	2019	2018
	£	£
Amounts due to Lothian Buses Limited	22,493	9,332
Amounts due to City of Edinburgh Council	15,196,330	15,472,320
Trade and other payables	182,943	382,915
Taxation and social security	124,294	129,508
Accruals and deferred income	516,864	335,130
	<u>16,042,924</u>	<u>16,329,205</u>

Current liabilities aged as:

	2019	2018
	£	£
Less than three months	16,042,924	16,329,205
	<u>16,042,924</u>	<u>16,329,205</u>

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

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

10. Lease Liabilities

As a lessee

The company has a lease for the use of the trams and related infrastructure with The City of Edinburgh Council. The lease will run until the 31 May 2029 with an option to renew the lease after that date. Lease payments are renegotiated every five years. The lease restricts the company from entering into any sub-lease agreements.

Information about leases for which the company is a lessee is presented below.

i. Right-of-use assets

The company classifies its right-of-use assets in a consistent manner to property, plant and equipment. /Further information regarding right-of-use assets can be found in note 7.

ii. Lease liabilities

Lease liabilities included in the statement of financial position at 31 December 2019 are analysed as follows:

	2019 £	2018 £
Current	6,766,649	-
Non-current	63,982,382	-
	<u>70,749,031</u>	<u>-</u>

The lease liability is secured on the related underlying assets. The undiscounted maturity analysis of the lease liability as at 31 December 2019 is as follows:

	2019 £	2018 £
Less than one year	8,500,000	-
One to five years	34,000,000	-
More than five years	37,563,014	-
Total undiscounted liabilities at 31 December 2019	<u>80,063,014</u>	<u>-</u>

For interest expense in relation to leasing liabilities, refer to finance costs (note 3).

Total cash outflows in respect of leasing liabilities in the year to 31 December 2019 is £8,500,000.

The company has elected not to recognise right-of-use assets and lease liabilities for leases that are short-term and/or leases of low-value items. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The expense payment of these leases is £1,802 (2018: £1,802).

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

11. Provisions

	2019	2018
	£	£
<i>Claims</i>		
At the beginning of the year	182,754	62,751
Charge for the year	120,003	120,003
Paid during the year	(114,477)	-
At the end of year	188,280	182,754

Claims

We can confirm that Edinburgh Trams insurance liability exposure is limited to £120,000 in any given calendar year.

Under the terms of the Operating Agreement between CEC and ETL the latter is required to reimburse the former up to a maximum of £120,000 per annum in respect of claims within all policy excesses. This will include any claims for injury to cyclists where the cause of the injury is a result of negligence on the part of ETL.

There were two settled claims of note with all outstanding ones are now solely against the City of Edinburgh Council as roads authority. As matters stand no allegations of negligence have been made against Edinburgh Trams Ltd as the operator or in respect of its maintenance operations

12. Share capital

	2019	2018
	£	£
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	8,800,001	1

13. 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	206,978
Amount outstanding at the balance sheet date	38,132

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

14. Reserves

	Retained Earnings £
At 31 December 2017	864,317
Loss for the year	(7,623,809)
At 31 December 2018	(6,759,492)
Loss for the year	(8,995,403)
At 31 December 2019	<u>(15,754,895)</u>

15. 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.

16. Related parties

The following transactions were carried out with related parties:

	2019 £	2018 £
a) Reimbursement of expenses incurred: City of Edinburgh Council (ultimate parent)	693,625	672,080
b) Purchases of goods and services: Lothian Buses Limited (fellow subsidiary) City of Edinburgh Council (ultimate parent)	305,008 18,123,199	442,483 16,535,824
c) Year end balances arising from purchase/sales of goods and services: Receivables: City of Edinburgh Council (ultimate parent) Lothian Buses Limited (fellow subsidiary) East Coast Buses Limited (fellow subsidiary) Edinburgh Bus Tours Limited (fellow subsidiary)	1,437,618 580,434 119,785 366,076	118,723 281,958 - -
	2019 £	2018 £
Payables: Lothian Buses Limited (fellow subsidiary) City of Edinburgh Council (ultimate parent) Transport for Edinburgh Limited (parent)	22,493 15,196,330 -	9,332 15,472,320 -

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

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

17. Finance Risk Management

Financial instruments consist mainly of deposits with banks, short-term investments, lease obligations 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 2019.

The totals for each category of financial instruments, measured in accordance with IFRS 9 as detailed in the accounting policies to these financial statements, are as follows:

		2019 £	2018 £
Financial assets			
Cash and cash equivalents	6	4,813,445	3,431,672
Trade and other receivables	8	2,092,897	2,437,430
Total financial assets		<u>6,906,342</u>	<u>5,869,102</u>
Current financial liabilities			
Trade and other payables	9	15,918,630	16,199,695
Provisions	11	188,280	182,754
Lease liabilities	10	6,766,649	-
Non-current financial liabilities			
Lease liabilities	10	63,982,382	-
Total financial liabilities		<u>86,855,941</u>	<u>16,382,449</u>

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.

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

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

17. Financial risk management (continued)

a. Credit risk (continued)

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 2019 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 2019	1 to 5 Years 2019	Total 2019
Financial liabilities due for payment				
Trade and other payables	9	(15,918,630)	-	(15,918,630)
Provisions	11	(188,280)	-	(188,280)
Lease obligations	10	(6,766,649)	(63,982,382)	(70,749,031)
Total expected outflows		<u>(22,873,559)</u>	<u>(63,982,382)</u>	<u>(86,855,941)</u>
Financial assets – cash flows realisable				
Cash and cash equivalents	6	4,813,445	-	4,813,445
Trade, term and loan receivables	8	2,092,897	-	2,092,897
Total anticipated inflows		<u>6,906,342</u>	<u>-</u>	<u>6,906,342</u>
Net outflow of financial instruments		<u>(15,967,217)</u>	<u>(63,982,382)</u>	<u>(79,949,599)</u>

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

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. Movements in liabilities arising from financing activities

The changes in the company's liabilities arising from financing activities can be classified as follows:

	Current lease liabilities £	Non-current lease liabilities £	Non-current loans & borrowings £	Total £
1 January 2019	-	-	-	-
Adoption of IFRS 16	8,500,000	68,853,861	-	77,353,861
Revised 1 January 2019	8,500,000	68,853,861	-	77,353,861
Cash-flows				
Repayment of lease liabilities	(8,500,000)	-	-	(8,500,000)
Non-cash				
Interest on lease liabilities	1,895,170	-	-	1,895,170
Reclassification	4,871,479	(4,871,479)	-	-
31 December 2019	6,766,649	63,982,382	-	70,749,031
			Non-current loans & borrowings £	
1 January 2017			1,000,000	
Cash-flows				
Repayment			(1,000,000)	
31 December 2018			-	

EDINBURGH TRAMS LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

19. Post balance sheet events

On 6th March 2020, 8.8m ordinary shares, held by Transport for Edinburgh Limited, were converted into B shares. The B shares are non-voting, but rank *pari passu* to the remaining ordinary share of £1 in all other respects.

On 23 March 2020 a payment of £8,331k was received from Transport for Edinburgh Limited in respect of the purchase of further B shares in Edinburgh Trams Limited.

COVID-19

Since the emergence and spread of the COVID-19 virus post year end the demand for public transport worldwide has been significantly reduced and there is increased uncertainty when predicting long term results.

Please refer to the strategic report for a detailed analysis of the effect of COVID-19 on the company's results since the year end.