Company Registration No: SC230949 (Scotland)

REGISTRAR OF COMPANIES

tie Limited

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

For the year ended 31 March 2011

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tie LIMITED

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COMPANY INFORMATION

Directors	V R Emery G Mackenzie A P M Wheeler	(Chairman)
Secretary	DW Company Services Limited	
Company Number	SC230949	
Registered Office	City Chambers High Street Edinburgh EH1 1YJ	
Business address	Citypoint 65 Haymarket Terrace Edinburgh EH12 5HD	
Auditors	Geoghegans Chartered Accountants 6 St Colme Street Edinburgh EH3 6AD	
Bankers	The Royal Bank of Scotland plc 36 St Andrews Square Edinburgh EH2 2YB	

DIRECTORS' REPORT
for the year ended 31 March 2011

The directors present their report and financial statements for the year ended 31 March 2011.

Principal activities and review of business

The principal activity of the company continues to be the promotion, development, procurement, project management and implementation of certain nominated projects. The company remains a "not for profit" entity.

On 18th December 2009, City of Edinburgh Council (CEC) transferred its 100% shareholding in the company to Transport Edinburgh Limited (TEL) which is itself a wholly owned subsidiary of CEC. All but one of the directors of the company are also directors of TEL and the governance of the company's activities on the Edinburgh Tram Project is now mainly conducted through the board of TEL and its committees. During the year ended 31st March 2011, the Edinburgh Tram Project accounted for 99% (2010: 99%) of the turnover disclosed in the Income and Expenditure account on page 9 with the balance being accounted for by a number of other transport related projects.

The company's planned activities, resource requirements and external expenditure are in the process of being re-baselined as part of the current governance restructure and voluntary redundancy scheme at tie.

The company plans activities on all of its projects such that best value for money can be delivered for each stage of the project. The company does not make any financial commitments unless they have been approved by the funders and other stakeholders as part of the agreed governance structure for each project. The company does not bear any financial risks as all expenditure is fully recoverable from the parties who fund the projects. All financial commitments and expenditure on the Edinburgh Tram Project up to the date of this report have been made strictly in accordance with the foregoing principles.

CEC is the customer for the Edinburgh Tram Project and currently has approved funding of £45m for the project. Funding provided from Scottish Ministers is currently £500m. The Edinburgh Tram Project is intended to be built in incremental stages, with the first phase of the incremental build being completed from Edinburgh Airport to St Andrew Square/York Place (per the 30th June 2011 Council meeting referred to below). It has become clear that completion to St.Andrew Square/York Place cannot be delivered within the currently available funding of £545m as the overall outcome remains unclear against a background of delays and disputes with the principal contractor appointed to deliver the project infrastructure (the Infraco). CEC and representatives of tie Ltd engaged in a mediation process with the Infraco contractor in early March 2011 to try to come to an agreement with the aim of bringing stakeholder clarity as to the final cost, scope and programme of the Edinburgh Tram Project.

Following the Mar Hall mediation a minute of variation to the Infraco contract was to be set-out between CEC and the Infraco to deliver what had been agreed in principle under the Mar Hall heads of terms. The minute of variation was to be split into two constituent parts: MOV4 which was intended to vary the Infraco contract to facilitate remobilisation and the carrying out of Priority works, and MOV5 which was intended to capture the remaining element of the 'Lump Sum' negotiated at Mar Hall in early March 2011. The minute of variation (MOV4) was executed on 10th June 2011, and the Infraco are carrying out an agreed scope of priority and auxiliary works against this. The terms of MOV5 are in the process of being drafted by CEC and Infraco lawyers, and are expected to be executed during the month of September 2011.

Principal activities and review of business (continued)

On 30th June 2011 a full Council meeting was held to decide upon the future of the Edinburgh Tram Project. Councillors were presented with four options for the future of the Edinburgh Tram Project: (i) Status Quo (ii) Separation (iii) Progress to St Andrew Square (York Place) (iv) Sub Option Progress to Haymarket only. Recommendations were made for the governance, financing and programming of the project and a revised scope and timetable for the first phase of line 1a was proposed. Officers gave a detailed presentation on these matters and members had the opportunity to ask questions of the information provided. The relevant motions approved at the 30th June CEC meeting are repeated below:

> **Motion**
> a) Agrees that of the options available, and subject to funding, Option (iii) (Airport to St Andrew Square/York Place) should be pursued to provide a revenue generating service and realisation of the investment to date.
> b)(i) Subject to (b) (ii) below, to authorise the Chief Executive (of CEC) to enter into the Settlement Agreement (substantially on the terms set out in the Settlement Agreement summary) in respect of option (iii).
> b)(ii) To agree that the Settlement Agreement would not become unconditional until the Council was satisfied that there was sufficient funding available and that the project had been sufficiently de-risked.
> b)(iii) To instruct the Chief Executive (of CEC) to bring a report back to the Council (prior to any deadline stated in the Settlement Agreement for satisfaction of the Funding Condition) setting out:
> - how that funding was to be provided; and
> - greater detail in relation to:
>   1. the risks being incurred particularly in relation to utilities in the Haymarket to St. Andrew Square section;
>   2. the risks surrounding the potential sale or lease of tram vehicles; and
>   3. the extent to which (and how) the Haymarket to St. Andrew Square section had been de-risked,
>
> c) Authorises **tie** Ltd to progress on the priority works, in accordance with MoV4, and incur expenditure within the limits of the project budget of £545m, until the end of August 2011.
> d) To instruct the Director of City Development to:
> (i) Report back in the autumn on revised governance arrangements and
> (ii) Review and refresh the 'Open for Business' programme in order to improve the focus on support for small and medium sized businesses."
> e) As shareholder, asks Lothian Buses to assist in preparing for operations, by accepting transfer of ETL (Edinburgh Trams Limited), subject to staff consultation, as soon as possible."
> f) To begin the procurement of road pavement and public realm improvements for the Picardy Place to Newhaven section of Tram Line 1A with immediate effect, utilising funds which had been set aside in the capital programme for that purpose.

CEC are currently working with TEL to put contingency planning in place to ensure that committed expenditure on the Edinburgh Tram Project will not at any time exceed the funding available including the examination of possible sources of additional funding.

On 8th June 2011 **tie** Ltd launched a Voluntary Redundancy scheme with the stated intention of reducing the size of the organisation from circa 60 employees to 30. As part of the announcement **tie**'s CEO Richard Jeffrey stated that "**tie**, will remain as an entity and play an integral part of the skill and resource delivering the Edinburgh Tram Project".

Principal activities and review of business (continued)

The directors are of the opinion that the financial statements of the company should be prepared on a going concern basis taking cognisance of (a) all financial commitments of the company to the Infraco are underwritten by a Financial Guarantee provided to the Infraco by CEC in May 2008, (b) all other financial commitments to the project can be determined in such a way as to remain within the funding available from time to time, (c) the contingency planning referred to in preceding paragraphs and (d) management expectations for the ongoing involvement of tie in relation to the Tram project following the Voluntary Redundancy scheme referred to above.

In the course of its business the company manages the financial and operating risks presented by the projects it undertakes on behalf of its stakeholders and funders. The company deploys project management processes of the highest standard and seeks to employ resources with the best expertise and experience to do the work. The company's Board pursues these high standards and the application of well defined governance structures for each project with effective participation in these governance structures from its stakeholders and funders.

The company considers that a key driver for all transport related projects undertaken is to encourage use of public transport, which in turn would reduce the impact that travel has on resulting carbon emissions on the environment. The company fosters an environmental ethic among our management, employees, contractors and stakeholders.

The company aims to ensure that its staff and contractors are safe, healthy and fulfilled. The company provides a full range of occupational health services and products to its employees and contractors. There is dynamic incident management, safety auditing and management inspection processes and procedures in place with involvement of employees and contractors.

Key performance indicators

<u>Edinburgh Tram Project (ETP) KPI's – end March 2011</u>

- Health & Safety: The rolling 13-period Accident Frequency Rate (AFR) is at 0.15 as at the end of March 2011. This is better than the KPI of 0.24 set as a target for the ETP.
- Progress Completion Split: Tram Vehicles (89%); Utilities works (97%); Infrastructure Construction - off street (40%); Ancillary Works (100%)
- Project to Date Spend is £411.5m, with cash to date of £393.7m as at the end of March 2011

Changes in accounting policies

The City of Edinburgh Council, the ultimate controlling party, requires that all its subsidiary companies prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union with effect for periods ending 31 March 2011. These financial statements have for the first time, therefore, been prepared in accordance with IFRSs. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 21.

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DIRECTORS' REPORT (continued)
for the year ended 31 March 2011

Directors

The following directors have held office since 1 April 2010 unless otherwise indicated:

V R Emery	(Chairman)	(Appointed 9 February 2011)
D J Mackay	(Chairman)	(Resigned 4 November 2010)
B J Cox		(Resigned 5 July 2011)
K J Hogg		(Resigned 12 May 2011)
A G Jackson		(Resigned 16 May 2011)
R B Jeffrey		(Resigned 8 June 2011)
G Mackenzie		
I Perry		(Resigned 6 June 2011)
N Scales		(Resigned 12 May 2011)
P Strachan		(Resigned 12 May 2011)
A P M Wheeler		

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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.

Statement of disclosure to the auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

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DIRECTORS' REPORT (continued)
for the year ended 31 March 2011

Auditors

The company has by an elective resolution passed on 23 August 2004 dispensed with the obligation to appoint auditors annually in accordance with Section 386(1) of the Companies Act 1985, which continues in force under the Companies Act 2006. Therefore, the auditors, Geoghegans, will be deemed to be re-appointed for each succeeding financial year.

On behalf of the Board

[redacted]

V R Emery
Director

10th August 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF tie LIMITED

We have audited the financial statements of tie Limited for the year ended 31 March 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholder 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 shareholder those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in note 2 to the financial statements concerning the company's ability to continue as a going concern. Against the background of delays and disputes with the principal contractor, it is currently clear that the Edinburgh Tram Project (the 'Project') cannot be delivered within the current available funding of £545 million. While conditional agreement has been made to complete the incremental build between Edinburgh Airport and St Andrew Square, there is still an uncertainty at this stage as regards whether the main condition of securing sufficient funding to complete this Project phase can be met. This material uncertainty may cast significant doubt about the company's ability to continue as a going concern if the Project was to be cancelled. The main financial commitments of the company however are in relation to the Project which is underwritten by a financial guarantee provided to the Infraco contractor by the City of Edinburgh Council. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

Michael Crerar (Senior Statutory Auditor)
For and on Behalf of Geoghegans
Chartered Accountants
Statutory Auditor

10th August 2011

6 St Colme Street
Edinburgh
EH3 6AD

tie LIMITED

INCOME STATEMENT
for the year ended 31 March 2011

	Notes	2011 £	2010 £
Continuing operations			
Revenue	5	63,950,818	114,921,309
External charges		(56,733,544)	(106,437,291)
		7,217,274	8,484,018
Staff costs	7	(4,548,531)	(5,401,476)
Depreciation	11	(222,658)	(340,163)
Capital payment amortisation	15	222,658	340,163
Other operating charges		(1,749,672)	(2,734,223)
		(6,298,203)	(8,135,699)
Operating surplus	6	919,071	348,319
Investment revenues	9	32,102	825
Finance costs	9	-	(40,000)
Surplus before tax		951,173	309,144
Tax	10	(173)	1,856
Surplus for the year		951,000	311,000

tie LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2011

	Notes	2011 £	2010 £
Surplus for the year		951,000	311,000
Actuarial gain/(loss) on defined benefit pension scheme	19	733,000	(1,956,000)
Total comprehensive income / (expense)		1,684,000	(1,645,000)

The accompanying notes form an integral part of these financial statements

tie LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 March 2011

	Notes	2011 £	2010 £	2009 £
Non-current assets				
Property, plant and equipment	11	788,541	1,340,546	1,596,405
Current assets				
Trade and other receivables	12	30,844,722	56,431,196	38,078,747
Cash and cash equivalents	13	103	100	164
		30,844,825	56,431,296	38,078,911
Total assets		31,633,366	57,771,842	39,675,316
Current liabilities				
Trade and other payables	14	(30,833,488)	(55,958,878)	(38,046,133)
Bank overdraft	13	(10,337)	(471,418)	(31,778)
		(30,843,825)	(56,430,296)	(38,077,911)
Net current assets		1,000	1,000	1,000
Non-current liabilities				
Retirement benefit obligations	19	(522,000)	(2,206,000)	(561,000)
Deferred income	15	(788,541)	(1,340,546)	(1,596,405)
		(1,310,541)	(3,546,546)	(2,157,405)
Total liabilities		(32,154,366)	(59,976,842)	(40,235,316)
Net liabilities		(521,000)	(2,205,000)	(560,000)
Equity				
Share capital	16	1,000	1,000	1,000
Retained earnings		(522,000)	(2,206,000)	(561,000)
Total equity		(521,000)	(2,205,000)	(560,000)

The financial statements on pages 9 to 33 were approved by the board of directors and authorised for issue on 10th August 2011. They were signed on its behalf by:

[redacted]

V R Emery
Chairman [redacted]

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2011

	Notes	Share capital £	Retained earnings £	Total equity £
At 1 April 2009		1,000	(561,000)	(560,000)
Surplus for the year		-	311,000	311,000
Actuarial (loss) on defined benefit scheme	19	-	(1,956,000)	(1,956,000)
Total comprehensive expense		-	(1,645,000)	(1,645,000)
At 1 April 2010		1,000	(2,206,000)	(2,205,000)
Surplus for the year		-	951,000	951,000
Actuarial gain on defined benefit scheme	19	-	733,000	733,000
Total comprehensive income		-	1,684,000	1,684,000
At 31 March 2011		1,000	(522,000)	(521,000)

The accompanying notes form an integral part of these financial statements

tie LIMITED

CASH FLOW STATEMENT
for the year ended 31 March 2011

	Notes	2011 £	2010 £
Cash flows from operating activities			
Cash generated from operations	17	461,155	(460,429)
Corporation tax paid		(173)	(5,007)
Group relief receipts		-	24,907
Net cash flows generated from/(used in) operating activities		460,982	(440,529)
Cash flows from investing activities			
Proceeds from disposal of property		254,000	-
Payments to acquire tangible assets		(28,902)	(84,304)
Interest received		102	825
Net cash generated from/(used in) investing activities		225,200	(83,479)
Cash flows from financing activities			
Capital payments repaid on disposal of property		(254,000)	-
Capital payments received		28,902	84,304
Net cash (used in)/generated from financing activities		(225,098)	84,304
Net increase/(decrease) in cash and cash equivalents		461,084	(439,704)
Cash and cash equivalents at 1 April 2010		(471,318)	(31,614)
Cash and cash equivalents at 31 March 2011	13	(10,234)	(471,318)

The accompanying notes fonn an integral part of these financial statements

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1 General information

tie Limited is a company domiciled in the United Kingdom.

The City of Edinburgh Council is deemed to be the ultimate controlling party by way of its 100% shareholding in Transport Edinburgh Limited, the immediate parent company of **tie** Limited.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as adopted by the European Union for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 21. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Going Concern

CEC is the customer for the Edinburgh Tram Project and currently has approved funding of £45m for the project. Funding provided from Scottish Ministers is currently £500m. The Edinburgh Tram Project is intended to be built in incremental stages, with the first phase of the incremental build being completed from Edinburgh Airport to St Andrew Square/York Place (per the 30th June 2011 Council meeting referred to below). It has become clear that completion to St.Andrew Square/York Place cannot be delivered within the currently available funding of £545m as the overall outcome remains unclear against a background of delays and disputes with the principal contractor appointed to deliver the project infrastructure (the Infraco). CEC and representatives of **tie** Ltd engaged in a meditation process with the Infraco contractor in early March 2011 to try to come to an agreement with the aim of bringing stakeholder clarity as to the final cost, scope and programme of the Edinburgh Tram Project.

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2 Significant accounting policies (continued)

Going concern (continued)

Following the Mar Hall mediation a minute of variation to the Infraco contract was to be set-out between CEC and the Infraco to deliver what had been agreed in principle under the Mar Hall heads of terms. The minute of variation was to be split into two constituent parts: MOV4 which was intended to vary the Infraco contract to facilitate remobilisation and the carrying out of Priority works, and MOV5 which was intended to capture the remaining element of the 'Lump Sum' negotiated at Mar Hall in early March 2011. The minute of variation (MOV4) was executed on 10th June 2011, and the Infraco are carrying out an agreed scope of priority and auxiliary works against this. The terms of MOV5 are in the process of being drafted by CEC and Infraco lawyers, and are expected to be executed during the month of September 2011.

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Motion

a) Agrees that of the options available, and subject to funding, Option (iii) (Airport to St Andrew Square/York Place) should be pursued to provide a revenue generating service and realisation of the investment to date.

b)(i) Subject to 8.1 (b) (ii) below, to authorise the Chief Executive (of CEC) to enter into the Settlement Agreement (substantially on the terms set out in the Settlement Agreement summary) in respect of option (iii).

b)(ii) To agree that the Settlement Agreement would not become unconditional until the Council was satisfied that there was sufficient funding available and that the project had been sufficiently de-risked.

b)(iii) To instruct the Chief Executive (of CEC) to bring a report back to the Council (prior to any deadline stated in the Settlement Agreement for satisfaction of the Funding Condition) setting out:

- how that funding was to be provided; and
- greater detail in relation to:

4. the risks being incurred particularly in relation to utilities in the Haymarket to St. Andrew Square section;
5. the risks surrounding the potential sale or lease of tram vehicles; and
6. the extent to which (and how) the Haymarket to St. Andrew Square section had been de-risked,

c) Authorises **tie** Ltd to progress on the priority works, in accordance with MoV4, and incur expenditure within the limits of the project budget of £545m, until the end of August 2011.

2 Significant accounting policies (continued)

Going concern (continued)

Motion (continued)
d) To instruct the Director of City Development to:
(i) Report back in the autumn on revised governance arrangements and
(ii) Review and refresh the 'Open for Business' programme in order to improve the focus on support for small and medium sized businesses."
e) As shareholder, asks Lothian Buses to assist in preparing for operations, by accepting transfer of ETL (Edinburgh Trams Limited), subject to staff consultation, as soon as possible.
(f) To begin the procurement of road pavement and public realm improvements for the Picardy Place to Newhaven section of Tram Line 1A with immediate effect, utilising funds which had been set aside in the capital programme for that purpose.

CEC are currently working with TEL to put contingency planning in place to ensure that committed expenditure on the Edinburgh Tram Project will not at any time exceed the funding available including the examination of possible sources of additional funding.

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The directors are of the opinion that the financial statements of the company should be prepared on a going concern basis taking cognisance of (a) all financial commitments of the company to the Infraco are underwritten by a Financial Guarantee provided to the Infraco by CEC in May 2008, (b) all other financial commitments to the project can be determined in such a way as to remain within the funding available from time to time, (c) the contingency planning referred to in preceding paragraphs and (d) management expectations for the ongoing involvement of tie in relation to the Tram project following the Voluntary Redundancy scheme referred to above.

Revenue recognition

Revenue is recognised to reflect completion of the company's contractual obligations. Where the substance of the contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognised until that event occurs. The company is a "not for profit" company and any surplus or deficit arises out of the movement on the company's pension liabilities in the year.

TIE00899949_0017

2 Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Heritable property	- 2% Straight line
Tenants improvements	- 25% Straight line
Motor vehicles	- 25% Straight line
Fixtures and equipment	- 25% Straight line

Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Deferred capital receipts

Capital receipts in respect of capital expenditure are credited to the deferred income account and then released to the income and expenditure account over the expected useful lives of the relevant assets.

Retirement benefit costs

The Company is a member of the Lothian Pension Fund which is a multi-employer Local Government defined benefit pension scheme. The assets of the scheme are held separately from those of the company and pensions payable under the scheme are based on final pensionable salary.

In accordance with the requirements of IAS 19, the operating costs of providing these benefits are recognised in the Income Statement in the accounting period in which the benefits are earned by the employees. The expected return on the scheme assets less interest on liabilities is included in investment revenues or finance costs. Actuarial gains and losses are recognised in equity and presented in the statement of comprehensive income. The pension scheme surplus, to the extent that it is recoverable, or the deficit, is recognised in full and presented on the face of the Statement of Financial Position.

The company also contributes to individual's personal pension schemes and contributions payable are charged to the income and expenditure account in the period to which they relate.

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2 Significant accounting policies (continued)

Taxation

The company is a 'not for profit company' and UK corporation tax is only payable on any interest receivable in excess of interest payable.

Current tax is the tax expected to be payable on any interest receivable in excess of interest payable for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

As the company is a 'not for profit' company for tax purposes, no temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes have arisen. Accordingly, no deferred tax assets or liabilities are recognised.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the expected amount recoverable.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and bank deposits.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Trade payables
Trade payables are measured at fair value.

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event and it is probable that the company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

2 Significant accounting policies (continued)

Standards and interpretations in issue not yet effective

The following new and revised standards and interpretations have been issued but are not yet effective and have therefore not been adopted in these financial statements. The standards and interpretations listed below are not expected to have a material impact on the Company's consolidated results or assets and liabilities.

Amendments to IFRS 1	'Limited exemption from comparative IFRS 7 disclosures for first time adopters' (effective 1 July 2010)
Amendments to IFRS 1	'Amendments resulting from May 2010 annual improvements to IFRSs' (effective 1 January 2011)
Amendments to IFRS 1	'Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'' (effective 1 July 2011)
Amendments to IFRS 1	'Additional exemption for entities ceasing to suffer from severe hyperinflation' (effective 1 July 2011)
Amendments to IFRS 3	'Amendments resulting from May 2010 annual improvements to IFRSs' (effective 1 July 2010)
Amendments to IFRS 7	'Amendments resulting from May 2010 annual improvements to IFRSs' (effective 1 January 2011)
Amendments to IFRS 7	'Amendments enhancing disclosures about transfers of financial assets' (effective 1 July 2011)
IFRS 9	'Financial Instruments' (effective 1 January 2013)
Amendments to IAS 1	'Amendments resulting from May 2010 annual improvements to IFRSs' (effective 1 January 2011)
Amendments to IAS 12	'Limited scope amendment (recovery of underlying assets)' (effective 1 January 2012)
Amendments to IAS 24	'Revised definition of related parties' (effective 1 January 2011)
Amendments to IAS 27	'Amendments resulting from May 2010 annual improvements to IFRSs' (effective 1 July 2010)
Amendments to IFRIC 14	'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective 1 January 2011)
IFRIC 19	'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

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3 Financial instruments and financial risk management

The company's main financial instruments comprise bank and cash balances and short term debtors and creditors.

Capital management
As a not for profit entity, the capital base reflects only any surplus or deficit position in relation to the final salary pension scheme. The company does not commit to any expenditure without the award of a formal grant from a relevant funding provider and thus does not require a strong capital base to perform its operations.

Management of financial risk
The Group considers its major financial risk to be price risk.

Price risk
Funding for the Infrastructure works contract for the Edinburgh Tram project is underwritten by a guarantee from **tie**'s ultimate parent company, The City of Edinburgh Council. **tie** Ltd therefore have minimal direct exposure with regards to price increases in the Infraco Contract.

Liquidity risk
The company's policy is to minimise levels of cash held. **tie**'s bank account is funded by Group Treasury of The City of Edinburgh Council to meet its payments as they fall due.

4 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Valuation of retirement scheme assets / liabilities

The company records in its balance sheet a liability equivalent to the company's share of the deficit on the multi-employer defined benefit pension scheme. This liability is determined with advice from the scheme's actuarial adviser each year and can fluctuate based on a number of factors some of which are outwith the control of management. The main factors that can impact the valuation include:

- The discount rate used to discount future liabilities back to the present date.
- The actual rates of salary increase as compared to the expected rates used in the previous valuation.
- The actual returns on investments experienced as compared to the expected rates used in the previous pension scheme valuation.
- Mortality assumptions.

Details of the assumptions used to determine the liability at 31 March 2011 are set out in Note 19.

Valuation of liabilities relating to construction contracts

The company has estimated liabilities on construction contracts where work has been performed but the value has yet to be agreed between all parties to the contract. Estimates are based on precedents set by previous valuations of comparable items.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

5 Revenue

An analysis of the company's revenue is as follows:	2011 £	2010 £
Tram project	63,111,517	113,058,681
Other projects	839,301	1,862,628
	63,950,818	114,921,309

The total revenue of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

6 Surplus for the year

	2011 £	2010 £
Surplus for the year has been arrived at after charging / (crediting):		
Loss on disposal of property	104,249	-
Depreciation of tangible assets	222,658	340,163
Operating lease rentals	534,452	496,115
Capital payment amortisation	(222,658)	(340,163)

The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditors for the audit of the Company's financial statements	15,875	14,475
Fees payable to the Company's auditors for other services to the company	3,500	3,352
Total audit fees	19,375	17,827

7 Staff costs

	2011 £	2010 £
Salaries and wages	4,335,039	4,661,738
Social security costs	406,738	405,697
Other pension (gains) / costs	(193,246)	334,041
	4,548,531	5,401,476

Other pension gains above of £193,246 (2010: costs of £391,081) exclude other finance income, the expected return on assets and actuarial gains and losses, which are reported elsewhere. Calculations on future pension increases are now linked to CPI rather than RPI. The effect of this change results in a past service gain in the Income statement.

The average monthly number of employees (including executive directors and excluding seconded and contracted staff) was:

	2011 Number	2010 Number
Technical and administration	77	86

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

8 Directors' remuneration

	2011 £	2010 £
Salaries and benefits to executive directors	203,330	240,321
Fees to non-executive directors	48,000	48,000
	251,330	288,321

No share option scheme is in force.

The number of directors for whom retirement benefits are accruing under defined benefit pension schemes amounted to 1 (2010 - 1).

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2011 £	2010 £
Emoluments for qualifying services	150,000	140,192
Accrued pension at the end of the year	4,856	2,858
Accrued lump sum at the end of the year	-	-

9 Investment revenues and finance costs

	2011 £	2010 £
Investment revenues		
Bank interest receivable	102	825
Net Return on Defined Benefit Pension Scheme (see note 19)	32,000	-
	32,102	825
Finance costs		
Net interest charge on defined benefit pension scheme (see note 19)	-	(40,000)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

10 Tax

	2011	2010
	£	£
Current tax	173	(1,856)

Corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year.

	2011	2010
	£	£
Current tax :		
UK corporation tax charge on surplus of the year	-	-
Group relief receipts	-	(6,174)
Under-provided in previous year	173	4,318
Tax credit (see below)	173	(1,856)

The credit for the year can be reconciled to the surplus per the consolidated income statement as follows:

	2011	2010
	£	£
Surplus on ordinary activities before tax	951,173	309,144
Tax credit at the UK corporation tax rate of 28% (2010 - 28%)	266,328	86,560
Effects of:		
Other tax adjustments	(48)	520
Adjustment for prior years	173	(1,856)
Tax effects of IAS 19 adjustments	(266,280)	(87,080)
Current tax credit for the year	173	(1,856)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

11 Property, plant and equipment

	Heritable Property £	Tenants Improvements £	Fixtures & Equipment £	Motor Vehicles £	Total £
Cost					
At 1 April 2009	1,077,922	307,471	1,031,965	96,610	2,513,968
Additions	-	18,808	65,496	-	84,304
Disposals	-	-	(160,054)	-	(160,054)
At 1 April 2010	1,077,922	326,279	937,407	96,610	2,438,218
Additions	-	-	28,902	-	28,902
Disposals	(389,100)	-	(310,571)	-	(699,671)
At 31 March 2011	688,822	326,279	655,738	96,610	1,767,449
Depreciation					
At 1 April 2009	34,350	135,470	683,336	64,407	917,563
Additions	21,558	80,009	214,444	24,152	340,163
Disposals	-	-	(160,054)	-	(160,054)
At 1 April 2010	55,908	215,479	737,726	88,559	1,097,672
Charge for the year	13,282	81,569	119,756	8,051	222,658
Disposals	(30,851)	-	(310,571)	-	(341,422)
At 31 March 2011	38,339	297,048	546,911	96,610	978,908
Net book amount					
At 31 March 2011	650,483	29,231	108,827	-	788,541
At 31 March 2010	1,022,014	110,800	199,681	8,051	1,340,546

12 Trade and other receivables

	2011 £	2010 £
Trade receivables	61,579	514,354
Receivables from related parties	16,421,478	40,062,490
Prepayments	14,361,665	15,854,352
	30,844,722	56,431,196

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

13 Cash and cash equivalents

	2011 £	2010 £
Bank and cash balances	103	100
Bank overdraft	(10,337)	(471,418)
Cash and cash equivalents in the cash flow statement	(10,234)	(471,318)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

14 Trade and other payables

	2011	2010
	£	£
Trade and other payables	725,902	163,836
Social security and other taxes	607,615	4,088,667
Accruals and deferred income	29,499,971	51,706,375
	30,833,488	55,958,878

15 Deferred income

	2011	2010
	£	£
At 1 April	1,340,546	1,596,405
Capital payments written off on property disposal	(358,249)	-
Capital payments received during the year	28,902	84,304
Amortisation in the year	(222,658)	(340,163)
At 31 March	788,541	1,340,546

Deferred income represents income received in relation to fixed assets acquired for use in delivery of nominated projects. Such income is credited to the deferred income account and released to the Statement of Income over the expected useful lives of the relevant assets.

16 Share capital

	2011	2010
	£	£
Authorised:		
1,000 ordinary shares of £1 each	1,000	1,000
Issued and fully paid:		
1,000 ordinary shares of £1 each	1,000	1,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

17 Cash generated from operations

	2011	2010
	£	£
Surplus before tax	951,173	309,144
Adjustments for:		
Investment revenues	(32,102)	(825)
Finance costs	-	40,000
Difference between pension scheme current service cost and cash contribution	(919,000)	(351,000)
Loss on disposal of property	104,249	-
Deferred income released in the year relating to loss on disposal	(104,249)	-
Depreciation of property, plant and equipment	222,658	340,163
Deferred income released in the year	(222,658)	(340,163)
Operating cash flows before movement in working capital	71	(2,681)
Decrease / (increase) in receivables	25,586,474	(18,371,182)
(Decrease) / increase in payables	(25,125,390)	17,913,434
Cash generated from / (used in) operations	461,155	(460,429)

18 Operating lease arrangements

	2011	2010
	£	£
Minimum lease payments under operating lease recognised as an expense in the year	534,452	496,115

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011	2010
	£	£
Within one year	284,847	496,115
In the second to fifth years inclusive	-	237,913
After five years	-	-
	284,847	734,028

Operating lease payments represent rentals payable by the company for its office and site premises. Leases are arranged for periods concurrent with expected project durations.

19 Retirement benefit scheme

The company is a member of the Lothian Pension Fund which is a Local Government Pension Scheme. The Scheme provides benefits based on final pensionable pay to certain of the company's employees. The assets of the Fund are held separately from those of the company and are controlled by independent trustees on behalf of the members. Contributions to the Fund are centrally calculated as a whole for all participating employers and they are determined by a qualified actuary on the basis of triennial valuations, the most recent valuation being as at 31 March 2008. In order to assess the value of the employer's liabilities in the Fund at 31 March 2011 the actuary has rolled forward the value of the employer's liabilities calculated at the last formal funding valuation, allowing for the different financial assumptions required under IAS 19 this year.

The service cost for the year has been calculated by the actuary using the projected unit method of valuation as required under IAS 19. It should be noted that no allowance has been made for the effect of the abolition of the 'Rule of 85' for new members since 31 March 2008. The principal reason for this is that insufficient information is available to make any adjustment but the effect is likely to be immaterial in actuarial terms.

The contribution of the company was 18.8%, increasing to 22.8% from 1st November 2010, and for employees it is varying percentage rates of pensionable salary.

Under IAS 19 the company has chosen to reflect the full extent of any surplus or deficit on its pension fund. As at 31 March 2011, the actuaries of Lothian Pension Fund calculated the company's share of the overall scheme deficit to be a deficit of £522,000 and this figure is included in the financial statements.

The principal assumptions used by the actuary were:

	2011	2010
Rate of increase in salaries	5.1%	5.3%
Rate of increase in pensions payment	2.8%	3.8%
Discount rate	5.5%	5.5%
Long term expected rate of return on scheme assets:		
Equities	7.5%	7.8%
Bonds	4.9%	5.0%
Property	5.5%	5.8%
Cash	4.6%	4.8%
Mortality – life expectancies from age 65:		
Males		
Current pensioners	20.8	20.8
Future pensioners	22.3	22.3
Females		
Current pensioners	24.1	24.1
Future pensioners	25.7	25.7

Expected rate of returns on assets has been determined by the employer having taken actuarial advice.

Amounts recognised in the Statement of Financial Position

	2011 £'000	2010 £'000
Fair value of employer assets	7,474	6,189
Present value of employer liabilities	(7,926)	(8,314)
Present value of unfunded liabilities	(70)	(81)
Company's net pension (liability)	(522)	(2,206)

19 Retirement benefit scheme (continued)

Analysis of amounts recognised in Income Statement	2011 £'000	2010 £'000
Amounts (credited to) / charged to – staff costs		
Current service cost	671	225
Past service cost	(867)	25
Curtailment and settlements	-	-
Total operating (credit) / charge (A)	(196)	250
Amount credited to investment revenues / (charged to other finance costs)		
Expected return on employer assets	485	288
Interest on employer liabilities	(453)	(328)
Net credit / (charge) (B)	32	(40)
Net Income Statement (A)-(B)	(228)	290

Analysis of amount recognised in statement of comprehensive income	2011 £'000	2010 £'000
Actual return less expected return on employer assets	(125)	1,216
Changes in financial assumptions underlying the present value of the employer liabilities	858	(3,172)
Actuarial gain / (loss) recognised in statement of comprehensive income	733	(1,956)

The cumulative amount of actuarial losses recognised in comprehensive income to date are £1,588,000 (2010 – £2,321,000)

Reconciliation of the present value of employer liabilities	2011 £000	2010 £000
Present value of employer liabilities at 1 April 2010	(8,395)	(4,614)
Current service cost	(671)	(225)
Interest cost	(453)	(328)
Contributions by members	(347)	(283)
Actuarial gains / (losses)	858	(3,172)
Past service gains / (costs)	867	(25)
Unfunded benefits paid	4	3
Benefits paid	141	249
Present value of employer liabilities at 31 March 2011	(7,996)	(8,395)

19 Retirement benefit scheme (continued)

Reconciliation of the fair value of employer assets	2011 £000	2010 £000
Fair value of employer assets at 1 April 2010	6,189	4,053
Expected return on assets	485	288
Contributions by members	347	283
Contributions by the employer	719	598
Contributions in respect of unfunded benefits	4	3
Actuarial (losses) / gains	(125)	1,216
Unfunded benefits paid	(4)	(3)
Benefits paid	(141)	(249)
Fair value of employer assets at 31 March 2011	7,474	6,189

The company expects to contribute £626,000 to the defined benefit scheme during the year to 31 March 2011.

The fair value of major categories of employer assets are as follows:

	2011 £000	2010 £000
Equities	5,905	4,889
Bonds	598	495
Property	747	557
Cash	224	248
	7,474	6,189

History of surplus / (deficit) in the scheme and experience adjustments

Analysis of the current and previous four periods:

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of employer liabilities	(7,996)	(8,395)	(4,614)	(3,496)	(3,450)
Fair value of employer assets	7,474	6,189	4,053	3,558	3,117
Surplus / (deficit) in scheme	(522)	(2,206)	(561)	62	(333)
Experience gains / (losses) on assets	(125)	1,216	(376)	(336)	18
Experience gains / (losses) on liabilities	3	-	(918)	(8)	(1)

20 Related party transactions

The City of Edinburgh Council is deemed to be the ultimate controlling party by way of its 100% shareholding in Transport Edinburgh Limited, the immediate parent company of tie Limited.

Four of the directors of the company subsisting during the year, namely A G Jackson, G Mackenzie, I Perry and A P M Wheeler are considered to be related parties as they are members of the City of Edinburgh Council ("CEC"). The company provides services to CEC under the terms of a contractual agreement.

During the year the company invoiced service charges to CEC amounting to £63,679,719 (2010 - £114,757,218) and at the year end the amount due by CEC to the company was £16,421,478 (2010 - £40,062,490) in respect of the provision of services.

During the year the company was recharged by Lothian Buses plc, a subsidiary of CEC, for consultancy fees and expenses totalling £309,225 (2010 - £333,560) in respect of the TRAM project. The company also incurred costs in relation to Edinburgh Trams Limited ("ETL"), a subsidiary of CEC, for staff costs totalling £269,537 (2010 - £70,574) in respect of the TRAM project. All costs incurred by ETL are Tram related and are reflected in these financial statements.

During the year the company was recharged by Edinburgh Chamber of Commerce for services rendered totalling £29,680 (2010: £60,525) in respect of the TRAM project. Richard Jeffrey is a director of Edinburgh Chamber of Commerce.

The City of Edinburgh Council have provided a guarantee to a contractor in respect of the company's financial obligations relating to the contract for delivery of the infrastructure of the Edinburgh Tram Network.

Key management includes statutory directors (executive and non-executive) and internally appointed directors of key project functions. The compensation paid or payable to key management for employee services is shown below:

	2011 £	2010 £
Salaries and other short-term employee benefits	1,163,882	1,403,766
Termination benefits	16,710	16,550
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	1,180,592	1,420,316

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21 Explanation of transition to IFRSs

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2010 and the date of transition to IFRSs was therefore 1 April 2009.

Reconciliation of equity at 1 April 2009 (date of transition to IFRSs)

	UK GAAP	Effect of transition to IFRSs	IFRSs
	£	£	£
Property, plant and equipment	1,596,405	-	1,596,405
Total non-current assets	1,596,405	-	1,596,405
Trade and other receivables	38,078,747	-	38,078,747
Cash and cash equivalents	164	-	164
Total current assets	38,078,911	-	38,078,911
Total assets	39,675,316	-	39,675,316
Trade and other payables	38,077,222	-	38,077,222
Current tax liabilities	689	-	689
Retirement benefit obligations	561,000	-	561,000
Deferred income	1,596,405	-	1,596,405
Total liabilities	40,235,316	-	40,235,316
Total assets less total liabilities	(560,000)	-	(560,000)
Issued capital	1,000	-	1,000
Retained earnings	(561,000)	-	(561,000)
Total equity	(560,000)	-	(560,000)

21 Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 March 2010 (date of last UK GAAP financial statements)

	UK GAAP	Effect of transition to IFRSs	IFRSs
	£	£	£
Property, plant and equipment	1,340,546	-	1,340,546
Total non-current assets	1,340,546	-	1,340,546
Trade and other receivables	56,431,196	-	56,431,196
Cash and cash equivalents	100	-	100
Total current assets	56,431,296	-	56,431,296
Total assets	57,771,842	-	57,771,842
Trade and other payables	56,430,296	-	56,430,296
Retirement benefit obligations	2,206,000	-	2,206,000
Deferred income	1,340,546	-	1,340,546
Total liabilities	59,976,842	-	59,976,842
Total assets less total liabilities	(2,205,000)	-	(2,205,000)
Issued capital	1,000	-	1,000
Retained earnings	(2,206,000)	-	(2,206,000)
Total equity	(2,205,000)	-	(2,205,000)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2011

21 Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 March 2010

	UK GAAP	Effect of transition to IFRSs	IFRSs
	£	£	£
Revenue	114,921,309	-	114,921,309
External charges	106,437,291	-	106,437,291
Staff costs	5,401,476	-	5,401,476
Other operating charges	2,734,223	-	2,734,223
	114,572,990	-	114,572,990
Operating surplus	348,319	-	348,319
Investment revenues	825	-	825
Finance costs	(40,000)	-	(40,000)
Surplus before tax	309,144	-	309,144
Tax	1,856	-	1,856
Surplus for year	311,000	-	311,000
Actuarial (loss) on defined benefit pension scheme	(1,956,000)	-	(1,956,000)
Total comprehensive expense	(1,645,000)	-	(1,645,000)

21 Explanation of transition to IFRSs (continued)

Explanation of material adjustments to the cash flow statements for the year ended 31 March 2010 :

Taxes of £5,007 paid and group relief receipts of £24,907 received during the year ended 31 March 2010, are classified as operating cash flows under IFRSs, but were included in a separate category of taxation cash flows under previous GAAP.

Payments to acquire property, plant and equipment of £84,304 during the year ended 31 March 2010 are classified as investing cash flows under IFRSs, but were included in a separate category of capital expenditure cash flows under previous GAAP.

There are no other material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under previous GAAP.

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