Company Registration No: SC230949 (Scotland)

tie LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

tie LIMITED

COMPANY INFORMATION

Directors	E Brown (Chairman) J Brown A D Burns M M Child W S Cunningham G J N Gemmell J S Richards
Secretary	D.W. Company Services Limited
Company Number	SC230949
Registered Office	City Chambers High Street Edinburgh EH1 1YJ
Business address	Verity House 19 Haymarket Yards Edinburgh EH12 5BH
Auditors	Geoghegan & Co Chartered Accountants 6 St Colme Street Edinburgh EH3 6AD
Bankers	Royal Bank of Scotland plc 36 St Andrews Square Edinburgh EH2 2YB

tie LIMITED

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tie LIMITED

DIRECTORS' REPORT
for the year ended 31 March 2005

The directors present their report and financial statements for the year ended 31 March 2005.

Principal activities
The principal activity of the company is to promote, support and effect the development, procurement and implementation of certain projects defined or referred to in the Local Transport Strategy of The City of Edinburgh Council.

Review of business
During the year to 31 March 2005, substantial progress was achieved on all of the projects for which **tie** has responsibility. During the year, **tie** did take on significant new work, although as described below, work on other projects came to an end.

tie works for a number of different clients. **tie** was created by the City of Edinburgh Council (CEC) which continues to be the largest client. The following projects are those undertaken on behalf of CEC.

> The Public Inquiry on the Congestion Charging Scheme for Edinburgh, held in summer 2004, resulted in a positive report and a recommendation from the independent Reporters to proceed. The scheme was put to a referendum by the City of Edinburgh Council in February but the vote was clearly against the scheme. Consequent to the Council's instruction, work ceased on the scheme and on Tram Line 3, which was dependant upon funds from congestion charging.
>
> The Private Bills for Tram Lines 1 and 2, to which the Scottish Executive committed funding of £375 million in 2003, received approval in principle from the Scottish Parliament in February 2005. Work is now ongoing on the detailed consideration with a view to achieving Royal Assent by December 2005. Substantial progress has also been made on design review, procurement planning and the business case.
>
> The West Edinburgh Busways (Fastlink) bus priority system was opened in November 2004 on programme and under budget. **tie** has assumed responsibility for operating the Fastlink until 2007.
>
> **tie** managed the delivery of Ingliston Park and Ride near Edinburgh airport, which will open in the summer of 2005.

The following project is being undertaken on behalf of One-Ticket Limited, a company whose shareholders include major transport operators and local authorities in the SESTRAN (South East Scotland TRANsport) area.

> **tie** managed the integrated travel ticket scheme (One-Ticket) for South East Scotland. The scheme has achieved substantial revenue growth and will shortly be self financing. **tie** has also taken on the management of the Forth Estuary Transport Authority's road user charging proposal for the Forth Road Bridge.

The following heavy rail project is being undertaken on behalf of, and will be funded largely by, the Scottish Executive:

> **tie** has worked on preparing the bill for the £500 million Edinburgh Airport Rail Link (EARL), and has made good progress. All major technical issues have been resolved, and the project presents a very good business case. Following discussions with the Executive, and with the Parliamentary Bills Unit, the bill will now be published in late-June 2005 for consultation before formal introduction into the Parliament in October.

The final project is being undertaken for Clackmannanshire Council, and is funded by the Scottish Executive:

> **tie** assumed responsibility for the management of the re-opening of the Stirling – Alloa – Kincardine railway (SAK). Work on site commenced with the removal of trees and other vegetation that had accumulated since the line became disused, and construction work will begin in summer 2005.

Each project undertaken by **tie** is subject to rigorous budgetary and financial control, risk assessment and project management discipline.

The above is a far-reaching and complex set of projects which are fundamental to the successful delivery of improved transport facilities for people living and working in south east Scotland.

In the year to March 31 2005 **tie** had an average of 27 employees (2004: 13). Turnover was £23 million up from £12 million.

During the year **tie** relocated successfully to its current address near Haymarket station in July 2004, well positioned to keep a direct eye on tram construction and transport integration in the area.

Directors
The following directors have held office during the year:

E Brown
J Brown
A D Burns
M M Child
W S Cunningham (appointed 19 July 2004)
G J N Gemmell
R R Henderson (resigned 19 July 2004)
J S Richards

Directors' interests
No directors had any interest in the shares of the company during the year under review.

Auditors
A resolution to appoint Geoghegan & Co as auditors will be proposed at the next Board Meeting.

Corporate governance
tie seeks to apply high standards of corporate behaviour and has entered into an Operating Agreement which governs the relationship between the company and its 100% shareholder, the City of Edinburgh Council. As part of its responsibility for oversight of these arrangements, the Board has established Remuneration and Audit Committees comprising independent non-executive directors. The remit and operational process of these committees are in line with best practice for UK companies, as adapted for the circumstances of the company. The company operates a detailed delegated authority structure which sets out the matters which are reserved for Board approval and the level of authority permitted to management.

DIRECTORS' REPORT (continued)
for the year ended 31 March 2005

Directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those 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;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

On behalf of the Board

[redacted]

E Brown
Director

22 August 2005

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF tie LIMITED

We have audited the financial statements of tie Limited on pages 5 to 14 for the year ended 31 March 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters that we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors
As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its results for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

[redacted]

Geoghegan & Co
Chartered Accountants and
Registered Auditors

22 August 2005
6 St Colme Street
Edinburgh EH3 6AD

tie LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2005

	Notes	2005	2004
Turnover	2	22,834,733	12,257,425
External charges		(20,246,485)	(10,860,562)
		2,588,248	1,396,863
Staff costs	15	(2,206,333)	(1,247,280)
Other operating charges		(364,921)	(141,603)
		(2,571,254)	(1,388,883)
Operating Profit	3	16,994	7,980
Interest receivable		9,627	2,962
Interest payable	4	(26,621)	(10,942)
Results of ordinary activities before taxation		-	-
Tax of ordinary activities	5	-	-
Results on ordinary activities after taxation	12	£ -	£ -

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains or losses other than those passing through the profit and loss account.

tie LIMITED

BALANCE SHEET
as at 31 March 2005

	Notes	2005	2004
Fixed assets			
Tangible assets	6	100,649	34,090
Current assets			
Debtors	7	4,151,250	2,035,820
Cash at bank and in hand		55	229,902
		4,151,305	2,265,722
Creditors: amounts falling due within one year	8	(4,150,305)	(2,264,722)
Net current assets		1,000	1,000
Total assets less current liabilities		101,649	35,090
Accruals and deferred income	9	(100,649)	(34,090)
		£ 1,000	£ 1,000
Capital and reserves			
Called up share capital	11	1,000	1,000
Profit and loss account		-	-
Shareholders' funds – equity interests	12	£ 1,000	£ 1,000

The financial statements were approved by the Board on 22 August 2005

A D Burns [redacted]
Director

[redacted]
E Brown
Director

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CASH FLOW STATEMENT
for the year ended 31 March 2005

	Notes	2005	2004
Net cash (outflow) from operating activities	1	(1,708,154)	(62,371)
Returns on investments and servicing of finance			
Net interest (paid/received)		(16,994)	(7,980)
Capital expenditure			
Payments to acquire tangible assets		(93,815)	(15,668)
Receipts from sales of tangible assets		-	-
Net cash outflow for capital expenditure		(93,815)	(15,668)
Net cash (outflow) before management of liquid resources and financing		(1,818,963)	(86,019)
Financing			
Capital payments received		93,815	15,668
Net cash inflow from financing		93,815	15,668
(Decrease) in cash in the year	2	£ (1,725,148)	£ (70,351)

NOTES TO THE CASH FLOW STATEMENT
for the year ended 31 March 2005

		2005	2004
1	**Reconciliation of operating profit to net cash (outflow) from operating activities**		
	Operating profit	16,994	7,980
	Depreciation of tangible assets	27,256	9,865
	Increase in debtors	(2,115,430)	(1,543,484)
	Increase in creditors within one year	390,282	1,473,133
	Movement on capital payments provision	(27,256)	(9,865)
	Net cash (outflow) from operating activities	£ (1,708,154)	£ (62,371)

2	**Reconciliation of net cash flow to movement in net funds**		
	(Decrease) in cash in the year	(1,725,148)	(70,351)
	Movement in net funds in the year	(1,725,148)	(70,351)
	Opening net funds	229,902	300,253
	Closing net (debt)/funds – Bank overdraft/cash at bank and in hand	£ (1,495,246)	£ 229,902

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005

1 Accounting policies

1.1 Accounting convention
The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards
The financial statements are prepared in accordance with applicable accounting standards.

1.3 Turnover
Turnover represents amounts receivable for services net of VAT.

1.4 Tangible fixed assets and depreciation
Tangible fixed assets 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:

Fixtures, fittings and equipment - 25% Straight line

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

1.6 Pensions
The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

The Company is a member of the Lothian Pension Fund which is a multi-employer Defined Benefits Scheme and contributions payable are charged to the profit and loss account in the period to which they relate.

1.7 Deferred capital payments
Capital receipts in respect of capital expenditure are credited to the deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets.

2 Turnover

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2005

3 Operating profit

Operating profit is stated after charging:		
Depreciation of tangible assets	£ 27,256	£ 9,865
Operating lease rentals	126,289	56,975
Auditors' remuneration	3,700	3,600
And after crediting:		
Capital payment amortisation	27,256	9,865

4 Interest payable

On bank overdraft	£ 26,621	£ 10,942

5 Taxation

Current tax charge	£ -	£ -

6 Tangible fixed assets

	Fixtures, fittings and equipment
Cost	
At 31 March 2004	48,098
Additions	93,815
Disposals	-
At 31 March 2005	141,913
Depreciation	
At 31 March 2004	14,008
Charge for the year	27,256
Disposals	-
At 31 March 2005	41,264
Net book value	
At 31 March 2005	£ 100,649
At 31 March 2004	£ 34,090

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2005

7	**Debtors**	2005	2004
	Trade debtors	2,135,669	1,778,080
	Other debtors	-	5,774
	Prepayments and accrued income	2,051,999	251,966
		£ 4,187,668	£ 2,035,820

8	**Creditors: amounts falling due within one year**	2005	2004
	Bank overdraft	1,495,301	-
	Trade creditors	491,107	1,924,893
	Taxes and social security costs	136,547	82,184
	Other creditors	11,769	11,984
	Accruals and deferred income	2,015,581	245,661
		£ 4,150,305	£ 2,264,722

9	**Accruals and deferred income**	Capital payments
	Balance at 31 March 2004	34,090
	Capital payments received during the year	93,815
	Amortisation in the year	(27,256)
	Balance at 31 March 2005	£ 100,649

10 **Pension commitments**

The company is a member of the Lothian Pension Fund and provides benefits based on final pensionable pay to certain of its 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 2002. Contributions to the Fund are charged to the profit and loss account and although centrally calculated provide a fair basis to spread the cost of pensions over the employees' average working lives with the company. The contributions of the company and the employees were 14.7% and 6.0% of pensionable salary respectively during the year.

10	**Pension commitments (continued)**	2005	2004	
	Contributions payable by the company for the year	£ 86,821	£ 66,340	
	The main financial assumptions are as follows:	31 March 2005 %	31 March 2004 %	31 March 2003 %
	Rate of increase in salaries	4.4	4.4	4.0
	Rate of increase in pensions in payment	2.9	2.9	2.5
	Discount rate	5.4	5.5	5.4
	Inflation assumption	2.9	2.9	2.5
	The long term expected rates of return are as follows:			
	Equities	7.7	7.7	8.0
	Bonds	4.8	5.1	4.8
	Property	5.7	6.5	6.0
	Other assets	4.8	4.0	4.0
	Fund Value	31 March 2005 £'000	31 March 2004 £'000	31 March 2003 £'000
	The estimated employer assets in the scheme are as follows:			
	Equities	735	606	368
	Bonds	62	45	39
	Property	88	58	50
	Other assets	37	7	29
	Total	£ 922	£ 716	£ 486
	Estimated company's assets	922	716	486
	Present value of company's liabilities	(1,247)	(1,010)	(811)
	Company's net pension liability	£ (325)	£ (294)	£ (325)

The following disclosures are made in accordance with the transitional arrangements of Financial Reporting Standard 17, Retirement Benefits. These disclosures are for information purposes only. In accordance with the transitional arrangements, the pension scheme deficit amounting to £325,000 (2004: £294,000) has not been accounted for in the financial statements.

10 **Pension commitments (continued)**

Analysis of amount that would be charged to operating profit	2005 £'000	2004 £'000
Current service cost	118	70
Past service cost	-	-
Total operating charge (A)	£ 118	£ 70
Projected amount that would be credited to other finance income		
Expected return on employer assets	58	39
Interest on pension scheme liabilities	(60)	(46)
Net return (B)	£ (2)	£ (7)
Net profit and loss account (A)-(B)	£ 120	£ 77

Analysis of amount which would be recognised in statement of total recognised gains and losses (STRGL)	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	26	107
Experience gains and losses arising on the scheme liabilities	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	(24)	(59)
Actuarial gain in pension plan	£ 2	£ 48
Actuarial gain which would be recognised in STRGL	£ 2	£ 48

Movement in deficit during year	2005 £'000	2004 £'000
Deficit at beginning of year	(294)	(325)
Current service cost	(118)	(70)
Employer contributions	87	60
Net return on assets	(2)	(7)
Actuarial gains	2	48
Deficit at end of year	£ (325)	£ (294)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2005

10 **Pension commitments (continued)**

History of experience gains and losses	2005 £'000	2004 £'000	2003 £'000 (11 months)
Difference between expected and actual return on assets	26	107	(172)
Value of assets	922	716	486
Percentage of assets	*2.9%*	*15.0%*	*(35.4%)*
Experience gains and losses on liabilities	-	-	(27)
Total present value of liabilities	1,247	1,010	811
Percentage of total present value of liabilities	-	-	*(3.3%)*
Total recognised actuarial gains and losses	2	48	(230)
Percentage of total present value of the liabilities	*0.2%*	*4.8%*	*(28.4%)*

11 **Share Capital**

	2005	2004
Authorised		
1,000 ordinary shares of £1 each	£ 1,000	£ 1,000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	£ 1,000	£ 1,000

12 **Reconciliation of movements in shareholders' funds**

	2005	2004
Profit for the financial year	-	-
Proceeds from issue of shares	-	-
Net addition to shareholders' funds	-	-
Opening shareholders' funds	1,000	1,000
Closing shareholders' funds	£ 1,000	£ 1,000

13 **Financial commitments**

At 31 March 2005 the company was committed to making the following payments under non-cancellable operating leases.

	Land and buildings		Other	
	2005 £	2004 £	2005 £	2004 £
Operating leases which expire:				
Within one year	-	16,050	-	-
Between two and five years	127,039	-	1,040	-
	£ 127,039	£ 16,050	£ 1,040	£ -

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2005

		2005	2004
14	**Directors' emoluments**	2005	2004
	Emoluments for qualifying services	£ 15,000	£ 15,000

		2005	2004
15	**Staff costs**	2005 No.	2004 No.
	Number of employees The average monthly number of employees (excluding seconded and contracted staff) during the year was:		
	Technical and administration	27	13
	Employment and other staff costs	2005	2004
	Salaries	1,274,090	592,791
	Social security costs	125,980	60,046
	Other pension costs	97,173	68,910
		1,497,243	721,747
	Seconded and contracted staff	675,886	486,739
	Other staff costs	33,204	38,794
		£ 2,206,333	£ 1,247,280

16 **Related party transactions**

The City of Edinburgh Council ('CEC') holds 100% of the company's ordinary share capital and is therefore deemed to be the ultimate controlling party.

Three of the directors namely A D Burns, M M Child and W S Cunningham are also considered to be related parties as they are members of CEC. The company provides services to CEC under the terms of a contractual agreement.

During the year the company made service charges to CEC amounting to £22,445,545 (2004 £12,143,196) at the year end the amounts due by CEC to the company were £2,091,166 (2004 £1,777,962).