Company Registration No: SC230949 (Scotland)

tie LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

tie LIMITED

COMPANY INFORMATION

Directors	W Gallagher (Chairman) A D Burns M M Child G J N Gemmell J S Richards A P M Wheeler
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 2006

The directors present their report and financial statements for the year ended 31 March 2006

Principal activities
The principal activity of the company is to promote, support and effect the development, procurement project management and implementation of certain nominated projects

Review of business
In the past year the company has been developing or implementing five major transport projects in Edinburgh These were two tramlines serving north and west Edinburgh, Edinburgh Fastlink (formerly entitled the West Edinburgh Busway Scheme – WEBS), Ingliston Park and Ride, and the Edinburgh Airport Rail Link (EARL)

Good progress was made during the year on all projects Parliamentary scrutiny of the two Tram Bills was completed and Royal Assent was given to both Bills Planning for utility works and the detailed design process were commenced during the year and the procurement process for the tram system and vehicles is now firmly underway The EARL Bill was submitted to Parliament and is now undergoing scrutiny and some critical advance works have commenced Both the Fastlink and Ingliston Park and Ride projects were completed

In the year to 31 March 2006 the company had an average of 48 employees (2005 27) Turnover, representing project costs reimbursed by the Company's funders, was £22m (205 £23m) reflecting the lower capital expenditure on the two projects completed during the year

In common with most limited companies, the accounts now reflect the requirements of Financial Reporting Standard 17 This requires that any deficit on tie's attributable share of the Lothian Pension Fund must be reflected in the tie balance sheet as a liability As explained in note 11 to the accounts, the attributable deficit is being addressed by enhanced contributions to the pension fund spread over a number of years ahead as advised by the Fund Trustees and their professional advisors

Directors
The following directors have held office since 1 April 2005 unless otherwise indicated

E Brown	(Resigned 1 June 2006)
W Gallagher	(Appointed 23 February 2006)
J Brown	(Resigned 30 October 2005)
A D Burns	
M M Child	
W S Cunningham	(Resigned 6 December 2005)
G J N Gemmell	
J S Richards	
A P M Wheeler	(Appointed 6 December 2005)

W Gallagher was appointed Chairman of the Board of Directors on 1 June 2006

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

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 Therefore, the auditors, Geoghegan & Co, will be deemed to be re appointed for each succeeding financial year

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 During the year the company also entered into an Operating Agreement with the Scottish Executive in relation to the EARL project 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

Statement of 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,
- State whether applicable accounting standards 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 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

Statement of disclosure to the auditor
(a) So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
(b) They have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the Board

[redacted]

W Gallagher
Director

28 August 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF tie LIMITED

We have audited the financial statements of tie Limited on pages 4 to 17 for the year ended 31 March 2006 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 shareholders, 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 International Standards on Auditing (UK and Ireland)

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 report to you whether in our opinion the directors' report is consistent with the financial statements We also report to you if, in our opinion, 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year the ended,
- have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the director's report is consistent with the financial statements

[redacted]

Geoghegan & Co 28 August 2006

Chartered Accountants and
Registered Auditors

6 St Colme Street
Edinburgh EH3 6AD

tie LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006

	Notes	2006 £	2005 £ (restated)
Turnover	2	21,805,386	22,834,733
External charges		(17,767,549)	(20,246,485)
		4,037,837	2,588,248
Staff costs	3	(2,193,180)	(1,561,626)
Other operating charges		(1,813,322)	(1,040,807)
		(4,006,502)	(2,602,433)
Operating profit/(loss)	4	31,335	(14,185)
Interest receivable		4,180	9,627
Interest payable	5	(52,751)	(26,621)
Other finance costs	11		(2,000)
Loss on ordinary activities before taxation		(17,236)	(33,179)
Tax on ordinary activities	6		
Loss on ordinary activities after taxation	13	(17,236)	(33,179)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2006

	Notes	2006 £	2005 £ (restated)
Loss for the financial year		(17,236)	(33,179)
Difference between actual and expected return on pension scheme assets		393,000	26,000
Experience (losses) arising on pension scheme liabilities		(315,000)	
Effects of change in assumptions underlying the present value of pension scheme liabilities		(407,000)	(24,000)
Total recognised gains and losses in the year		(346,236)	31,179
Prior period adjustment	19	(294,000)	
Total recognised gains and losses since the last financial statements		(640,236)	

tie LIMITED

BALANCE SHEET
as at 31 March 2006

	Notes	2006 £	2005 £ (restated)
Fixed assets			
Tangible assets	7	183,342	100,649
Current assets			
Debtors	8	9,880,052	4,151,250
Cash at bank and in hand		118	55
		9,880,170	4,151,305
Creditors: amounts falling due within one year	9	(9,879,170)	(4,150,305)
Net current assets		1,000	1,000
Total assets less current liabilities		184,342	101,649
Accruals and deferred income	10	(183,342)	(100,649)
Pension scheme liability	11	(671,415)	(325,179)
		(670,415)	(324,179)
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account	13	(671,415)	(325,179)
Shareholders' funds – equity interests	13	(670,415)	(324,179)

The financial statements were approved and authorised for issue by the Board of Directors on 28 August 2006

[redacted]

W Gallagher [redacted]
Director

[redacted]

A D Burns
Director

tie LIMITED

CASH FLOW STATEMENT
for the year ended 31 March 2006

Reconciliation of operating profit to net cash (outflow) from operating activities	2006 £	2005 £ (restated)
Operating profit/(loss)	31,335	(14,185)
Depreciation of tangible assets	52,150	27,256
Increase in debtors	(5,728,802)	(2,115,430)
Increase in creditors within one year	4,535,619	390,282
Movement on capital payments provision	(52,150)	(27,256)
Increase in pension provision	17,236	31,179
Net cash (outflow) from operating activities	(1,144,612)	(1,708,154)

CASH FLOW STATEMENT	Notes		
Net cash (outflow) from operating activities		(1,144,612)	(1,708,154)
Returns on investments and servicing of finance			
Interest received		4,180	9,627
Interest paid		(52,751)	(26,621)
		(48,571)	(16,994)
Capital expenditure			
Payments to acquire tangible assets		(134,843)	(93,815)
Net cash outflow for capital expenditure		(134,843)	(93,815)
Net cash (outflow) before management of liquid resources and financing		(1,328,026)	(1,818,963)
Financing			
Capital payments received		134,843	93,815
Net cash inflow from financing		134,843	93,815
Decrease in cash in the year	1	(1,193,183)	(1,725,148)

NOTES TO THE CASH FLOW STATEMENT
for the year ended 31 March 2006

1 Analysis of net debt

	1 April 2005	Cashflow	Other non cash changes	31 March 2006
	£	£	£	£
Net cash:				
Cash at bank and in hand	55	63		118
Bank overdrafts	(1,495,301)	(1,193,246)		(2,688,547)
Net debt	(1,495,246)	(1,193,183)		(2,688,429)

2 Reconciliation of net cash flow to movement in net funds

	2006	2005
	£	£
Decrease in cash in the year	(1,193,183)	(1,725,148)
Movement in net debt in the year	(1,193,183)	(1,725,148)
Opening net (debt)/funds	(1,495,246)	229,902
Closing net debt – Bank overdraft/cash at bank and in hand	(2,688,429)	(1,495,246)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2006

1 **Accounting policies**

1 1 **Accounting convention**
The financial statements have been prepared under the historical cost convention

1 2 **Compliance with accounting standards**
The financial statements have been prepared in accordance with applicable accounting standards

The company has fully adopted Financial Reporting Standard No 17 Retirement Benefits (FRS 17) in the year The profit and loss account, statement of total recognised gains and losses, balance sheet and notes to the financial statements have been amended where indicated to reflect the adoption of FRS 17 The comparative figures have been restated to reflect the full adoption of FRS 17

13 **Going Concern**
The company meets it's day to day working capital requirements through an overdraft facility which is repayable on demand The company is currently operating well within it's overdraft facility and the directors have prepared a detailed business plan for 2006/07 which has been approved by the City of Edinburgh Council The Council have also provided a letter of comfort to the bank in respect of the overdraft facility and the directors are therefore of the opinion that the financial statements should be prepared on the going concern basis

1 4 **Turnover**
Turnover represents amounts receivable for services net of VAT

1 5 **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 6 **Leasing**
Rentals payable under operating leases are charged against income on a straight line basis over the lease term

1 7 **Pensions**
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 FRS 17, the operating costs of providing these benefits are recognised in the profit and loss account in the accounting period in which the benefits are earned by the employees and related financing and other costs are recognised in the period in which they arise

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

tie LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

1 **Accounting policies (continued)**

1 8 **Deferred capital payments**

Capital receipts in respect of capital expenditure are credited to the deferred income account and then 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

3 **Staff costs**

	2006	2005
	No	No
Number of employees		
The average monthly number of employees (excluding seconded and contracted staff) during the year was		
Technical and administration	48	27

Employment and other staff costs	2006	2005
	£	£
		(restated)
Salaries	1,737,031	1,274,090
Social security costs	187,539	125,980
Other pension costs	232,075	128,352
	2,156,645	1,528,422
Other staff costs	36,535	33,204
Total	2,193,180	1,561,626

4 **Operating profit**

	2006	2005
	£	£
Operating profit is stated after charging		
Depreciation of tangible assets	52,150	27,256
Operating lease rentals	135,357	126,289
Auditors' remuneration		
Audit	4,300	3,700
Other	1,500	975
And after crediting		
Capital payment amortisation	(52,150)	(27,256)

5 Interest payable

	2006	2005
	£	£
On bank overdraft	52,751	26,621

6 Taxation

The directors' are of the opinion that the company currently operates as a "not for profit" organisation

7 Tangible fixed assets

	Fixtures, fittings and equipment £
Cost	
At 31 March 2005	141,913
Additions	134,843
Disposals	
At 31 March 2006	276,756
Depreciation	
At 31 March 2005	41,264
Charge for the year	52,150
Disposals	
At 31 March 2006	93,414
Net book value	
At 31 March 2006	183,342
At 31 March 2005	100,649

8 Debtors

	2006 £	2005 £ (restated)
Trade debtors	115,956	44,503
Amounts due from parent undertaking	3,632,491	2,091,166
Amounts due from Scottish Executive	1,659,866	
Other debtors	183,569	
Prepayments and accrued income	4,288,170	2,015,581
	9,880,052	4,151,250

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

9	**Creditors· amounts falling due within one year**	2006 £	2006 £
	Bank overdraft	2,688,547	1,495,301
	Trade creditors	2,807,283	491,107
	Taxes and social security costs	62,596	136,547
	Other creditors	32,574	11,769
	Accruals and deferred income	4,288,170	2,015,581
		9,879,170	4,150,305

A letter of comfort dated 12 April 2006 has been issued by The Edinburgh City Council to The Royal Bank of Scotland plc in respect of the current overdraft facility

10	**Accruals and deferred income**	Capital Payments £
	Balance at 31 March 2005	100,649
	Capital payments received during the year	134,843
	Amortisation in the year	(52,150)
	Balance at 31 March 2006	183,342

11 **Pension commitments**

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 2005 In order to assess the value of the employer's liabilities in the Fund at 31 March 2006 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 FRS 17 this year

The service cost for the year has been calculated by the actuary using the projected unit method of valuation as required under FRS 17 It should be noted that service costs figures have been based on current regulations which allow members to retire on their "Rule of 85" age set out in the Local Government Pension Scheme (Scotland) Regulations 1998 They also include an allowance for expenses of 0 4% of payroll

The contributions of the company and the employees were 14 7% and 6 0% of pensionable salary respectively during the year

FRS 17 requires tie's accounts to reflect the full extent of any surplus or deficit on its pension fund As at 31 March 2006, the actuaries of Lothian Pension Fund calculated tie's share of the overall scheme deficit to be £671,000 and this figure is included in the accounts Employer's contributions have been set at a rate which will repay this deficit over an eight year period, in line with actuarial recommendations

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

11 Pension commitments (continued)

	2006 £'000	2005 £'000	
Contributions paid by the company in the year	199	87	
The main financial assumptions are as follows:	31 March 2006 %	31 March 2005 %	31 March 2004 %
Rate of increase in salaries	4 6	4 4	4 4
Rate of increase in pensions in payment	3 1	2 9	2 9
Discount rate	4 9	5 4	5 5
Inflation assumption	3 1	2 9	2 9
The long term expected rates of return are as follows:			
Equities	7 4	7 7	7 7
Bonds	4 6	4 8	5 1
Property	5 5	5 7	6 5
Other assets	4 6	4 8	4 0

Fund Value	31 March 2006 £'000	31 March 2005 £'000	31 March 2004 £'000
The estimated employer assets in the scheme are as follows:			
Equities	2,110	735	606
Bonds	150	62	45
Property	270	88	58
Other assets	59	37	7
Total	2,589	922	716
Estimated company's assets	2,589	922	716
Present value of company's liabilities	(3,260)	(1,247)	(1,010)
Company's net pension liability	(671)	(325)	(294)

Analysis of amount charged to operating profit	2006 £'000	2005 £'000
Current service cost	157	118
Past service cost		
Curtailment and settlements	59	
Total operating charge (A)	216	118

11 Pension commitments (continued)

Amount credited to other finance income	2006 £'000	2005 £'000
Expected return on employer assets	74	58
Interest on pension scheme liabilities	(74)	(60)
Net return (B)		(2)
Net profit and loss account (A) (B)	216	120

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	393	26
Experience gains and losses arising on the scheme liabilities	(315)	
Changes in financial assumptions underlying the present value of the scheme liabilities	(407)	(24)
Actuarial (loss)/gain in pension plan	(329)	2
Actuarial (loss)/gain recognised in STRGL	(329)	2

Movement in deficit during year	2006 £'000	2005 £'000
Deficit at beginning of year	(325)	(294)
Current service cost	(157)	(118)
Employer contributions	199	87
Curtailments	(59)	
Net return on assets		(2)
Actuarial (loss)/gain	(329)	2
Deficit at end of year	(671)	(325)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

11 Pension commitments (continued)

History of experience gains and losses	2006	2005	2004	2003
	£'000	£'000	£'000	£'000
Difference between expected and actual return on assets	393	26	107	(172)
Value of assets	2,589	922	716	486
Percentage of assets	*15 2%*	*2 9%*	*15 0%*	*(35 4%)*
Experience (losses) on liabilities	(315)			(27)
Total present value of liabilities	3,260	1,247	1,010	811
Percentage of total present value of liabilities	*(9 7%)*			*(3 3%)*
Actuarial gains/(losses) recognised in STRGL	(329)	2	48	(230)
Percentage of total present value of the liabilities	*(10 1%)*	*0 2%*	*4 8%*	*(28 4%)*

12 Share capital

	2006	2005
	£	£
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

13 Profit and loss reserve

	2006
	£
At beginning of year (as previously stated)	
Prior year adjustment (Note 19)	(325,179)
At beginning of year (as restated)	(325,179)
Result for the financial year	(17,236)
Other recognised gains and losses in the year	(329,000)
At end of year (Pension reserve)	(671,415)

14 Reconciliation of movements in shareholders' funds

	2006	2005
	£	£
Result for the financial year	(17,236)	(33,179)
Other recognised gains and losses in the year	(329,000)	2,000
Opening shareholders' funds	(324,179)	(293,000)
Closing shareholders' funds	(670,415)	(324,179)

14 Financial commitments

At 31 March 2006 the company was committed to making the following payments under non cancellable operating leases

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Operating leases which expire				
Between one and two years	118,756	127,039		
After more than five years	200,975		1,040	1,040
	319,731	127,039	1,040	1,040

15 Directors' emoluments

	2006	2005
	£	£
Emoluments for qualifying services	13,474	15,000

16 Contingent liabilities

The company has received informal notification of a potential contractors claim in relation to the Ingliston Park and Ride project The company intends to defend robustly any such claim should it be formalised, based on its technical and legal advice

17 Related party transactions

Three of the directors of the company, namely A D Burns, M M Child and A P M Wheeler are considered to be related parties as they are members of the City of Edinburgh Council ("CEC") In addition, W S Cunningham was also a related party during the year by way of his membership 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 £18,577,176 (2005 £22,445,545) and at the year end the amount due by CEC to the company was £3,632,491 (2005 £2,091,166) in respect of the provision of services

18 Ultimate Controlling Party

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

19 Prior year adjustment

A prior year adjustment has arisen due to the requirement to adopt the full implementation of FRS 17 in the year

In addition the disclosure of staff costs in the financial statements has also been re stated this year in order to now disclose seconded and contracted staff within other operating charges as these staff are not directly employed by the company and are therefore not considered by the directors to be employees of the company

As a result of these changes in accounting policy, the comparatives to the financial statements have been restated as follows

Balance Sheet

	Pension Reserve £	Shareholders funds £
As previously reported		1,000
Adoption of FRS 17	325,179	(325,179)
As restated	325,179	(324,179)

Profit and Loss Account

	Staff costs £	Other operating charges £	Other finance costs £	Result on ordinary activities £
As previously reported	2,206,333	364,921		
Re statement of seconded and contracted staff costs	(675,886)	675,886		
Adoption of FRS 17	31,179		2,000	(33,179)
As restated	1,561,626	1,040,807	2,000	(33,179)