LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated Financial Statements

For the year ended 31 December 2013

Registered number SC096849

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated Financial Statements

For the year ended 31 December 2013

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LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Company Information

Board of Directors:	*Chairman*	
	Chris Walton	Resigned on 12 April 2014
	Executive Directors	
	William Campbell	
	Ian Craig	
	William Devlin	
	Norman Strachan	
	Senior Independent Director	
	John Martin	
	Non-Executive Directors	
	Owen Boyle	
	Steven Cassidy	Appointed on 24 April 2014
	Anthony Depledge	Appointed on 24 April 2014
	Ann Faulds	Chairman from 24 April 2014
	Ronald Hewitt	Resigned on 6 November 2013
	Donald MacLeod	
	Ian McKay	Resigned on 4 December 2013
	Marjory Rodger	
Company Registration:	Registered Office	55 Annandale Street Edinburgh EH7 4AZ
	Registration Number	096849 in Scotland
	Secretary	Norman Strachan
Bankers:	The Royal Bank of Scotland plc Barclays Bank plc	
Auditor:	Scott-Moncrieff Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL	

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

For the year ended 31 December 2013

Strategic report

Business Strategy

The core purpose of Lothian Buses Limited is to deliver a high quality, integrated, socially inclusive transport service. We will also deliver profit through a strong commercial focus and drive efficiencies in everything we do. Our long-term vision at Lothian Buses is to be an integral part of the future success of Edinburgh and the Lothians, by providing world-class, environmentally friendly and socially inclusive transport.

Principal Activities

The principal activity of the group during the year under review was the operation of over 650 buses and open top tours in Edinburgh and the Lothians carrying around 2m passengers per week. The company changed its status from a public limited company to a private limited company and changed its name from Lothian Buses plc to Lothian Buses Limited. There have been no other significant changes in the group's principal activities in the year under review. The directors are not aware at the date of this report, of any likely major changes in the group's activities in the next year.

Review of the Business

The group retained a substantial share of the local public transport market in Edinburgh and the Lothians. The directors consider that the results for the year are in line with expectations.

As shown in the Consolidated Statement of Comprehensive Income on page 10, revenue has increased by 7.8% over the previous year while the profit from operations margin for the year is 9.5%. The Statement of Financial Position on page 11 shows the group's financial strength at the year end with net reserves of £81.5m.

Capital expenditure in the year was £6.3m. The main item of expenditure being the addition of 25 new public service vehicles to the fleet.

The group has faced significant operating and cost pressures, particularly fuel price. We anticipate that these cost pressures will remain in 2014 and we will remain proactive in seeking to mitigate the impact of these cost pressures.

Results and Dividends

The results and dividends are summarised below. An interim dividend of 51.51p per share was approved on 4 December 2013 and was paid on 6 December 2013.

	2013 £'000	Restated 2012 £'000
Revenue	132,263	122,675
Profit before income tax expense	11,653	9,416
Provision for income tax expense	(3,072)	(1,483)
Net profit for the year	8,581	7,933
Interim dividend	3,296	3,296

The key performance indicators for the group are:-

	2013	2012	Change
Passenger journeys	115m	111m	+3.60%
Service reliability – lost mileage	0.10%	0.11%	-0.01%
Staff turnover	2.9%	2.3%	+0.60%
Vehicle fleet	711	721	-1.39%
Engineering MOT 1st time pass rate	99.7%	99.6%	+0.10%

Future Prospects

The directors are of the opinion that the group remains in a sound position to maintain its role as the major operator of buses and open top tours in Edinburgh and the Lothians.

The current year trading is in line with expectations. The directors remain optimistic about the future, continuing to focus on the delivery of reliable high quality bus services, which provide value for money.

Employees

Details of the number of employees and related costs can be found in note 7 on page 26 of the financial statements.

We value our staff and have a strong commitment to equal opportunities and partnership working with trade unions.

Training, development and promotion opportunities, where appropriate, are available to all employees. Employment practices are continuously reviewed and updated to ensure that non-discriminatory legislation and codes of practice apply equally to all current and potential employees.

We recognise the need for ongoing training not just for new recruits but also on an ongoing continuing basis for existing staff. Training programmes include customer care and disability awareness. The training is not only for improving the job but also for individual development.

The Board of directors includes a worker-director nominated by company employees. The group recognises that employee involvement is fundamental to its success. The executive directors have regular meetings with elected staff representatives and informal meetings at employee level from time to time. Employees are encouraged to contribute to discussions on specific areas of importance e.g. health and safety, staff catering and staff welfare.

Applications for employment received from disabled persons are considered on an equal basis with other applications subject to the nature and extent of the disability and the degree of physical fitness demanded of bus driving and other operational staff. Where disablement occurs during service with the company, every effort is made to seek suitable alternative company employment.

Risks and Uncertainties

The group is subject to risk factors both internal and external to its business. External risks include political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation. Internal risks include risks related to capital expenditure, regulatory compliance failure and failure of internal controls.

The Board regularly reviews the process of identifying, evaluating and managing the significant risks that it faces.

The Board considers acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced.

Commodity Price Risk

The group uses an advance contracting strategy to reduce the impact of future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the group through a part volume fixed price contract.

Corporate Social Responsibility

Continuing the successful work of previous years Lothian Buses Limited continued to be an acknowledged industry leader in CSR.

Ten new hybrid diesel-electric single deck buses were launched in April before being put to work on service 1. Extensive pre-publicity coupled with a highly specified vehicle have helped the route to grow by over 10% during the course of 2013. Fuel savings have been significant with 30-40% reduction over the vehicles previously used being typical. A further twenty similar buses are on order for 2014 although these will feature conductive charging capabilities as the company looks to future-proof their buses.

Away from buses a complete switch to electricity generated wholly from renewable sources was made late in the year. When taken together the measures taken to improve our bus fleet and our operations have cut over 3,000 tonnes of carbon from our annual carbon footprint. Our actions to improve sustainability have also won us several major awards including environmental and sustainability titles at the Scottish and UK Transport Awards and the title of "National Sustainability Champion" at the Scottish Green Apple Awards.

In community engagement we held a hybrid bus launch in central Edinburgh in April which attracted over 2,000 visitors and subsequently a depot open day at Central which drew over 3,700 visitors. The latter event, organised as part of the city-wide Doors Open Day, is now a firm fixture for many Edinburgh families and generates much positive publicity for the company. Highlights included model bus racing and a line up of vintage buses covering seven decades.

Throughout the year we worked closely with our 2013 charity of the year – It's Good 2 Give, who help young families with cancer. Work with school pupils with special educational needs also continued, delivering confidence boosting travel training to young people in schools including Pilrig Park, Woodlands and Saltersgate. Similarly, employability skills of mainstream pupils were boosted across our operating areas including in Penicuik, Craigroyston, Preston Lodge and Craigmount High Schools.

Overall, a very successful year for the company in CSR, and one which we hope to emulate in 2014.

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

Date: 24 April 2014

N J Strachan

Norman J Strachan
Finance Director and Company Secretary

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

For the year ended 31 December 2013

Directors' report

Directors

The directors are as set out on Page 2.

None of the directors had any interest in the issued share capital during the year.

Statement of Directors' Responsibilities

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 prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to the Auditor

Each of the directors, whose names and functions are listed in the Company Information confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

Auditor

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

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

Date: 24 April 2014

NJ Strachan

Norman J Strachan
Finance Director and
Company Secretary

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Independent Auditor's Report to the Members of Lothian Buses Limited

For the year ended 31 December 2013

We have audited the financial statements of Lothian Buses Limited for the year ended 31 December 2013 which comprise the Group and Parent Company Statements of Comprehensive Income, Group and Parent Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and express an opinion on 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 (APB's) Ethical Standards for Auditors.

Scope of the Audit on 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 group and parent 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implication of our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013 and of the group's and the parent company's profit 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 prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter(s) Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Nick Bennett

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 24 April 2014

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	Consolidated Group 2013 £'000	Consolidated Group Restated 2012 £'000	Parent Entity 2013 £'000	Parent Entity Restated 2012 £'000
Continuing operations					
Revenue	1i	132,263	122,675	127,327	118,648
Gross profit		132,263	122,675	127,327	118,648
Administrative expenses		(119,640)	(113,043)	(116,811)	(110,512)
Profit from operations		12,623	9,632	10,516	8,136
Loss on disposal of property, plant and equipment	2	(329)	(392)	(325)	(401)
Investment income		-	-	6,000	-
Finance income	3	164	556	161	556
Finance costs	4	(805)	(380)	(805)	(380)
Profit before income tax expense		11,653	9,416	15,547	7,911
Income tax expense	6	(3,072)	(1,483)	(2,586)	(1,124)
Net profit for the year		8,581	7,933	12,961	6,787
Attributable to:					
Equity holders		8,581	7,933	12,961	6,787
Other comprehensive income:					
Those that are not recyclable net of tax:					
Actuarial gain/(loss) on post employment benefit obligations	22	24,535	(19,903)	24,535	(19,903)
Deferred tax charge thereon	13	(2,420)	-	(2,420)	-
Total comprehensive income for the year		30,696	(11,970)	35,076	(13,116)
Attributable to:					
Equity holders		30,696	(11,970)	35,076	(13,116)

The accompanying notes on pages 14 to 45 form part of these financial statements

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated and Company Statement of Financial Position
As At 31 December 2013

	Note	Consolidated Group: As at 31 December 2013 £'000	Consolidated Group: As at 31 December 2012 £'000	Parent Entity: As at 31 December 2013 £'000	Parent Entity: As at 31 December 2012 £'000
Non-current assets					
Property, plant and equipment	8	85,227	87,798	84,584	86,895
Retirement benefit asset	22	11,524	-	11,524	-
Total non-current assets		96,751	87,798	96,108	86,895
Current assets					
Inventories	9	608	513	608	513
Trade and other receivables	10	2,554	3,665	2,534	3,646
Cash and cash equivalents	15	12,763	11,934	11,896	11,105
Total current assets		15,925	16,112	15,038	15,264
Total assets		112,676	103,910	111,146	102,159
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	6,399	6,399	6,399	6,399
Revaluation reserve	17	6,477	6,617	6,477	6,617
Retained earnings	17	68,604	41,064	66,809	34,889
		81,480	54,080	79,685	47,905
Liabilities					
Non-current liabilities					
Finance lease obligations	12	3,135	5,187	3,135	5,187
Deferred tax	1,13	9,547	7,836	9,524	7,772
Retirement benefits obligation	22	-	11,876	-	11,876
Provisions	13	1,320	1,598	1,303	1,563
Total non-current liabilities		14,002	26,497	13,962	26,398
Current liabilities					
Trade and other payables	11	2,046	4,198	1,958	4,130
Current tax payable	11	2,519	1,320	2,256	1,122
Finance lease obligations	12	2,622	3,969	2,622	3,969
Other financial liabilities	11	10,007	13,846	10,663	18,635
Total current liabilities		17,194	23,333	17,499	27,856
Total liabilities		31,196	49,830	31,461	54,254
Total equity and liabilities		112,676	103,910	111,146	102,159

The financial statements were authorised for issue by the Board of Directors on 24 April 2014 and were signed on its behalf by:

Ian Craig

Registered number SC096849

Ian Craig, Chief Executive

The accompanying notes on pages 14 to 45 form part of these financial statements

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated Statement of Changes in Equity

As at 31 December 2013

	Note	Share Capital £'000	Revaluation Reserve £'000	Restated Retained Earnings £'000	Total £'000
Balance at 1 January 2012		6,399	6,757	56,190	69,346
Comprehensive income					
Profit for the year		-	-	7,933	7,933
Other comprehensive income					
Depreciation transfer on land and buildings, net of tax	17	-	(140)	140	-
Actuarial loss on pension plan	22	-	-	(19,903)	(19,903)
Dividends	5	-	-	(3,296)	(3,296)
Balance at 31 December 2012		6,399	6,617	41,064	54,080

	Note	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2013		6,399	6,617	41,064	54,080
Comprehensive income					
Profit for the year		-	-	8,581	8,581
Other comprehensive income					
Depreciation transfer on land and buildings, net of tax	17	-	(140)	140	-
Actuarial gain on pension plan	22	-	-	24,535	24,535
Deferred tax thereon	13	-	-	(2,420)	(2,420)
Dividends	5	-	-	(3,296)	(3,296)
Balance at 31 December 2013		6,399	6,477	68,604	81,480

The accompanying notes on pages 14 to 45 form part of these financial statements

LOTHIAN BUSES LIMITED (formerly Lothian Buses plc)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Consolidated Group 2013 £'000	2012 £'000
Cash flow from operating activities		
Profit from operations	12,623	9,632
Adjustments for:		
Depreciation and amortisation	8,175	8,215
Defined benefit pension cost	7,977	7,188
Benefit contributions	(7,390)	(7,760)
Changes in assets and liabilities:		
Decrease/(increase) in receivables and other financial assets	1,074	(1,646)
(Decrease)/increase in payables	(2,697)	2,980
(Increase)/decrease in inventories	(95)	160
(Decrease) in provisions	(278)	(307)
Cash flows from operations	19,389	18,462
Interest paid	(257)	(380)
Income tax paid	(2,582)	(1,495)
Net cash flows from operating activities	16,550	16,587
Cash flow from investing activities		
Purchase of property plant and equipment (Note 8)	(5,558)	(5,505)
Proceeds from disposal of property, plant and equipment	406	370
Interest received	202	148
Net cash flows from investing activities	(4,950)	(4,987)
Cash flow from financing activities		
Payments to hire purchase/finance lease creditors	(4,179)	(5,229)
Dividends paid	(6,592)	(3,296)
Net cash flows from financing activities	(10,771)	(8,525)
Net increase in cash and cash equivalents	829	3,075
Cash and cash equivalents at beginning of year	11,934	8,859
Cash and cash equivalents at end of year	12,763	11,934
Bank balances and cash	12,763	11,934

The accompanying notes on pages 14 to 45 form part of these financial statements

1. Statement of significant accounting policies

The consolidated financial statements of Lothian Buses Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and applicable financial instruments.

Adoption of new and revised standards

The Group has adopted the following new and amended IFRSs as of 1 January 2013.

- IFRS 7 (amendment), 'Disclosures – Offsetting Financial Assets and Financial Liabilities'. The amendment to IFRS 7 requires additional disclosures surrounding the offsetting of financial assets and financial liabilities including those that can be set off and presented on a net basis and those that cannot which are subject to a master netting arrangement.

- IFRS 10, 'Consolidated Financial Statements', The standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard provides extensive guidance on applying the principle of control, which then governs the consolidation of an entity. The standard sets out the accounting requirements for the preparation of consolidated financial statements, which are unchanged from those that are were required by the old version of IAS 27, 'Consolidated and Separate Financial Statements'. However IAS 27 has been amended to conform with IFRS 10, and now only applies to separate financial statements on application of IFRS 10. The Group has evaluated all its investments to establish whether control continues to exist for previously consolidated subsidiaries and whether any investments would fall to be a subsidiary applying the new requirements; the Group did not identify any change to the consolidation of subsidiaries.

- IFRS 12, 'Disclosures of Interests in Other Entities', The standard requires disclosure of information on the nature of, and risks associated with, interests in other entities; and the effects of those interests on the primary financial statements. The disclosures required relate to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard does not impact the primary statements, but introduces new disclosure requirements.

- IFRS 13, 'Fair Value Measurement'. This new standard sets out the principles to be applied when measuring fair value and related fair value disclosures. The new standard does not impact the fair value measurements, but only the disclosures.

- IAS 1 (amendment), 'Presentation of Items of Other Comprehensive Income'. The amendment requires items of other comprehensive income to be split between those that have the potential to be recycled to profit or loss and those that do not. As the Group presents its other comprehensive items on a gross basis, the tax on those items has also been split between those that have the potential to be recycled to profit or loss and those that do not. The impact of the amendment has resulted in a change in the presentation for other comprehensive income but not the items reflected within.

- IAS 16 (amendment), 'Property, Plant and Equipment'. The group undertook a review of other inventory to ensure that any servicing equipment that would fall to meet the definition of property, plant and equipment is appropriately classified. This amendment has not had a material effect on the Group.

- IAS 19 (revised), 'Employee Benefits'. The revised standard amends the recognition and presentation requirements for defined benefit schemes Return on plan assets are now recognised based on a rate of interest on a high quality corporate bond, which is consistent with the measurement for the defined benefit obligation. The net of the two amounts is reported within profit or loss as the net interest on defined benefit liability.

1. Statement of significant accounting policies (continued)

- IAS 36 (amendment), 'Recoverable Amount Disclosures for Non-financial Assets'. The amendment clarifies and adds disclosures surrounding the recoverable amount of an asset or cash-generating unit which is linked to disclosures required The amendment does not impact the primary statements, but only the disclosures. This amendment has not had a material effect on the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the consolidated Lothian Buses Limited's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- IFRS 9, 'Financial Instruments', had an effective date for accounting periods beginning on or after 1 January 2015. However, the standard since it was originally issued in November 2009, has undergone subsequent amendments, in October 2009, December 2011 and November 2013. The November 2013 amendment removed the effective date, which will be added once the standard has been finalised. Currently IFRS 9 outlines the recognition and measurement of financial assets, financial liabilities and the derecognition criteria for financial assets. Financial assets are to be measured either at amortised cost or fair value through profit and loss, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. A financial asset currently can only be measured at amortised cost if the Group has a business model to hold the asset to collect contractual cash flows and the cash flows arise on specific dates and are solely for payment of principal and interest on the principal outstanding. On adoption of the standard the Group will have to redetermine the classification of its financial assets specifically for available-for-sale and held-to-maturity financial assets. Most financial liabilities will continue to be carried at amortised cost, however, some financial liabilities will be required to be measured at fair value through profit and loss (for example derivatives) with changes in the liabilities' credit risk to be recognised in other comprehensive income. The derecognition principles of IAS 39, 'Financial Instrument: Recognition and Measurement', have been transferred to IFRS 9. There is unlikely to be an impact on the Group from this section of the standard when it is applied. The hedge accounting requirements issued in November 2013, have been liberalised from that allowed previously. The requirements will be based on whether an economic hedge is in existence, with less restriction to prove whether a relationship will be effective than current requirements. As the principles have been liberalised it will make it more difficult for entities to discontinue hedge accounting, rather the company will need to rebalance a hedging relation that is no longer effective rather than discontinue the relation.

  The Group has not as yet evaluated the full extent of the impact that the standard will have on its financial statements.

- IAS 19 (amendment), 'Defined Benefit Plans - Employee Contributions', is effective for periods beginning on or after 1 July 2014. The amendment simplifies the accounting treatment of contributions received from employees or third parties for defined benefit plans. The accounting treatment depends on whether the contributions are independent of the number of years of employee service. If the contributions are independent for example, employee contributions that are calculated according to a fixed percentage of salary, the contributions may be recognised as a reduction in the service cost in the period in which the related service is rendered. If the contribution is linked to years of service the contribution is recognised as part of the gross benefit attributed to the employee. The Group has not evaluated the full extent of the impact that the amendment will have on its financial statements.

- IAS 32 (amendment), 'Offsetting Financial Assets and Financial Liabilities'. The IAS 32 amendment clarifies the existing offsetting requirements and therefore is unlikely to have any impact on the group. The amendment is effective for annual periods beginning on or after 1 January 2014.

1. Statement of significant accounting policies (continued)

Basis of preparation

The preparation of financial statements in conformity with IFRS as adopted by the European Union 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 following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Going concern

Directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for the period of at least one year from the date that the financial statements are approved.

b. Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

1. Statement of significant accounting policies (continued)

c. Current and deferred Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

d. Property, plant and equipment

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

Heritable property is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation on buildings and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying value.

The directors believe the carrying amount as at 31 December 2013 to be in line with the fair value of the properties.

Revaluations

Heritable properties were revalued on 1 January 2010 and 31 December 2011 by Graham and Sibbald. The fair values of the properties have been estimated using an active market.

Heritable property is measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

1. Statement of significant accounting policies (continued)

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Plant and equipment

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use. Improvements to non-heritable properties are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
Heritable property	50 years
Non-heritable property	50 years
Passenger vehicles	10 – 15 years
Other vehicles	4 years
Plant, machinery and other equipment	3 – 10 years

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

e. Leases

Activities as a Lessee

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

1. Statement of significant accounting policies (continued)

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Activities as a Lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

f. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

g. Inventories

Inventories, which includes vehicle spares and fuel, are stated at cost after making due allowance for obsolete and slow-moving items.

h. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

i. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of transport services in the United Kingdom. Revenue is recognised upon the delivery of the service to the customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of value added tax (VAT).

The group receives a Bus Services Operating Grant (BSOG) on mileage operated on local registered bus services to reimburse an element of the cost of operating such services.

1. Statement of significant accounting policies (continued)

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the initial purchase price in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

j. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

k. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised at cost.

l. Share capital

Ordinary shares are classified as equity.

m. Employee benefits

The group contributes to a variety of money purchase schemes for employees and to a defined benefits scheme operated on behalf of local council employees.

Most employees of Lothian Buses Limited participate in the Lothian Buses Pension Fund, which is part of the Local Government Pension Scheme administered by the City of Edinburgh Council. The Scheme is of the defined benefit type with the assets held in external funds managed by professional investment managers.

Contributions to the schemes are charged to the Statement of Comprehensive Income as they arise. The assets of the scheme are held separately from those of the company in independently administered funds. The group has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

1. Statement of significant accounting policies (continued)

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

With effect from 1 January 2008 the scheme was closed to new employees who were offered the opportunity to join The Lothian Buses Group Personal Pension Plan.

Defined contribution scheme

From 1 January 2008 new employees were eligible to join The Lothian Buses Group Personal Pension Plan which is managed by Scottish Widows.

Employees of Edinburgh Bus Tours Limited participate in a Pension Fund, which is managed by Scottish Widows.

Both schemes are of the defined contribution type and contributions are charged to the statement of comprehensive income as they arise.

Bonus plans

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

n. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates – impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

1. Statement of significant accounting policies (continued)

o. Financial instruments

Classification

The group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

ii. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

p. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. Profit for the year

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Profit for the year before income tax expense has been determined after:				
Auditor's remuneration:				
Audit services	26	24	23	21
Non-audit services	8	8	7	7
Depreciation and other amounts written off tangible fixed assets:				
Owned	6,953	6,536	6,678	6,280
Assets held under hp/finance leases	1,222	1,679	1,222	1,679
(Loss) on disposal of property, plant and equipment	(329)	(392)	(325)	(401)

3. Finance income

	Consolidated Group		Parent Entity	
		Restated		Restated
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Investment income	164	174	161	174
Pension income (note 22)	-	382	-	382
	164	556	161	556

4. Finance costs

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Finance lease charges	257	380	257	380
Pension interest costs (note 22)	548	-	548	-
	805	380	805	380

5. Dividends

	2013 £'000	2012 £'000
Ordinary Share Capital		
Interim: 51.51p per share declared; (2012 51.51p declared)	3,296	3,296
	3,296	3,296

The interim dividend for 2013 was approved on 4 December 2013 and was paid on 6 December 2013.

6. Income tax expense

	Consolidated Group 2013 £'000	Consolidated Group 2012 £'000	Parent Entity 2013 £'000	Parent Entity 2012 £'000
Current tax:				
Corporation tax expense	3,781	2,290	3,254	1,897
Deferred tax	(709)	(807)	(668)	(773)
Tax on profits for the year	3,072	1,483	2,586	1,124

The effective tax rate for the year ended 31 December 2013 is calculated at 23.25% (2012: 24.5%) of the estimated assessable profit for the year.

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

	Consolidated Group 2013 £'000	Consolidated Group 2012 £'000	Parent Entity 2013 £'000	Parent Entity 2012 £'000
Profit for the year before taxation	11,653	9,670	15,547	8,165
Profit for the year at the effective rate of corporation tax of 23.25% (2012 – 24.5%)	2,708	2,369	3,614	2,000
Effects of:				
Expenses not deductible for tax purposes	418	79	418	79
Income not taxable for tax purposes	-	(297)	(1,395)	(297)
Income not taxable for tax purposes – fixed assets	578	35	578	35
Adjust deferred tax to average rate of 23.25% (2012 – 24.5%)	(680)	(685)	(677)	(678)
Temporary differences not recognised in tax computation	47	(14)	47	(14)
Other tax adjustments, reliefs, transfers	1	(4)	1	(1)
Tax charge for the period	3,072	1,483	2,586	1,124

7. Employee benefits expense

The average number of persons employed by the group (including directors) during the year was 2,091 (2012: 2,019).

The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Wages and salaries	60,943	57,412	59,407	56,083
Social security costs	5,060	4,676	4,901	4,551
Other pension costs	7,579	7,626	7,560	7,610
	73,582	69,714	71,868	68,244

8. Property, plant and equipment

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2012	16,340	112,322	297	4,712	133,671
Additions	3,305	760	58	1,382	5,505
Disposals	-	(3,301)	(37)	(1,341)	(4,679)
At 31 December 2012	19,645	109,781	318	4,753	134,497
Accumulated depreciation					
At 1 January 2012	(240)	(39,521)	(221)	(2,418)	(42,400)
Charge for year	(120)	(7,388)	(65)	(642)	(8,215)
Eliminated on disposal	-	2,554	37	1,325	3,916
At 31 December 2012	(360)	(44,355)	(249)	(1,735)	(46,699)
Net book value					
At 31 December 2012	19,285	65,426	69	3,018	87,798
Net book value 31 December 2011	16,100	72,801	76	2,294	91,271

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2013	19,645	109,781	318	4,753	134,497
Additions	7	4,174	99	2,058	6,338
Disposals	-	(4,740)	(20)	-	(4,760)
At 31 December 2013	19,652	109,215	397	6,811	136,075
Accumulated depreciation					
At 1 January 2013	(360)	(44,355)	(249)	(1,735)	(46,699)
Charge for year	(140)	(7,059)	(50)	(926)	(8,175)
Eliminated on disposal	-	4,006	20	-	4,026
At 31 December 2013	(500)	(47,408)	(279)	(2,661)	(50,848)
Net book value					
At 31 December 2013	19,152	61,807	118	4,150	85,227
Net book value					
At 31 December 2012	19,285	65,426	69	3,018	87,798

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company					
Cost or valuation					
At 1 January 2012	16,340	110,335	297	4,712	131,684
Additions	3,305	760	58	1,382	5,505
Disposals	-	(3,649)	(37)	(1,341)	(5,027)
At 31 December 2012	19,645	107,446	318	4,753	132,162
Accumulated depreciation					
At 1 January 2012	(240)	(38,640)	(221)	(2,418)	(41,519)
Charge for year	(120)	(7,132)	(65)	(642)	(7,959)
Eliminated on disposal	-	2,849	37	1,325	4,211
At 31 December 2012	(360)	(42,923)	(249)	(1,735)	(45,267)
Net book value At 31 December 2012	19,285	64,523	69	3,018	86,895
Net book value At 31 December 2011	16,100	71,695	76	2,294	90,165

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company					
Cost or valuation					
At 1 January 2013	19,645	107,446	318	4,753	132,162
Additions	7	4,174	99	2,058	6,338
Disposals	-	(4,854)	(20)	-	(4,874)
At 31 December 2013	19,652	106,766	397	6,811	133,626
Accumulated depreciation					
At 1 January 2013	(360)	(42,923)	(249)	(1,735)	(45,267)
Charge for year	(140)	(6,784)	(50)	(926)	(7,900)
Eliminated on disposal	-	4,105	20	-	4,125
At 31 December 2013	(500)	(45,602)	(279)	(2,661)	(49,042)
Net book value At 31 December 2013	19,152	61,164	118	4,150	84,584
Net book value At 31 December 2012	19,285	64,523	69	3,018	86,895

The net book value of tangible assets includes an amount of £13,447,000 (2012: £21,120,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £1,222,000 (2012: £1,679,000) has been charged during the year in respect of these assets.

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,172,000 at the year end. The group's heritable properties were last valued on 31 December 2011 by an independent valuer, Graham and Sibbald Chartered Surveyors. Valuations were made on the basis of recent market transactions on an arms length basis. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'revaluation reserve' in shareholder's equity.

9. Inventories

	Consolidated Group		Parent Entity	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Raw materials (fuel)	426	219	426	219
Finished goods	182	294	182	294
	608	513	608	513

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade receivables	1,036	1,610	1,016	1,610
Other debtors	191	115	191	115
Prepayments and accrued income	765	847	765	828
VAT recoverable	562	1,093	562	1,093
	2,554	3,665	2,534	3,646

Trade receivables aged as:	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Less than three months	1,036	1,610	1,016	1,610
Three to six months	-	-	-	-
	1,036	1,610	1,016	1,610

The group and company consider the fair value of receivables to be in line with carrying values.

11. Current liabilities

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade and other payables	2,046	4,198	1,958	4,130
Amounts due to subsidiary companies	-	-	743	4,874
Other creditors	3,733	3,604	3,682	3,561
Current tax payable	2,519	1,320	2,256	1,122
Taxation and social security	1,688	1,919	1,656	1,882
Obligations under hp/finance leases	2,622	3,969	2,622	3,969
Accruals and deferred income	4,586	5,027	4,582	5,022
Dividends	-	3,296	-	3,296
	17,194	23,333	17,499	27,856

12. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:	**Consolidated Group**		**Parent Entity**	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
No later than one year	2,622	3,969	2,622	3,969
Later than one year but no later than five years	3,135	5,187	3,135	5,187
Later than five years	-	-	-	-
	5,757	9,156	5,757	9,156

Analysed as:	**Consolidated Group**		**Parent Entity**	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Current	2,622	3,969	2,622	3,969
Non-current	3,135	5,187	3,135	5,187

13. Provisions

	Consolidated Group		Parent Entity	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax liabilities				
At beginning of the year	7,836	8,643	7,772	8,545
Charge for the year to profit or loss	(709)	(807)	(668)	(773)
Charge for the year to other comprehensive income	2,420	-	2,420	-
At end of the year	9,547	7,836	9,524	7,772
Claims				
At beginning of the year	1,598	1,905	1,563	1,820
Charge for the year	650	650	653	625
Paid during the year	(928)	(957)	(913)	(882)
At end of the year	1,320	1,598	1,303	1,563

There were no deferred tax assets in the year.

The elements of deferred tax are as follows:	Consolidated Group		Parent Entity	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Accelerated capital allowances	7,290	8,643	7,267	8,545
Short term timing differences	(163)	(807)	(163)	(773)
Pension scheme asset	2,420	-	2,420	-
	9,547	7,836	9,524	7,772
Included in the accounts as follows:				
- Provision for liabilities and charges	9,547	7,836	9,524	7,772
	9,547	7,836	9,524	7,772

Claims

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

14. Accruals and deferred income

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Accrued expenses	1,036	980	1,032	975
Income received in advance	3,550	4,047	3,550	4,047
	4,586	5,027	4,582	5,022

15. Cash and cash equivalents

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Cash at bank and in hand	12,763	11,934	11,896	11,105

16. Share capital

	Consolidated Group		Parent Entity	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Authorised				
Ordinary shares of £1 each	7,000	7,000	7,000	7,000
	7,000	7,000	7,000	7,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	6,399	6,399	6,399	6,399
	6,399	6,399	6,399	6,399

17. Reserves

Group	Revaluation Reserve £'000	Restated Retained Earnings £'000
At 1 January 2012	**6,757**	**56,190**
Depreciation transfer	(140)	140
Profit for the year	-	7,933
Actuarial loss on pension plan	-	(19,903)
Dividends	-	(3,296)
At 31 December 2012	**6,617**	**41,064**
Depreciation transfer	(140)	140
Profit for the year	-	8,581
Actuarial gain on pension plan	-	24,535
Deferred tax thereon	-	(2,420)
Dividends	-	(3,296)
At 31 December 2013	**6,477**	**68,604**

18. Commitments

Commitments under non-cancellable operating leases are as follows:

	Consolidated Group		Parent Entity	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Operating leases which expire:				
- Not later than one year	196	292	196	292
- Later than one year and not later than five years	640	949	640	949
- Later than five years	351	507	351	507
	1,187	1,748	1,187	1,748

Total operating lease payments in the year to 31 December 2013 recognised through the Statement of Comprehensive Income and Expenditure were £296,788 (2012: £317,015).

In April 2013, the group entered into an agreement to purchase 20 hybrid vehicles for £5,500,000. These are expected to be delivered in May 2014.

19. Principal subsidiaries

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Edinburgh Bus and Coach Ltd	UK	Transport	100%
Lothian Region Transport Ltd	UK	Transport	100%
Majestic Tours Edinburgh Ltd	UK	Transport	100%
Edinburgh City Transport Ltd	UK	Transport	100%
City Sightseeing Edinburgh Ltd	UK	Transport	100%
The Overground Ltd	UK	Transport	100%
Lothian Country Buses Ltd	UK	Transport	100%
Edinburgh Bus Tours Ltd	UK	Transport	100%
Leith Walk Property Ltd	UK	Transport	100%
Mactours Ltd	UK	Transport	100%
Lothian Trams Ltd	UK	Transport	100%
Lothian Transport Ltd	UK	Transport	100%
Trams for Edinburgh Ltd	UK	Transport	100%
Edinburgh Buses Ltd	UK	Transport	100%
Edinburgh Bus and Tram Ltd	UK	Transport	100%

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

20. Related party transactions

Group
The group is controlled by the City of Edinburgh Council (incorporated in the UK), which's owns 91.01% of the company's shares and it is also the ultimate parent. The following transactions were entered into with related parties:

(a) Sale of goods and services

	2013 £'000	2012 £'000
City of Edinburgh Council (ultimate parent)	2,660	2,131
Midlothian Council	160	101
East Lothian Council	143	101
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	273	-
	3,236	2,333

(b) Purchase of goods and services

	2013 £'000	2012 £'000
City of Edinburgh Council (ultimate parent)	1,271	1,331
Midlothian Council	6	6
Dundas and Wilson CS LLP	414	27
	1,691	1,364

20. Related party transactions (continued)

The above related party transactions are for the receipt of route support and management services and include payments for rent and rates etc. One of the non-executive directors of Lothian Buses Limited is also a partner in Dundas and Wilson CS LLP. All transactions are conducted on an arm's length basis.

(c) Year-end balances arising from sales/purchases of goods/services

	2013 £'000	2012 £'000
Receivables from related parties		
City of Edinburgh Council (ultimate parent)	195	461
Midlothian Council	11	10
East Lothian Council	-	10
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	137	-
Payables to related parties		
City of Edinburgh Council (ultimate parent)	-	81
Dundas and Wilson CS LLP	26	-

21. Controlling interest

By virtue of its controlling interest in the company's equity capital, the City of Edinburgh Council is the ultimate controlling party.

On 28 October 2013, the City of Edinburgh Council entered into an agreement to transfer its shareholding in the company to Transport for Edinburgh Limited, itself a 100% subsidiary of the City of Edinburgh Council, in a share for share exchange.

Group accounts are available to the public from the following address:

Director of Finance
City of Edinburgh Council
Waverley Court
Edinburgh
EH8 8BG

22. Retirement benefits obligation

Some employees of the group are members of the Lothian Buses Pension Fund, part of the Local Government Pension Scheme, administered by the City of Edinburgh Council. This is a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2013 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

The group's share of the fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, were comprised as follows:

	%	Value at 2013 £'000	%	Value at 2012 £'000
Equity Securities:				
Consumer	18%	61,252	18%	52,468
Manufacturing	12%	39,776	11%	31,281
Energy and Utilities	4%	14,204	4%	12,226
Financial Institutions	12%	40,694	12%	33,453
Health and Care	6%	22,477	7%	19,209
Information Technology	11%	38,816	10%	28,158
Other	2%	6,087	2%	5,292
Private Equity:				
All	3%	9,175	3%	8,157
Real Estate:				
Overseas Property	1%	2,868	1%	2,707
Investment Funds and Unit Trusts:				
Equities	4%	12,721	5%	13,096
Bonds	15%	50,144	16%	45,567
Other	9%	29,068	8%	23,072
Cash and Cash Equivalents:				
All	3%	10,688	3%	7,179
	100%	337,970	100%	281,865

The amounts recognised in the statement of financial position are determined as follows:	2013 £'000	Restated 2012 £'000
Fair value of plan assets	337,970	281,865
Present value of scheme liabilities	(326,446)	(293,741)
Asset/(deficit) in the scheme – pension liability	11,524	(11,876)
Net pension asset/(liability)	11,524	(11,876)

22. Retirement benefits obligation (continued)

The movement in the defined benefit obligation over the year is as follows:

	2013 £'000	Restated 2012 £'000
At 1 January	293,741	247,082
Current service cost	7,977	7,188
Interest cost on obligation	13,229	12,840
Plan participants contributions	2,228	2,277
Unfunded benefits paid	(289)	(280)
Benefits paid	(9,441)	(9,496)
Actuarial losses arising from changes in financial assumptions	19,289	29,883
Other actuarial (gains)/losses	(288)	4,247
At 31 December	326,446	293,741

The movement in the fair value of plan assets of the year is as follows

	2013 £'000	Restated 2012 £'000
At 1 January	281,865	254,155
Benefits paid	(9,441)	(9,496)
Interest income on plan assets	12,681	13,222
Contributions by employer	7,101	7,480
Contributions by member	2,228	2,277
Contributions in respect of unfunded benefits	289	280
Unfunded benefits paid	(289)	(280)
Return on assets excluding amounts included in net interest	43,536	14,227
At 31 December	337,970	281,865

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2013 £'000	Restated 2012 £'000
Interest received on pension scheme assets	(12,681)	(13,222)
Interest cost on pension scheme liabilities	13,229	12,840
Finance cost /(income)	548	(382)
Current service cost	7,977	7,188
	8,525	6,806

22. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2013 £'000	Restated 2012 £'000
Actuarial (losses) in the defined benefit obligation	(19,001)	(34,130)
Actuarial gains in the fair value of defined benefit assets	43,536	14,227
	24,535	(19,903)

The principal actuarial assumptions used in this valuation were:

	2013	2012
Inflation/pension increase rate	2.7%	2.3%
Salary increase rate	4.5%	4.1%
Expected return on assets	4.5%	4.5%
Discount rate	4.6%	4.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Change in assumption	Approximate % increase to employer liability	Approximate increase to employer liability (£'000)
0.5% decrease in real discount rate	10%	34,037
1 year increase in life expectancy	3%	9,793
0.5% increase in the salary increase rate	3%	9,843
0.5% increase in the pension increase rate	7%	23,826

Mortality rates:

Baseline life expectancy is based in member specific Vita Curves that are tailored to each individual within the Fund. Future longevity improvements are based on those inherent in the PFA 92 and PMA 92 tables using year of birth projections. Based on these assumptions, the average future life expectancy at age 65 are summarised below:

	Male	Female
Current pensioners	18.4	21.6
Future pensioners	21.7	24.8

Expected contributions to post employment benefit plans for the year ended 31 December 2014 are £6,799,000.

23. Operating leases

Operating lease arrangements, where Lothian Buses Limited acts as the Lessor, are for properties which are leased for periods up to fifteen years. Property lease arrangements generally contain clauses for periodic reassessment of rentals payable, typically each three or five years. All lease arrangements are considered as operating leases.

Gross operating lease receipts:	**Consolidated Group**		**Parent Entity**	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	65	70	65	70
Later than one year but no later than five years	268	280	268	280
Later than five years	546	558	546	558
	879	908	879	908

The total annual operating lease income received in the year ended 31 December 2013 was £68,075 (2012: £41,000)

24. Financial risk management

The group's financial instruments consist mainly of deposits with banks, government bonds, short term investments, accounts receivable and payable, loans to and from associated entities and derivatives.

The main purpose of non-derivative financial instruments is in respect to the group's trading activities and to raise finance for group operations.

Derivative instruments are used by the Group for hedging purposes. Such instruments used by the Group are commodity swap agreements. The Group does not speculate in the trading of derivative instruments.

The totals for each category of financial instruments, measured in accordance with IAS 39 as detailed in the accounting policies to these financial statements, are as follows:

	Note	**Consolidated Group**		**Parent Entity**	
		2013	**2012**	**2013**	**2012**
		£'000	**£'000**	**£'000**	**£'000**
Financial assets					
Cash and cash equivalents	15	12,763	11,934	11,896	11,105
Trade and other receivables	10	2,554	3,665	2,534	3,646
Total financial assets		15,317	15,599	14,430	14,751
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other current payables	11	17,194	23,333	17,499	27,856
Non-current hire purchase liabilities	12	3,135	5,187	3,135	5,187
Total financial liabilities		20,329	28,520	20,634	33,043

24. Financial risk management (continued)

Financial risk management

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. There have been no changes to the Group's exposures to risk or the methods used to measure and manage these risks during the year. The Group's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Treasury risk management

Senior management meet on a regular basis to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Financial risk exposures and management

The main risks that the group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the group.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and notes to the financial statements. Credit risk is managed on a group basis and reviewed regularly by senior management. It arises from exposures to customers and amounts owed by group undertakings.

Senior management monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only banks and institutions with an acceptable credit rating are utilised;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing;
- customers that do not meet the group's strict credit policies may only purchase in cash or using recognised credit cards.

The credit risk for all counter parties included in trade and other receivables at 31 December 2013 is not rated.

b. Liquidity risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

b. Liquidity risk (continued)

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

Financial liability and financial asset maturity analysis

Consolidated Group	**Note**	**Within 1 Year 2013 £'000**	**1 to 5 Years 2013 £'000**	**Total 2013 £'000**
Financial liabilities due for payment				
Trade and other payables	11,12	(17,194)	(3,135)	(20,329)
Total expected outflows		(17,194)	(3,135)	(20,329)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	12,763	-	12,763
Trade, term and loan receivables	10	2,554	-	2,554
Total anticipated inflows		15,317	-	15,317
Net (outflow) of financial instruments		(1,877)	(3,135)	(5,012)

Financial liability and financial asset maturity analysis

Consolidated Group	**Note**	**Within 1 Year 2012 £'000**	**1 to 5 Years 2012 £'000**	**Total 2012 £'000**
Financial liabilities due for payment				
Trade and other payables	11,12	(23,333)	(5,187)	(28,520)
Total expected outflows		(23,333)	(5,187)	(28,520)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	11,934	-	11,934
Trade, term and loan receivables	10	3,665	-	3,665
Total anticipated inflows		15,599	-	15,599
Net (outflow) of financial instruments		(7,734)	(5,187)	(12,921)

b. Liquidity risk (continued)

Parent Entity	Note	Within 1 Year 2013 £'000	1 to 5 Years 2013 £'000	Total 2013 £'000
Financial liabilities due for payment				
Trade and other payables	11,12	(17,499)	(3,135)	(20,634)
Total expected outflows		(17,499)	(3,135)	(20,634)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	11,896	-	11,896
Trade, term and loan receivables	10	2,534	-	2,534
Total anticipated inflows		14,430	-	14,430
Net (outflow) of financial instruments		(3,069)	(3,135)	(6,204)

b. Liquidity risk (continued)

Parent Entity	**Note**	**Within 1 Year 2012 £'000**	**1 to 5 Years 2012 £'000**	**Total 2012 £'000**
Financial liabilities due for payment				
Trade and other payables	11,12	(27,856)	(5,187)	(33,043)
Total expected outflows		(27,856)	(5,187)	(33,043)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	11,105	-	11,105
Trade, term and loan receivables	10	3,646	-	3,646
Total anticipated inflows		14,751	-	14,751
Net (outflow) of financial instruments		(13,105)	(5,187)	(18,292)

c. Market risk

- Price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2013 consume approximately 21.7m litres of diesel fuel per annum. As a result, the group's profit is exposed to movements in the underlying price of fuel.

The group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The group has a policy of managing the volatility in its fuel costs by maintaining an advance contracting strategy to fix the cost of fuel through a fixed price contract. These contracts are commodity swap agreements.

At the settlement date of the contract, where the price of fuel is below the agreed contract price, the group are liable for the difference in price for the volume of the commodity agreed in the contract. Where the value of the commodity is above the price agreed, the group have a financial asset based on the difference in price over the volume of the contract. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the group's profit is exposed as movements in the contract value are taken through the Statement of Comprehensive Income. A 4.29% increase in the underlying price of fuel decreases the net overall value of the fixed contracts by 99%. *Likewise, if the price of fuel was to fall below the underlying price of the contracts then this would result* in an overall net liability.

However, the impact through the group's Statement of Comprehensive Income would be offset by the impact of price fluctuations on the total costs incurred in purchasing the commodity. Any gain or loss on the fuel price contract should partly offset the corresponding impact of price increases / decreases of fuel.

25. Director's Remuneration

	Consolidated Group		Parent Entity	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Aggregate emoluments and benefits	948	925	948	925
Aggregate pension contributions	126	123	126	123
Highest paid director's emoluments and benefits	269	265	269	265
Highest paid director's pension contributions	36	36	36	36

Four directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £20,562 per annum (2012: £17,258) and an accrued lump sum of £18,263 (2012: £17,993) at the end of the year.

Other related party transactions are disclosed in note 20.

26. Prior year adjustment

Due to the change in accounting treatment required under IAS19 'Employee Benefits' (2011), £254,000 of finance income recognised through the consolidated statement of profit or loss in 2012 has been reallocated to other comprehensive income.