Lothian Buses

Lothian Buses Limited

Annual Report & Financial Statements
For the year ended 31 December 2015

Company Information

Board of Directors:

Chairman

Anthony Depledge	Resigned on 26 June 2015
James McFarlane	Appointed on 1 July 2015

Executive Directors

William Campbell	Resigned on 31 March 2016
Ian Craig	Resigned on 31 January 2016
William Devlin	
Norman Strachan	

Senior Independent Director

John Martin	Resigned on 1 July 2015
Donald MacLeod	Previously non-executive director

Non-Executive Directors

Ian Bieniowski	Appointed on 9 July 2015
Steven Cassidy	
Susan Deacon	Appointed on 1 July 2015
Robert Fraser	Appointed on 21 January 2015
	Resigned on 9 July 2015
Marjory Roger	Resigned on 1 July 2015
Anthony Rose	Appointed on 1 July 2015
Charlene Wallace	Appointed on 1 July 2015
Mark Yexley	Appointed on 1 July 2015

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

Strategic report

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. 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.

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.

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, revenue has increased by 5.3% over the previous year while the profit from operations margin for the year is 6.8%. The Statement of Financial Position shows the group's financial strength at the year end with net reserves of £101m.

Capital expenditure in the year was £7.6m. The main item of expenditure being the addition of 32 new public service vehicles to the fleet.

The group has faced significant operating and cost pressures. We anticipate that these cost pressures will remain in 2016 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 85.85p per share was approved on 17 December 2015 and was paid on 23 December 2015.

	2015 £'000	2014 £'000
Revenue	**142,453**	135,260
Profit before income tax expense	**8,958**	10,143
Provision for income tax expense	**(2,525)**	(1,898)
Net profit for the year	**6,433**	8,245
Interim dividend	**5,494**	5,494

The group uses a wide range of key performance indicators (KPIs) across the business to monitor progress in achieving its objectives. The most important KPIs are:

	2015 (53 weeks)	2014 (52 weeks)	Change
Operating profit margin – operating profit relative to revenue earned	6.8%	7.1%	-0.3%
Patronage growth – year on year movement in passenger journeys	121.1m	119.0m	+2.1m
Operational safety – blameworthy incidents per 100,000 miles	4.0	4.0	-
Operational reliability – scheduled mileage not operated (lost mileage)	0.12%	0.11%	+0.01%
Engineering MOT pass rate – 1st time pass rate	100%	100%	-
Drivers staff turnover – leavers excluding retirement and conduct	3.8%	2.9%	+0.9%
Customer satisfaction – complaints per 100,000 passenger journeys	5.9	4.8	+1.1

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 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. Training is an essential part of employee development and to ensure best practice.

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

2015 has been another successful year at Lothian Buses in both environmental improvements and community engagement. We remain committed to continuing on the success of previous years in both vehicle investment and internal action to improve our environmental performance as well as engaging with and supporting the local community. Corporate Social Responsibility remains a vital role in our business.

This year, with support from the Scottish Green Bus Fund, twenty Volvo Double Deck B5LH Euro 6 vehicles joined the fleet on service 34. These buses boast the latest emission technology and support us with our goal to meet the Scottish Government's targets. Due to continued investment, 66% of the 700-strong fleet is at Euro 5 standard or above.

As part of our environmental commitment, an environmental brand was created. The brand not only represents a continued investment in the fleet to bring low carbon buses to the roads of Edinburgh, but also acknowledges a complete environmentally driven understanding of our entire operation. With support from the brand we began staff engagement and reduction projects in recycling, energy and water efficiency and staff travel. Due to this, we have seen an increase in our recycling rate to 94%.

Community engagement is still very much a focus and we announced our Charity of the Year, Fresh Start, in April. Fresh Start is an Edinburgh based charity that helps people who have been homeless to get established in their new homes. They provide a range of services including starter packs and hit squads to provide the practical and social support to help people resettle successfully. This year, our staff have regularly donated items to support those who have been homeless to get established in their new home.

We again ran our successful Doors Open Day event in September. This event attracted almost 4,000 people to Central Depot and included numerous attractions for all ages. We also invited the public to bring items for Fresh Start which was very well supported.

This year, a partnership with Police Scotland was formed as part of a wider community safety and crime prevention drive across the city. This partnership is about ensuring that passengers continue to feel as safe as possible as they wait for their bus and when they travel.

Lothian Buses CSR strategy is continually developing and we look forward to building on the work next year.

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

Norman Strachan

Norman Strachan
Finance Director and Company Secretary

Date: 14 April 2016

Directors' report

Directors

The directors are as set out at the start of this report.

In January 2015, the four executive directors were given notice (one year's notice for Ian Craig, Chief Executive and two years notice for the remaining three directors - William Campbell, William Devlin and Norman Strachan). Approval to these notices was given by the principal shareholder.

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 as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 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.

The Directors' Report does not contain information regarding the employees of the group or the future prospects of the group as these are disclosed within the Strategic Report.

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, 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:

Norman Strachan

Norman Strachan
Finance Director and Company Secretary

Date: 14 April 2016

Independent Auditor's Report

to the Members of Lothian Buses Limited

For the year ended 31 December 2015

We have audited the financial statements of Lothian Buses Limited for the year ended 31 December 2015 which comprise the group and parent company Statement of Profit or Loss and Other 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 IFRSs 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 4, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 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;

> the parent company's financial statements have been properly prepared in accordance with IFRSs and as applied in accordance with the provisions of the Companies Act 2006, 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 Strategic Report and 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 company, or returns adequate for our audit have not been received from branches not visited by us; or

> the financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

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: 14 April 2016

Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

		Consolidated Group		Parent Entity	
	Note	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Continuing operations					
Revenue	1i	**142,453**	135,260	**136,983**	130,259
Gross profit		**142,453**	135,260	**136,983**	130,259
Administrative expenses		**(132,792)**	(125,647)	**(129,559)**	(122,403)
Profit from operations	2	**9,661**	9,613	**7,424**	7,856
(Loss)/gain on disposal of property, plant and equipment		**(163)**	91	**(163)**	91
Finance income	3	**82**	639	**82**	638
Finance costs	4	**(622)**	(200)	**(622)**	(200)
Profit before income tax expense	2	**8,958**	10,143	**6,721**	8,385
Income tax expense	6	**(2,525)**	(1,898)	**(2,073)**	(1,520)
Net profit for the year		**6,433**	8,245	**4,648**	6,865
Attributable to:					
Equity holders		**6,433**	8,245	**4,648**	6,865
Other comprehensive income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	26	**(3)**	(6,197)	**(3)**	(6,197)
Deferred tax charge thereon	14	**(60)**	1,300	**(60)**	1,300
Those that are not recyclable net of tax:					
Actuarial gain/(loss) on post employment benefit obligations	22	**31,943**	(21,578)	**31,943**	(21,578)
Deferred tax charge thereon	14	**(5,687)**	4,519	**(5,687)**	4,519
Revaluation gain on land and buildings	17	**5,463**	-	**5,463**	-
Deferred tax charge thereon	14	-	-	**-**	-
Total comprehensive income for the year		**38,089**	(13,711)	**36,304**	(15,091)
Attributable to:					
Equity holders		**38,089**	(13,711)	**36,304**	(15,091)

The accompanying notes on pages 11 to 44 form part of these financial statements

Consolidated and Company Statement of Financial Position

As At 31 December 2015

		Consolidated Group		Parent Entity	
	Note	As at 31 December 2015 £'000	As at 31 December 2014 £'000	As at 31 December 2015 £'000	As at 31 December 2014 £'000
Non-current assets					
Property, plant and equipment	8	**94,861**	91,230	**94,111**	90,680
Retirement benefit asset	22	**17,936**	-	**17,936**	-
Total non-current assets		**112,797**	91,230	**112,047**	90,680
Current assets					
Inventories	9	**614**	622	**614**	622
Trade and other receivables	10	**3,523**	4,193	**3,498**	4,171
Cash and cash equivalents	15	**9,135**	5,272	**8,265**	4,312
Total current assets		**13,272**	10,087	**12,377**	9,105
Total assets		**126,069**	101,317	**124,424**	99,785
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	**11,800**	6,337	**11,800**	6,337
Hedging reserve	17	**(4,960)**	(4,897)	**(4,960)**	(4,897)
Retained earnings	17	**81,631**	54,436	**76,671**	51,261
		94,870	62,275	**89,910**	59,100

		Consolidated Group		Parent Entity	
	Note	As at 31 December 2015 £'000	As at 31 December 2014 £'000	As at 31 December 2015 £'000	As at 31 December 2014 £'000
Liabilities					
Non-current liabilities					
Finance lease obligations	12	**160**	676	**160**	676
Derivative financial liabilities	13	**1,624**	2,365	**1,624**	2,365
Deferred tax	1,14	**9,072**	3,467	**9,030**	3,444
Retirement benefit obligations	22	**-**	10,497	**-**	10,497
Provisions	14	**910**	1,058	**893**	1,033
Total non-current liabilities		**11,766**	18,063	**11,707**	18,015
Current liabilities					
Trade and other payables	11	**3,062**	2,734	**2,968**	2,696
Current tax payable	11	**1,439**	1,228	**1,194**	1,027
Finance lease obligations	12	**513**	2,459	**513**	2,459
Derivative financial liabilities	13	**4,576**	3,832	**4,576**	3,832
Other financial liabilities	11	**9,843**	10,726	**13,556**	12,656
Total current liabilities		**19,433**	20,979	**22,807**	22,670
Total liabilities		**31,199**	39,042	**34,514**	40,685
Total equity and liabilities		**126,069**	101,317	**124,424**	99,785

The financial statements were authorised for issue by the Board of Directors on 14 April 2016 and were signed on its behalf by:

James McFarlane

James McFarlane,
Chairman

Registered number SC096849

The accompanying notes on pages 11 to 44 form part of these financial statements

Consolidated Statement of Changes in Equity

As at 31 December 2015

	Note	Share Capital £'000	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2014		6,399	6,477	-	68,604	81,480
Comprehensive income						
Profit for the year		-	-	-	8,245	8,245
Other comprehensive income						
Depreciation transfer on land and buildings, net of tax	17	-	(140)	-	140	-
Actuarial loss on pension plan	22	-	-	-	(21,578)	(21,578)
Deferred tax thereon	14	-	-	-	4,519	4,519
Net fair value movements on cash flow hedges	26	-	-	(6,197)	-	(6,197)
Deferred tax thereon	14	-	-	1,300	-	1,300
Dividends	5	-	-	-	(5,494)	(5,494)
Balance at 31 December 2014		6,399	6,337	(4,897)	54,436	62,275

	Note	Share Capital £'000	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2015		6,399	6,337	(4,897)	54,436	62,275
Comprehensive income						
Profit for the year		-	-	-	6,433	6,433
Other comprehensive income						
Revaluation gain on land and buildings	17	-	5,463	-	-	5,463
Deferred tax thereon	14	-	-	-	-	-
Actuarial gain on pension plan	22	-	-	-	31,943	31,943
Deferred tax thereon	14	-	-	-	(5,687)	(5,687)
Net fair value movements on cash flow hedges	26	-	-	(3)	-	(3)
Deferred tax thereon	14	-	-	(60)	-	(60)
Dividends	5	-	-	-	(5,494)	(5,494)
Balance at 31 December 2015		**6,399**	**11,800**	**(4,960)**	**81,631**	**94,870**

The accompanying notes on pages 11 to 44 form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

		Consolidated Group	
		2015 £'000	2014 £'000
Cash flow from operating activities			
Profit from operations		**9,661**	9,613
Adjustments for:			
Depreciation and amortisation		**8,561**	7,943
Defined benefit pension cost		**10,684**	8,387
Benefit contributions		**(7,606)**	(7,436)
Changes in assets and liabilities:			
Decrease/(increase) in receivables and other financial assets		**562**	(1,536)
(Decrease)/increase in payables		**(554)**	1,407
Decrease/(increase) in inventories		**8**	(14)
(Decrease) in provisions		**(148)**	(262)
Cash flows from operations		**21,168**	18,102
Interest paid		**(190)**	(200)
Income tax paid		**(2,360)**	(3,546)
Net cash flows from operating activities		**18,618**	14,356
Cash flow from investing activities			
Purchase of property plant and equipment	(Note 8)	**(7,577)**	(14,066)
Proceeds from disposal of property, plant and equipment		**685**	211
Interest received		**93**	124
Net cash flows from investing activities		**(6,799)**	(13,731)
Cash flow from financing activities			
Payments to hire purchase/finance lease creditors		**(2,462)**	(2,622)
Dividends paid		**(5,494)**	(5,494)
Net cash flows from financing activities		**(7,956)**	(8,116)
Net increase/(decrease) in cash and cash equivalents		**3,863**	(7,491)
Cash and cash equivalents at beginning of year		**5,272**	12,763
Cash and cash equivalents at end of year		**9,135**	5,272
Bank balances and cash		**9,135**	5,272

The accompanying notes on pages 11 to 44 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 IFRSs, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs.

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 2015.

> IAS 16, 'Property, Plant and Equipment'. The minor clarification sets out how accumulated depreciation is adjusted when an asset is revalued applying the gross approach. The amendment requires that the gross carrying amount of the asset be restated by reference to observable market data or proportionately to the change in the carrying amount of the asset. The accumulated depreciation is then adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after considering accumulated impairment losses.

> IAS 19, 'Employee Benefits'. The amendment clarifies the accounting for contributions from employees or third parties that are linked to service, where the amount of the contributions is independent of the number of years of service. The amendment states that if the contributions are independent of years of service 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 continues to be recognised as part of the gross benefit attributed to the employee.

> IAS 24, 'Related Party Disclosures'. The definition of a related party has been expanded to include an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity. Reporting entities are required to disclose the service fees incurred for key management personnel services provided by an entity in total, rather than broken down by category of costs that make up key management personnel compensation.

> IFRS 13, 'Fair Value Measurement'. The amendment returns to the status quo ante prior to the application of IFRS 13, which allowed contracts that do not meet the definition of a financial asset or financial liability, but are however within the scope of IAS 39 or IFRS 9, to apply the portfolio exception within IFRS 13. The exception allows groups of financial assets and financial liabilities to be measured at fair value on a net basis when certain criteria are met.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2015, and with a potential effect.

The directors do not expect that the adoption of the following standards and interpretations in future reporting periods will have a significant impact on the group's financial statements.

> IAS 1, 'Presentation of Financial Statements'. The standard has been amended twice. The first amendment arises from the issue of IFRS 9. The main changes deal with the abolition of the available for sale category of financial assets, amend the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost, and take account of the revised reclassification rules under IFRS 9 as compared with IAS 39. These changes take effect at the same time as IFRS 9 is applied. The second amendment is part of the disclosure initiative and is effective for annual periods beginning on or after 1 January 2016. The minor amendments address a number of areas which include the disclosure of significant accounting policies, the application of materiality to financial statements, the presentation of sub-totals, information to be presented in the other comprehensive income section of the performance statement and the structure of the financial statements. Entities are required to present significant accounting policies that form part of a complete set of financial statements, rather than a summary of significant accounting policies.

1. Statement of significant accounting policies (continued)

The amendment clarifies the application of materiality to the disclosures required by certain IFRSs. Such information need not be disclosed if the disclosure is not material to the entity. The amendment sets out criteria that should be applied when sub-totals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. Sub-totals must be clear and understandable, consistent from period to period, not be displayed with more prominence than sub-totals required by IFRS and should include line items that are recognised in accordance with IFRS. The amendment also clarifies the presentation of other comprehensive income, which should be presented by nature, separately presenting an entity's share of its associates' or joint ventures' other comprehensive income. The disclosed categories of other comprehensive income are grouped by those items that are not subsequently reclassified to profit or loss, and those that may be subsequently reclassified to profit of loss.

> IAS 16, 'Property, Plant and Equipment'. There are two amendments to the standard. The first amendment clarifies the suitability of using a revenue-based method of depreciation. The amendment is effective prospectively for annual periods beginning on or after 1 January 2016. The IASB has clarified that a depreciation method based on revenue is not an appropriate method in determining a pattern in which the asset's future economic benefits are consumed. The amendment clarifies that those factors have no impact on the way the asset is consumed, but instead could indicate technological or commercial obsolescence of the asset that reflects a reduction of the future economic benefits of the asset. The second amendment defines and brings bearer plants into the scope of IAS 16 rather than IAS 41. The amendment is effective retrospectively for periods beginning on or after 1 January 2016.

> IAS 19, 'Employee Benefits'. The annual improvements project clarifies the discount rate to be used in regional markets, and is effective for annual periods beginning on or after 1 January 2016. The amendment clarifies that the discount rate to be used for post-employment benefit obligations must be assessed at a currency level and not a country/regional market level when determining the rate based on high quality corporate bonds or government bonds when there is no deep market in high quality corporate bonds in that currency.

> IAS 27, 'Separate Financial Statements'. The IAS 27 amendment addresses the measurement of investments in separate entity financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment reinstates a previous option to allow an entity to measure its investments in subsidiaries, associates or joint ventures in the separate financial statements applying the equity method of accounting, this option is in addition to the cost and fair value method currently allowed. The accounting policy choice must be applied to each class of investment. The amendment also clarifies that when an investor becomes or ceases to be an investment entity such a change in accounting must start from the date the change in status occurs.

> IAS 39, 'Financial Instruments: Recognition and Measurement'. A major change to IAS 39 arises out of IFRS 9. The amendments primarily remove items from the scope of the standard, insofar as they are dealt with by IFRS 9. However, these changes apply only when IFRS 9 is adopted.

> IFRS 7, 'Financial Instruments: Disclosures'. There are a number of changes to IFRS 7. Firstly a major change to IFRS 7 arises out of IFRS 9. There are significant changes to the standard, reflecting the replacement of the four categories of financial asset under IAS 39 with the three under IFRS 9. All of the IFRS 7 disclosures by category of financial asset have had to be altered to reflect the new categorisation. There are also changes associated with the potentially different measurement bases applied by IFRS 9. IFRS 7 also has a number of disclosures which deal with the transition from IAS 39 to IFRS 9 for financial assets, and will be required only for the year of change. Secondly the annual improvements project clarifies the concept of continuing involvement in transferred financial assets for disclosure purposes. This amendment applies for periods beginning on or after 1 January 2016. Continuing involvement does not exist in a transferred financial asset when the entity does not have an interest in the future performance of the transferred financial asset nor the responsibility to make payments in respect of the financial asset in the future. The amendment clarifies the latter requirement relating to making a "payment" in respect of the financial asset. Payment in this context does not include cash flows of the transferred financial asset that are collected by the entity and remitted to the transferee.

> IFRS 9, 'Financial Instruments'. The IASB has completed IFRS 9 Financial Instruments, the replacement for IAS 39, dealing with the classification, recognition and measurement, de-recognition, impairment and hedge accounting (except for macro hedging). Macro hedging (described as dynamic risk management) is now being considered as a separate project, and a standard dealing with that matter will be issued in due course. The new standard is effective for accounting periods beginning on or after 1 January 2018.

Objective and Scope

IFRS 9 has the objective of establishing principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The scope of the standard is similar to that of IAS 39, however, there are some changes:

> it is now made clearer that the exclusion for forward contracts for business combinations applies;

> only to such combinations which are within the scope of IFRS 3;

> loan commitments now fall within the scope of the impairment requirements (as well as the de-recognition;

> requirements, which also applied under IAS 39); and

> entities may now, at inception, irrevocably designate a contract to buy or sell a non-financial item that would normally be excluded from the scope if this eliminates or reduces a recognition inconsistency (or accounting mismatch).

Recognition and de-recognition

IFRS 9 does not make any substantive changes to the IAS 39 requirements in respect of recognition and de-recognition of financial assets or liabilities, instead more disclosures are required by IFRS 7 on de-recognition.

Classification of Financial Assets

The four categories of financial asset set out in IAS 39 do not survive into IFRS 9. Instead there are three categories:

> at amortised cost;

> at fair value through other comprehensive income; and

> at fair value through profit or loss.

Classification of Financial Liabilities

The requirements in respect of classification of financial liabilities of IAS 39 have, largely, been carried forward without change into IFRS 9. However, consistent with the change in the treatment of unquoted equity investments, the standard does change the treatment of derivative liabilities that are linked to, and must be settled by delivery of, unquoted equity instruments. Under IAS 39, such instruments were potentially subject to an exemption on fair value measurement. That exemption does not survive. The exceptions related to financial guarantee contracts and below-market loan commitments survive, with the only change (other than references to IAS 18 changing to IFRS 15) being that no reference is made to the amount that would be determined under IAS 37. Instead, these are subject to the impairment, or loss allowance, requirements set out in IFRS 9. Entities will still have the option to designate liabilities that would otherwise have been stated at amortised cost, as at fair value through profit or loss. The conditions that must be satisfied to do this are substantively unchanged from those in IAS 39.

1. Statement of significant accounting policies (continued)

Embedded Derivatives

IFRS 9 has, with some rewording, basically taken the definition of an embedded derivative from IAS 39 without substantive change. It does, however, change the accounting consequences of identifying embedded derivatives, quite substantially in some cases. Where there is an embedded derivative then under this standard then the host contract is an asset that falls within the scope of IFRS 9 and the embedded derivative is not separated but the entire contract is accounted for under IFRS 9. This will normally mean that the contract is stated at fair value.

Reclassification of Financial Assets

Reclassification is allowed if, and only if, the entity changes its business model for managing financial assets, or specific portfolios of financial assets. Where this occurs, the change in accounting treatment is applied on a prospective basis only, from the reclassification date. There is no change to the treatment of any gains, losses or interest amounts that have previously been recognised. If the change is from amortised cost to fair value through profit or loss then fair value is determined as at the reclassification date and any difference between this amount and the previous carrying amount is taken immediately to profit or loss. If the change is from fair value through profit or loss to amortised cost then the fair value at the reclassification date is taken to be the new gross carrying amount, that is, effectively the new gross cost for the purposes of determining amortised cost. If the change is from amortised cost to fair value through other comprehensive income then fair value is determined as at the reclassification date and any difference between this amount and the previous carrying amount is taken immediately to other comprehensive income. No adjustment is made (as a result of this change in isolation) to the effective interest rate or measurement of expected credit losses. If the change is from fair value through other comprehensive income to amortised cost then the reclassification is undertaken at fair value, but immediately adjusted for any gains and losses that have been previously been recognised in other comprehensive income. This should result in the asset being recorded at the same amount as if it had always been measured at amortised cost. If the change is from fair value through profit or loss to fair value though other comprehensive income there is no adjustment to the carrying amount. However, the entity must then determine an effective interest rate and loss allowance, as this will be relevant on an ongoing basis. If the change is from fair value through other comprehensive income to fair value through profit or loss there is no adjustment to the carrying amount. The cumulative gain or loss that has been recorded through other comprehensive income and accumulated in equity is reclassified to profit or loss as a reclassification adjustment under IAS 1. Financial liabilities cannot be reclassified.

Gains and Losses

All gains or losses on assets and liabilities held at fair value are recognised in profit or loss, other than:

> gains and losses on items in a hedge relationship, where the hedge accounting rules require them, to be recognised outside of profit or loss;

> gains and losses (other than dividends) on equity investments where the entity has made the irrevocable election to present in other comprehensive income subsequent changes in fair value;

> the amount of changes in the fair value of a liability measured at fair value which are attributable to changes in that liability's credit risk (which are shown within other comprehensive income); and

> in respect of assets carried at fair value through other comprehensive income, any changes in fair value that are not attributable to impairment, foreign exchange movements or the use of the effective interest method.

If settlement date accounting is used then any value changes between trade date and settlement date are ignored, if the asset is measured at amortised cost. They are taken to profit or loss or other comprehensive income (in accordance with the normal rules) if the asset is measured at fair value. Where a financial liability is stated at amortised cost (and is not part of a hedging relationship) then gains or losses are recognised in profit or loss:

> on de-recognition; and

> through the amortisation process.

Where a financial asset is treated at fair value through other comprehensive income then gains or losses are split between profit or loss and other comprehensive income, as set out above, during the life of the asset. On de-recognition, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss.

Measurement

With one main exception, financial assets and liabilities are initially recorded at their fair value (at trade date, if relevant). In the case of items which will not be carried at fair value through profit or loss, this is then adjusted for directly attributable acquisition costs. The main exception is trade receivables which do not contain a significant financing component, which are initially recorded at transaction price. After recognition, financial assets are carried at a value measured in accordance with their classification, as set out above. Impairment requirements also need to be reflected for items at amortised cost or at fair value through other comprehensive income. Similarly, financial liabilities are measured in accordance with their classification.

Impairment

IFRS 9 moves to an expected loss model of accounting for impairments compared with IAS 39 incurred loss model. Under the new model, expected credit losses are recognised from the point at which a financial asset is initially recognised. This applies to financial assets measured at amortised cost, lease receivables, contract assets, loan commitments, financial guarantee contracts and financial assets measured at fair value through other comprehensive income. Deciding whether there has been a significant increase in credit risk is not always going to be an easy exercise and requires judgement. The determination must be made by comparing the risk of default at the reporting date with the risk at the recognition date, taking into account all reasonable and supportable information that is available without undue cost or effort. It should be noted that credit risk must be assessed without regard to collateral. Regardless of the period covered by the allowance account, credit losses should be measured by reference to:

> an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;

> the time value of money; and

> reasonable and supportable information available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Hedge Accounting

IFRS 9 contains hedge accounting conditions that are more liberal than those of IAS 39. Whilst hedge accounting remains optional, the simplicity that IFRS 9 introduces is likely to extend its use. IFRS 9 allows an entity to apply hedge accounting where it designates a hedging relationship between a hedging instrument and a hedged item that meets all the qualifying criteria:

> the relationship consists only of eligible hedging instruments and eligible hedged items;

> there is formal designation and documentation at inception; and

> the hedge meets the effectiveness requirements.

1. Statement of significant accounting policies (continued)

A qualifying hedging instrument can be a derivative measured at fair value through profit or loss or a non-derivative instrument measured at fair value through profit or loss unless it is a financial liability for which the amount of its change in fair value attributable to changes in the credit risk is presented in other comprehensive income. For a hedge of foreign currency risk, the hedging instrument cannot be an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. Only contracts with a party external to the entity can be designated as hedging instruments. The hedged item must be reliably measurable. For the purpose of hedge accounting there are three types of hedging relationship:

> fair value hedges;
> cash flow hedges; and
> hedges of a net investment in a foreign operation.

IFRS 9 also deals with the option to designate a credit exposure as measured at fair value through profit or loss.

Transitional Provisions

While IFRS 9 is a fairly straightforward standard, its transitional provisions are complex. The basic requirement is that IFRS 9 is to be applied retrospectively, but there is a very wide range of exceptions to this general principle. In particular, there is no requirement to restate prior periods. Indeed, prior periods may only be restated where it is possible to do so without the use of hindsight. The date of initial application is now defined as the beginning of the first reporting period in which the entity adopts this IFRS. There is no longer an option to adopt the standard from a date which is not the beginning of an accounting period. The transitional provisions in relation to hedge accounting are unusual, in that they allow entities to continue to use the IAS 39 requirements to its hedge arrangements, not just extant ones but also future ones. Where this option is taken all further comments on transition re hedge accounting are not relevant. Where this option is not taken, hedge accounting is applied prospectively from the date of initial application, with the qualifying criteria having to be met at this date. Where a hedge relationship qualified for hedge accounting under IAS 39, and qualifies under IFRS 9, after taking account of rebalancing, this is considered to be a continuing hedge relationship. Where an entity does move from IAS 39 to IFRS 9, whether initially or in the future, it should cease to apply the old standard and start to apply the new standard at the same time. It must use the hedge ratio under IAS 39 as the starting point for any rebalancing under IFRS 9, with any resultant gain or loss being taken to profit or loss. There are also various transitional provisions to deal with those entities which have already adopted previous versions of IFRS 9.

IFRS 9 also makes changes to various other standards. Some of the changes are minor, but there are more significant changes to some standards that have been mentioned above.

> IFRS 10, 'Consolidated Financial Statements'. The amendment clarifies the application of the consolidation exemption for investment entities. The amendment is effective retrospectively for accounting periods beginning on or after 1 January 2016, with early application permitted. The amendment makes clear that an investment entity parent is exempt from preparing consolidated financial statements if that investment entity's ultimate or intermediate parent produces financial statements (consolidated or unconsolidated) that are available for public use and comply with IFRS. Previously the ultimate or intermediate parent financial statements needed to be consolidated financial statements, which was inconsistent with the investment entity exemption when the ultimate or intermediate parent is an investment entity applying the IFRS 10 consolidation exemption. The amendment also clarifies that a subsidiary of an investment entity, whose main purpose and activities are providing services that relate to the parent entity's investment activities, must be consolidated by the investment entity parent.

> IFRS 12, 'Disclosure of Interests in Other Entities'. The standard has been amended as part of the IFRS 10 consolidation exemption for investment entities amendment and is effective retrospectively for accounting periods beginning on or after 1 January 2016, with early application permitted. The amendment ensures consistency with IAS 27, in that disclosure is to be provided in accordance with IFRS 12, when an investment entity measures all its subsidiaries in its financial statements at fair value through profit or loss in accordance with the IFRS 10 investment entity consolidation exemption.

Basis of preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The 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 group 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.

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.

1. Statement of significant accounting policies (continued)

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 2015 to be in line with the fair value of the properties.

Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Revaluations

Heritable properties were revalued on 31 December 2015 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.

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	0 – 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. 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.

f. 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.

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.

1. Statement of significant accounting policies (continued)

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.

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. Trade receivables

Trade receivables are obligations to receive payment for goods or services that have been sold in the ordinary course of business to customers. Accounts receivable are classed as current debtors if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classed as non-current assets.

Trade receivables are recognised net of a provision for bad or doubtful debts (if applicable).

m. Share capital

Ordinary shares are classified as equity.

n. 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.

The asset or 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.

1. Statement of significant accounting policies (continued)

o. 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.

p. 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.

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.

Financial liabilities

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In the case of hedge accounting, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, all hedges are classified as cash flow hedges, as exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction is being hedged.

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a hedge contract is being settled.

Hedge accounting is discontinued when the hedging instrument is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

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 2015 £'000	Consolidated Group 2014 £'000	Parent Entity 2015 £'000	Parent Entity 2014 £'000
Profit for the year before income tax expense has been determined after:				
Auditor's remuneration:				
Audit services	**24**	23	**22**	21
Non-audit services	**14**	15	**13**	14
Depreciation and other amounts written off tangible fixed assets:				
Owned	**7,803**	7,199	**7,776**	7,106
Assets held under hp/finance leases	**758**	744	**758**	744
(Loss)/gain on disposal of property, plant and equipment	**(163)**	91	**(163)**	91

3. Finance income

	Consolidated Group 2015 £'000	Consolidated Group 2014 £'000	Parent Entity 2015 £'000	Parent Entity 2014 £'000
Investment income	**82**	131	**82**	130
Pension income (note 22)	**-**	508	**-**	508
	82	639	**82**	638

4. Finance costs

	Consolidated Group 2015 £'000	Consolidated Group 2014 £'000	Parent Entity 2015 £'000	Parent Entity 2014 £'000
Finance lease charges	**190**	200	**190**	200
Pension interest costs (note 22)	**432**	-	**432**	-
	622	200	**622**	200

5. Dividends

	2015 £'000	2014 £'000
Ordinary Share Capital		
Interim: 85.85p per share declared; (2014 85.85p declared)	**5,494**	5,494
	5,494	5,494

The interim dividend for 2015 was approved on 17 December 2015 and was paid on 23 December 2015.

6. Income tax expense

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current tax:				
Corporation tax expense	**2,671**	2,256	**2,238**	1,878
Adjustment in respect of prior periods	**(4)**	(98)	**(4)**	(98)
Deferred tax	**(142)**	78	**(161)**	78
Effect of increased/decreased tax rate on opening balance	**-**	(338)	**-**	(338)
Tax on profits for the year	**2,525**	1,898	**2,073**	1,520

The effective tax rate for the year ended 31 December 2015 is calculated at 20.25% (2014: 21.49%) 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		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Profit for the year before taxation	**8,958**	10,143	**6,721**	8,385
Profit for the year at the effective rate of corporation tax of 20.25% (2014: 21.49%)	**1,813**	2,180	**1,361**	1,802
Effects of:				
Expenses not deductible for tax purposes	**712**	238	**712**	238
Income not taxable for tax purposes	**-**	(109)	**-**	(109)
Income not taxable for tax purposes – fixed assets	**20**	102	**20**	102
Adjust deferred tax to average rate of 20.25% (2014: 21.49%)	**2**	(344)	**2**	(344)
Adjustment to the tax charge in respect of previous periods	**(4)**	(98)	**(4)**	(98)
Temporary differences not recognised in tax computation	**(18)**	(71)	**(18)**	(71)
Tax charge for the period	**2,525**	1,898	**2,073**	1,520

7. Employee benefits expense

The average number of persons employed by the group (including directors) during the year was 2,232 (2014: 2,175).

The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Wages and salaries	**68,908**	64,110	**67,004**	62,215
Social security costs	**5,821**	5,374	**5,681**	5,231
Other pension costs	**8,187**	7,825	**8,109**	7,762
	82,916	77,309	**80,794**	75,208

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 2014	19,652	109,215	397	6,811	136,075
Additions	-	13,730	51	285	14,066
Disposals	-	(2,295)	(33)	(24)	(2,352)
At 31 December 2014	19,652	120,650	415	7,072	147,789
Accumulated depreciation					
At 1 January 2014	(500)	(47,408)	(279)	(2,661)	(50,848)
Charge for year	(180)	(6,607)	(55)	(1,101)	(7,943)
Eliminated on disposal	-	2,175	33	24	2,232
At 31 December 2014	(680)	(51,840)	(301)	(3,738)	(56,559)
Net book value					
At 31 December 2014	18,972	68,810	114	3,334	91,230
Net book value					
At 31 December 2013	19,152	61,807	118	4,150	85,227

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2015	19,652	120,650	415	7,072	147,789
Revaluation	6,086	-	-	-	6,086
Additions	-	7,536	22	19	7,577
Disposals	-	(8,131)	(58)	-	(8,189)
At 31 December 2015	**25,738**	**120,055**	**379**	**7,091**	**153,263**
Accumulated depreciation					
At 1 January 2015	(680)	(51,840)	(301)	(3,738)	(56,559)
Revaluation	(623)	-	-	-	(623)
Charge for year	-	(7,464)	(64)	(1,033)	(8,561)
Eliminated on disposal	-	7,283	58	-	7,341
At 31 December 2015	**(1,303)**	**(52,021)**	**(307)**	**(4,771)**	**(58,402)**
Net book value					
At 31 December 2015	**24,435**	**68,034**	**72**	**2,320**	**94,861**
Net book value					
At 31 December 2014	**18,972**	**68,810**	**114**	**3,334**	**91,230**

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 2014	19,652	106,766	397	6,811	133,626
Additions	-	13,730	51	285	14,066
Disposals	-	(2,295)	(33)	(24)	(2,352)
At 31 December 2014	19,652	118,201	415	7,072	145,340
Accumulated depreciation					
At 1 January 2014	(500)	(45,602)	(279)	(2,661)	(49,042)
Charge for year	(180)	(6,514)	(55)	(1,101)	(7,850)
Eliminated on disposal	-	2,175	33	24	2,232
At 31 December 2014	(680)	(49,941)	(301)	(3,738)	(54,660)
Net book value					
At 31 December 2014	18,972	68,260	114	3,334	90,680
Net book value					
At 31 December 2013	19,152	61,164	118	4,150	84,584

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company					
Cost or valuation					
At 1 January 2015	19,652	118,201	415	7,072	145,340
Revaluation	6,086	-	-	-	6,086
Additions	-	7,309	22	19	7,350
Disposals	-	(8,131)	(58)	-	(8,189)
At 31 December 2015	**25,738**	**117,379**	**379**	**7,091**	**150,587**
Accumulated depreciation					
At 1 January 2015	(680)	(49,941)	(301)	(3,738)	(54,660)
Revaluation	(623)	-	-	-	(623)
Charge for year	-	(7,437)	(64)	(1,033)	(8,534)
Eliminated on disposal	-	7,283	58	-	7,341
At 31 December 2015	**(1,303)**	**(50,095)**	**(307)**	**(4,771)**	**(56,476)**
Net book value					
At 31 December 2015	**24,435**	**67,284**	**72**	**2,320**	**94,111**
Net book value					
At 31 December 2014	**18,972**	**68,260**	**114**	**3,334**	**90,680**

The net book value of tangible assets includes an amount of £8,449,184 (2014: £9,218,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £758,320 (2014: £744,000) 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 £14,347,362 at the year end. The group's heritable properties were last valued on 31 December 2015 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	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Raw materials (fuel)	**276**	386	**276**	386
Finished goods	**338**	236	**338**	236
	614	622	**614**	622

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables	**1,535**	1,623	**1,535**	1,601
Other debtors	**189**	966	**189**	966
Corporation tax	**-**	97	**-**	97
Prepayments and accrued income	**1,042**	936	**1,017**	936
VAT recoverable	**757**	571	**757**	571
	3,523	4,193	**3,498**	4,171

Trade receivables aged as:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Less than three months	**1,535**	1,623	**1,535**	1,601
Three to six months	**-**	-	**-**	-
	1,535	1,623	**1,535**	1,601

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

11. Current liabilities

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade and other payables	**3,062**	2,734	**2,968**	2,696
Amounts due to subsidiary companies	**-**	-	**3,911**	2,076
Other creditors	**4,695**	3,790	**4,597**	3,719
Current tax payable	**1,439**	1,228	**1,194**	1,027
Taxation and social security	**2,155**	1,783	**2,087**	1,733
Obligations under hp/finance leases (note 12)	**513**	2,459	**513**	2,459
Accruals and deferred income	**2,993**	5,153	**2,961**	5,128
Derivative financial instrument liabilities (note 13)	**4,576**	3,832	**4,576**	3,832
	19,433	20,979	**22,807**	22,670

Accruals and deferred income

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Accrued expenses	**938**	1,502	**906**	1,477
Income received in advance	**2,055**	3,651	**2,055**	3,651
	2,993	5,153	**2,961**	5,128

12. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
No later than one year	**513**	2,459	**513**	2,459
Later than one year but no later than five years	**160**	676	**160**	676
Later than five years	**-**	-	**-**	-
	673	3,135	**673**	3,135

Analysed as:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current	**513**	2,459	**513**	2,459
Non-current	**160**	676	**160**	676

13. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
No later than one year	**4,576**	3,832	**4,576**	3,832
Later than one year but no later than five years	**1,624**	2,365	**1,624**	2,365
Later than five years	**-**	-	**-**	-
	6,200	6,197	**6,200**	6,197

Analysed as:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current	**4,576**	3,832	**4,576**	3,832
Non-current	**1,624**	2,365	**1,624**	2,365

14. Provisions

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Deferred tax liabilities				
At beginning of the year	**3,467**	9,547	**3,444**	9,524
Charge for the year to profit or loss	**(142)**	(260)	**(161)**	(260)
Charge for the year to other comprehensive income	**(5,747)**	(5,820)	**(5,747)**	(5,820)
At end of the year	**9,072**	3,467	**9,030**	3,444

There were no deferred tax assets in the year.

The elements of deferred tax are as follows:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Accelerated capital allowances	**6,913**	7,029	**6,871**	7,006
Short term timing differences	**(188)**	(162)	**(188)**	(162)
Pension scheme asset/(liability)	**3,587**	(2,100)	**3,587**	(2,100)
Derivative financial instruments (liability)	**(1,240)**	(1,300)	**(1,240)**	(1,300)
	9,072	3,467	**9,030**	3,444
Included in the accounts as follows:				
- Provision for liabilities and charges	**9,072**	3,467	**9,030**	3,444
	9,072	3,467	**9,030**	3,444

14. Provisions (continued)

	Consolidated Group 2015 £'000	2014 £'000	Parent Entity 2015 £'000	2014 £'000
Claims				
At beginning of the year	**1,058**	1,320	**1,033**	1,303
Charge for the year	**746**	618	**711**	604
Paid during the year	**(894)**	(880)	**(851)**	(874)
At end of the year	**910**	1,058	**893**	1,033

Claims

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

15. Cash and cash equivalents

	Consolidated Group 2015 £'000	2014 £'000	Parent Entity 2015 £'000	2014 £'000
Cash at bank and in hand	**9,135**	5,272	**8,265**	4,312

16. Share capital

	Consolidated Group 2015 £'000	2014 £'000	Parent Entity 2015 £'000	2014 £'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

	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000
Group			
At 1 January 2014	6,477	-	68,604
Depreciation transfer	(140)	-	140
Profit for the year	-	-	8,245
Actuarial loss on pension plan	-	-	(21,578)
Deferred tax thereon	-	-	4,519
Other comprehensive expense	-	(6,197)	-
Deferred tax thereon	-	1,300	-
Dividends	-	-	(5,494)
At 31 December 2014	6,337	(4,897)	54,436
Revaluation gain on land and buildings	5,463	-	-
Deferred tax thereon	-	-	-
Profit for the year	-	-	6,433
Actuarial gain on pension plan	-	-	31,943
Deferred tax thereon	-	-	(5,687)
Other comprehensive expense	-	(3)	-
Deferred tax thereon	-	(60)	-
Dividends	-	-	(5,494)
At 31 December 2015	**11,800**	**(4,960)**	**81,631**

17. Reserves (continued)

	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000
Company			
At 1 January 2014	6,477	-	66,809
Depreciation transfer	(140)	-	140
Profit for the year	-	-	6,865
Actuarial loss on pension plan	-	-	(21,578)
Deferred tax thereon	-	-	4,519
Other comprehensive expense	-	(6,197)	-
Deferred tax thereon	-	1,300	-
Dividends	-	-	(5,494)
At 31 December 2014	6,337	(4,897)	51,261
Revaluation gain on land and buildings	5,463	-	-
Profit for the year	-	-	4,648
Actuarial gain on pension plan	-	-	31,943
Deferred tax thereon	-	-	(5,687)
Other comprehensive expense	-	(3)	-
Deferred tax thereon	-	(60)	-
Dividends	-	-	(5,494)
At 31 December 2015	**11,800**	**(4,960)**	**76,671**

18. Commitments

Commitments under non-cancellable operating leases are payable as follows:

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Not later than one year	**191**	191	**191**	191
Later than one year and not later than five years	**404**	522	**404**	522
Later than five years	**240**	295	**240**	295
	835	1,008	**835**	1,008

Total operating lease payments in the year to 31 December 2015 recognised through the Statement of Profit or Loss were £220,147 (2014: £221,173).

In November 2015, the group entered into an agreement to purchase 30 open top tour vehicles and a V6e commentary system for £6.1m. These are expected to be delivered during mid 2016.

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 controls 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

	2015 £'000	2014 £'000
City of Edinburgh Council (ultimate parent)	**2,585**	2,144
Midlothian Council (shareholder)	**155**	170
East Lothian Council (shareholder)	**162**	164
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	**844**	1,246
West Coast Motors (related party to Chief Executive)	**-**	5
	3,746	3,729

20. Related party transactions (continued)

(b) Purchase of goods and services

	2015 £'000	2014 £'000
City of Edinburgh Council (ultimate parent)	**1,227**	1,511
Midlothian Council (shareholder)	**7**	7
	1,234	1,518

The above related party transactions are for the receipt of route support and management services and include payments for rent and rates etc.

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

	2015 £'000	2014 £'000
Receivables from related parties		
City of Edinburgh Council (ultimate parent)	**135**	80
Midlothian Council (shareholder)	**12**	11
East Lothian Council (shareholder)	**22**	20
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	**6**	42
Payables to related parties		
City of Edinburgh Council (ultimate parent)	**41**	-
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	**129**	101

Lothian Buses Limited (the parent company), provides an unlimited guarantee to the Royal Bank of Scotland, that it will pay any outstanding amounts due to RBS should its subsidiary company (Edinburgh Bus Tours Limited) be unable to make a payment on its outstanding loans or borrowings.

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 with the parent company being Lothian Buses Limited.

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 2015 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 2015 £'000	%	Value at 2014 £'000
Equity Securities:				
Consumer	**14%**	**52,984**	13%	47,944
Manufacturing	**13%**	**49,721**	12%	45,387
Energy and Utilities	**5%**	**18,891**	7%	25,493
Financial Institutions	**8%**	**29,821**	7%	26,775
Health and Care	**8%**	**30,113**	10%	35,020
Information Technology	**13%**	**48,276**	7%	27,360
Other	**0%**	**81**	5%	19,956
Debt Securities:				
UK Government	**4%**	**13,801**	3%	9,908
Private Equity:				
All	**1%**	**4,462**	-	-
Real Estate:				
Overseas Property	**9%**	**37,657**	-	-
Investment Funds and Unit Trusts:				
Equities	**0%**	**-**	2%	7,079
Bonds	**15%**	**57,256**	15%	54,117
Infrastructure	**5%**	**18,788**	3%	12,031
Other	**1%**	**6,747**	11%	38,663

22. Retirement benefits obligation (continued)

Cash and Cash Equivalents:

All	**4%**	**16,681**	5%	16,906
	100%	**385,279**	100%	366,639

The amounts recognised in the statement of financial position are determined as follows:

	2015 £'000	2014 £'000
Fair value of plan assets	**385,279**	366,639
Present value of scheme liabilities	**(367,343)**	(377,136)
Asset/(deficit) in the scheme	**17,936**	(10,497)
Net pension asset (liability)	**17,936**	(10,497)

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

	2015 £'000	2014 £'000
At 1 January	**377,136**	326,446
Current service cost	**10,684**	8,387
Interest cost on obligation	**13,596**	15,009
Plan participants contributions	**2,161**	2,176
Unfunded benefits paid	**(294)**	(301)
Benefits paid	**(10,927)**	(10,140)
Actuarial (gains)/losses arising from changes in financial assumptions	**(22,468)**	59,570
Actuarial losses arising from changes in demographic assumptions	**-**	12,485
Other actuarial (gains)	**(2,545)**	(36,496)
At 31 December	**367,343**	377,136

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

	2015 £'000	2014 £'000
At 1 January	**366,639**	337,970
Benefits paid	**(10,927)**	(10,140)
Interest income on plan assets	**13,164**	15,517
Contributions by employer	**7,312**	7,135
Contributions by member	**2,161**	2,176
Contributions in respect of unfunded benefits	**294**	301
Unfunded benefits paid	**(294)**	(301)
Return on assets excluding amounts included in net interest	**6,930**	13,981
At 31 December	**385,279**	366,639

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

	2015 £'000	2014 £'000
Interest received on pension scheme assets	**(13,164)**	(15,517)
Interest cost on pension scheme liabilities	**13,596**	15,009
Finance cost/(income)	**432**	(508)
Current service cost	**10,684**	8,387
	11,116	7,879

Amounts recognised in other comprehensive income:

	2015 £'000	2014 £'000
Actuarial gains/(losses) in the defined benefit obligation	**25,013**	(35,559)
Actuarial gains in the fair value of defined benefit assets	**6,930**	13,981
	31,943	(21,578)

The principal actuarial assumptions used in this valuation were:

	2015	2014
Inflation/pension increase rate	**2.4%**	2.4%
Salary increase rate	**4.8%**	4.8%
Expected return on assets	**4.8%**	4.8%
Discount rate	**3.9%**	3.6%

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. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 0.9% for both 2015 and 2014.

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)	
	2015	2014	2015	2014
0.5% decrease in real discount rate	**10%**	10%	**38,130**	38,677
1 year increase in life expectancy	**3%**	3%	**11,020**	11,314
0.5% increase in the salary increase rate	**4%**	3%	**13,123**	12,963
0.5% increase in the pension increase rate	**7%**	7%	**24,267**	24,877

The financial assumptions used for reporting under the Accounting Standard are the responsibility of the Employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

22. Retirement benefits obligation (continued)

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Accounting standards require the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As, such the figures illustrated are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Employer's obligations to the Fund.

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	20.4	22.6
Future pensioners	23.5	25.9

The average duration of the benefit obligation at 31 December 2015 is 18 years (2014: 18 years). This number can be analysed as follows:

	2015	2014
Active members	**22.8 years**	22.8 years
Deferred members	**21.0 years**	21.0 years
Retired members	**10.8 years**	10.8 years

Expected contributions to post employment benefit plans for the year ended 31 December 2016 are £7,878,000.

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	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	**65**	65	**65**	65
Later than one year but no later than five years	**278**	273	**278**	273
Later than five years	**406**	476	**406**	476
	749	814	**749**	814

The total annual operating lease income received in the year ended 31 December 2015 was £66,250 (2014: £65,000).

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:

		Consolidated Group		Parent Entity	
	Note	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Financial assets					
Cash and cash equivalents	16	**9,135**	5,272	**8,265**	4,312
Trade and other receivables	10	**3,523**	4,193	**3,498**	4,171
Total financial assets		**12,658**	9,465	**11,763**	8,483
Financial liabilities					
Financial liabilities at amortised cost:					
Current liabilities	11	**14,857**	17,147	**18,231**	18,838
Non-current hire purchase liabilities	12	**160**	676	**160**	676
Total financial liabilities		**15,017**	17,823	**18,391**	19,514

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 26.

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:

24. Financial risk management (continued)

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 2015 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.

Cashflows 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 2015 £'000	1 to 5 Years 2015 £'000	Total 2015 £'000
Financial liabilities due for payment				
Current liabilities	11,12	(14,857)	(160)	(15,017)
Total expected outflows		(14,857)	(160)	(15,017)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	9,135	-	9,135
Trade and other receivables	10	3,523	-	3,523
Total anticipated inflows		12,658	-	12,658
Net (outflow) of financial instruments		(2,199)	(160)	(2,359)

Financial liability and financial asset maturity analysis

Consolidated Group	Note	Within 1 Year 2014 £'000	1 to 5 Years 2014 £'000	Total 2014 £'000
Financial liabilities due for payment				
Current liabilities	11,12	(17,147)	(676)	(17,823)
Total expected outflows		(17,147)	(676)	(17,823)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	5,272	-	5,272
Trade and other receivables	10	4,193	-	4,193
Total anticipated inflows		9,465	-	9,465
Net (outflow) of financial instruments		(7,682)	(676)	(8,358)

Parent Entity	Note	Within 1 Year 2015 £'000	1 to 5 Years 2015 £'000	Total 2015 £'000
Financial liabilities due for payment				
Current liabilities	11,12	(18,231)	(160)	(18,391)
Total expected outflows		(18,231)	(160)	(18,391)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	8,265	-	8,265
Trade and other receivables	10	3,498	-	3,498
Total anticipated inflows		11,763	-	11,763
Net (outflow) of financial instruments		(6,468)	(160)	(6,628)

Parent Entity	Note	Within 1 Year 2014 £'000	1 to 5 Years 2014 £'000	Total 2014 £'000
Financial liabilities due for payment				
Current liabilities	11,12	(18,838)	(676)	(19,514)
Total expected outflows		(18,838)	(676)	(19,514)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	4,312	-	4,312
Trade and other receivables	10	4,171	-	4,171
Total anticipated inflows		8,483	-	8,483
Net (outflow) of financial instruments		(10,355)	(676)	(11,031)

24. Financial risk management (continued)

c. Market risk

- Fuel price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2015 consume approximately 22.5m 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 derivative financial instrument.

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 24% increase in the underlying price of fuel decreases the overall net liability of the fixed contracts by 23%. Likewise, if the price of fuel was to fall further below the underlying price of the contracts, then this would result in an increase in the 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. Directors' remuneration

	Consolidated Group		Parent Entity	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Aggregate emoluments and benefits	**810**	835	**810**	835
Aggregate pension contributions	**139**	133	**139**	133
Highest paid director's emoluments and benefits	**211**	200	**211**	200
Highest paid director's pension contributions	**40**	38	**40**	38

Four directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £27,057 per annum (2014: £24,079) and an accrued lump sum of £18,629 (2014: £18,629) at the end of the year.

Other related party transactions are disclosed in note 20.

26. Derivative financial instruments

Derivative financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs).

The following table presents the group's derivatives financial instruments that are measured at fair value within the hierarchy at 31 December 2015.

		Level 2	
	Note	2015 £'000	2014 £'000
Liabilities			
Derivative financial instruments	13	**(6,200)**	(6,197)

The group uses cash flow hedges to hedge the commodity price risk. The derivative instrument used is a commodity swap.

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	Note	2015 £'000	2014 £'000
Non- current liabilities			
Fuel derivatives	13	**(1,624)**	(2,365)
Current liabilities			
Fuel derivatives	13	**(4,576)**	(3,832)
Total net carrying value		**(6,200)**	(6,197)

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

The movements in the fair value of fuel derivatives in the year were as follows:

Fuel derivatives	2015 £'000	2014 £'000
Fair value at the start of the year	**6,197**	-
Changes in the fair value during year	**4,310**	7,340
Cash paid during the year	**(4,307)**	(1,143)
Fair value at end of year	**6,200**	6,197

26. Derivative financial instruments (continued)

The fair value of derivatives split by maturity was as follows:

As at 31 December 2015	Liabilities £'000
Within one year	4,576
1 to 2 years	1,226
2 to 3 years	398
	6,200

Lothian Buses

55 Annandale Street
Edinburgh
EH7 4AZ

www.lothianbuses.com