TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2018

Registered number SC443895

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For the year ended 31 December 2018

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TRANSPORT FOR EDINBURGH LIMITED

Company Information

Board of Directors:	Lesley Macinnes (Chair)	
	Charles Monheim	(resigned 30 June 2018)
	James McFarlane	
	George Lowder	
	Steven Cassidy	(resigned 17 December 2018)
	Karen Doran	
	Callum Laidlaw	
	Charles Booth	
	Charlene Wallace	(appointed 1 July 2018)

Company Registration:	Registered Office	55 Annandale Street Edinburgh EH7 4AZ
	Registration Number	SC443895

Bankers:
The Royal Bank of Scotland plc
Barclays Bank plc

Auditor:
Scott-Moncrieff
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2018

Strategic Report

Principal Activities

The principal activity of the Company is to act as a holding and parent company for the City of Edinburgh Council's public transport companies; Lothian Buses, which operates over 800 buses in Edinburgh and the Lothians and for Edinburgh Trams, the City's Tram Operating Company, which operates 27 Trams between Edinburgh Airport and the City Centre. The Company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and the Lothians. The Directors are aware that the activities of the Company are developing in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, which was unanimously approved by The City of Edinburgh Council Transport and Environment Committee in January 2017. The Company also delivers additional services for The City in line with the purpose of the Company and The Strategy, most notably in 2018 this included: the procurement and launch of the Edinburgh Cycle Hire Scheme, leadership of the Edinburgh Wayfinding Project and Driver Innovation Safety Challenge (DISC) and the coordination of City wide, major event contingency planning. This Report should be read in conjunction with the Strategic Reports of Lothian Buses and Edinburgh Trams.

Business Strategy

The core purpose of Transport for Edinburgh Limited is to deliver world class, integrated, environmentally friendly, and socially inclusive transport, which plays a central role in the future prosperity of Edinburgh and the Lothians. We will deliver results through a strong commercial focus and transport services through innovative collaborations, cooperation with our neighbours and partners and the coordination of activity. We will reduce costs to The City of Edinburgh Council by drawing down as much other available funding as possible, to enable the delivery of services, particularly around Active Travel and Innovation.

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, with the main reason for the loss in the year being Edinburgh Trams assuming responsibility for all tram and network maintenance from The City of Edinburgh Council in 2018 and paying a higher access fee for use of assets including the tramway, trams and tram Depot. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income revenue has increased by 6.4% over the previous year to £176.5m, while the loss for the year is -3.8% or £6.8m net after tax. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £148.8m.

Capital expenditure in the year was £11.5m, the main items of expenditure being the addition of new buses to the fleet.

The Group has faced significant operating and cost pressures. We anticipate that these cost pressures will persist in 2019 and we will remain proactive in seeking to mitigate their impact.

Results and Dividends

The results and dividends are summarised below. A final dividend of £691,000 for non-equity holders was approved on 13 December 2018 and was paid on 26 March 2019 by a subsidiary (Lothian Buses Limited). A dividend of £6,180,000 (of £1.06p per share) in respect of 2017 was paid to the City of Edinburgh Council (CEC) on 28 March 2018 and payment of an interim dividend for 2019 of £7,000,000 was made to CEC on 26 March 2019 by Transport for Edinburgh. The Group has also generated an additional revenue stream for The City from tram advertising, by taking two licenses "in house" and repaid in full, the original £1m operating loan, that was provided to Edinburgh Trams in 2014 at the commencement of tram operations.

Results and Dividends (continued)

	2018 £'000	2017 £'000
Revenue	176,466	165,838
(Loss)/profit before income tax expense	(6,920)	11,948
Income tax expense	154	(3,021)
Net (loss)/profit for the year	(6,766)	8,927
Attributable to:		
Equity holders	(6,830)	8,265
Non-controlling interest	64	662
Dividend	6,871	6,610

The Group uses a wide range of key performance indicators (KPIs) across the business to monitor progress in achieving its objectives. These are shown in detail in the Company reports. The most important KPIs are:

	2018	2017	Change
Group operating margin – operating (loss)/profit relative to revenue	-4.7%	7.3%	-12.0%
Group patronage – year on year movement in passenger journeys	126.5m	127.8m	-1.3m
Group staff turnover – leavers excluding retirement and conduct	13.9%	15.2%	-1.3%
Group customer satisfaction – complaints per 100,000 passenger journeys	7.21	7.86	-0.65

Group operating margin has decreased by 12.0% due to losses made in 2018 within Edinburgh Trams. Group patronage has decreased 1.3m year on year. Tram patronage has grown to 7.3m from 6.7m in 2017, helping to offset bus patronage decline. The Group is working with City of Edinburgh Council and other Partners to do everything possible to address the decline in City bus patronage. The Public Transport Action Plan measures will have a positive impact if fully implemented. Group staff turnover has decreased by 1.3% year on year and the Group is actively trying to reduce this further. Group complaints per 100,000 passenger journeys have decreased slightly by 0.65 and the Group is trying to reduce this level further.

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, trams, open top tours and cycle hire in Edinburgh and the Lothians. The current year's trading is in line with expectations. The Directors remain optimistic about the future, continuing to focus on the delivery of reliable high-quality services which provide our customers with value for money. In addition to bus and tram services, TfE procured a cycle hire scheme for the City and is at the heart of the City Wayfinding Project that will help residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The Group has been deeply involved in the development of the proposal to take trams to Newhaven and will remain significantly engaged, whilst also supporting Edinburgh Trams as it takes maintenance contracts "in house."

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

Employees (continued)

programmes include customer care and disability awareness. The training is an essential part of employee development and to ensure best practice. The Group recognises that employee involvement is fundamental to its success. 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 the post. Where disablement occurs during service with the Company, every effort is made to seek suitable alternative Company employment.

We recognise the need to develop our staff and during 2019 we will again invest heavily in our Supervisors, Managers and Leaders to ensure they have the right skills and attributes to lead and inspire our staff. Diversity and inclusion training will continue in 2019, focussing on and celebrating difference within the workplace and the communities we serve.

To ensure our ongoing commitment to good and progressive employee relations and engagement Lothian Buses introduced a new People Function over a year ago with dedicated People Managers in each of the three main bus garages. Working alongside both operational and non-operational management they advise and guide on a wide range of employment matters, ensuring legal compliance and best practice is at the fore when dealing with employees. Edinburgh Trams has similarly invested in their People and Training functions.

Risks and Uncertainties

The Boards regularly reviews the Risk Registers, which detail and identify risks from all areas of operations. The TfE Risk Register is regularly reviewed, evaluated and managed by the TfE Audit and Risk Committee and TfE Board, with action plans collated and monitored throughout the year.

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 Boards and their respective Audit and Risk Committees, regularly review the process of identifying, evaluating and managing the significant risks that the Group faces. The Boards consider acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced. 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.

2018 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject, closely monitored and action taken where necessary to ensure all aspects of the business, from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation that they have also taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives.

Corporate Social Responsibility

2018 has been a successful year for Lothian Buses and Edinburgh Trams, both in environmental achievements and community partnerships.

Lothian remains committed to reducing its impact on the environment. Lothian has further developed its 5-year Bus 2020 Environmental Strategy and continues to work towards cutting its emissions footprint by 42% and operating at a minimum of Euro 5 by 2020, in line with the Scottish Government's ambitious climate change targets. This year has seen significant investments in low emission bus technology, with new buses joining the fleet and further resource efficiency improvements.

Corporate Social Responsibility (continued)

In 2018, Lothian purchased 91 buses in a mix of Euro 5 and Euro 6 across several routes running throughout the City Centre. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. Lothian has also added more fully electric cars and vans to its ancillary fleet, taking the total number now held to 6. The investments in low and zero emission vehicles support air quality improvements in its operational environment. Lothian ends the year with 85% of its bus fleet at Euro 5 standard or above.

As part of the Environmental Strategy Lothian has also focused on internal operations with improvements in waste, water and energy. During the year Lothian upgraded lighting in its depots and converted from using paper hand towels to using modern efficient hand driers.

Across 2018, Lothian also continued to focus on its local community and charity engagement. Lothian continued into year two of its Charity of Choice two-year partnership with Macmillan Cancer Support, following a successful first year, and raised over £6,000 during 2018. Fundraising events so far have included, the popular Doors Open Day in September, which saw over 8,000 visitors to Central Bus Garage and the internal dress festive Christmas Campaign. 2018 also saw Lothian once again support Poppy Scotland across November with a special liveried 'Poppy Bus' for the charity.

Lothian also partnered with The Edinburgh Festival Fringe Society again for Summer 2018 to provide free bus travel as part of a wider initiative to give Fringe Days Out. The initiative benefitted 29 local charities and community Groups who may never have been able to experience a show previously. Results show that the initiative was again very successful. Lothian Buses partnership with Police Scotland continues its behavioural change campaign in secondary schools targeting anti-social behaviour on buses. To date Lothian continues to receive a positive engagement with the programme.

In 2018 Edinburgh Trams continued to build on the successes of operations commencing in May 2014, recording exceptional patronage and revenue growth year on year, giving our owners the confidence to further invest in the system.

Tram Fleet

Edinburgh Trams has a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the City Centre in under 35 minutes. Edinburgh Trams recorded 98.84 per cent service reliability and 98.89 per cent punctuality in 2018.

Moving to Operate and Maintain

Under the "Operator Only" Operating Agreement, Edinburgh Trams would have returned an Operating Profit in excess of £3m, up from £1.6m in 2017 and £252k in 2016.

With year on year performance ahead of budget, the maturing of the Operating Company and anticipated future decisions to develop the system, The City of Edinburgh Council (CEC), owners of Edinburgh Trams, decided in late 2018, to consolidate the full costs of operating and maintaining the system in one place. This was achieved by recharging the full costs associated with the maintenance of the tram infrastructure and trams to Edinburgh Trams, resulting in Edinburgh Trams returning a loss from operations for this financial year of £9.4m.

Full responsibility for the management of the tram maintenance contracts will pass to The Edinburgh Trams Management Team through the course of 2019. This eliminates additional third-party involvement allowing full control of operations, revenue streams; including passenger income and advertising, as well as all costs. This gives the Company and Edinburgh Trams the levers to improve value for money and contract management.

Our main aim short term is to return Edinburgh Trams to profit including all maintenance costs. This will be followed by a mid to longer term aspiration to be profitable, despite the higher access to assets and infrastructure charges. Whilst challenging, we are confident these goals will be achieved.
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Trams to Newhaven Project

Throughout 2018 the Edinburgh Trams Management Team have been working in partnership with the CEC Trams to Newhaven Project Team on the Final Business Case for the completion of Line 1 to Newhaven. A Final Financial Business Case was developed and extensively reviewed by CEC with a vote to invest £209m on a completion project to be opened in 2023.

2018 Trams Performance

Edinburgh Trams continues to outperform the expectations set by the CEC prior to the commencement of service in May 2014. These targets are being exceeded through a robust business plan aimed at obtaining both the profit requirements of the business, a safe operation, strong brand perception, environmental targets, CSR and the overarching Transport for Edinburgh Strategy for Delivery 2017 - 2021.

Central to the continued success of Edinburgh Trams in 2018 has been the robustness of the service. Improvements have increased journeys by 23 per cent and reduced end to end journey times by 16 per cent, from 42 to 36 minutes. This included a core 7.5 minute frequency throughout the day, 7 days a week. This was further enhanced in the second half of the year by services running from every 3.75 minutes during morning and evening peaks to meet growing demand. We have continued to support major events at Murrayfield Stadium utilising 19 trams, as well as introducing night trams on Saturdays during the peak Edinburgh Festivals period and for Edinburgh's Hogmanay. To enhance safety and customer service Edinburgh Trams adopts a policy of staffing each tram in service with a Ticketing Services Assistant (TSA).

A new operational strategy that improves the efficiency of our operations on event days was introduced in the latter period of 2018 which has allowed us to operate more tailored journeys for each event. All night trams for Hogmanay and Saturdays during the Edinburgh Festival period also operated again in 2018, generating positive customer responses.

The tram network requires Edinburgh Trams to work with Parkeon for Ticketing Systems maintenance, Siemens for Mechanical & Electrical maintenance, CAF Rail for tram maintenance and Bilfinger for Facilities Management and Civil Structural, Landscape and Drainage maintenance. Regular communication between all parties ensures the assets of the system are maintained to a standard expected from our passengers and stakeholders, ensuring a dependable delivery of service both now and for the future.

Supporting our strategy is the production, delivery and regular review of the Edinburgh Trams Marketing & Communication Plan. This plan will target potential passenger groups at key "hotspot" locations identified along the system, including Edinburgh Airport, the five dedicated transport interchanges and Ingliston Park and Ride.

Edinburgh Trams Board Changes

In July 2018 The Edinburgh Trams Board was increased by two additional Non-Executive Directors following the retirement of the Chairman, upon completion of his term of office. New expertise has now been added, reflecting the move to operate and maintain and the impending decision on the completion of Line 1 to Newhaven, giving a total of one Chairperson and 5 Directors on the main Board of Edinburgh Trams.

Tram Financial Overview

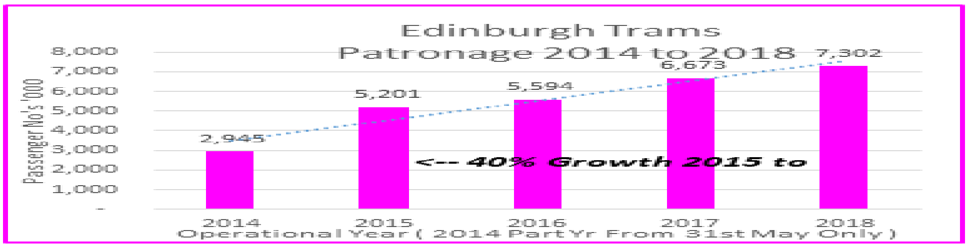
The final results for Edinburgh Trams for 2018 reported a loss of £7.6m after tax. This is a marked difference from the £1.3m profit after tax reported for 2017. The loss should be seen in the context of Edinburgh Trams increasing maturity as a business and the complementary decision to recharge Edinburgh Trams' full maintenance costs and access charges. An increased access charge, due to be incurred in 2019 will now become obsolete, having been incorporated within the new charging structure.

Reviewing our 2018 performance in detail we can confirm that Edinburgh Trams continues to exceed the original business plan as set out in 2013 by the City of Edinburgh Council. Revenue and patronage continue to increase above expectations with Service Income increasing by 18% from £12.9m in 2017 to £15.1m in 2018.

Tram Financial Overview (continued)

Patronage levels increased to 7.3m from 6.6m in 2017, up almost 10%. The graph below demonstrates the exceptional growth recorded on our tram network from service commencement in May 2014. The investment in fares, ticket channels and customer relations and engagement, increased services and the decision to strengthen an already robust service, particularly during peak times, gives rise to the high growth Edinburgh Trams can report. We have created a resilient service capable of maximising its full potential across the network.

Tram Patronage Overview 2014 through 2018



Asset Management

Edinburgh Trams (ET) is now recognised as a company delivering an excellent level of customer satisfaction and a leader in this field within our industry. The ability to continue delivering such a service is dependent on the main assets of the company being maintained in a satisfactory condition. Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014 giving an average age just now of over 10 years old. It is imperative to ET that the renewals\asset life cycle programme administered by City of Edinburgh Council (CEC), is controlled, monitored and actioned where necessary in a timely manner, thus ensuring ET can continue to deliver the excellent level of service currently being experienced by our passengers.

ET are working with CEC to transfer the ownership and management of the maintenance contracts from CEC to ET. The process for this transfer may vary on a contract by contract basis, options available are:

- novation with the agreement intact;
- novation with an intent to re-negotiate terms
- termination by CEC and re-procurement by ET (with CEC support).

The Heads of Terms which outline the necessary amendments to the Operating Agreement between ET and CEC has been signed by both parties. A full variation to the Operating Agreement (based upon the Heads of Terms) is currently being drafted by CEC legal team. The full variation will need to be in place prior to the formal variation or procurement of any of the maintenance sub-contracts. We have every confidence based on current progress we are on track to deliver the above.

ET has agreed to bear the full cost of each of the contracts (from 1 January 2018), in place of the contribution made previously via the contractual Access Fees. ET will be liable for the cost of asset maintenance only, any cost relating to asset renewal/lifecycle will be borne by CEC. As ET will be responsible for the upkeep of the asset(s) a process will be agreed to allow ET to draw on CEC funding for asset renewal activities. ET has agreed that where feasible, subject to value and working within the confines of CEC procurement policy we will use the current contract discussions with sub-contractors to incorporate the maintenance of the York Place to Newhaven extension from 2023.

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

Date:

George Lowder
Director

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2018

Directors' Report

Directors

The Directors are as set out on page 2.

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the 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.

Disclosure of Information to the Auditor

Each of the Directors, whose names and functions are listed on page 2 confirm that, to the best of each person's knowledge and belief:

- there is no relevant audit information of which the Company's auditor is unaware;
- the Directors have taken all steps that they might to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information;
- the financial statements, prepared in accordance with IFRSs, give a true and fair view of the assets, liabilities, financial position and (loss)/profit of the Group and Company; and
- the Strategic Report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

Auditor

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

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

Date: .... ____________________

George Lowder
Director

TRANSPORT FOR EDINBURGH LIMITED

Independent Auditor's Report to the Members of Transport for Edinburgh Limited

For the year ended 31 December 2018

We have audited the financial statements of Transport for Edinburgh Limited for the year ended 31 December 2018 which comprise the Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and Company's affairs as at 31 December 2018 and of the Group and Company's affairs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company and the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's responsibilities for the audit of the financial statements (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of this report

This report is made solely to the Group'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 Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

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:

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2018

	Note	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Continuing operations					
Revenue	1i	176,466	165,838	473	705
Gross profit		176,466	165,838	473	705
Administrative expenses		(184,730)	(153,738)	(292)	(376)
(Loss)/profit from operations		(8,264)	12,100	181	329
(Loss)/gain on disposal of property, plant and equipment	2	(31)	4	-	-
Finance income	3	1,460	21	7,000	6,330
Finance costs	4	(85)	(177)	-	-
(Loss)/profit before income tax expense		(6,920)	11,948	7,181	6,659
Income tax expense	6	154	(3,021)	(35)	(64)
Net (loss)/profit for the year		(6,766)	8,927	7,146	6,595
Attributable to:					
Equity holders	18	(6,830)	8,265	7,146	6,595
Non-controlling interest	19	64	662	-	-
Other comprehensive income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	27	(1,445)	(391)	-	-
Deferred tax thereon		245	66	-	-
Those that are not recyclable net of tax:					
Actuarial gain on post-employment benefit obligations	24	9,675	67,630	-	-
Deferred tax thereon		(1,021)	(10,626)	-	-
Total comprehensive income for the year		688	65,606	7,146	6,595
Attributable to:					
Equity holders		(46)	59,848	7,146	6,595
Non-controlling interest		734	5,758	-	-

The accompanying notes on pages 18 to 51 form part of these financial statements.

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

As At 31 December 2018

		Group		Parent Entity	
		2018	2017	2018	2017
Assets	**Note**	**£'000**	**£'000**	**£'000**	**£'000**
Non-current assets					
Property, plant and equipment	8	108,458	116,887	-	-
Retirement benefit asset	24	65,471	59,466	-	-
Investments	21	-	-	5,824	5,824
Other financial assets	10	-	-	-	1,000
Total non-current assets		173,929	176,353	5,824	6,824
Current assets					
Inventories	9	705	741	-	-
Trade and other receivables	10	10,435	6,467	7,009	18
Derivative financial assets	13	-	1,034	-	-
Cash and cash equivalents	16	21,969	16,820	1,124	6,665
Total current assets		33,109	25,062	8,133	6,683
Total assets		207,038	201,415	13,957	13,507
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	17	5,824	5,824	5,824	5,824
Revaluation reserve	18	11,309	11,309	-	-
Other reserves	18	59,929	59,929	-	-
Retained earnings	18	58,789	63,923	7,570	6,604
Hedging reserve	18	(384)	708	-	-
Non-controlling interest	19	13,301	13,258	-	-
		148,768	154,951	13,394	12,428
Liabilities					
Non-current liabilities					
Finance lease obligations	14	5,196	7,144	-	-
Deferred tax	15	15,957	16,452	-	-
Provisions	15	1,611	1,260	-	-
Other financial liabilities	12	-	1,000	-	1,000
Derivative financial instruments	13	283	97	-	-
Total non-current liabilities		23,047	25,953	-	1,000
Current liabilities					
Trade and other payables	11	3,386	4,141	-	-
Current tax payable	11	-	1,064	-	64
Finance lease obligations	14	1,949	1,949	-	-
Other financial liabilities	11	29,664	13,357	563	15
Derivative financial instruments	13	224	-	-	-
Total current liabilities		35,223	20,511	563	79
Total liabilities		58,270	46,464	563	1,079
Total equity and liabilities		207,038	201,415	13,957	13,507

The financial statements were authorised for issue by the Board of Directors on 10th May 2019 and were signed on its behalf by:

Registered number SC443895

George Lowder, Director

The accompanying notes on pages 18 to 51 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Changes in Equity

As at 31 December 2018

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
Group								
Balance at 1 January 2017		5,824	11,309	59,929	9,779	1,004	8,110	95,955
Comprehensive income								
Profit for the year		-	-	-	8,265	-	662	8,927
Other comprehensive income								
Actuarial gain on pension plan	24	-	-	-	61,550	-	6,080	67,630
Deferred tax thereon		-	-	-	(9,671)	-	(955)	(10,626)
Net fair value movements on cash flow hedges	13	-	-	-	-	(356)	(35)	(391)
Deferred tax thereon		-	-	-	-	60	6	66
Dividends	5	-	-	-	(6,000)	-	(610)	(6,610)
Balance at 31 December 2017		5,824	11,309	59,929	63,923	708	13,258	154,951

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
Group								
Balance at 1 January 2018		5,824	11,309	59,929	63,923	708	13,258	154,951
Comprehensive income								
(Loss)/profit for the year		-	-	-	(6,830)	-	64	(6,766)
Other comprehensive income								
Actuarial gain on pension plan	24	-	-	-	8,805	-	870	9,675
Deferred tax thereon		-	-	-	(929)	-	(92)	(1,021)
Net fair value movements on cash flow hedges	13	-	-	-	-	(1,315)	(130)	(1,445)
Deferred tax thereon		-	-	-	-	223	22	245
Dividends	5	-	-	-	(6,180)	-	(691)	(6,871)
Balance at 31 December 2018		5,824	11,309	59,929	58,789	(384)	13,301	148,768

The accompanying notes on pages 18 to 51 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Consolidated Group	
	2018	**2017**
	£'000	**£'000**
Cash flow from operating activities		
(Loss)/profit from operations	(8,264)	12,100
Adjustments for:		
Depreciation and amortisation	19,106	9,291
Defined benefit pension cost	12,601	12,966
Benefit contributions	(7,508)	(7,990)
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(3,388)	(239)
Increase/(decrease) in payables	13,860	(1,268)
Decrease/(increase) in inventories	36	(89)
Increase in provisions	351	164
Cash flows from operations	26,794	24,935
Interest paid	(85)	(28)
Income tax paid	(2,761)	(3,031)
Net cash flows from operating activities	23,948	21,876
Cash flow from investing activities		
Purchase of property plant and equipment (note 8)	(11,501)	(16,468)
Proceeds from disposal of property, plant and equipment	793	564
Interest received	37	21
Net cash flows from investing activities	(10,671)	(15,883)
Cash flow from financing activities		
Payments to hire purchase/finance lease creditors	(1,948)	(649)
Dividends paid	(6,180)	(6,610)
Net cash flows from financing activities	(8,128)	(7,259)
Net increase/(decrease) in cash and cash equivalents	5,149	(1,266)
Cash and cash equivalents at beginning of the year	16,820	18,086)
Cash and cash equivalents at end of the year	21,969	16,820
Bank balances and cash	21,969	16,820

The accompanying notes on pages 18 to 51 form part of these financial statements

1. Statement of significant accounting policies

General information

Transport for Edinburgh is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 2. The principal activities of the Company are described within the Strategic Report on page 3.

Basis of preparation

The consolidated financial statements of Transport for Edinburgh Limited have been prepared in accordance with IFRSs, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs.

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 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 2018:

- IAS 1, Presentation of Financial Statements

IAS 1 has been amended after the issue of IFRS 9 with the main effect on the Group being to amend the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost which on initial application has no material impact on the Group's financial statements in the year.

- IAS 39, Financial Instruments: Recognition and Measurement
- IFRS 7, Financial Instruments: Disclosures
- IFRS 9, Financial Instruments

IAS 39 requirements were replaced by IFRS 9 on Financial Instruments, with the main effect on the Group being the requirement to re-categorise financial assets and liabilities together with IFRS 7 on Financial Instruments Disclosures. On initial application there has been no material impact or significant disclosure changes for recognition and measurement, impairment, derecognition and hedge accounting in the Group's financial statements in the year. The new impairment treatment required under IFRS 9 with impairment provisions for trade and other receivables based on expected credit losses has had no material impact on the Group's financial statements.

- IFRS 15, Revenue from Contracts with Customers

IFRS 15 on revenue from contracts with customers has not had a material impact on the Group's financial statements in the year with initial application having no material impact on the income statement and there was no adjustment required to prior year opening reserves. In recognising revenue the contract with the customer was identified, the performance obligations identified, the transaction price was determined and then allocated to each performance obligation and revenue recognised in the period when the performance obligation was satisfied when the customer obtained control of the goods or services. Most of our bus revenue comes from cash fares from passengers at the time of travel with other products that have more contractual terms like Ridacard and M-Ticket revenue, for example, which cover a specified period of time, being allocated in the period to which travel relates.

1. Statement of significant accounting policies (continued)

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 2018, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IFRS 16, Leases	1 January 2019
IAS 12, Income Taxes*	1 January 2019

* Not yet adopted for use in the European Union

The Directors have reviewed the requirements of the new standards and interpretations listed above and their effect is as follows:

IFRS 16, Leases replaces IAS 17 and is expected to have a material impact on the financial statements on initial application in 2019 due to the change in classification of operating leases. As detailed in note 20, the value of operating lease commitments is significant and therefore the Group will be required to recognise an asset to record the right of use and record a liability for the payments under the lease. Under the new lessee accounting model an asset and liability will be recognised and depreciation of lease assets recognised separately from interest in the Group's financial statements.

IAS 12 on Income Taxes states that all tax consequences of a dividend should be recognised at the time the liability to pay the dividend is recorded or paid if no liability is recorded prior. All income tax consequences of the dividend will be recorded in profit or loss, other comprehensive income or equity according to where the distributable profits were created.

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2019 are considered to have no significant or material effect on the Group's financial statements.

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

The Directors are of the opinion that the Company and Group have 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. Lothian Buses Limited, has confirmed that it will continue to provide sufficient financial support so as to allow its subsidiary, East Coast Buses Limited, to continue to meet its liabilities as they fall due for at least 12 months 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,

1. Statement of significant accounting policies (continued)

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. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured on the basis specified in another accounting standard, when applicable.

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 directly 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 Profit or Loss and Other 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 (loss)/profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

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

d. Property, plant and equipment

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

Heritable property is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation on buildings and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying value. The 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. The Directors believe the carrying amount as at 31 December 2018 to be in line with the fair value of the properties.

1. Statement of significant accounting policies (continued)

Revaluations

Heritable properties were last 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.

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.

Depreciation

The depreciable amount of all fixed assets (excluding buildings) and including 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. Non-heritable property is not depreciated.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
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.

1. Statement of significant accounting policies (continued)

e. Leases

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

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
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.

Operating agreements are reviewed in line with IFRIC 4 to determine whether the agreement contains a lease. When the conditions of IFRIC 4 are met the operating agreement is accounted for in line with IAS 17 as an operating lease.

f. Impairment

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

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

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

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

g. Inventories

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

h. Cash and cash equivalents

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

1. Statement of significant accounting policies (continued)

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 derived principally from the provision of transport services in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer with reference to the stage of completion of travel provided under contractual terms and when relevant shown net of refunds. The majority of revenue is generated from cash fares received from customers at the point of travel when the revenue is recognised.

IFRS 15 states that the Group must identify revenue recognised from contracts with customers. This applies to M-Ticket and Ridacard income streams where income is received in advance of travel and therefore a contract is created with the customer with the obligation to provide future travel services. The income is initially accounted for as deferred income on the balance sheet and is recognised as revenue when the performance obligation is met by the Group. The performance obligation is considered to be met for M-Ticket income when the M-Ticket is activated on travel by the customer or when the M-Ticket expires. The performance obligation is considered to be met for Ridacard income when the period of right to travel for the customer has occurred.

All revenue recognised from the provision of transport services is based on pre determined ticket/service prices which are publically available at www.lothianbuses.com, www.edinburghtour.com, www.eastcoastbuses.co.uk, www.edinburghtrams.com

Concessionary amounts are recognised in revenue in the period in which the service is provided.

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

Interest income is recognised on an accruals basis.

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 bodies and similar organisations 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.

1. Statement of significant accounting policies (continued)

k. 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.

Around half of the employees in 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 Profit or Loss and Other 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, East Coast Buses Limited and Edinburgh Trams Limited participate in a Pension Fund, which is managed by Scottish Widows.

These schemes are of the defined contribution type and contributions are charged to the Statement of Profit or Loss and Other 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.

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1. Statement of significant accounting policies (continued)

l. 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 are as follows:

i. 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.

ii. Retirement benefit costs

Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, inflation rate, salary growth and assumptions about mortality rates.

iii. Depreciation

During the year the depreciation rate that passenger vehicles are depreciated over was changed from 15 years to 12 years for all vehicles which increased the depreciation charge for the year.

m. Financial instruments

Classification

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

i. Loans and receivables

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

ii. Financial liabilities

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

iii. 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.

1. Statement of significant accounting policies (continued)

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of other comprehensive income, while the ineffective portion is recognised in the statement of profit or loss. Amounts recorded in the statement of other comprehensive income are transferred to the statement of profit or loss 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. Derivative financial instruments are measured based on mark to market prices at the end of the reporting period.

n. 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.

o. 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.

p. 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).

q. Share capital

Ordinary shares are classified as equity.

r. Operating leases

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. Operating agreements are reviewed in line with IFRIC 4 to determine whether the agreement contains a lease. When the conditions of IFRIC 4 are met the operating agreement is accounted for in line with IAS 17 as an operating lease.

2. (Loss)/profit from operations

	Consolidated Group		Parent Entity	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
(Loss)/profit from operations has been determined after:				
Auditor's remuneration:				
Audit services	50	44	5	5
Non-audit services	14	10	2	2
Depreciation and other amounts written off tangible fixed assets:				
Owned	18,277	9,000	-	-
Assets held under hp/finance leases	829	291	-	-
Operating lease rentals	8,758	1,458	-	-
Infrastructure maintenance	5,146	-	-	-
(Loss)/gain on disposal of property, plant and equipment	(31)	4	-	-

3. Finance income

	Consolidated Group		Parent Entity	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Investment income	37	21	7,000	6,330
Pension interest income (note 24)	1,423	-	-	-
	1,460	21	7,000	6,330

4. Finance costs

	Consolidated Group		Parent Entity	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Finance lease charges	85	28	-	-
Pension interest costs (note 24)	-	149	-	-
	85	177	-	-

5. Dividends

	2018 £'000	2017 £'000
Ordinary share capital		
CEC - Interim: £1.06p per share declared; (2017 – 94.44p declared)	6,180	5,500
CEC - Final: 0p per share declared; (2017 – 8.585p declared)	-	500
Non-controlling interest - Final: £1.2019p per share declared; (2017 - £1.06p declared)	691	610
	6,871	6,610

An interim dividend of £6,180,000 for equity holders (of £1.06p per share) was paid on 28 March 2018. The final dividend of £691,000 payable by a subsidiary to non-controlling interests was approved on 13 December 2018 and was paid on 26 March 2019. Payment of an interim dividend for 2019 of £7,000,000 was made to CEC on 26 March 2019.

6. Income tax expense

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current tax:				
Corporation tax	1,149	2,875	-	64
Deferred tax	(1,271)	402	-	-
Adjustment in respect of prior years	(32)	(256)	-	-
Corporation tax Group relief	-	-	35	-
Tax on results for the year	(154)	3,021	35	64

The effective tax rate for the year ended 31 December 2018 is calculated at 19% (2017: 19.25%) of the estimated assessable results for the year. The (credit)/charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
(Loss)/profit for the year before taxation	(6,920)	11,948	7,181	6,659
(Loss)/profit for the year at the effective rate of corporation tax of 19% (2017 – 19.25%)	(1,315)	2,300	1,364	1,282
Effects of:				
Expenses not deductible for tax purposes	1,007	995	1	1
Income not taxable for tax purposes	(270)	-	(1,330)	(1,219)
Income not taxable for tax purposes – fixed assets	32	37	-	-
Adjust deferred tax to average rate of 19% (2017 – 19.25%)	147	(52)	-	-
Temporary differences not recognised in tax computation	-	(3)	-	-
Adjustment to the tax charge in respect of previous periods	(32)	(256)	-	-
Loss carried back	314	-	-	-
Other tax adjustments, reliefs and transfers	(19)	-	-	-
Chargeable gains	4	-	-	-
Deferred tax not recognised	(22)	-	-	-
Tax (credit)/charge for the year	(154)	3,021	35	64

7. Employee benefits expense

The Company had 2 employees during the year (2017: 2). The average number of persons employed by the Group (including Directors) during the year was 2,706 (2017: 2,554).

The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Wages and salaries	82,562	77,847	175	181
Social security costs	8,186	7,808	21	23
Other pension costs	8,413	8,341	1	1
	99,161	93,996	197	205

Other pension costs comprise contributions to defined benefit schemes of £7,244,000 (2017: £7,714,000) and to defined contribution schemes of £1,169,000 (2017: £627,000) for the Group and £nil (2017: £nil) and £1,000 (2017: £1,000) for the Company respectively.

	Consolidated Group		Parent Entity	
Directors' remuneration	**2018**	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Aggregate emoluments and benefits	189	186	144	142
Aggregate pension contributions	-	-	-	-
Highest paid Director's emoluments and benefits	144	142	144	142

One Director received emoluments from the Company (2017: one). Three Directors (2017: three) received the emoluments above from subsidiary companies, relative to serving on this Company's Board. No Director is accruing retirement benefits under a defined benefit scheme (2017: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £21,466 (2017: £23,059). The Directors of Transport for Edinburgh Limited are also considered to be the Company's key management personnel.

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 2018	26,639	151,231	315	10,118	188,303
Additions	-	9,392	33	2,076	11,501
Disposals	-	(7,729)	(7)	(17)	(7,753)
At 31 December 2018	26,639	152,894	341	12,177	192,051
Accumulated depreciation					
At 1 January 2018	(1,303)	(63,565)	(271)	(6,277)	(71,416)
Charge for the year	-	(18,046)	(19)	(1,041)	(19,106)
Eliminated on disposal	-	6,905	7	17	6,929
At 31 December 2018	(1,303)	(74,706)	(283)	(7,301)	(83,593)
Net book value					
At 31 December 2018	25,336	78,188	58	4,876	108,458
Net book value					
At 31 December 2017	25,336	87,666	44	3,841	116,887

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2017	26,639	131,183	343	8,025	166,190
Additions	-	24,069	48	2,093	26,210
Disposals	-	(4,021)	(76)	-	(4,097)
At 31 December 2017	26,639	151,231	315	10,118	188,303
Accumulated depreciation					
At 1 January 2017	(1,303)	(58,396)	(309)	(5,654)	(65,662)
Charge for year	-	(8,632)	(36)	(623)	(9,291)
Eliminated on disposal	-	3,463	74	-	3,537
At 31 December 2017	(1,303)	(63,565)	(271)	(6,277)	(71,416)
Net book value					
At 31 December 2017	25,336	87,866	44	3,841	116,887
Net book value					
At 31 December 2016	25,336	72,787	34	2,371	100,528

The net book value of tangible assets includes an amount of £9,183,000 (2017: £10,012,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £829,000 (2017: £291,000) has been charged during the year in respect of these assets.

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,248,000 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.

The Directors are satisfied that the fair value of heritable properties does not differ materially from the book value as at 31 December 2018 and therefore no depreciation has been charged for the year.

9. Inventories

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Raw materials (fuel)	385	398	-	-
Finished goods	320	343	-	-
	705	741	-	-

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	2,561	1,273	-	-
Other receivables	716	276	7,000	-
Prepayments and accrued income	1,909	1,810	9	10
VAT recoverable	4,353	2,801	-	8
Corporation tax recoverable	580	-	-	-
Amounts due from Edinburgh Trams Limited	-	-	-	1,000
Amounts due from City of Edinburgh Council	306	288	-	-
Amounts due from Midlothian Council	-	1	-	-
Amounts due from East Lothian Council	10	18	-	-
	10,435	6,467	7,009	1,018

Non-current	-	-	-	1,000
Current	10,435	6,467	7,009	18
	10,435	6,467	7,009	1,018

The Directors consider the fair value of receivables to be in line with carrying values.

11. Current liabilities

	Consolidated Group		Parent Entity	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade and other payables	3,386	4,141	-	-
Other payables	4,588	4,375	-	-
Current tax payable	-	1,064	-	64
Taxation and social security	2,886	2,709	12	-
Obligations under hp/finance leases (note 14)	1,949	1,949	-	-
Accruals and deferred income	5,527	5,868	9	9
Derivative financial instruments	224	-	-	-
Dividends payable to non-controlling interest	691	-	-	-
Amounts due to subsidiary companies	-	-	42	6
Amounts due to City of Edinburgh Council	15,972	405	500	-
	35,223	20,511	563	79

Accrued expenses	1,741	1,248	9	9
Income received in advance	3,786	4,620	-	-
	5,527	5,868	9	9

12. Other financial liabilities (non-current)

	Consolidated Group		Parent Entity	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts due to City of Edinburgh Council	-	1,000	-	1,000
	-	1,000	-	1,000

13. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
(Liabilities)/assets				
No later than one year	(224)	1,034	-	-
Later than one year but no later than five years	(283)	(97)	-	-
	(507)	937	-	-

Analysed as:	Consolidated Group		Parent Entity	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
(Liabilities)/assets				
Current	(224)	1,034	-	-
Non-current	(283)	(97)	-	-

14. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:	**Consolidated Group**		**Parent Entity**	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
No later than one year	1,949	1,949	-	-
Later than one year but no later than five years	5,196	7,144	-	-
	7,145	9,093	-	-

Analysed as:	**Consolidated Group**		**Parent Entity**	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Current	1,949	1,949	-	-
Non-current	5,196	7,144	-	-

Hire purchase and finance lease liabilities are secured on the assets to which the agreements relate.

15. Provisions

	Consolidated Group		**Parent Entity**	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax liabilities				
At beginning of the year	16,452	5,490	-	-
(Credit)/charge for the year to profit or loss	(1,271)	402	-	-
Charge to other comprehensive income	776	10,560	-	-
At end of the year	15,957	16,452	-	-

The elements of deferred tax are as follows:

Accelerated capital allowances	5,061	6,334	-	-
Short term timing differences	(148)	(151)	-	-
Pension scheme asset	11,130	10,109	-	-
Deferred tax on fair value movements on cash flow hedges	(86)	160	-	-
	15,957	16,452	-	-

Included in the accounts as follows:				
Provision for liabilities and charges	15,957	16,452	-	-
	15,957	16,452	-	-

There were no deferred tax assets in the year.

15. Provisions (continued)

Claims	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
At the beginning of the year	1,260	1,096	-	-
Charge for the year	1,493	1,170	-	-
Paid during the year	(1,142)	(1,006)	-	-
At the end of the year	1,611	1,260	-	-

Claims

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

The Directors and Management are fully aware of the ongoing claims and legal action being undertaken with regards to cyclists claims being pursued through the courts with hearings due to be heard during 2019. Under the terms of our insurance Edinburgh Trams liability exposure is limited to £120,000 in any given calendar year with if applicable, any further liabilities covered by third parties.

The Board and Management also note the fatality that occurred in May 2018 and can advise the Tram company are fully cooperating with all relevant parties during ongoing investigations.

16. Cash and cash equivalents

	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Cash at bank and in hand	21,969	16,820	1,124	6,665

17. Share capital

	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Allotted, called up and fully paid				
5,824,000 ordinary shares of £1 each	5,824	5,824	5,824	5,824
	5,824	5,824	5,824	5,824

18. Reserves

Group	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2017	11,309	59,929	1,004	9,779
Profit for the year	-	-	-	8,265
Actuarial gain on pension plan	-	-	-	61,550
Deferred tax thereon	-	-	-	(9,671)
Net fair value movements on cash flow hedges	-	-	(356)	-
Deferred tax thereon	-	-	60	-
Dividends	-	-	-	(6,000)
At 31 December 2017	11,309	59,929	708	63,923
Loss for the year	-	-	-	(6,830)
Actuarial gain on pension plan	-	-	-	8,805
Deferred tax thereon	-	-	-	(929)
Net fair value movements on cash flow hedges	-	-	(1,315)	-
Deferred tax thereon	-	-	223	-
Dividends	-	-	-	(6,180)
At 31 December 2018	11,309	59,929	(384)	58,789

Company	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2017	-	-	-	6,009
Profit for the year	-	-	-	6,595
Dividends	-	-	-	(6,000)
At 31 December 2017	-	-	-	6,604
Profit for the year	-	-	-	7,146
Dividends	-	-	-	(6,180)
At 31 December 2018	-	-	-	7,570

In 2013 the Company acquired Lothian Buses Limited. The excess of the book value of the Group's share of Lothian Buses Limited's assets and liabilities at the time of acquisition over the consideration has been allocated to other reserves, in accordance with the Company's accounting policy for subsidiaries previously held under common control.

19. Non-controlling interest

	Non-controlling interest £'000
At 1 January 2017	8,110
Share of profit for the year	662
Dividends	(610)
Share of cash flow hedges	(35)
Share of deferred tax on movement on cash flow hedges	6
Share of actuarial gain for the year	6,080
Share of deferred tax thereon	(955)
At 31 December 2017	13,258
Share of profit for the year	64
Dividends	(691)
Share of cash flow hedges	(130)
Share of deferred tax on movement on cash flow hedges	22
Share of actuarial gain for the year	870
Share of deferred tax thereon	(92)
At 31 December 2018	13,301

20. Commitments

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

	Consolidated Group		Parent Entity	
		Restated		
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Not later than one year	8,702	1,707	-	-
Later than one year and not later than five years	34,821	6,715	-	-
Later than five years	73,698	11,930	-	-
	117,221	20,352	-	-

Total operating lease payments in the year to 31 December 2018 recognised through the Statement of Profit or Loss were £8,758,000 (2017: £1,754,000).

In December 2018 the Board of Lothian Buses Limited gave approval for expenditure of £13.5m on 53 new buses for 2019. These are expected to be delivered during mid 2019.

21. Principal subsidiaries

Subsidiaries:	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Edinburgh Trams Ltd	UK	Transport	100%
Lothian Buses Ltd	UK	Transport	91.01%
Subsidiaries of Lothian Buses Limited:			
East Coast Buses Ltd	UK	Transport	100%
Edinburgh Bus Tours Ltd	UK	Transport	100%
Lothian Region Transport Ltd	UK	Dormant	100%
Majestic Tours Edinburgh Ltd	UK	Dormant	100%
Edinburgh City Transport Ltd	UK	Dormant	100%
City Sightseeing Edinburgh Ltd	UK	Dormant	100%
Lothian Coaches Ltd	UK	Dormant	100%
Lothian Country Buses Ltd	UK	Dormant	100%
Leith Walk Property Ltd	UK	Dormant	100%
Mactours Ltd	UK	Dormant	100%
Lothian Trams Ltd	UK	Dormant	100%
Lothian Transport Ltd	UK	Dormant	100%
Trams for Edinburgh Ltd	UK	Dormant	100%
Edinburgh Bus and Tram Ltd	UK	Dormant	100%

All subsidiary undertakings are included in the consolidation. The registered address of all of the above subsidiary undertakings is 55 Annandale Street, Edinburgh, EH7 4AZ. 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.

22. Related party transactions

Group

The Group is controlled by the City of Edinburgh Council (incorporated in the UK), which owns 100% 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

	2018 £'000	2017 £'000
City of Edinburgh Council (ultimate parent)	1,538	1,435
Midlothian Council (shareholder)	30	123
East Lothian Council (shareholder)	143	182
	1,711	1,740

(b) Purchase of goods and services

	2018 £'000	2017 £'000
City of Edinburgh Council (ultimate parent)	18,184	4,997
Midlothian Council (shareholder)	-	4
	18,184	5,001

The above related party transactions are for the receipt of route support and management services and include payments for rent and rates etc. All transactions are conducted on an arm's length basis.

(c) Reimbursement of expenses incurred:

	2018 £'000	2017 £'000
City of Edinburgh Council (ultimate parent)	672	695

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

	2018 £'000	2017 £'000
<u>Receivables from related parties</u>		
City of Edinburgh Council (ultimate parent)	306	288
Midlothian Council (shareholder)	-	1
East Lothian Council (shareholder)	10	18
<u>Payables to related parties</u>		
City of Edinburgh Council (ultimate parent)	(15,972)	(1,392)

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

23. Controlling interest

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

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

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

24. 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 Lothian Buses Pension Fund was merged into the main Lothian Pension Fund on 31 January 2019 with the members benefits being unaffected.

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 2017 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.

24. Retirement benefits obligation (continued)

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 2018 £'000	%	Value at 2017 £'000
Equity Securities:				
Consumer	4%	22,699	12%	60,978
Manufacturing	11%	58,015	13%	69,260
Energy and Utilities	5%	27,604	4%	21,482
Financial Institutions	7%	33,617	7%	33,877
Health and Care	7%	37,792	7%	37,240
Information Technology	4%	19,310	7%	38,776
Other	12%	61,406	4%	22,831
Debt Securities:				
Corporate Bonds	2%	12,151	2%	8,749
UK Government	19%	99,649	14%	74,196
Private Equity:				
All	-	-	1%	3,505
Real Estate:				
UK Property	8%	41,022	8%	41,947
Investment Funds and Unit Trusts:				
Other	1%	6,058	1%	6,662
Bonds	6%	29,490	6%	31,799
Infrastructure	10%	52,446	10%	51,511
Other			-	-
Cash and Cash Equivalents:				
All	4%	19,254	4%	20,342
	100%	520,513	100%	523,155

The amounts recognised in the statement of financial position are determined as follows:	2018 £'000	2017 £'000
Fair value of plan assets	520,513	523,155
Present value of scheme liabilities	(455,042)	(463,689)
Asset in the scheme – pension liability	65,471	59,466
Net pension asset	65,471	59,466

24. Retirement benefits obligation (continued)

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

	2018 £'000	2017 £'000
At 1 January	463,689	472,282
Current service cost	12,601	12,966
Interest cost on obligation	11,620	12,800
Plan participants contributions	1,882	1,974
Unfunded benefits paid	(264)	(276)
Benefits paid	(11,308)	(11,079)
Change in demographic assumptions	-	(1,459)
Actuarial gains arising from changes in financial assumptions	(22,875)	(5,697)
Other actuarial gains	(303)	(17,822)
At 31 December	455,042	463,689

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

	2018 £'000	2017 £'000
At 1 January	523,155	469,243
Benefits paid	(11,308)	(11,079)
Interest income on plan assets	13,043	12,651
Contributions by employer	7,244	7,714
Contributions by member	1,882	1,974
Contributions in respect of unfunded benefits	264	276
Unfunded benefits paid	(264)	(276)
Return on assets excluding amounts included in net interest	(13,503)	42,652
At 31 December	520,513	523,155

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income are as follows:

	2018 £'000	2017 £'000
Interest received on pension scheme assets	(13,043)	(12,651)
Interest cost on pension scheme liabilities	11,620	12,800
Finance (income)/cost	(1,423)	149
Current service cost	12,601	12,966
	11,178	13,115

24. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2018 £'000	2017 £'000
Actuarial gains in the defined benefit obligation	23,178	24,978
Actuarial (losses)/gains in the fair value of defined benefit assets	(13,503)	42,652
	9,675	67,630

The principal actuarial assumptions used in this valuation were:

	2018	2017
Inflation/pension increase rate	2.4%	2.4%
Salary increase rate	4.1%	3.4%
Discount rate	2.9%	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. 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 1% (2017: 1%).

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

Change in assumption	Approximate increase to employer asset %		Approximate increase to employer asset £'000	
	2018	2017	2018	2017
0.5% decrease in real discount rate	10%	10%	44,867	45,034
0.5% increase in the salary increase rate	2%	2%	8,709	8,921
0.5% increase in the pension increase rate	8%	8%	35,386	35,207

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.

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.

24. Retirement benefits obligation (continued)

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	19.7	22.3
Future pensioners	21.9	24.8

The average duration of the benefit obligation at 31 December 2018 is 19 years (2017: 19 years). This number can be analysed as follows:

	2018	**2017**
Active members	23.1 years	23.1 years
Deferred members	22.1 years	22.1 years
Retired members	11.7 years	11.7 years

Expected contributions to post employment benefit plans for the year ended 31 December 2019 are £7,244,000.

25. Operating leases

Operating lease arrangements, where the Group 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**	
	2018 £'000	**2017 £'000**	**2018 £'000**	**2017 £'000**
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	77	70	-	-
Later than one year but no later than five years	275	274	-	-
Later than five years	214	264	-	-
	566	608	-	-

The total annual operating lease income received in the year ended 31 December 2018 was £70,000 (2017: £67,000).

26. 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. Financial Instruments do not include prepayments, VAT, taxation, social security and deferred income.

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 IFRS 9 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group		Parent Entity	
		2018	2017	2018	2017
		£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	16	21,969	16,820	1,124	6,665
Trade and other receivables	10	3,593	1,856	7,000	1,000
Total financial assets		25,562	18,676	8,124	7,665
Financial liabilities					
Current liabilities	11	28,327	12,118	528	15
Non-current finance lease obligations	14	5,196	7,144	-	-
Non-current financial obligations	12	-	1,000	-	1,000
Total financial liabilities		33,523	20,262	528	1,015

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 27.

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.

Capital management

The Group aims to manage its overall capital structure to ensure it continues to operate as a going concern. The Group's capital structure represents the equity attributable to the shareholders of the Group together with cash equivalents.

26. Financial risk management (continued)

Financial risk exposures and management

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

a. Credit risk

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

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

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

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

The credit risk for all counter parties included in trade and other receivables at 31 December 2018 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.

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

26. Financial risk management (continued)

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

Group	Note	Within 1 Year 2018 £'000	1 to 5 Years 2018 £'000	Total 2018 £'000
Financial liabilities due for payment				
Current liabilities	11,12	26,378	-	26,378
Finance lease obligations	14	1,949	5,196	7,145
Total expected outflows		28,327	5,196	33,523
Financial assets — cash flows realisable				
Cash and cash equivalents	16	21,969	-	21,969
Trade and other receivables	10	3,593	-	3,593
Total anticipated inflows		25,562	-	25,562
Net outflow of financial instruments		(2,765)	(5,196)	(7,961)

Financial liability and financial asset maturity analysis

Group	Note	Within 1 Year 2017 £'000	1 to 5 Years 2017 £'000	Total 2017 £'000
Financial liabilities due for payment				
Current liabilities	11,12	10,169	1,000	11,169
Finance lease obligations	14	1,949	7,144	9,093
Total expected outflows		12,118	8,144	20,262
Financial assets — cash flows realisable				
Cash and cash equivalents	16	16,820	-	16,820
Trade and other receivables	10	1,856	-	1,856
Total anticipated inflows		18,676	-	18,676
Net inflow/(outflow) of financial instruments		6,558	(8,144)	(1,586)

26. Financial risk management (continued)

b. Liquidity risk (continued)

Company	Note	Within 1 Year 2018 £'000	1 to 5 Years 2018 £'000	Total 2018 £'000
Financial liabilities due for payment				
Current liabilities	11,12	528	-	528
Total expected outflows		528	-	528
Financial assets — cash flows realisable				
Cash and cash equivalents	16	1,124	-	1,124
Trade and other receivables	10	-	-	-
Total anticipated inflows		1,124	-	1,124
Net inflow of financial instruments		596	-	596

Company	Note	Within 1 Year 2017 £'000	1 to 5 Years 2017 £'000	Total 2017 £'000
Financial liabilities due for payment				
Current liabilities	11,12	15	1,000	1,015
Total expected outflows		15	1,000	1,015
Financial assets — cash flows realisable				
Cash and cash equivalents	16	6,665	-	6,665
Trade and other receivables	10	-	1,000	1,000
Total anticipated inflows		6,665	1,000	7,665
Net inflow of financial instruments		6,650	-	6,650

26. 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 2018 consume approximately 23.4m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. During the year approximately 21.0m litres of diesel fuel was hedged with the remaining amount being exposed to fuel price volatility.

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 net cash flows on settlement of the contracts are paid or received at the end of each month. 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 Other Comprehensive Income. A 1p decrease in the underlying price of fuel decreases the overall net liability of the fixed contracts by £400,000. Likewise, if the price of fuel was to increase above the underlying price of the contracts, then this would result in an increase in the overall net asset.

However, the impact through the Group's Statement of Other 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.

27. 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 2018.

	Note	**Level 2**	
		2018 £'000	**2017 £'000**
(Liabilities)/assets			
Derivative financial instruments	13	(507)	937

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	**2018 £'000**	**2017 £'000**
Non-current (liabilities)			
Fuel derivatives	13	(283)	(97)
Current (liabilities)/assets			
Fuel derivatives	13	(224)	1,034
Total net carrying value		(507)	937

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

27. Derivative financial instruments (continued)

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

Fuel derivatives	**2018 £'000**	**2017 £'000**
Fair value at the start of the year	937	1,329
Changes in the fair value during the year	421	(206)
Cash paid during the year	(1,865)	(186)
Fair value at the end of the year	(507)	937

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

As at 31 December 2018	**Assets/ (Liabilities) £'000**
Within one year	(224)
1 to 2 years	41
2 to 3 years	(324)
	(507)

28. Movements in financing liabilities/(assets) arising from financing activities

	Current Loans & Borrowings £'000	**Non-current Loans & Borrowings £'000**	**Derivative Financial Liabilities £'000**	**Derivative Financial Assets £'000**	**Total £'000**
At 1 January 2017	-	-	-	(1,329)	(1,329)
Cash flows					
Repayment of capital on finance leases	-	(649)	-	-	(649)
Net receipts from derivative instruments	-	-	-	186	186
Non-cash flows					
New finance leases	1,949	7,793	-	-	9,742
Change in fair value during the year	-	-	-	206	206
Split in aging profile	-	-	97	(97)	-
At 31 December 2017	1,949	7,144	97	(1,034)	8,156
At 1 January 2018	1,949	7,144	97	(1,034)	8,156
Cash flows					
Repayment of capital on finance leases	(1,948)	-	-	-	(1,948)
Net receipts from derivative instruments	-	-	-	1,865	1,865
Non-cash flows					
Change in fair value during the year	-	-	-	(421)	(421)
Split in aging profile	1,948	(1,948)	410	(410)	-
At 31 December 2018	1,949	5,196	507	-	7,652

29. Prior year restatement

The prior year restatement relates to the disclosure of the operating lease detailed in note 20. One of the Group's subsidiaries pays The City of Edinburgh Council for the use of the tramline and related infrastructure. In the prior year's financial statements this agreement was not recognised as an operating lease and therefore the prior year commitment in note 20 has been restated. This has had no impact on the reserves of the Company or Group or any line item in both the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position.

30. Post balance sheet events

In March 2019, the Elected Members of The City of Edinburgh Council voted to proceed with the Trams to Newhaven Project. Edinburgh Trams is now the Operator and Maintainer of the Trams System and the operator for the new Tram Extension.

On 25 March 2019 a payment of £8.8m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams.