LOTHIAN BUSES LIMITED

Revised Consolidated Financial Statements

For the year ended 31 December 2014

Registered number SC096849

Revised Consolidated Financial Statements

For the year ended 31 December 2014

As explained in note 1 to the financial statements, these financial statements have been revised to reflect a reduction in directors' emoluments as a consequence of the Chief Executive not having a contractual entitlement to a bonus payment.

These revised accounts replace the original accounts for the year ended 31 December 2014 and they are now the statutory accounts of the company and group for the year ended 31 December 2014. The revised accounts have been prepared as at the date of the original accounts (16 April 2015) and not at the date of revision (9 July 2015) and accordingly do not deal with events between those dates.

LOTHIAN BUSES LIMITED

Revised Consolidated Financial Statements
For the year ended 31 December 2014

Contents	**Page**

Company Information

Board of Directors:

Chairman

Chris Walton	Resigned on 22 April 2014
Ann Faulds	Appointed Chairperson on 22 April 2014 and resigned on 12 November 2014
Anthony Depledge	Appointed as director on 6 February 2014 and as Chairman from 13 November 2014

Executive Directors

William Campbell
Ian Craig
William Devlin
Norman Strachan

Senior Independent Director

John Martin

Non-Executive Directors

Owen Boyle	Resigned on 9 December 2014
Steven Cassidy	Appointed on 6 February 2014
Donald MacLeod	
Robert Fraser	Appointed 21 January 2015
Marjory Rodger	

Company Registration:

Registered Office	55 Annandale Street Edinburgh EH7 4AZ
Registration Number	096849 in Scotland
Secretary	Norman Strachan

Bankers:

The Royal Bank of Scotland plc
Barclays Bank plc

Auditor:

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

Strategic report

Business Strategy

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

Principal Activities

The principal activity of the group during the year under review was the operation of over 650 buses and open top tours in Edinburgh and the Lothians carrying around 2m passengers per week. There have been no other significant changes in the group's principal activities in the year under review. The directors are not aware at the date of this report, of any likely major changes in the group's activities in the next year.

Review of the Business

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

As shown in the Consolidated Statement of Comprehensive Income, revenue has increased by 2.3% over the previous year while the profit from operations margin for the year is 7.1%. The Statement of Financial Position shows the group's financial strength at the year end with net reserves of £62.3m.

Capital expenditure in the year was £14.1m. The main item of expenditure being the addition of 65 new public service vehicles to the fleet.

The group has faced significant operating and cost pressures. We anticipate that these cost pressures will remain in 2015 and we will remain proactive in seeking to mitigate the impact of these cost pressures.

Results and Dividends

The results and dividends are summarised below. An interim dividend of 85.85p per share was approved on 18 December 2014 and was paid on 23 December 2014.

	2014 £'000	2013 £'000
Revenue	135,260	132,263
Profit before income tax expense	10,143	11,653
Provision for income tax expense	(1,898)	(3,072)
Net profit for the year	8,245	8,581
Interim dividend	5,494	3,296

Strategic report (continued)

The key performance indicators for the group are:-

	2014	2013	Change
Passenger journeys	118m	115m	+2.61%
Service reliability – lost mileage	0.10%	0.10%	-
Staff turnover	2.8%	2.9%	-0.10%
Vehicle fleet	761	711	+7.03%
Engineering MOT 1st time pass rate	100.0%	99.7%	+0.30%

Future Prospects

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

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

Employees

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

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

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

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

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

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

Strategic report (continued)

Risks and Uncertainties

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

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

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

Commodity Price Risk

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

Corporate Social Responsibility

2014 continued the success of previous years at Lothian Buses Ltd in both environmental and community engagement. From investment in new technologies and initiatives to improve our environmental performance to our commitment to engage with and support the local community, corporate social responsibility remains a vital role in our business.

The group is dedicated to reducing our emissions by investing in the fleet and minimising our environmental impact. In July we added twenty single deck Volvo 7900 Hybrids to the fleet. These buses which are fitted with the latest euro emission technology were launched on service 30. In addition, November seen the arrival of a further twenty Volvo 7900 Euro 6 buses which can be seen on services 12 and 24. The arrival of these buses has increased our euro status and seen significant fuel and carbon savings. Next year, new double deck hybrids will be joining the fleet as the company looks to the future.

As part of our CSR policy, we acknowledge the environmental impact from all business activities including the use of energy and water and generation of waste. We have also continued to purchase energy from renewable sources and have increased the recycling rate, this together with measures to improve our bus fleet, has removed over 3,000 tonnes of carbon from our annual carbon footprint.

Our actions to improve sustainability have been recognised in the industry and this year we were awarded the Edinburgh Chamber of Commerce Sustainable Development Award. We were also delighted to sponsor the Transport Award at the VIBES (Vision in Business for the Environment of Scotland) Awards, an award which we ourselves won in 2012.

Within Community Engagement, we held our annual Doors Open Day event which seen a record 5,000 visitors to Central Depot. Highlights of the day included a Volvo tilt cab, hybrid bus racing, a display of new and vintage buses and a trip through the bus wash. Throughout the year we worked closely with our 2014 charity of the year, The Yard, which aims to provide support to children and young people with disabilities. We also continued our work with schools and carried out an employability workshop with pupils at Prestongrange Primary School.

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

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

Steven Cassidy

Date: 9 July 2015

Steven Cassidy
Non-Executive Director

Directors' report

Directors

The directors are as set out on Page 2.

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

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

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Disclosure of Information to the Auditor

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

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

Auditor

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

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

Steven Cassidy

Date: 9 July 2015

Steven Cassidy
Non-Executive Director

Independent Auditor's Report

to the Members of Lothian Buses Limited

For the year ended 31 December 2014

We have audited the revised financial statements of Lothian Buses Limited for the year ended 31 December 2014 which comprise the Group and Parent Company Statements of Comprehensive Income, Group and Parent Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. These revised financial statements replace the original financial statements approved by the directors on 16 April 2015.

The revised financial statements have been prepared under The Companies (Revision of Defective Accounts and Reports) Regulations 2008 ("the Regulations") and accordingly do not take accounts of events which have taken place after the date on which the original financial statements were approved.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the revised financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the revised financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit on the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate and this also applies to an audit of revised financial statements. In addition, the audit of revised financial statements includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

Opinion on Financial Statements

In our opinion:

- the revised financial statements give a true and fair view, seen at the date the original financial statements were approved, of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's and the parent company's profit for the year then ended;
- the revised group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, seen as at the date the original financial statements were approved;
- the revised parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, seen as at the date the original financial statements were approved; and
- the revised financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as it has effect under the Regulations.

Independent Auditor's Report

to the Members of Lothian Buses Limited (continued)

For the year ended 31 December 2014

Emphasis of Matter – Revision of Directors' Remuneration Disclosure

In forming our opinion on the revised financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to these revised financial statements concerning the need to revise the disclosure of directors' remuneration. The original financial statements were approved on 16 April 2015 and our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the revised financial statements.

Matters on Which We Are Required to Report by Exception

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

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

Nick Bennett

Date: 9 July 2015

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

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

For the year ended 31 December 2014

	Note	Consolidated Group 2014 £'000	Consolidated Group 2013 £'000	Parent Entity 2014 £'000	Parent Entity 2013 £'000
Continuing operations					
Revenue	1i	135,260	132,263	130,259	127,327
Gross profit		135,260	132,263	130,259	127,327
Administrative expenses		(125,647)	(119,640)	(122,403)	(116,811)
Profit from operations		9,613	12,623	7,856	10,516
Gain/(loss) on disposal of property, plant and equipment	2	91	(329)	91	(325)
Investment income		-	-	-	6,000
Finance income	3	639	164	638	161
Finance costs	4	(200)	(805)	(200)	(805)
Profit before income tax expense	2	10,143	11,653	8,385	15,547
Income tax expense	6	(1,898)	(3,072)	(1,520)	(2,586)
Net profit for the year		8,245	8,581	6,865	12,961
Attributable to:					
Equity holders		8,245	8,581	6,865	12,961
Other comprehensive income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	26	(6,197)	-	(6,197)	-
Deferred tax charge thereon	14	1,300	-	1,300	-
Those that are not recyclable net of tax:					
Actuarial (loss)/gain on post employment benefit obligations	22	(21,578)	24,535	(21,578)	24,535
Deferred tax charge thereon	14	4,519	(2,420)	4,519	(2,420)
Total comprehensive income for the year		(13,711)	30,696	(15,091)	35,076
Attributable to:					
Equity holders		(13,711)	30,696	(15,091)	35,076

The accompanying notes on pages 14 to 47 form part of these financial statements

Consolidated and Company Statement of Financial Position

As At 31 December 2014

		Consolidated Group		Parent Entity	
	Note	As at 31 December 2014 £'000	As at 31 December 2013 £'000	As at 31 December 2014 £'000	As at 31 December 2013 £'000
Non-current assets					
Property, plant and equipment	8	91,230	85,227	90,680	84,584
Retirement benefit asset	22	-	11,524	-	11,524
Total non-current assets		91,230	96,751	90,680	96,108
Current assets					
Inventories	9	622	608	622	608
Trade and other receivables	10	4,193	2,554	4,171	2,534
Cash and cash equivalents	15	5,272	12,763	4,312	11,896
Total current assets		10,087	15,925	9,105	15,038
Total assets		101,317	112,676	99,785	111,146
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	6,399	6,399	6,399	6,399
Revaluation reserve	17	6,337	6,477	6,337	6,477
Hedging reserve	17	(4,897)	-	(4,897)	-
Retained earnings	17	54,436	68,604	51,261	66,809
		62,275	81,480	59,100	79,685
Liabilities					
Non-current liabilities					
Finance lease obligations	12	676	3,135	676	3,135
Financial instrument liabilities	13	2,365	-	2,365	-
Deferred tax	1,14	3,467	9,547	3,444	9,524
Retirement benefit obligations	22	10,497	-	10,497	-
Provisions	14	1,058	1,320	1,033	1,303
Total non-current liabilities		18,063	14,002	18,015	13,962
Current liabilities					
Trade and other payables	11	2,734	2,046	2,696	1,958
Current tax payable	11	1,228	2,519	1,027	2,256
Finance lease obligations	12	2,459	2,622	2,459	2,622
Financial instrument liabilities	13	3,832	-	3,832	-
Other financial liabilities	11	10,726	10,007	12,656	10,663
Total current liabilities		20,979	17,194	22,670	17,499
Total liabilities		39,042	31,196	40,685	31,461
Total equity and liabilities		101,317	112,676	99,785	111,146

The financial statements were authorised for issue by the Board of Directors on 9 July 2015 and were signed on its behalf by:

Donald MacLeod

Donald MacLeod,
Non-Executive Director

Registered number SC096849

The accompanying notes on pages 14 to 47 form part of these financial statements

Consolidated Statement of Changes in Equity

As at 31 December 2014

	Note	Share Capital £'000	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2013		6,399	6,617	-	41,064	54,080
Comprehensive income						
Profit for the year		-	-	-	8,581	8,581
Other comprehensive income						
Depreciation transfer on land and buildings, net of tax	17	-	(140)	-	140	-
Actuarial gain on pension plan	22	-	-	-	24,535	24,535
Deferred tax thereon	14	-	-	-	(2,420)	(2,420)
Dividends	5	-	-	-	(3,296)	(3,296)
Balance at 31 December 2013		6,399	6,477	-	68,604	81,480

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

The accompanying notes on pages 14 to 47 form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Consolidated Group	
	2014 £'000	2013 £'000
Cash flow from operating activities		
Profit from operations	9,613	12,623
Adjustments for:		
Depreciation and amortisation	7,943	8,175
Defined benefit pension cost	8,387	7,977
Benefit contributions	(7,436)	(7,390)
Changes in assets and liabilities:		
(Increase)/decrease in receivables and other financial assets	(1,536)	1,074
Increase/(decrease) in payables	1,407	(2,697)
(Increase) in inventories	(14)	(95)
(Decrease) in provisions	(262)	(278)
Cash flows from operations	18,102	19,389
Interest paid	(200)	(257)
Income tax paid	(3,546)	(2,582)
Net cash flows from operating activities	14,356	16,550
Cash flow from investing activities		
Purchase of property plant and equipment (Note 8)	(14,066)	(5,558)
Proceeds from disposal of property, plant and equipment	211	406
Interest received	124	202
Net cash flows from investing activities	(13,731)	(4,950)
Cash flow from financing activities		
Payments to hire purchase/finance lease creditors	(2,622)	(4,179)
Dividends paid	(5,494)	(6,592)
Net cash flows from financing activities	(8,116)	(10,771)
Net (decrease)/increase in cash and cash equivalents	(7,491)	829
Cash and cash equivalents at beginning of year	12,763	11,934
Cash and cash equivalents at end of year	5,272	12,763
Bank balances and cash	5,272	12,763

The accompanying notes on pages 14 to 47 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2014

1. Statement of significant accounting policies

The financial statements originally approved on 16 April 2015 have been revised so that these financial statements reflect a reduction in the directors' emoluments due to the decision not to pay a bonus to the Chief Executive. The directors' aggregate emoluments and benefits, and the highest paid director's emoluments and benefits, disclosed in note 25 to the financial statements, have been reduced accordingly. There have been no other consequential changes to the financial statements.

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

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

Adoption of new and revised standards

The Group has adopted the following new and amended IFRSs as of 1 January 2014.

- IAS 32, 'Financial Instruments: Presentation'. The revised standard deals separately with the criterion that the entity must have a legally enforceable right of set off, and the criterion that the entity intends to settle on a net basis or to settle the asset and liability simultaneously. The standard notes that most master netting arrangements fail on these tests, since they are contingent on a future event. The standard also sets out strict criteria where an entity intends to settle in a manner that is simultaneous or otherwise equivalent to net settlement. The basic requirement is that the mechanism used must eliminate, or reduce to the level of insignificance, any credit and liquidity risk. This change doesn't have significant impact on financial statements of the group.
- IAS 39, 'Financial Instruments: Recognition and Measurement'. Some jurisdictions have introduced laws or regulations that require certain derivatives which were initially entered into through over the counter arrangements to be novated to a central counterparty. Under the previous version of IAS 39, this change in the counterparty would have involved the arrangement ceasing to qualify for hedge accounting. The amendment allows hedge accounting to continue if the following criteria are met: a) novation is a consequence of laws and regulations; b) the parties to the hedging instrument agree to the new counterparty, and c) any changes to the hedging instrument are limited to those necessary to effect the replacement of the counterparty (such as to collateral requirements, rights to offset balances, and charges levied). The revised standard doesn't impact the group significantly as it affects only those entities that have derivatives subject to novation, due to a change in the counterparty required by law or regulations that are used for hedge accounting.

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

- IFRS 10, 'Consolidated Financial Statements'. The standard reflects a fundamental shift in the approach taken to determining whether or not one entity is the subsidiary of another, and therefore what constitutes a group. The fundamental shift is that IFRS 10 is drafted on the basis that one entity is the subsidiary of another when it is controlled by that second entity. It then gives guidance on how that control might be defined and identified. Unlike IAS 27, it is not driven by indicators of control in the same way and takes a "substance" approach to the issue. IFRS 10 is based on control and one entity is deemed to control another where it is exposed to, or has rights to, variable returns from its involvement with that other entity and has the ability to affect those returns through its power over the investee. All power arises from rights. The simplest situations are where that power arises solely from voting rights, and the standard notes that it will normally be where rights arise from other sources, such as contracts, where the question of whether or not there is power becomes more complicated. The standard notes that where an entity has the current ability to direct the relevant activities it has power even if its rights to direct have yet to be exercised. This is sometimes referred to as latent power, although that phrase is not used in the standard. The standard then goes on to note that evidence that the investor has been directing relevant activities can help determine whether the investor has power, but is not, in itself, conclusive in determining whether the investor has power over an investee. Finally, the standard notes that protective rights (whilst they remain protective rights) do not give power. Protective rights are not clearly defined, but basically mean rights that relate to fundamental changes or apply only in exceptional circumstances. The normal rule is that they can be ignored. One example would be approval needing to be granted for major capital expenditure by a major lender. The right exists to protect the credit risk of the lender and should not be construed as providing power. However, protective rights do give rise to power, where: a) circumstances change making them relevant; or b) where relevant activities occur only when the circumstances affected by protected rights arise.

  At this point, such rights have ceased to be protective and have become substantive. To be relevant to control, returns must be variable and that variation must be with the investee's performance. Power and returns have to be linked to give rise to control. To have control the investor must be able to use its power to affect returns. The standard also requires entities to reconsider whether they are investment entities when there is a change to any of the elements included within the definition, or any of the identified typical characteristics of an investment entity. Where an entity becomes or ceases to be an investment entity then the change in status is accounted for prospectively from the date on which the change in status occurred. Investment entities should not consolidate their subsidiaries or apply IFRS 3 when they acquire control of another entity. Instead, their investments in subsidiaries should be recorded at fair value through profit or loss in accordance with IFRS 9. (As is now the case in respect of all standards, where an entity has not yet adopted IFRS 9 all references to that standard should be read as references to IAS 39.) There is an exception to this general rule, and investment entities must still consolidate any subsidiaries that provide services that relate to the investment entity's investment activities. Similarly, IFRS 3 will apply when the investment entity acquires control of such a subsidiary. A parent of an investment entity must consolidate all the entities that it controls, including those which are controlled indirectly via the investment entity, unless it is itself an investment entity. This new standard doesn't' materially affect the group because there are no subsidiaries and other investments in entities with the potential to be recognised as subsidiaries.

Standards issued but not yet effective

The following standards and amendments to existing standards have been published and are mandatory for accounting periods of the group beginning after 1 January 2014, but which have not been adopted early by the group:

- IFRS 13, 'Fair Value Measurement'. The standard has been amended as part of the annual improvements project, effective for annual periods beginning on or after 1 January 2015. The amendment returns to the status quo ante prior to the application of IFRS 13, which allowed contracts that do not meet the definition of a financial asset or financial liability, but are however within the scope of IAS 39 or IFRS 9, to apply the portfolio exception within IFRS 13. The exception allows groups of financial assets and financial liabilities to be measured at fair value on a net basis when certain criteria are met. Entities likely to be affected by this amendment are those that enter into contracts to buy or sell a nonfinancial item (commodity contract) that can be settled net in cash by another financial instrument or by exchanging financial instruments. The group has not evaluated the full extent of the impact that the amendment will have on its financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Basis of preparation

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

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Going concern

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

b. Basis of consolidation

Subsidiaries

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

c. Current and deferred Income tax

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

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

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

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

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

d. Property, plant and equipment

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

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

The directors believe the carrying amount as at 31 December 2014 to be in line with the fair value of the properties.

Revaluations

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

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

Plant and equipment

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

Depreciation

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

The depreciation rates used for each class of assets are:

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

Derecognition and disposal

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

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

e. Leases

Activities as a Lessee

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

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

Activities as a Lessor

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

f. Impairment

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

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

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

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

g. Inventories

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

h. Cash and cash equivalents

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

i. Revenue

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

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

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

j. Value added tax

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

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. For receivables and payables, which are recognised inclusive of VAT.

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

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

k. Trade payables

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

Trade payables are recognised at cost.

l. Share capital

Ordinary shares are classified as equity.

m. Employee benefits

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

.

1. Statement of significant accounting policies (continued)

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

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

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

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

Defined contribution scheme

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

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

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

Bonus plans

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

n. Critical accounting estimates and judgements

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

Key estimates – impairment

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

o. Financial instruments

Classification

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

i. *Loans and receivables*

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

ii. *Financial liabilities*

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

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.

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

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

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

p. Offsetting financial instruments

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

2. Profit for the year

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Profit for the year before income tax expense has been determined after:				
Auditor's remuneration:				
Audit services	23	26	21	23
Non-audit services	15	8	14	7
Depreciation and other amounts written off tangible fixed assets:				
Owned	7,199	6,953	7,106	6,678
Assets held under hp/finance leases	744	1,222	744	1,222
Gain/(loss) on disposal of property, plant and equipment	91	(329)	91	(325)

3. Finance income

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Investment income	131	164	130	161
Pension income (note 22)	508	-	508	-
	639	164	638	161

4. Finance costs

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Finance lease charges	200	257	200	257
Pension interest costs (note 22)	-	548	-	548
	200	805	200	805

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

5. Dividends

	2014 £'000	2013 £'000
Ordinary Share Capital		
Interim: 85.85p per share declared; (2013 51.51p declared)	5,494	3,296
	5,494	3,296

The interim dividend for 2014 was approved on 18 December 2014 and was paid on 23 December 2014.

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

6. Income tax expense

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current tax:				
Corporation tax expense	2,256	3,781	1,878	3,254
Adjustment in respect of prior periods	(98)	-	(98)	-
Deferred tax	78	(709)	78	(668)
Effect of increased/decreased tax rate on opening balance	(338)	-	(338)	-
Tax on profits for the year	1,898	3,072	1,520	2,586

The effective tax rate for the year ended 31 December 2014 is calculated at 21.49% (2013: 23.25%) of the estimated assessable profit for the year.

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

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Profit for the year before taxation	10,143	11,653	8,385	15,547
Profit for the year at the effective rate of corporation tax of 21.49% (2013 – 23.25%)	2,180	2,708	1,802	3,614
Effects of:				
Expenses not deductible for tax purposes	238	418	238	418
Income not taxable for tax purposes	(109)	-	(109)	(1,395)
Income not taxable for tax purposes – fixed assets	102	578	102	578
Adjust deferred tax to average rate of 21.49% (2013 – 23.25%)	(344)	(680)	(344)	(677)
Temporary differences not recognised in tax computation	-	47	-	47
Other tax adjustments, reliefs, transfers	-	1	-	1
Adjustment to the tax charge in respect of previous periods	(98)	-	(98)	-
Group relief claimed before payment	(71)	-	(71)	-
Tax charge for the period	1,898	3,072	1,520	2,586

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

7. Employee benefits expense

The average number of persons employed by the group (including directors) during the year was 2,175 (2013: 2,091). The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Wages and salaries	64,110	60,943	62,215	59,407
Social security costs	5,374	5,060	5,231	4,901
Other pension costs	7,825	7,579	7,762	7,560
	77,309	73,582	75,208	71,868

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

8. Property, plant and equipment (continued)

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company					
Cost or valuation					
At 1 January 2014	19,652	106,766	397	6,811	133,626
Additions	-	13,730	51	285	14,066
Disposals	-	(2,295)	(33)	(24)	(2,352)
At 31 December 2014	19,652	118,201	415	7,072	145,340
Accumulated depreciation					
At 1 January 2014	(500)	(45,602)	(279)	(2,661)	(49,042)
Charge for year	(180)	(6,514)	(55)	(1,101)	(7,850)
Eliminated on disposal	-	2,175	33	24	2,232
At 31 December 2014	(680)	(49,941)	(301)	(3,738)	(54,660)
Net book value					
At 31 December 2014	18,972	68,260	114	3,334	90,680
Net book value					
At 31 December 2013	19,152	61,164	118	4,150	84,584

The net book value of tangible assets includes an amount of £9,218,000 (2013: £13,447,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £744,000 (2013: £1,222,000) has been charged during the year in respect of these assets.

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £14,760,000 at the year end. The group's heritable properties were last valued on 31 December 2011 by an independent valuer, Graham and Sibbald Chartered Surveyors. Valuations were made on the basis of recent market transactions on an arms length basis. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'revaluation reserve' in shareholder's equity.

9. Inventories

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Raw materials (fuel)	386	426	386	426
Finished goods	236	182	236	182
	622	608	622	608

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	1,623	1,036	1,601	1,016
Other debtors	966	191	966	191
Corporation tax	97	-	97	-
Prepayments and accrued income	936	765	936	765
VAT recoverable	571	562	571	562
	4,193	2,554	4,171	2,534

Trade receivables aged as:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Less than three months	1,623	1,036	1,601	1,016
Three to six months	-	-	-	-
	1,623	1,036	1,601	1,016

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

11. Current liabilities

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade and other payables	2,734	2,046	2,696	1,958
Amounts due to subsidiary companies	-	-	2,076	743
Other creditors	3,790	3,733	3,719	3,682
Current tax payable	1,228	2,519	1,027	2,256
Taxation and social security	1,783	1,688	1,733	1,656
Obligations under hp/finance leases (note 12)	2,459	2,622	2,459	2,622
Accruals and deferred income	5,153	4,586	5,128	4,582
Derivative financial instrument liabilities (note 13)	3,832	-	3,832	-
	20,979	17,194	22,670	17,499

Accruals and deferred income

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Accrued expenses	1,502	1,036	1,477	1,032
Income received in advance	3,651	3,550	3,651	3,550
	5,153	4,586	5,128	4,582

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

12. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
No later than one year	2,459	2,622	2,459	2,622
Later than one year but no later than five years	676	3,135	676	3,135
Later than five years		-		-
	3,135	5,757	3,135	5,757

Analysed as:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current	2,459	2,622	2,459	2,622
Non-current	676	3,135	676	3,135

13. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
No later than one year	3,832	-	3,832	-
Later than one year but no later than five years	2,365	-	2,365	-
Later than five years	-	-	-	-
	6,197	-	6,197	-

Analysed as:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current	3,832	-	3,832	-
Non-current	2,365	-	2,365	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

14. Provisions

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Deferred tax liabilities				
At beginning of the year	9,547	7,836	9,524	7,772
Charge for the year to profit or loss	(260)	(709)	(260)	(668)
Charge for the year to other comprehensive income	(5,820)	2,420	(5,820)	2,420
At end of the year	3,467	9,547	3,444	9,524
Claims				
At beginning of the year	1,320	1,598	1,303	1,563
Charge for the year	618	650	604	653
Paid during the year	(880)	(928)	(874)	(913)
At end of the year	1,058	1,320	1,033	1,303

There were no deferred tax assets in the year.

The elements of deferred tax are as follows:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Accelerated capital allowances	7,029	7,290	7,006	7,267
Short term timing differences	(162)	(163)	(162)	(163)
Pension scheme (liability)/asset	(2,100)	2,420	(2,100)	2,420
Derivative financial instruments (liability)	(1,300)	-	(1,300)	-
	3,467	9,547	3,444	9,524
Included in the accounts as follows:				
- Provision for liabilities and charges	3,467	9,547	3,444	9,524
	3,467	9,547	3,444	9,524

Claims

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

15. Cash and cash equivalents

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	5,272	12,763	4,312	11,896

16. Share capital

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Authorised				
Ordinary shares of £1 each	7,000	7,000	7,000	7,000
	7,000	7,000	7,000	7,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	6,399	6,399	6,399	6,399
	6,399	6,399	6,399	6,399

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

17. Reserves

Group	Revaluation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2013	**6,617**	**-**	**41,064**
Depreciation transfer	(140)	-	140
Profit for the year	-	-	8,581
Actuarial gain on pension plan	-	-	24,535
Deferred tax thereon	-	-	(2,420)
Dividends	-	-	(3,296)
At 31 December 2013	**6,477**	**-**	**68,604**
Depreciation transfer	(140)	-	140
Profit for the year	-	-	8,245
Actuarial loss on pension plan	-	-	(21,578)
Deferred tax thereon	-	-	4,519
Other comprehensive expense	-	(6,197)	-
Deferred tax thereon	-	1,300	-
Dividends	-	-	(5,494)
At 31 December 2014	**6,337**	**(4,897)**	**54,436**

18. Commitments

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

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Not later than one year	191	196	191	196
Later than one year and not later than five years	522	640	522	640
Later than five years	295	351	295	351
	1,008	1,187	1,008	1,187

Total operating lease payments in the year to 31 December 2014 recognised through the Statement of Comprehensive Income and Expenditure were £221,173 (2013: £296,788).

In November 2014, the group entered into an agreement to purchase 20 hybrid vehicles for £4,800,000. These are expected to be delivered during mid 2015.

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

19. Principal subsidiaries

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

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

20. Related party transactions

Group

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

(a) Sale of goods and services

	2014 £'000	2013 £'000
City of Edinburgh Council (ultimate parent)	2,144	2,660
Midlothian Council (shareholder)	170	160
East Lothian Council (shareholder)	164	143
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	1,246	273
West Coast Motors (related party to Chief Executive)	5	6
	3,729	3,242

(b) Purchase of goods and services

	2014 £'000	2013 £'000
City of Edinburgh Council (ultimate parent)	1,511	1,271
Midlothian Council (shareholder)	7	6
Dundas and Wilson CS LLP	41	414
CMS Cameron McKenna LLP	48	-
	1,607	1,691

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

20. Related party transactions (continued)

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

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

	2014 £'000	2013 £'000
Receivables from related parties		
City of Edinburgh Council (ultimate parent)	80	195
Midlothian Council (shareholder)	11	11
East Lothian Council (shareholder)	20	-
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	42	137
Payables to related parties		
Edinburgh Trams Limited (subsidiary of City of Edinburgh Council)	101	-
Dundas and Wilson CS LLP	-	26

21. Controlling interest

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

22. Retirement benefits obligation

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

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2014 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

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

	%	Value at 2014 £'000	%	Value at 2013 £'000
Equity Securities:				
Consumer	13%	47,944	18%	61,252
Manufacturing	12%	45,387	12%	39,776
Energy and Utilities	7%	25,493	4%	14,204
Financial Institutions	7%	26,775	12%	40,694
Health and Care	10%	35,020	6%	22,477
Information Technology	7%	27,360	11%	38,816
Other	5%	19,956	2%	6,087
Debt Securities:				
UK Government	3%	9,908	-	-
Private Equity:				
All	-	-	3%	9,175
Real Estate:				
Overseas Property	-	-	1%	2,868
Investment Funds and Unit Trusts:				
Equities	2%	7,079	4%	12,721
Bonds	15%	54,117	15%	50,144
Infrastructure	3%	12,031	-	-
Other	11%	38,663	9%	29,068
Cash and Cash Equivalents:				
All	5%	16,906	3%	10,688
	100%	366,639	100%	337,970

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

	2014 £'000	2013 £'000
Fair value of plan assets	366,639	337,970
Present value of scheme liabilities	(377,136)	(326,446)
(Deficit)/asset in the scheme	(10,497)	11,524
Net pension (liability)/asset	(10,497)	11,524

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

22. Retirement benefits obligation (continued)

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

	2014 £'000	2013 £'000
At 1 January	326,446	293,741
Current service cost	8,387	7,977
Interest cost on obligation	15,009	13,229
Plan participants contributions	2,176	2,228
Unfunded benefits paid	(301)	(289)
Benefits paid	(10,140)	(9,441)
Actuarial losses arising from changes in financial assumptions	59,570	19,289
Actuarial losses arising from changes in demographic assumptions	12,485	-
Other actuarial (gains)	(36,496)	(288)
At 31 December	377,136	326,446

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

	2014 £'000	2013 £'000
At 1 January	337,970	281,865
Benefits paid	(10,140)	(9,441)
Interest income on plan assets	15,517	12,681
Contributions by employer	7,135	7,101
Contributions by member	2,176	2,228
Contributions in respect of unfunded benefits	301	289
Unfunded benefits paid	(301)	(289)
Return on assets excluding amounts included in net interest	13,981	43,536
At 31 December	366,639	337,970

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

	2014 £'000	2013 £'000
Interest received on pension scheme assets	(15,517)	(12,681)
Interest cost on pension scheme liabilities	15,009	13,229
Finance (income)/costs	(508)	548
Current service cost	8,387	7,977
	7,879	8,525

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

22. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2014 £'000	2013 £'000
Actuarial (losses) in the defined benefit obligation	(35,559)	(19,001)
Actuarial gains in the fair value of defined benefit assets	13,981	43,536
	(21,578)	24,535

The principal actuarial assumptions used in this valuation were:

	2014	2013
Inflation/pension increase rate	2.4%	2.7%
Salary increase rate	4.8%	4.5%
Expected return on assets	4.8%	4.5%
Discount rate	3.6%	4.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 0.9% whereas in 2013 the CPI was determined to be RPI less 0.8%. The derivation of the salary increase assumption has changed since 2013 as salaries were then assumed to increase at a rate of 4.5% whereas in 2014 salaries are assumed to increase at 2% p.a. until 31 March 2016 then revert to a long term assumption of 4.8% p.a. There is a significant shift in the discount rate and this is due to the fall in yields of long-dated high quality bonds.

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

Change in assumption

	Approximate % increase to employer liability		Approximate increase to employer liability (£'000)	
	2014	2013	2014	2013
0.5% decrease in real discount rate	10%	10%	38,677	34,047
1 year increase in life expectancy	3%	3%	11,314	9,793
0.5% increase in the salary increase rate	3%	3%	12,963	9,843
0.5% increase in the pension increase rate	7%	7%	24,877	23,826

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

22. 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	20.4	22.6
Future pensioners	23.5	25.9

Expected contributions to post employment benefit plans for the year ended 31 December 2015 are £6,915,000.

23. Operating leases

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

Gross operating lease receipts:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	65	65	65	65
Later than one year but no later than five years	273	268	273	268
Later than five years	476	546	476	546
	814	879	814	879

The total annual operating lease income received in the year ended 31 December 2014 was £65,000 (2013: £68,075)

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

24. Financial risk management

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

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

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

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

		Consolidated Group		Parent Entity	
	Note	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Financial assets					
Cash and cash equivalents	16	5,272	12,763	4,312	11,896
Trade and other receivables	10	4,193	2,554	4,171	2,534
Total financial assets		9,465	15,317	8,483	14,430
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other current payables	11	17,147	17,194	18,838	17,499
Non-current hire purchase liabilities	12	676	3,135	676	3,135
Total financial liabilities		17,823	20,329	19,514	20,634

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

24. Financial risk management (continued)

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

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

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

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

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

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

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

The credit risk for all counter parties included in trade and other receivables at 31 December 2014 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2014

b. Liquidity risk (continued)

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

Financial liability and financial asset maturity analysis

Consolidated Group

	Note	Within 1 Year 2014 £'000	1 to 5 Years 2014 £'000	Total 2014 £'000
Financial liabilities due for payment				
Trade and other payables	11,12	(17,147)	(676)	(17,823)
Total expected outflows		(17,147)	(676)	(17,823)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	5,272	-	5,272
Trade, term and loan receivables	10	4,193	-	4,193
Total anticipated inflows		9,465	-	9,465

Financial liability and financial asset maturity analysis

Consolidated Group

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

b. Liquidity risk (continued)

Parent Entity

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

b. Liquidity risk (continued)

Parent Entity

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

c. Market risk

- Fuel price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2014 consume approximately 21.8m litres of diesel fuel per annum. As a result, the group's profit is exposed to movements in the underlying price of fuel.

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

At the settlement date of the contract, where the price of fuel is below the agreed contract price, the group are liable for the difference in price for the volume of the commodity agreed in the contract. Where the value of the commodity is above the price agreed, the group have a financial asset based on the difference in price over the volume of the contract. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the group's profit is exposed as movements in the contract value are taken through the Statement of Comprehensive Income. A 23% increase in the underlying price of fuel decreases the overall net liability of the fixed contracts by 33%. Likewise, if the price of fuel was to fall further below the underlying price of the contracts then this would result in an increase in the overall net liability.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

25. Directors' Remuneration

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Aggregate emoluments and benefits	882	948	882	948
Aggregate pension contributions	133	126	133	126
Highest paid director's emoluments and benefits	200	269	200	269
Highest paid director's pension contributions	38	36	38	36

The sums above include provision for bonus payments to three directors, however, these payments have not been made.

Four directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £24,079 per annum (2013: £20,562) and an accrued lump sum of £18,629 (2013: £18,263) at the end of the year.

Other related party transactions are disclosed in note 20.

26. Derivative Financial Instruments

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

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

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

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

The following table presents the Group's derivatives financial instruments that are measured at fair value within the hierarchy at 31 December 2014.

Level 2	Note	2014 £'000	2013 £'000
Liabilities			
Derivative financial instruments	13	(6,197)	-

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2014

26. Derivative Financial Instruments (continued)

Carrying value and fair value of derivative financial instruments

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

	Note	2014 £'000	2013 £'000
Non-current Liabilities			
Fuel derivatives	13	(2,365)	-
Current Liabilities			
Fuel derivatives	13	(3,832)	-
Total net carrying value		(6,197)	-

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

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

Fuel Derivatives	2014 £'000	2013 £'000
Fair Value at the start of the year	-	-
Changes in the fair value during year	7,340	-
Cash paid during the year	(1,143)	-
Fair value at end of year	6,197	-

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

	Liabilities £'000
As at 31 December 2014	
Within one year	(3,832)
1 to 2 years	(2,087)
2 to 3 years	(278)
	(6,197)