Transport for Edinburgh

one city... many journeys

Revised Consolidated Financial Statements

For the year ended 31 December 2014

Transport for Edinburgh

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 (17 April 2015) and not at the date of revision (9 July 2015) and accordingly do not deal with events between those dates.

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Registered number SC443895

Foreword from Chair, Transport for Edinburgh

Transport for Edinburgh's vision is to provide world-class integrated, environmentally-friendly and socially-inclusive transport which plays a central role in the future success of Edinburgh and the Lothians.

Six million new passengers used Lothian Buses and Edinburgh Trams services in 2014. Three million more on Lothian Buses over the previous year and three million new passengers on Edinburgh Trams. This is something to celebrate and, with equally impressive passenger satisfaction rates across both services, we are in a strong position to build on this further.

In 2014 Edinburgh Trams was successfully launched complementing the city's highly-valued bus service, and we saw the creation of a brand, offering integrated ticketing and customer services, all in place to ensure the best possible customer experience.

This is a hugely important time for transport in Edinburgh and the surrounding areas, with the new Borders Rail link set to open in 2015, Edinburgh Airport undergoing significant passenger growth and expansion, and the new Edinburgh Gateway station at Gogar that will link passengers from the Fife line and North East Scotland to the airport, scheduled for completion in 2016.

Transport for Edinburgh is central to this, and as we look to its future we are considering a long-term plan, in partnership with businesses and other key partners, which will continue to satisfy and serve residents and visitors, improve transport links to the city centre and boost the local economy.

Of course, Edinburgh is already a successful and competitive Capital, and the city's transport services have played a vital role in that. But we must never rest on our laurels, especially as Edinburgh continues to grow in popularity as a place in which to live, work, invest, study and visit.

We need to be prepared for that growth. There is work still to be done and a long way to travel but fortunately, there is much in our favour. Both bus and tram services achieved overall passenger satisfaction ratings of around 95% and equally impressive scores for value for money. Lothian Buses is highly valued, publicly-owned, profitable and returns an annual dividend which is invested in public services. Edinburgh Trams, in its first year of operations, is exceeding patronage and revenue targets set before launch. It's early days but the signs are positive.

Working together, I have every confidence that we will continue to offer services that are among the best in the UK whilst growing passenger numbers further, making public transport the obvious choice in Edinburgh.

Lesley Hinds
Chair, Transport for Edinburgh
Convenor of Transport and Environment committee,
The City of Edinburgh Council

Performance Highlights

↑5.7% Revenue increase over the previous year

£140,441,000 Total revenue

6.4% Profit from operations margin for the year

£61,800,000 Net reserves

£14,300,000 Capital expenditure in the year

Chief Executive's Statement

We achieved strong growth in 2013 and I am pleased to note that in 2014 this growth accelerated with 121.4 million trips recorded, an increase of 5.2%.

This is as a consequence of the start of the passenger service for Edinburgh Trams and the reorganisation of the bus network to complement this new mode, which created increased travel demand within the sector.

Sitting at the head of the revised corporate structure is Transport for Edinburgh. Throughout 2014 we continued to promote this brand with our customers and stakeholders along with the two 'hero' brands of Lothian Buses and Edinburgh Trams, as the integrated public transport service for Edinburgh and the Lothians.

Recognising that the rebranding exercise does not stop at our vehicles we made a significant investment to refresh our flagship Travelshop on Waverley Bridge, with plans in place to upgrade all our shops. We also introduced revised Transport for Edinburgh branding to the City of Edinburgh Council's Ingliston Park and Ride facility. This, coupled with tram operations, successfully created an uplift in usage of 38% from this important location – effectively reducing congestion, lowering emissions and therefore improving air quality along this sensitive corridor.

Ticketing initiatives, such as the introduction of the Citysmart card, remain critical to our future commercial performance. The launch of the Transport for Edinburgh app resulted in 200,000 downloads in 2014 and this, with the mobile ticketing app, has proved popular with customers. Over £2million in sales has been generated in the first 12 months, 100% higher than forecasted.

The launch of passenger services for Edinburgh Trams in May of 2014 marked a key milestone for the city. The service had an extremely busy launch period with around 130,000 passengers in the first week of operation, followed by regular weekly average loadings in excess of 90,000. With excellent reliability and punctuality Edinburgh Trams has quickly proved itself to be a popular choice for visitors arriving at Edinburgh Airport, commuters to Edinburgh Park and shoppers in the city centre.

All of this activity has provided us with an excellent platform on which to base our strategy for 2015. Our ongoing partnership with Edinburgh Airport, which itself is going from strength-to-strength, is a particular priority as we look to continue to work together to create an even more integrated service for those flying in and out of the city.

Thanks to the successes of 2014, and especially the efforts of our staff, we are optimistic about the continued development of Edinburgh's transport network and the strong performance for our group of companies in 2015 and beyond.

Ian Craig
Chief Executive, Transport for Edinburgh

Lothian Buses Chairman's Statement

As the main transport provider for Edinburgh and the Lothians, our company plays a pivotal role in the lives of all those who live and work here, as well as the many visitors drawn to the Scottish capital.

2014 was a challenging and successful year for a variety of reasons, the most significant being the long-awaited launch of the Edinburgh Trams service – a project in which Lothian Buses played a crucial role. For the many staff involved it should be a justifiable source of pride.

Lothian Buses has continued to enjoy excellent performance and remains one of the country's best bus companies. This can be seen in the results of the Passenger Focus survey, the prestigious accolade of being awarded Scotland's Public Transport Operator of the Year, and also in our continued commercial and operational success.

Although I became Chair of Lothian Buses on an interim basis towards the end of 2014, I have been a member of the board for over a year. While the outstanding abilities and commitment of those who work here did not come as a surprise to me, they became even more apparent during my tenure as Chair, particularly during challenging times. It has been a privilege to learn even more about the efforts our staff make to provide travellers in Edinburgh with the best possible service.

As a company, we are going through a period of change – an inevitable and challenging process that every company faces if it is to prosper and grow. It is, of course, absolutely essential that we always keep our eye firmly on the needs of our passengers and the communities that we serve. Their priority, and ours, is to secure efficient and effective transport for Edinburgh so that we can continue to support the economic success and the quality of life of the area.

That will continue to be the focus of all our efforts as we build on the excellent services we already provide and as we develop further ways that Lothian Buses, working alongside Edinburgh Trams, can contribute to the success of our city and our region in years to come.

Tony

Tony Depledge
Chair, Lothian Buses


Thistle Street
Bus Stop
From City
Lothian
Transport for Edinburgh
380

Transport for Edinburgh

Providing seamless and high-quality transport choice for residents and visitors to the city.

In 2013, Lothian Buses and Edinburgh Trams joined forces under the umbrella of Transport for Edinburgh. The coming together has allowed our passengers to benefit from a simpler, integrated operation which provides shared ticketing and customer services.

Behind the scenes, support services such as finance, human resources and facilities management at Lothian Buses also now work with Edinburgh Trams, minimising costs and maximising value across the whole group.

6m extra passengers over 2014

Building the brand

Transport for Edinburgh provides an overarching identity for our services, while preserving the valuable brand of Lothian Buses and heralding a new era for Edinburgh Trams.

Our shared products and services adopted common branding, with the bus and tram livery remaining intact. Our app, Ridacard and Citysmart products are all positioned as Transport for Edinburgh, emphasising the integrated service we provide to our customers, no matter how they travel with us.

A similarly important change was the rebranding of our flagship Travelshop on Waverley Bridge. We also took the opportunity to modernise and reconfigure the space, providing an improved experience for the many thousands of customers who use the Travelshop to help with their travel, whether by bus or tram. Our other Travelshops, including those in the city centre and Dalkeith, will be similarly upgraded in the future.

The changes were all supported by the work of our street teams, who created a prominent presence for our new identity and messages, targeting the residents, workers and visitors in Edinburgh's busy city centre, to bring our integrated transport message to life.

Finally, a specially-commissioned video – One City... Many Journeys – released in December 2014, highlights and celebrates the crucial role that we play in Scotland's thriving capital. This was viewed over 61,000 times and received hundreds of positive comments across social media.

Smart city

The Lothian Buses app for phones and tablets, which we launched in November 2013, was rebranded as the Transport for Edinburgh app and updated to support Edinburgh Trams from May 2014.

Already at the forefront of transit app technology, combining real-time information with service updates and notifications, the introduction of trams was an opportunity to refine it further. The enhanced app combined live departure information for Edinburgh Trams and Lothian Buses, and brought together journey planning and service information from all parts of Transport for Edinburgh.

There were over 200,000 downloads over the course of 2014; it is used by more than 400 customers at any given moment during peak travel times, and tens of thousands use it daily to help with travel around the city. Overall, the app is a massive success, exceeding our own targets for downloads and customer engagement.

In December 2014 we finished the installation of the very latest 4G Wi-Fi on all buses and trams, thanks to funding received from the Connected Capital Programme via the City of Edinburgh Council. This now means passengers have free access to internet services when using all of our services, including Edinburgh Bus Tours.

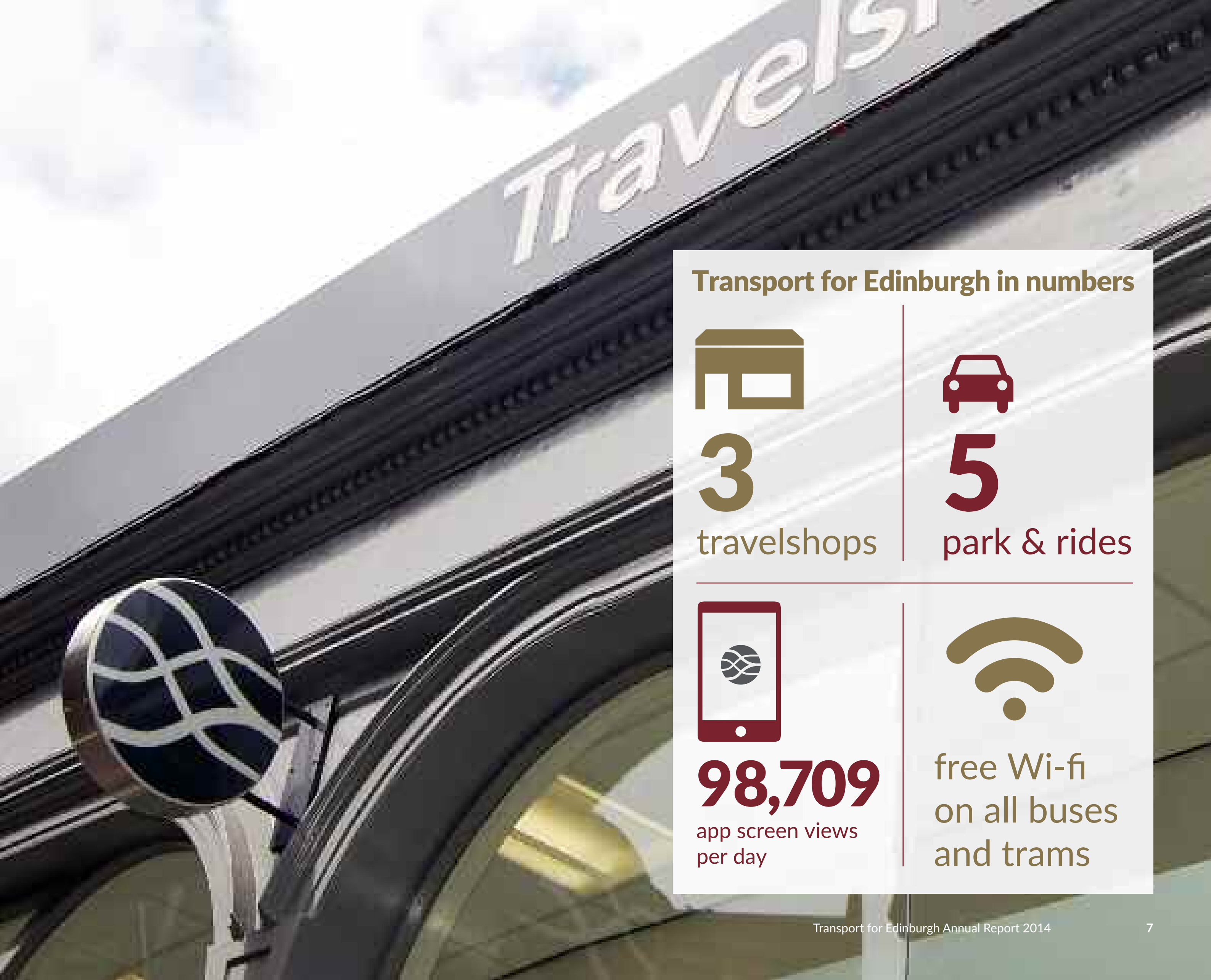
As well as providing a better customer experience, the Wi-Fi hardware has benefits behind the scenes, such as improved tracking of our vehicles by GPS, further upgrade capabilities for other vehicle technology, and better quality information for our app, especially those functions used by blind or partially sighted people.

Smart ticketing

While many of our traditional ticket options remain popular with customers, we continue to take advantage of technology to offer more flexibility and convenience, especially to meet the needs of the digital generation.

In September 2014, we launched Citysmart, a multi-journey card that allows passengers to purchase single bus and tram journeys before travelling. Citysmart has proved to be popular with our customers, with over 90,000 journeys recorded using the card in its first four months.

The m-tickets app, which complements our main travel information app, continues to provide customers with an innovative way to pre-purchase different types of tickets for use on buses and trams. Developed in partnership with Corethree, the app has been hugely successful – achieving over double the amount of sales predicted in the first year and reaching the milestone of one million m-tickets sold after only nine months. With around 40,000 regular customers and 1.6 million m-tickets sold to the end of 2014, usage and sales continue to grow steadily each month.



Transport for Edinburgh in numbers

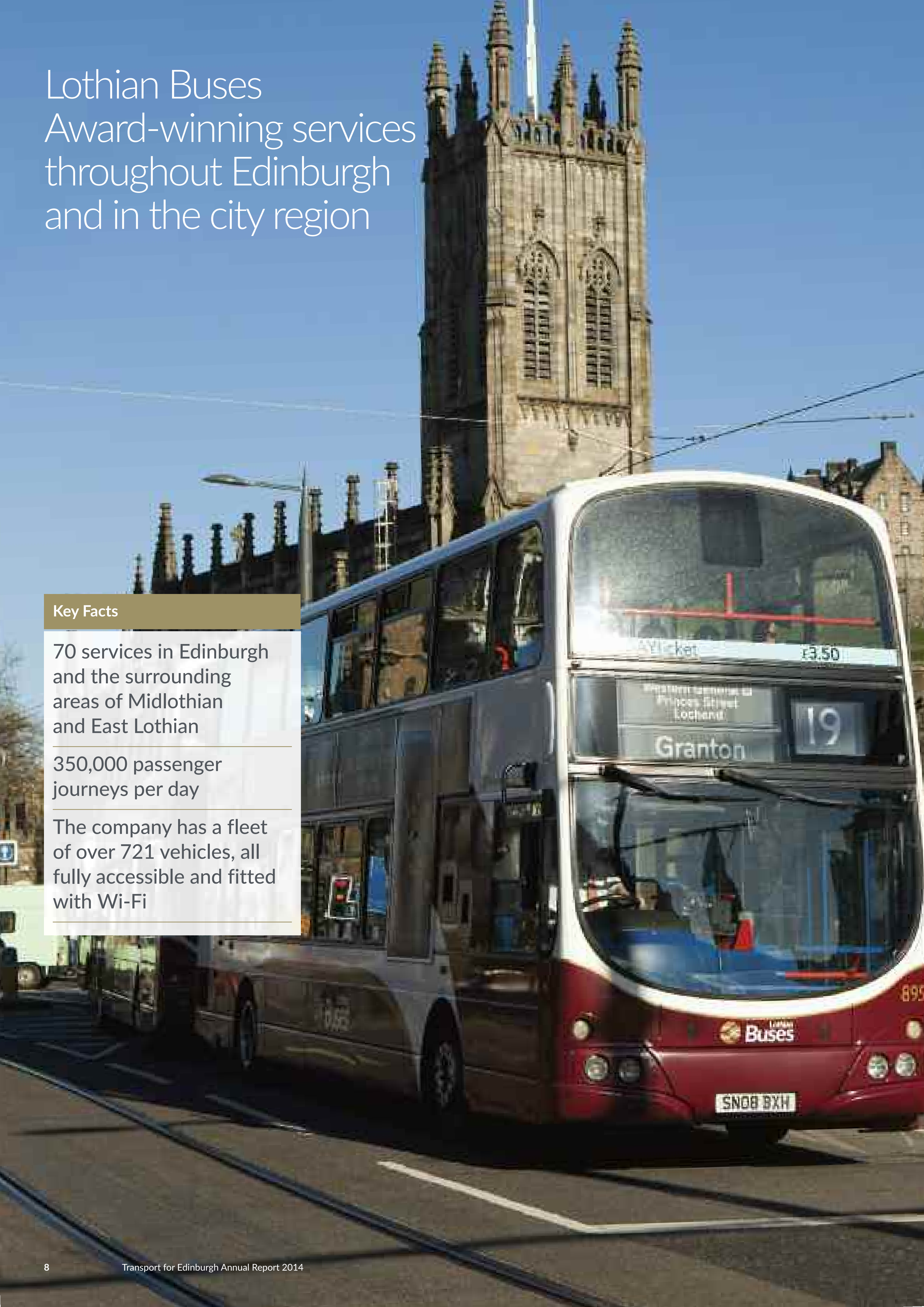
3 travelshops

5 park & rides

98,709 app screen views per day

free Wi-fi on all buses and trams

Lothian Buses Award-winning services throughout Edinburgh and in the city region



Key Facts

- 70 services in Edinburgh and the surrounding areas of Midlothian and East Lothian
- 350,000 passenger journeys per day
- The company has a fleet of over 721 vehicles, all fully accessible and fitted with Wi-Fi

Lothian Buses

350k
passenger journeys a day

At every hour of the day, on every day of the week, there will be a Lothian Buses service connecting communities in and around Edinburgh.

2014 has been an extremely successful year for us, with a record-breaking 3 million extra passenger journeys, taking our annual total to over 118 million.

Our services were also endorsed by the findings of a major passenger satisfaction survey and we had the honour of being recognised as Public Transport Operator of the Year at the Scottish Transport Awards in June.

Proud to serve

Our buses reach nearly every part of Edinburgh and many surrounding areas, but the city is more to us than just a series of routes. As a publicly-owned organisation, and one of the biggest employers in the capital, our staff belong to the communities they serve.

Our people pride themselves on the quality of the service we provide, and this is backed up by our continuous training programmes, delivered by a dedicated in-house team with decades of industry experience. More than anything else, the success of the company is built on the passion and professionalism of those who work here.

In May 2014 it was our privilege to host a major industry conference for the Association of Local Bus Company Managers, providing the chance to show off Edinburgh's bus service to fellow professionals and raising awareness of our company's innovation and performance.

In the heart of the city

One obvious way in which we are more than just a bus operator is evident in how enthusiastic our staff are to get involved with community initiatives. Our chosen charity of the year, The Yard, supports children and young people with disabilities. We also continued working with schools and carried out an employability workshop at Prestongrange Primary School.

We were delighted to support two enterprising fundraisers who set out to conquer the whole Edinburgh bus network. Chris Dunn and Neil Gregory from Edinburgh, raised a total of £1,920.50 for It's Good to Give after they travelled on 44-out-of-48 services during one memorable day in January. We doubled their donation in recognition of their efforts, and greatly appreciated the goodwill they generated for our brand across social media.

As one of the city's biggest organisations, we have a commitment to supporting young people in further education and employment. We recruited three school leavers as part of ongoing participation in the City of Edinburgh Council's award-winning Edinburgh Guarantee, a scheme that aims to provide positive destinations for local teenagers.

Once again we supported the very popular Doors Open Day, which saw 5,000 people visit our 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!

Lothian Buses

Going green

Many of the journeys taken on our services are beneficial to the local environment where they replace a trip by car, with the consequent reduction in emissions and traffic. However, we also recognise that our business activities do have an impact and we work hard to reduce this. We have invested continuously in the efficient operation of our fleet and in low carbon vehicles, bought with additional support from the government's Scottish Green Bus Fund. Our fleet of hybrid buses now totals 65, and some routes through air quality management areas operate exclusively with these vehicles, making a difference to the quality of the environment and the health of people in those communities.

As a company we also work to reduce the impact of our other activities and, due to increased recycling rates, we have saved 350 tonnes of CO_2 from our carbon footprint in the last year. We have also cut our energy usage in comparison to previous years through a programme of facility upgrades. Research is currently being undertaken to further improve our energy and gas usage across all our sites.

This year we entered into a partnership with the Air Quality and Sustainability teams at the City of Edinburgh Council. From this we became involved in, and supported, the Sustainable Energy Action Plan which aims to reduce carbon emissions across the city by 42% by 2020.

We are also involved in the Council's Active Travel Forum which is made up of transport experts, Edinburgh residents and other interested parties. The forum gives a greater voice to stakeholders in Edinburgh's transport network and looks strategically at ways to encourage more active travel such as walking, cycling and public transport.

We were delighted that our efforts were recognised this year, when we added Edinburgh Chamber of Commerce's award for Sustainable Development to our collection of other green accolades. We also sponsored the Transport category at the prestigious VIBES, the Vision in Business for the Environment of Scotland awards.

Key Facts

- The average age of the fleet is just 4.9 years
- The company employs over 2,000 people, 1,500 of whom are drivers
- Although the name Lothian Buses has been used since January 2000, the company origins date to 1871
- The company remains publicly-owned – the major shareholder being The City of Edinburgh Council

Lothian Buses

Lothian Buses in numbers

2.3m passengers per week

70 bus routes

4 bus depots

36,720 twitter followers

58,539 page views per day

721 buses

8,667 Facebook followers

2,788 active bus stops

15,000 e-news subscribers

Edinburgh Trams
A new mode for a modern city

Key Facts

Edinburgh Trams employs 130 staff members ranging from drivers to controllers

There are 27 trams, all fully accessible and fitted with Wi-Fi

The tram route is 14km and has 15 stops

The journey time between Edinburgh Airport and the city centre is around 35 minutes

Edinburgh Trams is wholly-owned by the City of Edinburgh Council

Edinburgh Trams works in partnership with Lothian Buses, as part of the Transport for Edinburgh group

95%
passenger satisfaction

Edinburgh Trams

On 31 May 2014, after an absence of more than 50 years from the streets of Edinburgh, trams were once again ready to roll into passenger service.

Ready for operation

Building on the pre-operational work which began in 2013, the early part of last year saw Edinburgh Trams gearing up for launch with an unprecedented programme of work to be ready for the historic day.

More than 130 new recruits, including drivers, customer services assistants, control centre operators and maintenance engineers, were employed. Together, they underwent hundreds of days of training to get them up-to-speed on what was – for the vast majority – an entirely new mode of transport.

At the same time, the construction project was going through a significant testing and commissioning programme.

We were closely involved in this as work built up from small sections of testing, to full night runs into the city centre and finally to daytime shadow running. All in all, thousands of hours were spent with our team, the trams and the tram construction team, making sure everything would run smoothly.

The programme included a major safety trial which saw 800 volunteers board the tram at Murrayfield, Scotland's national rugby stadium, and ride to the airport, helping staff to check multiple aspects of how the service would work when faced with a surge in passenger numbers.

3m
passenger journeys in 2014

Edinburgh Trams

Meeting the challenge

After the initial – and very high-profile – launch of the service, several major challenges were faced in quick succession.

Many of the 60,000 One Direction fans and their parents attending the boyband's concert at Murrayfield Stadium used the trams. The same venue then played host to two Champions League games. Having proved its resilience during huge spikes of activity, we then experienced the more prolonged increase of passenger numbers when Edinburgh's population doubled during the internationally-renowned festival season, with visitors flocking from all over the world.

The usual challenges encountered with any operational tram network were faced, including vehicles being parked on the tram line and a few minor collisions with other road users. Interruptions to the power supply also impacted services during the first few months of operation. Thankfully, these incidents are few and far between and every situation provides a new opportunity for staff to learn about more efficient and even safer ways to operate the service.

A year to remember

There was a huge initial peak of interest in the trams. On our first day we carried 21,000 passengers and a total of 130,000 in the first week.

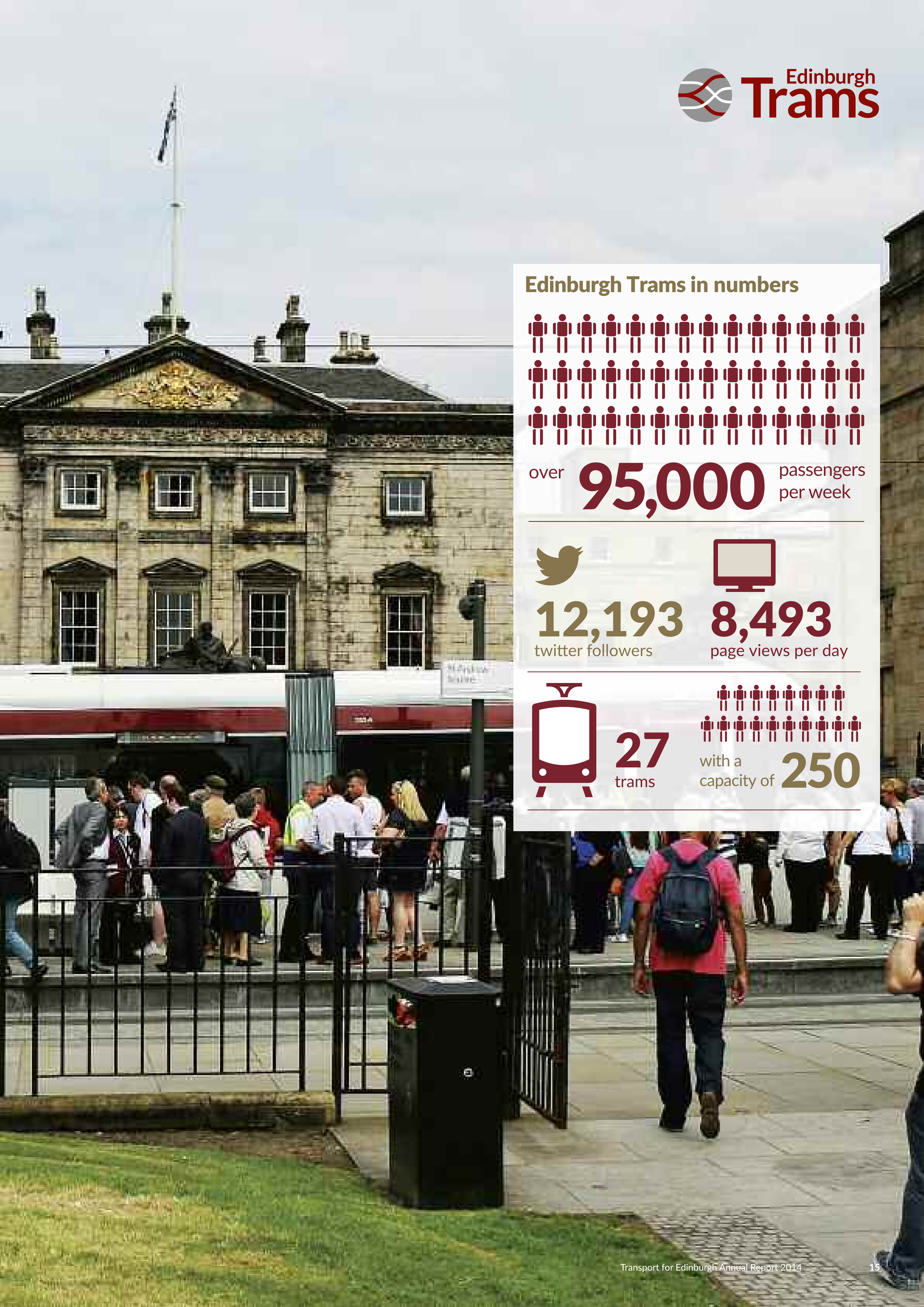
Over the first 100 days, the trams carried 1.5 million passengers, a period covering the launch, major events, peak summer tourism and Edinburgh festival season.

Patronage has remained strong. In the first seven full months of operation, there were more than 3 million passenger journeys undertaken resulting in an average weekly patronage of over 95,000.

Other positive results include the Park and Ride facility at Ingliston, which is served by the tram, achieving nearly double the number of passengers and the tram network as a whole meeting 99% service reliability (scheduled trams covering the full route).

Overall, the patronage and revenue figures are in line with the business model set out prior to launch.

99%
tram service reliability



Edinburgh Trams

Edinburgh Trams in numbers

over **95,000** passengers per week

12,193 twitter followers

8,493 page views per day

27 trams with a capacity of **250**

Edinburgh Bus Tours
A unique perspective on a unique city

Edinburgh Bus Tours in numbers

10,000 passengers per week

5 routes

1 depot

2,206 twitter followers

2,436 page views per day

46 buses

1,242 Facebook followers

Edinburgh Bus Tours provides five different experiences: Edinburgh Tour, City Sightseeing, Majestic, MacTour and Bus & Boat

It employs around 170 staff including seasonal recruits

There is a fleet of 46 vehicles including 12 vintage vehicles used on the MacTour

530k
passengers

Edinburgh Bus Tours is Scotland's third most popular paid-for visitor attraction and offers a five-star visitor experience as rated by Visit Scotland.

It welcomed over 530,000 passengers across the year; the majority were visitors to the city. With great views from the top deck and the hop-on, hop-off flexibility of each tour, customers can enjoy the freedom of seeing the city in the way that suits them best.

For the third year running, Edinburgh Bus Tours maintained its five-star status from Visit Scotland underlining the quality of the service and the professionalism of its staff. This achievement was particularly impressive given changes to how the tours operated, due to the closure for part of the year of the Travelshop on Waverley Bridge – a key base for the tours, both for passengers and staff. 2014 also saw a member of staff nominated in the regional heats for the prestigious Scottish Thistle tourism awards.

Edinburgh Bus Tours invests heavily in staff training every year, which is especially important given the numbers of seasonal staff who are recruited each year to help with demand over the city's very busy tourist periods. 2014 was also the first year that guides were retained over the winter season, providing a wider offering to visitors and local customers, all year round.

One of the key factors underpinning the Tours' success is our continual effort to listen to what our passengers say about the services. We regularly monitor TripAdvisor reviews to ensure all passenger feedback is captured and acted upon where required. This open approach has resulted in 99% of our visitors saying they would recommend us. We also received a Certificate of Excellence from TripAdvisor and a Regional Thistle Award from Visit Scotland for our work with the charity Edinburgh World Heritage.

The buses are maintained to the highest standards at our Marine Depot by a dedicated engineering team and with the exception of our vintage vehicles, are fully accessible.

Highlights of the year

January

Tram on-street testing is fully underway across Edinburgh.

Lothian Buses launch 'Murdo' the mammoth bus in partnership with the National Museum of Scotland to support the opening of the mammoth exhibition.

Two charity fundraisers manage to travel on 44-out-of-48 services in a single day raising – with our support – nearly £4,000.

February

Lothian Buses announce ongoing support for their charity of the year for 2013, with a year's free advertising in 2014 to support efforts to raise £1 million to build a retreat.

March

Edinburgh Trams carry out exercise Salvador – a crowd control test at Murrayfield Stadium, which attracts over 800 volunteer participants.

A major independent survey shows that Lothian Buses passengers have the highest satisfaction levels compared with those who use a range of other bus operators in England and Scotland.

April

Lothian Buses launch a specially-designed bus for their nominated charity, The Yard. The bus will be on the road for the year.

May

Edinburgh Trams starts to operate passenger services on 31 May.

The Travelshop on Waverley Bridge opens to the public after a £500,000 refurbishment by Transport for Edinburgh.

Edinburgh and Lothian Buses play host to a major annual conference for the bus industry.

June

Lothian Buses scoop Public Transport Operator of the Year at the Scottish Transport Awards.

July

Following an investment of £5.3 million, Lothian Buses receive 20 new single deck Hybrid vehicles, which enter service on the Number 30 route.

September

Lothian Country Buses launch a new route between East Lothian and Edinburgh, creating new links for towns such as Haddington and Macmerry.

As part of Doors Open Day Lothian Buses welcome around 5,000 people to their depot in just 4 hours – a record number of visitors to the event.

November

The Transport for Edinburgh app celebrates its first birthday, having sold 1.4 million m-tickets and been downloaded over 200,000 times.

Lothian Buses marks Remembrance Day with a Poppy Bus. Ex-service personnel who now work for the company were invited to help launch the bus.

August

The one-millionth electronic ticket is sold on the Transport for Edinburgh m-ticket app, double the forecasted figures, with the lucky passenger winning an iPhone.

October

Transport for Edinburgh employees do their bit to raise awareness and funds for Breakthough Breast Cancer by 'going pink' for the day, raising almost £3,000 for the cause.

Edinburgh Bus Tours launch specially-designed tartan scarves to mark their 25th anniversary.

December

Transport for Edinburgh publishes year-end passenger figures, showing 6 million more journeys across the group: 3 million on trams and 3 million on buses.

Our people

People are at the heart of everything we do at Transport for Edinburgh.

Our staff

Our business relies on the experience and expertise of our staff who, every single day, provide residents and visitors with a first class service.

We aim to recruit only the best – from engineers to tour guides and drivers to support staff – who together make up the professional, dedicated and customer-focused team that our passengers expect.

The ideas and opinions of our 2,300-strong workforce are valuable and our staff survey provides a platform to share their views. Our management teams also conduct regular feedback sessions in our depots.

The end of the year saw our internal awards, with staff from across the business being recognised for their achievements.

Our customers

Transport for Edinburgh is all about integration and this is reflected in changes to the structure of our Customer Services Team. Members now handle both bus and tram feedback and operate across multiple sites. This has helped build better relations and it means we can all learn from each other about each part of the Transport for Edinburgh family, resulting in an improved service for our customers.

Our customers are also continually helping us shape the business. We welcome comments and suggestions from them on a daily basis through our various communication channels.

We liaise closely with passenger groups, including disability groups, to understand our customers' various needs and views on our services. We always listen to what our customers say and where possible we take action.

2,300+ strong workforce

Transport for Edinburgh
The journey continues

We have begun the process of strengthening and refreshing our leadership team as we prepare for the next steps in a new era for Edinburgh's public transport.

However, our principal concern, as ever, is to ensure we are continually improving our offering to passengers, building on the current success of the bus and tram services.

Now that our entire fleet is fully fitted with Wi-Fi we are developing additional on-board services featuring travel information, local news and entertainment. This will provide extra value for our passengers who use our Wi-Fi and present more opportunities to engage with them.

Our highly successful app will continue to improve, with a host of further innovations currently being developed for implementation in 2015.

On the environmental front, more low emission buses will be arriving in 2015 adding to what is already an extensive fleet and further improving the city's air quality. As an organisation, we will also be carrying out campaigns involving our staff to raise awareness of the importance of being more resource efficient in the workplace.

The City of Edinburgh Council will be discussing proposals to extend the current tram line to other parts of the city. As the operator we will be called on to contribute to those discussions at the appropriate time. While it is very much a matter and decision for the Council, we are encouraged by the success of the service so far and believe that the potential benefits to other areas definitely merit further consideration.

We will also be working with the Council, Edinburgh Airport and other leading stakeholders in the city to explore ways in which we can further integrate the whole of Edinburgh's transport infrastructure.

Clearly, we must continue to be an efficient and profitable operator, providing essential services and employment for Edinburgh, and returning a dividend to the public purse. But our plans for the future aren't just about improving what we do already. Our ambition is to maintain our reputation for innovation and as a leading UK transport provider. In doing so, we will continue to be not just a bus and tram company, but a vital contributor to the prosperity and high quality of life that Edinburgh enjoys.


Trams
Lothian
Buses

Board of Directors and Company Information


Lesley Hinds


Joanna Mowat


Nigel Bagshaw


Anthony Depledge


Steven Cassidy


William Campbell


Norman Strachan

Company Information


Adam Mcvey


Ian Craig


William Devlin

Board of Directors:

Lesley Hinds	Chair
Joanna Mowat	
Nigel Bagshaw	
Adam Mcvey	(appointed 26 June 2014)
Anthony Depledge	
Steven Cassidy	
Ian Craig	
William Campbell	
Norman Strachan	
William Devlin	
Ann Faulds	(resigned 12 November 2014)
Archibald Cardownie	(resigned 26 June 2014)

Company Registration:

Registered Office
55 Annandale Street
Edinburgh
EH7 4AZ

Registration Number
SC443895

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

For the year ended 31 December 2014

Principal Activities

The principal activity of the company is to act as a holding company for the City of Edinburgh Council's public transport companies; Lothian Buses Limited, which operates over 650 buses in Edinburgh and the Lothians, and Edinburgh Trams Limited, the city's new tram operating company which commenced commercial operations on 31 May 2014. The directors are not aware at the date of this report, of any likely major changes in the group's activities in the next year.

Business Strategy

The core purpose of Transport for Edinburgh 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 Transport for Edinburgh Limited is to be an integral part of the future success of Edinburgh and the Lothians, by providing world-class, environmentally friendly and socially inclusive public transport.

Review of the Business

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

As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, revenue has increased by 5.7% over the previous year while the profit from operations margin for the year is 6.4%. The Statement of Financial Position shows the group's financial strength at the year end with net reserves of £61.8m.

Capital expenditure in the year was £14.3m. The main items 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.

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 and open top tours 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.

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	**140,441**	132,926
Profit before income tax expense	**9,579**	11,653
Provision for income tax expense	**(1,783)**	(3,074)
Net profit for the year	**7,796**	8,579
Attributable to:		
Equity holders	**7,055**	7,808
Non-controlling interest	**741**	771
Interim dividend	**5,494**	3,296

The key performance indicators are:-

	2014	2013	Change
Passenger journeys	**121m**	115m	+5.22%
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 - bus	**100.0%**	99.7%	+0.30%

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 individual and company performance but also for individual development.

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

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

Risks and Uncertainties

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

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

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

Commodity Price Risk

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

Corporate Social Responsibility

2014 continued the success of previous years 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 saw the arrival of a further twenty Volvo 7900 Euro 6 buses which operate 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 saw 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.

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

Steven Cassidy
Non-Executive Director

Date: 9 July 2015

Directors' report

For the year ended 31 December 2014

Directors

The directors are as set out on page 24.

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.

Disclosure of Information to the Auditor

Each of the directors, whose names 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, was appointed during the period and 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
Non-Executive Director

Date: 9 July 2015

Independent Auditor's Report

to the Members of Transport for Edinburgh Limited
For the year ended 31 December 2014

We have audited the revised financial statements of Transport for Edinburgh Limited for the year ended 31 December 2014 which comprise the Group and Parent Company Statements of Profit or Loss and Other Comprehensive Income, Group and Parent Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and 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 17 April 2015.

These revised financial statements have been prepared under The Companies (Revision of Defective Accounts and Reports) Regulations 2008 ("the Regulations) and accordingly do not take account 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 28, 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 web-site 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 as 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 period then ended;

> the revised 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; 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.

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 17 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.

Independent Auditor’s Report
to the Members of Transport for Edinburgh Limited
(continued)

Matters on Which We Are Required to Report by Exception

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

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company 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
Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh EH3 8BL
Date: 9 July 2015

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

For the year ended 31 December 2014

		Consolidated Group		Parent Entity	
	Note	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Continuing operations					
Revenue	1i	**140,441**	132,926	**-**	-
Gross profit		**140,441**	132,926	**-**	-
Administrative expenses		**(131,392)**	(120,303)	**-**	-
Profit from operations		**9,049**	12,623	**-**	-
Gain/(loss) on disposal of property, plant and equipment	2	**91**	(329)	**-**	-
Finance income	3	**639**	164	**5,000**	-
Finance costs	4	**(200)**	(805)	**-**	-
Profit before income tax expense		**9,579**	11,653	**5,000**	-
Income tax expense	6	**(1,783)**	(3,074)	**-**	-
Net profit for the year		**7,796**	8,579	**5,000**	-
Attributable to:					
Equity holders	18	**7,055**	7,808	**5,000**	-
Non-controlling interest	19	**741**	771	**-**	-
Other comprehensive income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	13	**(6,197)**	-	**-**	-
Deferred tax charge thereon		**1,300**	-	**-**	-
Those that are not recyclable net of tax:					
Actuarial (loss)/gain on post-employment benefit obligations	24	**(21,578)**	24,535	**-**	-
Deferred tax charge thereon		**4,520**	(2,420)	**-**	-
Total comprehensive income for the year		**(14,159)**	30,694	**5,000**	-
Attributable to:					
Equity holders	18	**(12,926)**	27,935	**5,000**	-
Non-controlling interest	19	**(1,233)**	2,759	**-**	-

The accompanying notes on pages 36 to 64 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	**91,414**	85,227	**-**	-
Retirement benefit asset	24	**-**	11,524	**-**	-
Investments	21	**-**	-	**5,824**	5,824
Other financial assets	10	**-**	-	**990**	-
Total non-current assets		**91,414**	96,751	**6,814**	5,824
Current assets					
Inventories	9	**622**	608	**-**	-
Trade and other receivables	10	**5,234**	2,585	**-**	-
Cash and cash equivalents	16	**5,825**	12,960	**10**	-
Total current assets		**11,681**	16,153	**10**	-
Total assets		**103,095**	112,904	**6,824**	5,824
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	**6,337**	6,477	**-**	-
Other reserves	18	**59,929**	59,929	**-**	-
Retained earnings	18	**(11,136)**	1,923	**-**	-
Hedging reserve	18	**(4,457)**	-	**-**	-
Non-controlling interest	19	**5,598**	7,325	**-**	-
		61,825	81,478	**5,824**	5,824

		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
Liabilities					
Non-current liabilities					
Finance lease obligations	14	**676**	3,135	**-**	-
Deferred tax	15	**3,467**	9,547	**-**	-
Retirement benefits obligation	24	**10,497**	-	**-**	-
Provisions	15	**1,058**	1,320	**-**	-
Other financial liabilities	12	**1,000**	-	**1,000**	-
Financial instruments liabilities	13	**2,365**	-	**-**	-
Total non-current liabilities		**19,063**	14,002	**1,000**	-
Current liabilities					
Trade and other payables	11	**2,725**	2,051	**-**	-
Current tax payable	11	**1,113**	2,519	**-**	-
Finance lease obligations	14	**2,459**	2,622	**-**	-
Financial instruments liabilities	13	**3,832**	-	**-**	-
Other financial liabilities	11	**12,078**	10,232	**-**	-
Total current liabilities		**22,207**	17,424	**-**	-
Total liabilities		**41,270**	31,426	**1,000**	-
Total equity and liabilities		**103,095**	112,904	**6,824**	5,824

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

Lesley Hinds
Chair

Registered number SC443895

The accompanying notes on pages 36 to 64 form part of these financial statements

Consolidated Statement of Changes in Equity

As at 31 December 2014

	Note	Share Capital £'000	Revaluation Reserve £'000	Other reserves £'000	Retained Earnings £'000	Hedging reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1 January 2013		-	6,617	42,601	-	-	4,862	54,080
Shares issued		5,824	-	(5,824)	-	-	-	-
Comprehensive income								
Profit for the year		-	-	6,439	1,369	-	771	8,579
Other comprehensive income								
Depreciation transfer		-	(140)	115	25	-	-	-
Actuarial gain on pension plan	24	-	-	18,414	3,915	-	2,206	24,535
Deferred tax thereon		-	-	(1,816)	(386)	-	(218)	(2,420)
Dividends	5	-	-	-	(3,000)	-	(296)	(3,296)
Balance at 31 December 2013		5,824	6,477	59,929	1,923	-	7,325	81,478

	Note	Share Capital £'000	Revaluation Reserve £'000	Other reserves £'000	Retained Earnings £'000	Hedging reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1 January 2014		5,824	6,477	59,929	1,923	-	7,325	81,478
Comprehensive income								
Profit for the year		-	-	-	7,055	-	741	7,796
Other comprehensive income								
Depreciation transfer		-	(140)	-	140	-	-	-
Actuarial loss on pension plan	24	-	-	-	(19,638)	-	(1,940)	(21,578)
Deferred tax thereon		-	-	-	4,114	-	406	4,520
Net fair value movements on cash flow hedges	13	-	-	-	-	(5,640)	(557)	(6,197)
Deferred tax thereon		-	-	-	-	1,183	117	1,300
Dividends	5	-	-	-	(5,000)	-	(494)	(5,494)
Balance at 31 December 2014		**5,824**	**6,337**	**59,929**	**(11,136)**	**(4,457)**	**5,598**	**61,825**

The accompanying notes on pages 36 to 64 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		**9,049**	12,623
Adjustments for:			
Depreciation and amortisation		**7,992**	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		**(2,545)**	1,042
Increase/(decrease) in payables		**3,519**	(2,468)
(Increase) in inventories		**(14)**	(95)
(Decrease) in provisions		**(262)**	(278)
Cash flows from operations		**18,690**	19,586
Interest paid		**(200)**	(257)
Income tax paid		**(3,546)**	(2,582)
Net cash flows from operating activities		**14,944**	16,747
Cash flow from investing activities			
Purchase of property plant and equipment	**(Note 8)**	**(14,298)**	(5,558)
Proceeds from disposal of property, plant and equipment		**211**	406
Interest received		**124**	202
Net cash flows from investing activities		**(13,963)**	(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		**(7,135)**	1,026
Cash and cash equivalents at beginning of year		**12,960**	11,934
Cash and cash equivalents at end of year		**5,825**	12,960
Bank balances and cash		**5,825**	12,960

The accompanying notes on pages 36 to 64 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 17 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 22 to the financial statements, have been reduced accordingly. There have been no other consequential changes to the financial statements.

The consolidated financial statements of Transport for Edinburgh 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. This is the first accounting period being presented by the group.

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.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Adoption of new and revised standards

The group has adopted the following new and amended IFRSs as of 1 January 2014:

a. 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.

b. 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.

c. 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

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

a. 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.

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.

1. Statement of significant accounting policies (continued)

b. Basis of consolidation

Subsidiaries previously under common control

For those business combinations relating to subsidiaries previously under common control that will remain under this same control in the future, the group uses the acquisition method of accounting and treats the acquisition as occurring at the earliest date possible. Comparative periods are stated as if the combination occurred at the beginning of the comparative period. Assets and liabilities are measured at book value rather than fair value to reflect no change in the ultimate controlling party. The excess of the consideration over the group's proportionate share is allocated to 'Other reserves', as opposed to being recognised as goodwill or being recognised directly in the Statement of Profit or Loss and Other Comprehensive Income, with the revaluation reserve remaining separate. The group recognises any non-controlling interests at the non-controlling interest's proportionate share of the acquiree's net assets.

Other 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. 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 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.

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.

1. Statement of significant accounting policies (continued)

d. Property, plant and equipment (continued)

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.

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.

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.

1. Statement of significant accounting policies (continued)

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 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 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 and Edinburgh Trams 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 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.

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.

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.

Loans and receivables

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

Financial liabilities

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

Derivative financial instruments

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

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

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

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

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

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

p. Offsetting financial instruments

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

2. Profit for the year

	Consolidated Group		Parent Entity	
	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	**31**	26	**-**	-
Non-audit services	**16**	8	**-**	-
Depreciation and other amounts written off tangible fixed assets:				
Owned	**7,248**	6,953	**-**	-
Assets held under hp/finance leases	**744**	1,222	**-**	-
Gain/(loss) on disposal of property, plant and equipment	**91**	(329)	**-**	-

3. Finance income

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Investment income	**131**	164	**5,000**	-
Pension income (note 24)	**508**	-	**-**	-
	639	164	**5,000**	-

4. Finance costs

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Finance lease charges	**200**	257	**-**	-
Pension interest costs (note 24)	**-**	548	**-**	-
	200	805	**-**	-

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.

6. Income tax expense

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current tax:				
Corporation tax expense	**2,141**	3,783	**-**	-
Deferred tax	**78**	(709)	**-**	-
Adjustment in respect of prior years	**(98)**	-	**-**	-
Effect of increased/decreased tax rate on opening balance	**(338)**	-	**-**	-
Tax on profits for the year	**1,783**	3,074	**-**	-

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	**9,579**	11,653	**5,000**	-
Profit for the year at the effective rate of corporation tax of 21.49% (2013 – 23.25%)	**2,059**	2,708	**1,075**	-
Effects of:				
Expenses not deductible for tax purposes	**238**	418	**-**	-
Income not taxable for tax purposes	**(109)**	-	**(1,075)**	-
Income not taxable for tax purposes – fixed assets	**102**	578	**-**	-
Adjust deferred tax to average rate of 21.49% (2013 – 23.25%)	**(344)**	(680)	**-**	-
Temporary differences not recognised in tax computation	**-**	47	**-**	-
Adjustment to the tax charge in respect of previous periods	**(97)**	-	**-**	-
Group relief claimed before payment	**(71)**	-	**-**	-
Depreciation in access of capital allowances	**5**	-	**-**	-
Tax charge for the period	**1,783**	3,074	**-**	-

7. Employee benefits expense

The company did not have any employees during the period. The average number of persons employed by the group (including directors) during the year was 2,291 (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	**66,894**	61,510	**-**	-
Social security costs	**5,654**	5,116	**-**	-
Other pension costs	**7,878**	7,596	**-**	-
	80,426	74,222	**-**	-

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					
31 December 2012	19,285	65,426	69	3,018	87,798

	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	86	483	14,298
Disposals	-	(2,295)	(33)	(24)	(2,352)
At 31 December 2014	**19,652**	**120,650**	**450**	**7,270**	**148,021**
Accumulated depreciation					
At 1 January 2014	(500)	(47,408)	(279)	(2,661)	(50,848)
Charge for year	(180)	(6,607)	(60)	(1,144)	(7,992)
Eliminated on disposal	-	2,175	33	24	2,232
At 31 December 2014	**(680)**	**(51,840)**	**(306)**	**(3,781)**	**(56,608)**
Net book value					
At 31 December 2014	**18,972**	**68,810**	**143**	**3,488**	**91,414**
Net book value					
At 31 December 2013	**19,152**	**61,807**	**118**	**4,150**	**85,227**

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	**-**	-
Finished goods	**236**	182	**-**	-
	622	608	**-**	-

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	**1,615**	899	**-**	-
Other receivables	**966**	191	**-**	-
Prepayments and accrued income	**1,324**	609	**-**	-
VAT recoverable	**833**	562	**-**	-
Amounts due from Edinburgh Trams Limited	**-**	-	**990**	-
Amounts due from City of Edinburgh Council	**399**	324	**-**	-
Corporation tax	**97**	-	**-**	-
	5,234	2,585	**990**	-
Non-current	**-**	-	**990**	-
Current	**5,234**	2,585	**-**	-
	5,234	2,585	**990**	-

The directors 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	**2,725**	2,051	**-**	-
Other creditors	**3,790**	3,733	**-**	-
Current tax payable	**1,113**	2,519	**-**	-
Taxation and social security	**1,847**	1,834	**-**	-
Obligations under hp/finance leases	**2,459**	2,622	**-**	-
Accruals and deferred income	**6,290**	4,665	**-**	-
Derivative financial instruments (note 13)	**3,832**	-	**-**	-
Amounts due to City of Edinburgh Council	**151**	-	**-**	-
	22,207	17,424	**-**	-
Accrued expenses	**2,639**	1,115	**-**	-
Income received in advance	**3,651**	3,550	**-**	-
	6,290	4,665	**-**	-

12. Other financial liabilities (non-current)

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts due to City of Edinburgh Council	**1,000**	-	**1,000**	-
	1,000	-	**1,000**	-

13. Derivative financial instruments

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

Analysed as:

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

14. 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	**-**	-
Later than one year but no later than five years	**676**	3,135	**-**	-
	3,135	5,757	**-**	-

Analysed as:

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

15. 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	**-**	-
Charge for the year to profit or loss	**(260)**	(709)	**-**	-
Charge for the year to other comprehensive income	**(5,820)**	2,420	**-**	-
At end of the year	**3,467**	9,547	**-**	-
Claims				
At beginning of the year	**1,320**	1,598	**-**	-
Charge for the year	**618**	650	**-**	-
Paid during the year	**(880)**	(928)	**-**	-
At end of the year	**1,058**	1,320	**-**	-

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	**-**	-
Short term timing differences	**(162)**	(163)	**-**	-
Pension scheme asset	**(2,100)**	2,420	**-**	-
Deferred tax on fair value movements on cash flow hedges	**(1,300)**	-	**-**	-
	3,467	9,547	**-**	-
Included in the accounts as follows:				
Provision for liabilities and charges	**3,467**	9,547	**-**	-
	3,467	9,547	**-**	-

Claims

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

16. Cash and cash equivalents

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	**5,825**	12,960	**10**	-

17. Share capital

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**5,824**	5,824	**5,824**	5,824
	5,824	5,824	**5,824**	5,824

18. Reserves

	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
Group				
At 1 January 2013	6,617	42,601	-	-
Profit for the year	-	6,439	-	1,369
Depreciation transfer	(140)	115	-	25
Actuarial gain on pension plan	-	18,414	-	3,915
Deferred tax thereon	-	(1,816)	-	(386)
Dividends	-	-	-	(3,000)
At 31 December 2013	6,477	59,929	-	1,923
Profit for the year	-	-	-	7,055
Depreciation charge	(140)	-	-	140
Actuarial loss on pension plan	-	-	-	(19,638)
Deferred tax thereon	-	-	-	4,114
Net fair value movements on cash flow hedges	-	-	(5,640)	-
Deferred tax thereon	-	-	1,183	-
Dividends	-	-	-	(5,000)
At 31 December 2014	**6,337**	**59,929**	**(4,457)**	**(11,136)**

During the prior year, 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 2013	4,862
Share of profit for the year	771
Dividends	(296)
Share of actuarial gain for the year	2,206
Share of deferred tax	(218)
At 31 December 2013	7,325
Share of profit for the year	741
Dividends	(494)
Share of net fair value movements on cash flow hedges	(557)
Share of deferred tax thereon	117
Share of actuarial loss for the year	(1,940)
Share of deferred tax thereon	406
At 31 December 2014	**5,598**

20. 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	**193**	196	**-**	-
Later than one year and not later than five years	**529**	640	**-**	-
Later than five years	**295**	351	**-**	-
	1,017	1,187	**-**	-

Total operating lease payments in the year to 31 December 2014 recognised through the Statement of Profit or Loss and Other Comprehensive Income and Expenditure were £221,215 (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 mid 2015.

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:

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.

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

	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
West Coast Motors (related party of Chief Executive)	**5**	6
	2,483	2,969

(b) Purchase of goods and services

	2014 £'000	2013 £'000
City of Edinburgh Council (ultimate parent)	**3,563**	1,271
Midlothian Council (shareholder)	**7**	6
Dundas and Wilson CS LLP	**41**	414
CMS Cameron McKenna LLP	**48**	-
	3,659	1,691

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) Reimbursement of expenses incurred:

	2014 £'000	2013 £'000
City of Edinburgh Council (ultimate parent)	**1,951**	936

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

	2014 £'000	2013 £'000
Receivables from related parties		
City of Edinburgh Council (ultimate parent)	**399**	324
Midlothian Council (shareholder)	**11**	11
East Lothian Council	**20**	-
Payables to related parties		
City of Edinburgh Council (ultimate parent)	**(1,151)**	-
Dundas and Wilson CS LLP	**-**	(26)

(e) Directors' remuneration

No directors received any emoluments from the company. Seven directors received the following emoluments from a subsidiary company:

	Consolidated Group		Parent Entity	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Aggregate emoluments and benefits	**840**	873	**-**	-
Aggregate pension contributions	**133**	126	**-**	-
Highest paid director's emoluments and benefits	**200**	269	**-**	-
Highest paid director's pension contributions	**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 (2013: £20,562) and an accrued lump sum of £18,629 (2013: £18,263) at the end of the year.

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

Scheme assets

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

	%	Value at 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**	-	-

	%	Value at 2014 £'000	%	Value at 2013 £'000
Private Equity:	**-**	**-**	3%	9,175
All				
Real Estate:	**-**	**-**	1%	2,868
Overseas Property				
Investment Funds and Unit Trusts:	**2%**	**7,079**	4%	12,721
Equities	**15%**	**54,117**	15%	50,144
Bonds	**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 – pension liability	**(10,497)**	11,524
Net pension (deficit)/asset	**(10,497)**	11,524

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

24. Retirement benefits obligation (continued)

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 Profit or Loss and Other 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)/cost	**(508)**	548
Current service cost	**8,387**	7,977
	7,879	8,525

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.

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.

Defined contribution scheme

As explained in the Accounting Policies, employees of the company can participate in a defined contribution pension scheme which is managed by Scottish Widows.

The charge to the Profit and Loss Account represents the contributions payable relating to the accounting period. During the year group companies paid £52,522 (2013: £230,366) to Scottish Widows Pension scheme. At the year-end £6,171 (2013: £26,456) was due to the scheme.

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

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

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.

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	**5,825**	12,960	**10**	-
Trade and other receivables	10	**5,234**	2,585	**990**	-
Total financial assets		**11,059**	15,545	**1,000**	-
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other current payables	11	**22,207**	17,424	**-**	-
Non-current finance lease obligations	14	**676**	3,135	**-**	-
Non-current financial obligations	12	**1,000**	-	**1,000**	-
Total financial liabilities		**23,883**	20,559	**1,000**	-

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.

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.

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)

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	11,12,14	18,375	1,676	20,059
Total expected outflows		**18,375**	**1,676**	**20,059**
Financial assets — cash flows realisable				
Cash and cash equivalents	16	5,825	-	5,825
Trade, term and loan receivables	10	5,234	-	5,234
Total anticipated inflows		11,059	-	11,059
Net (outflow) of financial instruments		**(7,316)**	**(1,676)**	**(8,992)**

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	11,14	(17,424)	(3,135)	(20,559)
Total expected outflows		(17,424)	(3,135)	(20,559)
Financial assets — cash flows realisable				
Cash and cash equivalents	15	12,960	-	12,960
Trade, term and loan receivables	10	2,585	-	2,585
Total anticipated inflows		15,545	-	15,545
Net (outflow) of financial instruments		(1,879)	(3,135)	(5,014)

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	-	1,000	1,000
Total expected outflows		**-**	**1,000**	**1,000**
Financial assets — cash flows realisable				
Cash and cash equivalents	15	10	-	10
Trade, term and loan receivables	10	-	990	990
Total anticipated inflows		10	990	1,000
Net inflow of financial instruments		**10**	**(10)**	**-**

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.

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 financial liabilities 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.

26. Financial risk management (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.

27. Derivative financial instruments

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:

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