

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2016

Registered number SC443895

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2016

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TRANSPORT FOR EDINBURGH LIMITED

Company Information

Board of Directors:

| | |
|------------------|----------------------------|
| Lesley Hinds | Chair |
| Charles Monheim | |
| James McFarlane | |
| George Lowder | (appointed 7 January 2016) |
| Adam McVey | |
| Nigel Bagshaw | |
| Steven Cassidy | |
| Iain Whyte | (appointed 25 August 2016) |
| Joanna Mowat | (resigned 1 July 2016) |
| Ian Craig | (resigned 31 January 2016) |
| William Campbell | (resigned 31 March 2016) |
| William Devlin | (resigned 16 April 2016) |

Company Registration:

| | |
|-------------------|---|
| Registered Office | 55 Annandale Street Edinburgh EH7 4AZ |
|-------------------|---|

| | |
|---------------------|----------|
| Registration Number | SC443895 |
|---------------------|----------|

| | |
|-----------|-----------------------------|
| Secretary | DW Company Services Limited |
|-----------|-----------------------------|

Bankers:

The Royal Bank of Scotland plc
Barclays Bank plc

Auditor:

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

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2016

Strategic report

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, which operates over 650 buses in Edinburgh and the Lothians, Edinburgh Bus Tours and Edinburgh Trams, the city's tram operating company. The company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and the Lothians. In August 2016 Lothian Buses commenced operating additional routes in East Lothian (previously operated by First, East Scotland) and acquired Musselburgh and North Berwick bus depots and staff. This additional operation has complimented and enhanced existing bus operations in the area and a new subsidiary company, East Coast Buses Limited was created for this. The directors are aware at the date of this report, that the activities of the company are likely to develop in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, that has been produced during the period of this report.

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 with the creation of East Coast Buses Limited, increased our share of the market in 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 3.9% over the previous year while the profit from operations margin for the year is 8.6%. The Statement of Financial Position shows the group's financial strength at the year end with net reserves of £95.9m.

Capital expenditure in the year was £14.1m. The main items of expenditure being the addition of 55 new public service vehicles to the fleet and bus depots in Musselburgh and North Berwick.

The group has faced significant operating and cost pressures. We anticipate that these cost pressures will remain in 2017 and we will remain proactive in seeking to mitigate the impact of these cost pressures.

Results and Dividends

The results and dividends are summarised below. An interim dividend for non-equity holders was approved on 15 December 2016 and was paid on 30 December 2016 by a subsidiary (Lothian Buses Limited). A dividend of £5,500,000 for equity holders (of 94.44p per share) was paid on 13 February 2017 and a further dividend of £500,000 for equity holders (of 8.585p per share) was paid on 30 March 2017.

| | 2016 £'000 | 2015 £'000 |
|----------------------------------|---------------|---------------|
| Revenue | 156,760 | 150,836 |
| Profit before income tax expense | 14,165 | 8,936 |
| Income tax expense | (2,053) | (2,528) |
| Net profit for the year | 12,112 | 6,408 |
| Attributable to: | | |
| Equity holders | 11,035 | 5,830 |
| Non-controlling interest | 1,077 | 578 |
| Interim dividend | 5,517 | 494 |

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2016

Strategic report (continued)

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

| | 2016 | 2015 | Change |
|---|--------|--------|--------|
| Group operating profit margin – operating profit relative to revenue | 8.56% | 6.39% | +2.17% |
| Group patronage growth – year on year movement in passenger journeys | 125.4m | 126.0m | -0.6m |
| Bus operational safety – blameworthy incidents per 100,000 miles | 3.8 | 4.0 | -5.0% |
| Bus operational reliability – scheduled mileage not operated (lost mileage) | 0.15% | 0.12% | +0.03% |
| Bus engineering MOT pass rate – 1 st time pass rate | 100% | 100% | - |
| Group staff turnover – leavers excluding retirement and conduct | 10.9% | 13.2% | -2.3% |
| Group customer satisfaction – complaints per 100,000 passenger journeys | 6.65 | 5.9 | +0.75 |

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.

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

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.

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2016

Strategic report (continued)

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

2016 has been a successful year both in environmental achievements and community partnerships.

Early in the year, Lothian Buses committed to a five year fleet environmental strategy designed to meet the Scottish Government's Climate Change targets. This strategy covers both vehicles and internal operations and sets out an action plan in which Lothian Buses aim to meet the 42% target reduction in greenhouse gases. The group is fully committed to reducing its impact on the local environment and continues to invest in fleet and internal operations. One of the defining features of our ethos is how we view ourselves as being integral to the city and the wider community, and community engagement also remains a vital role in our business.

Edinburgh Trams continued to be a fully accessible mode of transport, and after a successful trial allowed the carriage of mobility scooters on the network. Lothian Buses and Edinburgh Trams have also worked closely with Guide Dogs Scotland with free travel for puppy trainers who are taking potential guide dogs out for familiarisation trips. To date Lothian Buses' staff have raised £13k for Guide Dogs Scotland and have sponsored training for two guide dog puppies.

We were delighted that the hard work and dedication from the bus company was recognised this year at the Scottish Transport Awards where Lothian Buses won Scotland's Public Transport Operator of The Year. Lothian Buses environmental efforts were also recognised with wins at the Edinburgh Chamber of Commerce Awards: Sustainable Development and Vision in Business for the Environment of Scotland (VIBES) Awards: Transport Award. Following a comprehensive audit under the Green Tourism Business Scheme, Edinburgh Bus Tours retained Gold status. The tram company was recognised at the Global Light Awards winning Global Operator of the Year. Edinburgh Trams concluded 2016 with Trip Advisor Certificate of Excellence voted for by passengers.

During 2016 both organisations continued to focus on community and charity engagement. The Lothian Buses partnership with Fresh Start came to an end at the beginning of the year and a new two year Charity of Choice has been in development for launch next year. Lothian Buses Doors Open Day saw a record 10,000 visitors visit Central Bus Depot with thousands of others enjoying a Vintage Bus Running day through the Capital. Lothian Buses and Edinburgh Trams partnered Cancer Research UK to donate unclaimed items of lost property and both took part in Breast Cancer Now's 'Wear it Pink' campaign to help raise awareness of checking for early signs of breast cancer, raising a substantial figure for the charity. Edinburgh Trams have cemented their place in the community by supporting activities like Pedal for Scotland, providing cyclists and their bikes with shuttle services around the event. For the first time Edinburgh Trams provided a service during the city's New Year celebrations and carried over 5,000 Hogmanay revelers home free of charge.

Lothian Buses partnership with Police Scotland continues work in local secondary schools. The #HelpUsHelpYou behavioural change campaign aims to target anti-social behaviour on buses and to date there has been a reported 96% positive engagement with the programme.

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

Date: 9 June 2017



George Lowder
Director

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2016

Directors' report

Directors

The directors are as set out on Page 2.

In January 2015, four executive directors of Lothian Buses Limited 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 of 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 as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

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

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2016

Directors' report (continued)

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, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the strategic report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

Auditor

The auditor, Scott-Moncrieff, 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:

Date: 9 June 2017



**George Lowder
Director**

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2016

We have audited the financial statements of Transport for Edinburgh Limited for the year ended 31 December 2016 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 IFRSs and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of the Directors and the Auditor

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

Scope of the Audit on the Financial Statements

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.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2016

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

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which We Are Required to Report by Exception

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

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



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

Date: 16 June 2017

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2016

| | Note | Consolidated Group | | Parent Entity | |
|--|------|--------------------|---------------|---------------|---------------|
| | | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Continuing operations | | | | | |
| Revenue | 11 | 156,760 | 150,836 | 265 | - |
| Gross profit | | 156,760 | 150,836 | 265 | - |
| Administrative expenses | | (143,334) | (141,197) | (347) | - |
| Profit/(loss) from operations | | 13,426 | 9,639 | (82) | - |
| Gain/(loss) on disposal of property, plant and equipment | 2 | 17 | (163) | - | - |
| Finance income | 3 | 747 | 82 | 6,000 | 5,000 |
| Finance costs | 4 | (25) | (622) | - | - |
| Profit before income tax expense | | 14,165 | 8,936 | 5,918 | 5,000 |
| Income tax expense | 6 | (2,053) | (2,528) | 16 | - |
| Net profit for the year | | 12,112 | 6,408 | 5,934 | 5,000 |
| Attributable to: | | | | | |
| Equity holders | 18 | 11,035 | 5,830 | 5,934 | 5,000 |
| Non-controlling interest | 19 | 1,077 | 578 | - | - |
| Other comprehensive (expense)/income: | | | | | |
| Those that are recyclable net of tax: | | | | | |
| Net fair value movements on cash flow hedges | 27 | 7,529 | (3) | - | - |
| Deferred tax thereon | | (1,466) | (60) | - | - |
| Those that are not recyclable net of tax: | | | | | |
| Revaluation gain on land and buildings | 8 | - | 5,463 | - | - |
| Deferred tax thereon | | - | - | - | - |
| Actuarial (loss)/gain on post-employment benefit obligations | 24 | (20,202) | 31,943 | - | - |
| Deferred tax thereon | | 4,104 | (5,687) | - | - |
| Total comprehensive (expense)/income for the year | | 2,077 | 38,064 | 5,934 | 5,000 |
| Attributable to: | | | | | |
| Equity holders | | (1,902) | 34,641 | 5,934 | 5,000 |
| Non-controlling interest | | (175) | 3,423 | - | - |

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

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

| | Note | As At 31 December 2016 Group | | Parent Entity | |
|--|------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | | As at 31 December 2016 £'000 | As at 31 December 2015 £'000 | As at 31 December 2016 £'000 | As at 31 December 2015 £'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 8 | 100,528 | 94,973 | - | - |
| Retirement benefit asset | 24 | - | 17,936 | - | - |
| Investments | 21 | - | - | 5,824 | 5,824 |
| Other financial assets | 10 | - | - | 1,000 | 990 |
| Derivative financial assets | 13 | 561 | - | - | - |
| Total non-current assets | | 101,089 | 112,909 | 6,824 | 6,814 |
| Current assets | | | | | |
| Inventories | 9 | 652 | 614 | - | - |
| Trade and other receivables | 10 | 6,227 | 4,167 | 16 | - |
| Derivative financial assets | 13 | 768 | - | - | - |
| Cash and cash equivalents | 16 | 18,086 | 14,574 | 6,000 | 5,010 |
| Total current assets | | 25,733 | 19,355 | 6,016 | 5,010 |
| Total assets | | 126,822 | 132,264 | 12,840 | 11,824 |
| 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 | 11,309 | 11,309 | - | - |
| Other reserves | 18 | 59,929 | 59,929 | - | - |
| Retained earnings | 18 | 9,779 | 18,320 | 6,009 | 5,000 |
| Hedging reserve | 18 | 1,004 | (4,514) | - | - |
| Non-controlling interest | 19 | 8,110 | 8,527 | - | - |
| | | 95,955 | 99,395 | 11,833 | 10,824 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Finance lease obligations | 14 | - | 160 | - | - |
| Deferred tax | 15 | 5,490 | 9,072 | - | - |
| Retirement benefits obligation | 24 | 3,039 | - | - | - |
| Provisions | 15 | 1,096 | 910 | - | - |
| Other financial liabilities | 12 | 1,000 | 1,000 | 1,000 | 1,000 |
| Derivative financial instruments | 13 | - | 1,624 | - | - |
| Total non-current liabilities | | 10,625 | 12,766 | 1,000 | 1,000 |
| Current liabilities | | | | | |
| Trade and other payables | 11 | 5,408 | 3,026 | - | - |
| Current tax payable | 11 | 1,476 | 1,442 | - | - |
| Finance lease obligations | 14 | - | 513 | - | - |
| Derivative financial instruments | 13 | - | 4,576 | - | - |
| Other financial liabilities | 11 | 13,358 | 10,546 | 7 | - |
| Total current liabilities | | 20,242 | 20,103 | 7 | - |
| Total liabilities | | 30,867 | 32,869 | 1,007 | 1,000 |
| Total equity and liabilities | | 126,822 | 132,264 | 12,840 | 11,824 |

The financial statements were authorised for issue by the Board of Directors on 9 June 2017 and were signed on its behalf by:

NE Fowler

Registered number SC443895

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

TRANSPORT FOR EDINBURGH LIMITED
Consolidated Statement of Changes in Equity

As at 31 December 2016

| 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 2015 | 5,824 | 6,337 | 59,929 | (11,406) | (4,457) | 5,598 | 61,825 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | 5,830 | - | 578 | 6,408 |
| Other comprehensive income | | | | | | | |
| Revaluation gain on land and buildings | 8 | 4,972 | - | - | - | 491 | 5,463 |
| Deferred tax thereon | - | - | - | - | - | - | - |
| Actuarial gain on pension plan | 24 | - | - | 29,071 | - | 2,872 | 31,943 |
| Deferred tax thereon | - | - | - | (5,175) | - | (512) | (5,687) |
| Net fair value movements on cash flow hedges | 13 | - | - | - | (3) | - | (3) |
| Deferred tax thereon | - | - | - | - | (54) | (6) | (60) |
| Dividends | 5 | - | - | - | - | (494) | (494) |
| Balance at 31 December 2015 | <u>5,824</u> | <u>11,309</u> | <u>59,929</u> | <u>18,320</u> | <u>(4,514)</u> | <u>8,527</u> | <u>99,395</u> |
| | | | | | | | |
| 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 2016 | 5,824 | 11,309 | 59,929 | 18,320 | (4,514) | 8,527 | 99,395 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | 11,035 | - | 1,077 | 12,112 |
| Other comprehensive income | | | | | | | |
| Actuarial loss on pension plan | 24 | - | - | (18,386) | - | (1,816) | (20,202) |
| Deferred tax thereon | - | - | - | 3,735 | - | 369 | 4,104 |
| Net fair value movements on cash flow hedges | 13 | - | - | - | 6,852 | 677 | 7,529 |
| Deferred tax thereon | - | - | - | - | (1,334) | (132) | (1,466) |
| Dividends | 5 | - | - | (4,925) | - | (592) | (5,517) |
| Balance at 31 December 2016 | <u>5,824</u> | <u>11,309</u> | <u>59,929</u> | <u>9,779</u> | <u>1,004</u> | <u>8,110</u> | <u>95,955</u> |

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

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Consolidated Group | |
|---|-----------------------|----------------|
| | 2016 £'000 | 2015 £'000 |
| Cash flow from operating activities | | |
| Profit from operations | 13,426 | 9,639 |
| Adjustments for: | | |
| Depreciation and amortisation | 8,322 | 8,633 |
| Defined benefit pension cost | 9,313 | 10,684 |
| Benefit contributions | (7,868) | (7,606) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in receivables and other financial assets | (2,063) | 967 |
| Increase/(decrease) in payables | 5,204 | (1,238) |
| (Increase)/decrease in inventories | (38) | 8 |
| Increase/(decrease) in provisions | 186 | (148) |
| Cash flows from operations | <u>26,482</u> | <u>20,939</u> |
| Interest paid | (25) | (190) |
| Income tax paid | (2,964) | (2,245) |
| Net cash flows from operating activities | <u>23,493</u> | <u>18,504</u> |
| Cash flow from investing activities | | |
| Purchase of property plant and equipment (Note 8) | (14,098) | (7,577) |
| Proceeds from disposal of property, plant and equipment | 230 | 685 |
| Interest received | 77 | 93 |
| Net cash flows from investing activities | <u>(13,791)</u> | <u>(6,799)</u> |
| Cash flow from financing activities | | |
| Payments to hire purchase/finance lease creditors | (673) | (2,462) |
| Dividends paid | (5,517) | (494) |
| Net cash flows from financing activities | <u>(6,190)</u> | <u>(2,956)</u> |
| Net increase in cash and cash equivalents | 3,512 | 8,749 |
| Cash and cash equivalents at beginning of year | 14,574 | 5,825 |
| Cash and cash equivalents at end of year | <u>18,086</u> | <u>14,574</u> |
| Bank balances and cash | <u>18,086</u> | <u>14,574</u> |

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements

For the year ended 31 December 2016

1. Statement of significant accounting policies

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

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

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

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 2016.

- IAS 1, Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment
- IAS 27, Separate Financial Statements

None of these have materially impacted the consolidated financial statements of the Group.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2016, and with a potential effect.

| International Accounting Standards and Interpretations | Effective for annual periods beginning on or after |
|--|--|
| • IAS 7, Statement of Cash Flows* | 1 January 2017 |
| • IAS 12, Income Taxes* | 1 January 2017 |
| • IAS 39, Financial Instruments: Recognition and Measurement | 1 January 2018 |
| • IFRS 7, Financial Instruments: Disclosures | 1 January 2018 |
| • IFRS 9, Financial Instruments | 1 January 2018 |
| • IFRS 15, Revenue from Contracts with Customers | 1 January 2018 |
| • IFRS 16, Leases* | 1 January 2019 |

*Not yet adopted for use in the European Union

The directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the group's financial statements in the period of initial application.

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

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

a. Going concern

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

b. Basis of consolidation

Subsidiaries

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

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

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

The directors believe the carrying amount as at 31 December 2016 to be in line with the fair value of the properties.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

Revaluations

Heritable properties were revalued on 31 December 2015 by Graham and Sibbald. The fair values of the properties have been estimated using an active market.

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

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

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

Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition. In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation

The depreciable amount of all fixed assets (excluding buildings) and including capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use. Improvements to non-heritable properties are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Non-heritable property is not depreciated.

The depreciation rates used for each class of assets are:

| Class of fixed asset | Depreciation rate |
|--------------------------------------|--------------------------|
| Passenger vehicles | 10 – 15 years |
| Other vehicles | 4 years |
| Plant, machinery and other equipment | 3 – 10 years |

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

e. Leases

Activities as a Lessee

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

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

Activities as a Lessor

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.

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

i. Revenue

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

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

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

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

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

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

j. Value added tax

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

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

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

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

k. Trade payables

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

Trade payables are recognised at cost.

l. Trade receivables

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

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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

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

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

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

Defined contribution scheme

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

Employees of Edinburgh Bus Tours Limited, East Coast Buses Limited and Edinburgh Trams Limited participate in a Pension Fund, which is managed by Scottish Widows.

These schemes are of the defined contribution type and contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income as they arise.

Bonus plans

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

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:

i. *Impairment*

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

ii. *Retirement benefit costs*

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

o. Financial instruments

Classification

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

i. *Loans and receivables*

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

ii. *Financial liabilities*

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

iii. *Derivative financial instruments*

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

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

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

1. Statement of significant accounting policies (continued)

The effective portion of the gain or loss on the hedging instrument is recognised in the statement of 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.

q. Share capital

Ordinary shares are classified as equity.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

2. Profit from operations

| | Consolidated Group | | Parent Entity | |
|---|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit from operations has been determined after: | | | | |
| Auditor's remuneration: | | | | |
| Audit services | 36 | 28 | 6 | - |
| Non-audit services | 11 | 15 | 1 | - |
| Depreciation and other amounts written off tangible fixed assets: | | | | |
| Owned | 8,322 | 7,875 | - | - |
| Assets held under hp/finance leases | - | 758 | - | - |
| Gain/(loss) on disposal of property, plant and equipment | 17 | (163) | - | - |
| | <u>17</u> | <u>(163)</u> | <u>-</u> | <u>-</u> |

3. Finance income

| | Consolidated Group | | Parent Entity | |
|--------------------------|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Investment income | 75 | 82 | 6,000 | 5,000 |
| Pension income (note 24) | 672 | - | - | - |
| | <u>747</u> | <u>82</u> | <u>6,000</u> | <u>5,000</u> |

4. Finance costs

| | Consolidated Group | | Parent Entity | |
|----------------------------------|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Finance lease charges | 25 | 190 | - | - |
| Pension interest costs (note 24) | - | 432 | - | - |
| | <u>25</u> | <u>622</u> | <u>-</u> | <u>-</u> |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

5. Dividends

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| <i>Ordinary Share Capital</i> | | |
| CEC - Interim: 84.56p per share declared; (2015 - 0p declared) | 4,925 | - |
| Non-controlling interest - Interim: 103p per share declared; (2015 - 85.85p declared) | 592 | 494 |
| | 5,517 | 494 |

The interim dividend payable by a subsidiary to non-controlling interests was approved on 15 December 2016 and was paid on 30 December 2016. A dividend of £5,500,000 for equity holders (of 94.44p per share) was paid on 13 February 2017 and a further dividend of £500,000 for equity holders (of 8.585p per share) was paid on 30 March 2017.

6. Income tax expense

| | Consolidated Group | | Parent Entity | |
|--------------------------------------|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Current tax: | | | | |
| Corporation tax | 3,008 | 2,674 | (16) | - |
| Deferred tax | (944) | (142) | - | - |
| Adjustment in respect of prior years | (12) | (4) | - | - |
| Group relief payable | 1 | - | - | - |
| | 2,053 | 2,528 | (16) | - |

The effective tax rate for the year ended 31 December 2016 is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year.

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

| | Consolidated Group | | Parent Entity | |
|---|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Profit for the year before taxation | 14,165 | 8,936 | 5,918 | 5,000 |
| Profit for the year at the effective rate of corporation tax of 20% (2015 – 20.25%) | 2,833 | 1,810 | 1,184 | 1,012 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | 290 | 712 | - | - |
| Income not taxable for tax purposes | (135) | - | (1,200) | (1,012) |
| Income not taxable for tax purposes – fixed assets | 67 | 20 | - | - |
| Adjust deferred tax to average rate of 20% (2015 – 20.25%) | (1,017) | 2 | - | - |
| Temporary differences not recognised in tax computation | 23 | (18) | - | - |
| Adjustment to the tax charge in respect of previous periods | (12) | (4) | - | - |
| Group relief claimed before payment | - | - | - | - |
| Depreciation in excess of capital allowances | 4 | 6 | - | - |
| | 2,053 | 2,528 | (16) | - |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

7. Employee benefits expense

The company had 2 employees during the year (2015 – none). The average number of persons employed by the group (including directors) during the year was 2,493 (2015: 2,360).

The aggregate payroll costs of these persons were as follows:

| | Consolidated Group | | Parent Entity | |
|-----------------------|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Wages and salaries | 73,282 | 72,000 | 170 | - |
| Social security costs | 7,057 | 6,080 | 20 | - |
| Other pension costs | 8,607 | 8,240 | 1 | - |
| | 88,946 | 86,320 | 191 | - |

Directors' remuneration

| | Consolidated Group | | Parent Entity | |
|---|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Aggregate emoluments and benefits | 483 | 716 | 154 | - |
| Aggregate pension contributions | 33 | 128 | - | - |
| Highest paid director's emoluments and benefits | 154 | 211 | 154 | - |
| Highest paid director's pension contributions | - | 40 | - | - |

One director received emoluments from the company (2015 – none). Eleven directors (2015 – eight) received the emoluments above from subsidiary companies, relative to serving on this company's Board. One director is accruing retirement benefits under a defined benefit scheme (2015 - four). The highest paid director has an accrued pension of £nil (2015: £27,057) and an accrued lump sum of £nil (2015: £18,629) at the end of the year.

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 2016 | 25,738 | 120,055 | 413 | 7,289 | 153,495 |
| Additions | 901 | 12,461 | - | 736 | 14,098 |
| Disposals | - | (1,333) | (70) | - | (1,403) |
| At 31 December 2016 | 26,639 | 131,183 | 343 | 8,025 | 166,190 |
| Accumulated depreciation | | | | | |
| At 1 January 2016 | (1,303) | (52,021) | (321) | (4,877) | (58,522) |
| Charge for year | - | (7,498) | (47) | (777) | (8,322) |
| Eliminated on disposal | - | 1,123 | 59 | - | 1,182 |
| At 31 December 2016 | (1,303) | (58,396) | (309) | (5,654) | (65,662) |
| Net book value | | | | | |
| At 31 December 2016 | 25,336 | 72,787 | 34 | 2,371 | 100,528 |
| At 31 December 2015 | 24,435 | 68,034 | 92 | 2,412 | 94,973 |

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

8. Property, plant and equipment (continued)

| | Heritable Properties £'000 | Passenger Vehicles £'000 | Other Vehicles £'000 | Plant & Equipment £'000 | Total £'000 |
|---------------------------------|---|---|-------------------------------------|--|------------------------|
| Group | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2015 | 19,652 | 120,650 | 449 | 7,270 | 148,021 |
| Revaluation | 6,086 | - | - | - | 6,086 |
| Additions | - | 7,536 | 22 | 19 | 7,577 |
| Disposals | - | (8,131) | (58) | - | (8,189) |
| At 31 December 2015 | <u>25,738</u> | <u>120,055</u> | <u>413</u> | <u>7,289</u> | <u>153,495</u> |
| Accumulated depreciation | | | | | |
| At 1 January 2015 | (680) | (51,840) | (306) | (3,781) | (56,607) |
| Revaluation | (623) | - | - | - | (623) |
| Charge for year | - | (7,464) | (73) | (1,096) | (8,633) |
| Eliminated on disposal | - | 7,283 | 58 | - | 7,341 |
| At 31 December 2015 | <u>(1,303)</u> | <u>(52,021)</u> | <u>(321)</u> | <u>(4,877)</u> | <u>(58,522)</u> |
| Net book value | | | | | |
| At 31 December 2015 | <u>24,435</u> | <u>68,034</u> | <u>92</u> | <u>2,412</u> | <u>94,973</u> |
| Net book value | | | | | |
| At 31 December 2014 | <u>18,972</u> | <u>68,810</u> | <u>143</u> | <u>3,489</u> | <u>91,414</u> |

The net book value of tangible assets includes an amount of £nil (2015: £8,449,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £nil (2015: £758,000) has been charged during the year in respect of these assets.

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,248,000 at the year end. The group's heritable properties were last valued on 31 December 2015 by an independent valuer, Graham and Sibbald Chartered Surveyors. Valuations were made on the basis of recent market transactions on an arms' length basis. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'revaluation reserve' in shareholder's equity.

The Directors are satisfied that the fair value of heritable properties does not differ materially from the book value as at 31 December 2016.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

9. Inventories

| | Consolidated Group | | Parent Entity | |
|----------------------|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials (fuel) | 404 | 276 | - | - |
| Finished goods | 248 | 338 | - | - |
| | <u>652</u> | <u>614</u> | <u>-</u> | <u>-</u> |

10. Trade and other receivables

| | Consolidated Group | | Parent Entity | |
|--|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade receivables | 1,469 | 1,360 | - | - |
| Other receivables | 261 | 189 | - | - |
| Prepayments and accrued income | 1,650 | 1,510 | - | - |
| VAT recoverable | 2,689 | 887 | - | - |
| Amounts due from Lothian Buses Limited | - | - | 16 | - |
| Amounts due from Edinburgh Trams Limited | - | - | 1,000 | 990 |
| Amounts due from City of Edinburgh Council | 142 | 187 | - | - |
| Amounts due from Midlothian Council | 9 | 12 | - | - |
| Amounts due from East Lothian Council | 7 | 22 | - | - |
| | <u>6,227</u> | <u>4,167</u> | <u>1,016</u> | <u>990</u> |
| Non-current | - | - | 1,000 | 990 |
| Current | <u>6,227</u> | <u>4,167</u> | <u>16</u> | <u>-</u> |
| | <u>6,227</u> | <u>4,167</u> | <u>1,016</u> | <u>990</u> |

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

11. Current liabilities

| | Consolidated Group | | Parent Entity | |
|---|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Trade and other payables | 5,408 | 3,026 | - | - |
| Other creditors | 4,829 | 4,695 | - | - |
| Current tax payable | 1,476 | 1,442 | - | - |
| Taxation and social security | 2,511 | 2,225 | - | - |
| Obligations under hp/finance leases (note 14) | - | 513 | - | - |
| Accruals and deferred income | 5,688 | 3,291 | 7 | - |
| Derivative financial instruments (note 13) | - | 4,576 | - | - |
| Amounts due to City of Edinburgh Council | 330 | 335 | - | - |
| | <u>20,242</u> | <u>20,103</u> | <u>7</u> | <u>-</u> |
| Accrued expenses | 1,221 | 1,236 | 7 | - |
| Income received in advance | 4,467 | 2,055 | - | - |
| | <u>5,688</u> | <u>3,291</u> | <u>7</u> | <u>-</u> |

12. Other financial liabilities (non-current)

| | Consolidated Group | | Parent Entity | |
|--|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Amounts due to City of Edinburgh Council | 1,000 | 1,000 | 1,000 | 1,000 |
| | <u>1,000</u> | <u>1,000</u> | <u>1,000</u> | <u>1,000</u> |

13. Derivative financial instruments

| | Consolidated Group | | Parent Entity | |
|--|--------------------|----------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| No later than one year | 768 | (4,576) | - | - |
| Later than one year but no later than five years | 561 | (1,624) | - | - |
| | <u>1,329</u> | <u>(6,200)</u> | <u>-</u> | <u>-</u> |
| Analysed as: | | | | |
| | Consolidated Group | | Parent Entity | |
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Current | 768 | (4,576) | - | - |
| Non-current | 561 | (1,624) | - | - |
| | <u>768</u> | <u>(4,576)</u> | <u>-</u> | <u>-</u> |

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

14. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:

| | Consolidated Group | | Parent Entity | |
|--|--------------------|------------|---------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| No later than one year | - | 513 | - | - |
| Later than one year but no later than five years | - | 160 | - | - |
| | <u>-</u> | <u>673</u> | <u>-</u> | <u>-</u> |

Analysed as:

| | Consolidated Group | | Parent Entity | |
|-------------|--------------------|------------|---------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Current | - | 513 | - | - |
| Non-current | - | 160 | - | - |
| | <u>-</u> | <u>673</u> | <u>-</u> | <u>-</u> |

15. Provisions

| | Consolidated Group | | Parent Entity | |
|---|--------------------|--------------|---------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| <i>Deferred tax liabilities</i> | | | | |
| At beginning of the year | 9,072 | 3,467 | - | - |
| Charge for the year to profit or loss | (944) | (142) | - | - |
| (Charge)/credit to other comprehensive income | (2,638) | 5,747 | - | - |
| At end of the year | <u>5,490</u> | <u>9,072</u> | <u>-</u> | <u>-</u> |

The elements of deferred tax are as follows:

| | 2016 | 2015 | 2016 | 2015 |
|--|--------------|--------------|----------|----------|
| | £'000 | £'000 | £'000 | £'000 |
| Accelerated capital allowances | 5,929 | 6,913 | - | - |
| Short term timing differences | (148) | (188) | - | - |
| Pension scheme (liability)/asset | (517) | 3,587 | - | - |
| Deferred tax on fair value movements on cash flow hedges | 226 | (1,240) | - | - |
| | <u>5,490</u> | <u>9,072</u> | <u>-</u> | <u>-</u> |

Included in the accounts as follows:

| | 2016 | 2015 | 2016 | 2015 |
|---------------------------------------|--------------|--------------|----------|----------|
| | £'000 | £'000 | £'000 | £'000 |
| Provision for liabilities and charges | 5,490 | 9,072 | - | - |
| | <u>5,490</u> | <u>9,072</u> | <u>-</u> | <u>-</u> |

There were no deferred tax assets in the year.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

15. Provisions (continued)

| <u>Claims</u> | Consolidated Group | | Parent Entity | |
|--------------------------|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| At beginning of the year | 910 | 1,058 | - | - |
| Charge for the year | 1,322 | 746 | - | - |
| Paid during the year | (1,136) | (894) | - | - |
| | <u>1,096</u> | <u>910</u> | <u>-</u> | <u>-</u> |

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 | |
|--------------------------|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Cash at bank and in hand | <u>18,086</u> | <u>14,574</u> | <u>6,000</u> | <u>5,010</u> |

17. Share capital

| | Consolidated Group | | Parent Entity | |
|---|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| <i>Allotted, called up and fully paid</i> | | | | |
| 5,824,000 ordinary shares of £1 each | <u>5,824</u> | <u>5,824</u> | <u>5,824</u> | <u>5,824</u> |
| | <u>5,824</u> | <u>5,824</u> | <u>5,824</u> | <u>5,824</u> |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

18. Reserves

| <u>Group</u> | Revaluation Reserve £'000 | Other Reserves £'000 | Hedging Reserve £'000 | Retained Earnings £'000 |
|--|---------------------------------|----------------------------|-----------------------------|-------------------------------|
| At 1 January 2015 | 6,337 | 59,929 | (4,457) | (11,406) |
| Profit for the year | - | - | - | 5,830 |
| Revaluation gain on land and buildings | 4,972 | - | - | - |
| Actuarial gain on pension plan | - | - | - | 29,071 |
| Deferred tax thereon | - | - | - | (5,175) |
| Net fair value movements on cash flow hedges | - | - | (3) | - |
| Deferred tax thereon | - | - | (54) | - |
| At 31 December 2015 | 11,309 | 59,929 | (4,514) | 18,320 |
| Profit for the year | - | - | - | 11,035 |
| Actuarial loss on pension plan | - | - | - | (18,386) |
| Deferred tax thereon | - | - | - | 3,735 |
| Net fair value movements on cash flow hedges | - | - | 6,852 | - |
| Deferred tax thereon | - | - | (1,334) | - |
| Dividends | - | - | - | (4,925) |
| At 31 December 2016 | 11,309 | 59,929 | 1,004 | 9,779 |
| <u>Company</u> | | | | |
| At 1 January 2015 | - | - | - | - |
| Profit for the year | - | - | - | 5,000 |
| Dividends | - | - | - | - |
| At 31 December 2015 | - | - | - | 5,000 |
| Profit for the year | - | - | - | 5,934 |
| Dividends | - | - | - | (4,925) |
| At 31 December 2016 | - | - | - | 6,009 |

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

19. Non-controlling interest

| | Non- controlling interest £'000 |
|---|--|
| At 1 January 2015 | 5,598 |
| Share of profit for the year | 578 |
| Dividends | (494) |
| Share of revaluation gain on land and buildings | 491 |
| Share of deferred tax on movement on cash flow hedges | (6) |
| Share of actuarial gain for the year | 2,872 |
| Share of deferred tax thereon | (512) |
| | 8,527 |
| At 31 December 2015 | 8,527 |
| Share of profit for the year | 1,077 |
| Dividends | (592) |
| Share of cash flow hedges | 677 |
| Share of deferred tax on movement on cash flow hedges | (132) |
| Share of actuarial loss for the year | (1,816) |
| Share of deferred tax thereon | 369 |
| | 8,110 |
| At 31 December 2016 | 8,110 |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

20. Commitments

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

| | Consolidated Group | | Parent Entity | |
|---|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| - Not later than one year | 258 | 193 | - | - |
| - Later than one year and not later than five years | 450 | 410 | - | - |
| - Later than five years | 182 | 240 | - | - |
| | 890 | 843 | - | - |

Total operating lease payments in the year to 31 December 2016 recognised through the Statement of Profit or Loss were £290,612 (2015: £221,949).

In November 2016, the group entered into an agreement to purchase 85 vehicles for £19m. These are expected to be delivered during mid 2017.

21. Principal subsidiaries

| Subsidiaries: | Country of incorporation | Nature of business | Proportion of ordinary shares held by parent |
|---|--------------------------|--------------------|--|
| Edinburgh Trams Ltd | UK | Transport | 100% |
| Lothian Buses Ltd | UK | Transport | 91.01% |
| Subsidiaries of Lothian Buses Limited: | | | |
| East Coast Buses Ltd (formerly Lothian Country Buses Ltd) | UK | Transport | 100% |
| 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% |
| 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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| City of Edinburgh Council (ultimate parent) | 1,396 | 2,585 |
| Midlothian Council (shareholder) | 147 | 155 |
| East Lothian Council (shareholder) | 173 | 162 |
| | 1,716 | 2,902 |
| | 1,716 | 2,902 |

(b) Purchase of goods and services

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| City of Edinburgh Council (ultimate parent) | 5,306 | 5,359 |
| Midlothian Council (shareholder) | 7 | 7 |
| | 5,313 | 5,366 |
| | 5,313 | 5,366 |

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

(c) Reimbursement of expenses incurred:

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| City of Edinburgh Council (ultimate parent) | 585 | 927 |
| | 585 | 927 |
| | 585 | 927 |

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

| | 2016 | 2015 |
|---|----------------|----------------|
| | £'000 | £'000 |
| <u>Receivables from related parties</u> | | |
| City of Edinburgh Council (ultimate parent) | 142 | 187 |
| Midlothian Council (shareholder) | 9 | 12 |
| East Lothian Council (shareholder) | 7 | 22 |
| <u>Payables to related parties</u> | | |
| City of Edinburgh Council (ultimate parent) | (1,330) | (1,335) |
| | (1,330) | (1,335) |
| | (1,330) | (1,335) |

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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 2016 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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

24. Retirement benefits obligation (continued)

Scheme assets

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

| | % | Value at 2016 £'000 | % | Value at 2015 £'000 |
|--|-------------|------------------------|-------------|------------------------|
| Equity Securities: | | | | |
| Consumer | 13% | 59,074 | 14% | 52,984 |
| Manufacturing | 14% | 64,189 | 13% | 49,721 |
| Energy and Utilities | 4% | 20,884 | 5% | 18,891 |
| Financial Institutions | 7% | 30,614 | 8% | 29,821 |
| Health and Care | 7% | 34,717 | 8% | 30,113 |
| Information Technology | 12% | 54,752 | 13% | 48,276 |
| Other | 0% | 836 | 0% | 81 |
| Debt Securities: | | | | |
| UK Government | 14% | 65,585 | 4% | 13,801 |
| Private Equity: | | | | |
| All | 1% | 6,069 | 1% | 4,462 |
| Real Estate: | | | | |
| Overseas Property | 8% | 38,595 | 9% | 37,657 |
| Investment Funds and Unit Trusts: | | | | |
| Bonds | 8% | 35,645 | 15% | 57,256 |
| Infrastructure | 7% | 34,548 | 5% | 18,788 |
| Other | 2% | 8,830 | 1% | 6,747 |
| Cash and Cash Equivalents: | | | | |
| All | 3% | 14,905 | 4% | 16,681 |
| | <u>100%</u> | <u>469,243</u> | <u>100%</u> | <u>385,279</u> |

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

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------|----------------------|
| Fair value of plan assets | 469,243 | 385,279 |
| Present value of scheme liabilities | (472,282) | (367,343) |
| (Deficit)/asset in the scheme – pension liability | <u>(3,039)</u> | <u>17,936</u> |
| Net pension (deficit)/asset | <u><u>(3,039)</u></u> | <u><u>17,936</u></u> |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

24. Retirement benefits obligation (continued)

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

| | 2016 £'000 | 2015 £'000 |
|--|----------------|----------------|
| At 1 January | 367,343 | 377,136 |
| Current service cost | 9,313 | 10,684 |
| Interest cost on obligation | 14,328 | 13,596 |
| Plan participants contributions | 2,082 | 2,161 |
| Unfunded benefits paid | (289) | (294) |
| Benefits paid | (11,014) | (10,927) |
| Actuarial losses/(gains) arising from changes in financial assumptions | 94,172 | (22,468) |
| Other actuarial (gains) | (3,653) | (2,545) |
| At 31 December | 472,282 | 367,343 |

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

| | 2016 £'000 | 2015 £'000 |
|---|----------------|----------------|
| At 1 January | 385,279 | 366,639 |
| Benefits paid | (11,014) | (10,927) |
| Interest income on plan assets | 15,000 | 13,164 |
| Contributions by employer | 7,579 | 7,312 |
| Contributions by member | 2,082 | 2,161 |
| Contributions in respect of unfunded benefits | 289 | 294 |
| Unfunded benefits paid | (289) | (294) |
| Return on assets excluding amounts included in net interest | 70,317 | 6,930 |
| At 31 December | 469,243 | 385,279 |

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

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Interest received on pension scheme assets | (15,000) | (13,164) |
| Interest cost on pension scheme liabilities | 14,328 | 13,596 |
| Finance (income)/cost | (672) | 432 |
| Current service cost | 9,313 | 10,684 |
| | 8,641 | 11,116 |

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

24. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

| | 2016 | 2015 |
|---|-----------------|---------------|
| | £'000 | £'000 |
| Actuarial (losses)/gains in the defined benefit obligation | (90,519) | 25,013 |
| Actuarial gains in the fair value of defined benefit assets | 70,317 | 6,930 |
| | (20,202) | 31,943 |

The principal actuarial assumptions used in this valuation were:

| | 2016 | 2015 |
|---------------------------------|-------------|-------------|
| Inflation/pension increase rate | 2.5% | 2.4% |
| Salary increase rate | 4.3% | 4.8% |
| Discount rate | 2.7% | 3.9% |

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

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 1% (2015: 0.9%).

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) | |
|--|---|------|---|--------|
| | 2016 | 2015 | 2016 | 2015 |
| 0.5% decrease in real discount rate | 11% | 10% | 51,129 | 38,130 |
| 1 year increase in life expectancy | 3% | 3% | 14,168 | 11,020 |
| 0.5% increase in the salary increase rate | 3% | 4% | 16,309 | 13,123 |
| 0.5% increase in the pension increase rate | 7% | 7% | 33,376 | 24,267 |

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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

24. Retirement benefits obligation (continued)

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

Mortality rates:

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

| | Male | Female |
|--------------------|-------------|---------------|
| Current pensioners | 20.4 | 22.6 |
| Future pensioners | 23.5 | 25.9 |

The average duration of the benefit obligation at 31 December 2016 is 18 years (2015: 18 years). This number can be analysed as follows:

| | 2016 | 2015 |
|------------------|-------------|-------------|
| Active members | 22.8 years | 22.8 years |
| Deferred members | 21.0 years | 21.0 years |
| Retired members | 10.8 years | 10.8 years |

Expected contributions to post employment benefit plans for the year ended 31 December 2017 are £7,789,000.

25. Operating leases

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

| Gross operating lease receipts: | Consolidated Group | | Parent Entity | |
|--|---------------------------|--------------|----------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| Minimum lease receipts under non-cancellable operating leases due: | | | | |
| No later than one year | 69 | 65 | - | - |
| Later than one year but no later than five years | 280 | 278 | - | - |
| Later than five years | 328 | 406 | - | - |
| | <u>677</u> | <u>749</u> | <u>-</u> | <u>-</u> |

The total annual operating lease income received in the year ended 31 December 2016 was £65,000 (2015: £66,000)

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

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:

| | Note | Consolidated Group | | Parent Entity | |
|---------------------------------------|------|--------------------|---------------|---------------|---------------|
| | | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Financial assets | | | | | |
| Cash and cash equivalents | 16 | 18,086 | 14,574 | 6,000 | 5,010 |
| Trade and other receivables | 10 | 6,227 | 4,167 | 1,016 | 990 |
| Total financial assets | | 24,313 | 18,741 | 7,016 | 6,000 |
| Financial liabilities | | | | | |
| Current liabilities | 11 | 20,242 | 20,103 | 7 | - |
| Non-current finance lease obligations | 14 | - | 160 | - | - |
| Non-current financial obligations | 12 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total financial liabilities | | 21,242 | 21,263 | 1,007 | 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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

26. Financial risk management (continued)

Financial risk exposures and management

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

a. Credit risk

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

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

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

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

The credit risk for all counter parties included in trade and other receivables at 31 December 2016 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.

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)

For the year ended 31 December 2016

26. Financial risk management (continued)

Financial liability and financial asset maturity analysis

| Consolidated Group | Note | Within 1 Year 2016 £'000 | 1 to 5 Years 2016 £'000 | Total 2016 £'000 |
|---|-------------|---|--|---------------------------------|
| Financial liabilities due for payment | | | | |
| Current liabilities | 11,12,14 | 20,242 | 1,000 | 21,242 |
| Total expected outflows | | <u>20,242</u> | <u>1,000</u> | <u>21,242</u> |
| Financial assets — cash flows realisable | | | | |
| Cash and cash equivalents | 16 | 18,086 | - | 18,086 |
| Trade and other receivables | 10 | 6,227 | - | 6,227 |
| Total anticipated inflows | | <u>24,313</u> | <u>-</u> | <u>24,313</u> |
| Net inflow/(outflow) of financial instruments | | <u>4,071</u> | <u>(1,000)</u> | <u>3,071</u> |

Financial liability and financial asset maturity analysis

| Consolidated Group | Note | Within 1 Year 2015 £'000 | 1 to 5 Years 2015 £'000 | Total 2015 £'000 |
|---|-------------|---|--|---------------------------------|
| Financial liabilities due for payment | | | | |
| Current liabilities | 11,12,14 | 15,527 | 1,160 | 16,687 |
| Total expected outflows | | <u>15,527</u> | <u>1,160</u> | <u>16,687</u> |
| Financial assets — cash flows realisable | | | | |
| Cash and cash equivalents | 16 | 14,574 | - | 14,574 |
| Trade and other receivables | 10 | 4,167 | - | 4,167 |
| Total anticipated inflows | | <u>18,741</u> | <u>-</u> | <u>18,741</u> |
| Net inflow/(outflow) of financial instruments | | <u>3,214</u> | <u>(1,160)</u> | <u>2,054</u> |

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

26. Financial risk management (continued)

b. Liquidity risk (continued)

| Parent Entity | Note | Within 1 Year 2016 £'000 | 1 to 5 Years 2016 £'000 | Total 2016 £'000 |
|---|-------|--------------------------------|-------------------------------|------------------------|
| Financial liabilities due for payment | | | | |
| Current liabilities | 11,12 | 7 | 1,000 | 1,007 |
| Total expected outflows | | <u>7</u> | <u>1,000</u> | <u>1,007</u> |
| Financial assets — cash flows realisable | | | | |
| Cash and cash equivalents | 16 | 6,000 | - | 6,000 |
| Trade and other receivables | 10 | 16 | 1,000 | 1,016 |
| Total anticipated inflows | | <u>6,016</u> | <u>1,000</u> | <u>7,016</u> |
| Net inflow of financial instruments | | <u>6,009</u> | <u>-</u> | <u>6,009</u> |

c. Market risk

- Fuel price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2016 consume approximately 22m 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. An 11% increase in the underlying price of fuel increases the overall net asset of the fixed contracts by 87%. Likewise, if the price of fuel was to increase above the underlying price of the contracts, then this would result in an increase in the overall net asset.

However, the impact through the group's Statement of 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.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

27. Derivative financial instruments

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

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

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

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

The following table presents the Group's derivatives financial instruments that are measured at fair value within the hierarchy at 31 December 2016.

| | Note | Level 2 | |
|---|------|---------------|----------------|
| | | 2016 £'000 | 2015 £'000 |
| Assets/(liabilities) | | | |
| Derivative financial instruments | 13 | <u>1,329</u> | <u>(6,200)</u> |

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

Carrying value and fair value of derivative financial instruments

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

| | Note | 2016 £'000 | 2015 £'000 |
|---|------|---------------|----------------|
| Non-current assets/(liabilities) | | | |
| Fuel derivatives | 13 | 561 | (1,624) |
| Current assets/(liabilities) | | | |
| Fuel derivatives | 13 | <u>768</u> | <u>(4,576)</u> |
| Total net carrying value | | <u>1,329</u> | <u>(6,200)</u> |

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2016

27. Derivative financial instruments (continued)

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

| Fuel derivatives | 2016 £'000 | 2015 £'000 |
|---------------------------------------|-----------------------|-----------------------|
| Fair value at the start of the year | (6,200) | (6,197) |
| Changes in the fair value during year | 3,772 | (4,310) |
| Cash paid during the year | 3,757 | 4,307 |
| | <hr/> | <hr/> |
| Fair value at end of year | <u>1,329</u> | <u>(6,200)</u> |

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

| As at 31 December 2016 | Assets/ (Liabilities) £'000 |
|-------------------------------|--|
| Within one year | 768 |
| 1 to 2 years | 647 |
| 2 to 3 years | (86) |
| | <hr/> |
| | <u>1,329</u> |