

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2017

Registered number SC443895

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2017

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TRANSPORT FOR EDINBURGH LIMITED

Company Information

Board of Directors:

Lesley Macinnes (Chair)	(appointed 29 June 2017)
Charles Monheim	
James McFarlane	
George Lowder	
Steven Cassidy	
Karen Doran	(appointed 29 June 2017)
Callum Laidlaw	(appointed 25 May 2017)
Charles Booth	(appointed 25 May 2017)
Cameron Day	(appointed 25 May & resigned 29 June 2017)
Adam McVey	(resigned 29 June 2017)
Lesley Hinds	(resigned 25 May 2017)
Nigel Bagshaw	(resigned 25 May 2017)
Iain Whyte	(resigned 25 May 2017)

Company Registration:

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

Bankers:

The Royal Bank of Scotland plc
Barclays Bank plc

Auditor:

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

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2017

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 some 700 buses in Edinburgh and the Lothians and Edinburgh Trams, the City's Tram operating company, which operates 27 Trams between Edinburgh Airport and the City Centre. The company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and the Lothians. The Directors are aware that the activities of the company are developing in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, which was unanimously approved by The City of Edinburgh Council Transport and Environment Committee in January 2017. This Report should be read in conjunction with the Strategic Reports of Lothian Buses and Edinburgh Trams.

Business Strategy

The core purpose of Transport for Edinburgh Limited is to deliver world class, integrated, environmentally friendly, and socially inclusive transport, which plays a central role in the future prosperity of Edinburgh and the Lothians. We will deliver profit through a strong commercial focus and transport services through innovative collaborations, cooperation with our neighbours and partners and the coordination of activity.

Review of the Business

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. The Directors consider that the results for the year are in line with expectations. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Revenue has increased by 5.8% over the previous year to £165.8m, while the profit from operations margin for the year is 7.3% or £8.9m net after tax. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £155m.

Capital expenditure in the year was £26.2m. The main items of expenditure being the addition of 86 new public service vehicles to the bus fleet.

The Group has faced significant operating and cost pressures. We anticipate that these cost pressures will persist in 2018 and we will remain proactive in seeking to mitigate their impact.

Results and Dividends

The results and dividends are summarised below. An interim dividend for non-equity holders was approved on 14 December 2017 and was paid on 20 December 2017 by a subsidiary (Lothian Buses Limited). A dividend of £6,180,000 (of £1.06p per share) was paid to the City of Edinburgh Council on 28 March 2018 by Transport for Edinburgh. The Group has also generated an additional revenue stream for The City from tram advertising, by taking two licenses "in house."

	2017 £'000	2016 £'000
Revenue	165,838	156,760
Profit before income tax expense	11,948	14,165
Income tax expense	(3,021)	(2,053)
Net profit for the year	8,927	12,112
Attributable to:		
Equity holders	8,265	11,035
Non-controlling interest	662	1,077
Interim dividend	6,610	5,517

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2017

Strategic report (continued)

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

	2017	2016	Change
Group operating profit margin – operating profit relative to revenue	7.30%	8.56%	-1.26%
Group patronage growth – year on year movement in passenger journeys	127.8m	125.4m	+2.4m
Group staff turnover – leavers excluding retirement and conduct	15.2%	10.9%	+4.3%
Group customer satisfaction – complaints per 100,000 passenger journeys	7.86	6.65	+1.21

Group operating profit margin has decreased slightly by 1.26% but Group patronage has increased 2.4m year on year against the national downwards trend. Tram patronage growing to 6.67m from 5.59m in 2016 has helped. Group staff turnover has increased by 4.3% year on year and the Group is actively trying to reduce this level. Group complaints per 100,000 passenger journeys have increased slightly by 1.21 and the Group is trying to reduce this level.

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. In addition to bus and tram services, TfE is procuring a cycle hire scheme for the City and is at the heart of the City Wayfinding Project that will help residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The Group has been deeply involved in the development of the proposal to take trams to Newhaven and pending a decision at the end of 2018 will remain significantly engaged.

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. Executive Directors have regular meetings with elected staff representatives and informal meetings at employee level from time to time. Employees are encouraged to contribute to discussions on specific areas of importance e.g. health and safety, staff catering and staff welfare.

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

We recognise the need to develop our staff and during 2018 we will invest heavily in our Supervisors, Managers and Leaders to ensure they have the right skills and attributes to lead and inspire our staff. Diversity and inclusion training will also commence in 2018, focussing on and celebrating difference within the workplace and the communities we serve.

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

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2017

Strategic report (continued)

Risks and Uncertainties

The Group is subject to risk factors both internal and external to its business. External risks include; political and economic conditions, competitive developments, supply interruptions, regulatory changes, service diversification, supply price increases, pension funding, environmental risks, strikes and litigation. Internal risks include; risks related to capital expenditure, regulatory compliance failure and failure of internal controls. The Boards and their respective Audit and Risk Committees, regularly review the process of identifying, evaluating and managing the significant risks that the Group faces. The Boards consider acceptance of appropriate risk to be an integral part of business and unacceptable levels of risk are avoided or reduced. The Group uses an advance contracting strategy to reduce the impact of future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the Group through a part volume fixed price contract.

Corporate Social Responsibility

2017 has been a successful year for Lothian Buses and Edinburgh Trams both in environmental achievements and community partnerships.

Lothian remains committed to reducing its impact on the environment and continues to work towards meeting the Scottish Government's greenhouse gas reduction targets under the Bus 2020 5 Year Environmental Strategy. This year has seen significant investments in low emission bus technology, with 86 buses joining the bus fleet and further resource efficiency improvements.

In 2017, Lothian launched 80 buses in a mix of Euro 6 and Euro 6 hybrid across several routes running throughout the City centre including services 26, 300 and the Airlink. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. As part of the strategy, this year also seen the exciting launch of Edinburgh's first fully electric bus fleet. The 6 buses run on a fully electric powertrain, with no tailpipe emissions. Lothian have also added a further 2 fully electric vans to their ancillary fleet, taking the number to 3. The investments in low and zero emission vehicles support air quality improvements in the bus operational environment. As a result of investments, Lothian ends the year with 74% of the bus fleet at Euro 5 standard and above.

As part of the Environmental Strategy Lothian has also focused on internal operations with improvements in waste, water and energy. The year ended with an estimated 10% decrease in gas usage and upgrades in lighting and the waste disposal process.

Across 2017, Lothian also continued to focus on local community and charity engagement. Lothian launched its new Charity of Choice two-year partnership, following a successful application process. Over 60 applications were submitted for this opportunity and in September 2017, Macmillan Cancer Support was named bus Charity of Choice. Lothian's fundraising events so far have included the ever popular Doors Open Day in September, which saw around 8,000 visitors to Central Bus Garage, and internal dress festive Christmas Campaign. Thanks to strong engagement from staff and customers Lothian has already raised an incredible £4,949 in just 5 months. Lothian also once again supported Poppy Scotland across November with a special liveried 'Poppy Bus' and the sale of internal merchandise, raising £1,500 for the charity.

In Summer 2017 Lothian partnered Edinburgh Festival Fringe Society to give away free bus travel as part of a wider initiative for World Fringe Day. The initiative saw 26 local charities given Fringe Days Out for their families and individuals who may have never been able to experience a show previously. Results show that the initiative was very successful with over 70% uptake.

Lothian's partnership with Police Scotland continues its behavioural change campaign in secondary schools targeting anti-social behaviour on buses. To date Lothian continues to report a 96% positive engagement with the programme.

Edinburgh Trams is investing time, financial support and resource in environmental, charitable and community projects aligned to the company. In 2017 we started a process of achieving the status Environmental Management Systems compliance to the new ISO 14001:2015. Whilst most of this work was undertaken in 2017 we were duly awarded the status in March 2018.

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2017

Strategic report (continued)

Corporate Social Responsibility (continued)

In partnership with St Johns Scotland, Edinburgh Trams launched the Defibrillators Access Project in 2017. Edinburgh Trams were the first transport provider in the UK to introduce defibrillators onto all of its service trams, meaning that this life saving piece of equipment is only a few minutes away, if required.

As part of our commitment to the people of Edinburgh and offering an increased service to the community, free Hogmanay trams were provided to all party goers during and after the iconic Edinburgh's Hogmanay celebrations.

During The Edinburgh International Festival, all-night trams were operated, on all four Saturdays, to ensure Festival revellers had the opportunity to enjoy the late night festival shows on offer, including The Royal Edinburgh Military Tattoo.

Through the Charter for Public Transport, Edinburgh Trams joined City of Edinburgh Council and Police Scotland's Charter as the first Edinburgh based transport operator to tackle hate crime.

Edinburgh Trams also supported Pedal Scotland with the Glasgow to Edinburgh cycle ride with dedicated cycle and rider trams from the City centre to the official meeting location at the Ingliston Park and Ride facility pre-event, returning post event.

2017 also saw Edinburgh Trams awarding the Edinburgh Cat and Dog Home as our first ever "Local Charity of the Year" as selected by the staff of Edinburgh Trams. Over the period the amount paid over will be in excess of £6,000.

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

Date: 18th May 2018



George Lowder
Director

TRANSPORT FOR EDINBURGH LIMITED

For the year ended 31 December 2017

Directors' report

Directors

The directors are as set out on Page 2.

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

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and 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 2017

Directors' report (continued)

Disclosure of Information to the Auditor

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

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

Auditor

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

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

Date: 18th May 2018



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 2017

We have audited the financial statements of Transport for Edinburgh Limited for the year ended 31 December 2017 which comprise the Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group and company's affairs as at 31 December 2017 and of the group and company's affairs it's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2017

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2017

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

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



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

Date: 22 May 2018

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2017

	Note	Consolidated Group		Parent Entity	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Continuing operations					
Revenue	1i	165,838	156,760	705	265
Gross profit		165,838	156,760	705	265
Administrative expenses		(153,738)	(143,334)	(376)	(347)
Profit/(loss) from operations		12,100	13,426	329	(82)
Gain on disposal of property, plant and equipment	2	4	17	-	-
Finance income	3	21	747	6,330	6,000
Finance costs	4	(177)	(25)	-	-
Profit before income tax expense		11,948	14,165	6,659	5,918
Income tax expense	6	(3,021)	(2,053)	(64)	16
Net profit for the year		8,927	12,112	6,595	5,934
Attributable to:					
Equity holders	18	8,265	11,035	6,595	5,934
Non-controlling interest	19	662	1,077	-	-
Other comprehensive income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	27	(391)	7,529	-	-
Deferred tax thereon		66	(1,466)	-	-
Those that are not recyclable net of tax:					
Actuarial gain/(loss) on post-employment benefit obligations	24	67,630	(20,202)	-	-
Deferred tax thereon		(10,626)	4,104	-	-
Total comprehensive income for the year		65,606	2,077	6,595	5,934
Attributable to:					
Equity holders		59,848	(1,902)	6,595	5,934
Non-controlling interest		5,758	(175)	-	-

The accompanying notes on pages 16 to 48 form part of these financial statements.

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

	Note	As At 31 December 2017		Parent Entity	
		Group		As at 31 December	As at 31 December
		As at 31 December 2017 £'000	As at 31 December 2016 £'000	2017 £'000	2016 £'000
Non-current assets					
Property, plant and equipment	8	116,887	100,528	-	-
Retirement benefit asset	24	59,466	-	-	-
Investments	21	-	-	5,824	5,824
Other financial assets	10	-	-	1,000	1,000
Derivative financial assets	13	-	561	-	-
Total non-current assets		<u>176,353</u>	<u>112,909</u>	<u>6,824</u>	<u>6,824</u>
Current assets					
Inventories	9	741	652	-	-
Trade and other receivables	10	6,467	6,227	18	16
Derivative financial assets	13	1,034	768	-	-
Cash and cash equivalents	16	16,820	18,086	6,665	6,000
Total current assets		<u>25,062</u>	<u>25,733</u>	<u>6,683</u>	<u>6,016</u>
Total assets		<u>201,415</u>	<u>126,822</u>	<u>13,507</u>	<u>12,840</u>
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	63,923	9,779	6,604	6,009
Hedging reserve	18	708	1,004	-	-
Non-controlling interest	19	13,258	8,110	-	-
		<u>154,951</u>	<u>95,955</u>	<u>12,428</u>	<u>11,833</u>
Liabilities					
Non-current liabilities					
Finance lease obligations	14	7,144	-	-	-
Deferred tax	15	16,452	5,490	-	-
Retirement benefits obligation	24	-	3,039	-	-
Provisions	15	1,260	1,096	-	-
Other financial liabilities	12	1,000	1,000	1,000	1,000
Derivative financial instruments	13	97	-	-	-
Total non-current liabilities		<u>25,953</u>	<u>12,766</u>	<u>1,000</u>	<u>1,000</u>
Current liabilities					
Trade and other payables	11	4,141	5,408	-	-
Current tax payable	11	1,064	1,476	64	-
Finance lease obligations	14	1,949	-	-	-
Other financial liabilities	11	13,357	13,358	15	7
Total current liabilities		<u>20,511</u>	<u>20,242</u>	<u>79</u>	<u>7</u>
Total liabilities		<u>46,464</u>	<u>30,867</u>	<u>1,079</u>	<u>1,007</u>
Total equity and liabilities		<u>201,415</u>	<u>126,822</u>	<u>13,507</u>	<u>12,840</u>

The financial statements were authorised for issue by the Board of Directors on 18th May 2018 and were signed on its behalf by:


George Lowder, Director

Registered number SC443895

The accompanying notes on pages 16 to 48 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Changes in Equity

As at 31 December 2017

	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>

	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 2017		5,824	11,309	59,929	9,779	1,004	8,110	95,955
Comprehensive income								
Profit for the year		-	-	-	8,265	-	662	8,927
Other comprehensive income								
Actuarial gain on pension plan	24	-	-	-	61,550	-	6,080	67,630
Deferred tax thereon		-	-	-	(9,671)	-	(955)	(10,626)
Net fair value movements on cash flow hedges	13	-	-	-	-	(356)	(35)	(391)
Deferred tax thereon		-	-	-	-	60	6	66
Dividends	5	-	-	-	(6,000)	-	(610)	(6,610)
Balance at 31 December 2017		<u>5,824</u>	<u>11,309</u>	<u>59,929</u>	<u>63,923</u>	<u>708</u>	<u>13,258</u>	<u>154,951</u>

The accompanying notes on pages 16 to 48 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 £'000	Consolidated Group 2016 £'000
Cash flow from operating activities		
Profit from operations	12,100	13,426
Adjustments for:		
Depreciation and amortisation	9,291	8,322
Defined benefit pension cost	12,966	9,313
Benefit contributions	(7,990)	(7,868)
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(239)	(2,063)
(Decrease)/increase in payables	(1,268)	5,204
Increase in inventories	(89)	(38)
Increase in provisions	164	186
Cash flows from operations	<u>24,935</u>	<u>26,482</u>
Interest paid	(28)	(25)
Income tax paid	(3,031)	(2,964)
Net cash flows from operating activities	<u>21,876</u>	<u>23,493</u>
Cash flow from investing activities		
Purchase of property plant and equipment (Note 8)	(16,468)	(14,098)
Proceeds from disposal of property, plant and equipment	564	230
Interest received	21	77
Net cash flows from investing activities	<u>(15,883)</u>	<u>(13,791)</u>
Cash flow from financing activities		
Payments to hire purchase/finance lease creditors	(649)	(673)
Dividends paid	(6,610)	(5,517)
Net cash flows from financing activities	<u>(7,259)</u>	<u>(6,190)</u>
Net (decrease)/increase in cash and cash equivalents	(1,266)	3,512
Cash and cash equivalents at beginning of year	18,086	14,574
Cash and cash equivalents at end of year	<u>16,820</u>	<u>18,086</u>
Bank balances and cash	<u>16,820</u>	<u>18,086</u>

The accompanying notes on pages 16 to 48 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements

For the year ended 31 December 2017

1. Statement of significant accounting policies

General information

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

Basis of preparation

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

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

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

Adoption of new and revised standards

The group has adopted the following new and amended IFRSs as of 1 January 2017:

- IAS 7, Statement of Cash Flows

No changes have materially impacted the calculation of the figures in the statement of cash flows in the financial statements but where relevant disclosures have been made in the notes to comply with the standard.

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 2017, and with potential effect.

International Accounting Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1, Presentation of Financial Statements	1 January 2018
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
IAS 12, Income Taxes*	1 January 2019

*Not yet adopted for use in the European Union

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

IAS 1 has been amended after the issue of IFRS 9 with the main effect on the group being to amend the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost which is 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 2017

1. Statement of significant accounting policies (continued)

IAS 39 requirements will be replaced by IFRS 9 on Financial Instruments, with the main effect on the group being to re-categorise financial assets and liabilities together with IFRS 7 on Financial Instruments Disclosures. The disclosure will be amended in the group's financial statements as required.

IFRS 15 on revenue from contracts with customers is not expected to have a material impact on the group's financial statements in the period of initial application and future periods. In recognising revenue the contract with the customer is identified, the performance obligations are identified, the transaction price is determined and then allocated to each performance obligation and revenue is recognised in the period when the performance obligation is satisfied when the customer obtains control of the goods or services.

IFRS 16 on leases is expected to have a minor but not material impact on the financial statements in the period of initial application and future periods. The group has a small number of ancillary vehicles and properties on operating leases and will recognise, in the financial statements, an asset to record the right of use and record a liability for the payments under the lease.

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

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

a. Going concern

The Directors are of the opinion that the company and group have adequate resources to enable it to undertake its planned activities for the period of at least one year from the date that the financial statements are approved. Lothian Buses Limited, has confirmed that it will continue to provide sufficient financial support so as to allow its subsidiary, East Coast Buses Limited, to continue to meet its liabilities as they fall due for at least 12 months from the date that the financial statements are approved.

b. Basis of consolidation

Subsidiaries

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

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, 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 2017

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 2017 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 2017

1. Statement of significant accounting policies (continued)

Revaluations

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

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

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

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

Acquisition of assets

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

Depreciation

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

The depreciation rates used for each class of assets are:

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

Derecognition and disposal

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

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)
For the year ended 31 December 2017

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 2017

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 2017

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 2017

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 2017

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. Derivative financial instruments are measured based on mark to market prices at the end of the reporting period.

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 2017

2. Profit from operations

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Profit from operations has been determined after:				
Auditor's remuneration:				
Audit services	51	36	5	6
Non-audit services	9	11	1	1
Depreciation and other amounts written off tangible fixed assets:				
Owned	9,000	8,322	-	-
Assets held under hp/finance leases	291	-	-	-
Gain on disposal of property, plant and equipment	4	17	-	-
	<u>4</u>	<u>17</u>	<u>-</u>	<u>-</u>

3. Finance income

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Investment income	21	75	6,330	6,000
Pension income (note 24)	-	672	-	-
	<u>21</u>	<u>747</u>	<u>6,330</u>	<u>6,000</u>

4. Finance costs

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Finance lease charges	28	25	-	-
Pension interest costs (note 24)	149	-	-	-
	<u>177</u>	<u>25</u>	<u>-</u>	<u>-</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. Dividends

	2017 £'000	2016 £'000
<i>Ordinary Share Capital</i>		
CEC - Interim: 94.44p per share declared; (2016 - 84.56p declared)	5,500	4,925
CEC - Final: 8.585p per share declared; (2016 – 0.0p declared)	500	-
Non-controlling interest - Interim: £1.06p per share declared; (2016 - £1.03p declared)	610	592
	<u>6,610</u>	<u>5,517</u>

The interim dividend payable by a subsidiary to non-controlling interests was approved on 14 December 2017 and was paid on 20 December 2017. A dividend of £6,180,000 for equity holders (of £1.06p per share) was paid on 28 March 2018.

6. Income tax expense

	Consolidated Group		Parent Entity	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current tax:				
Corporation tax	2,875	3,008	64	(16)
Deferred tax	402	(944)	-	-
Adjustment in respect of prior years	(256)	(12)	-	-
Group relief payable	-	1	-	-
	<u>3,021</u>	<u>2,053</u>	<u>64</u>	<u>(16)</u>

The effective tax rate for the year ended 31 December 2017 is calculated at 19.25% (2016: 20%) 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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Profit for the year before taxation	11,948	14,165	6,659	5,918
Profit for the year at the effective rate of corporation tax of 19.25% (2016 – 20%)	2,300	2,833	1,282	1,184
Effects of:				
Expenses not deductible for tax purposes	995	290	1	-
Income not taxable for tax purposes	-	(135)	(1,219)	(1,200)
Income not taxable for tax purposes – fixed assets	37	67	-	-
Adjust deferred tax to average rate of 19.25% (2016 – 20%)	(52)	(1,017)	-	-
Temporary differences not recognised in tax computation	(3)	23	-	-
Adjustment to the tax charge in respect of previous periods	(256)	(12)	-	-
Depreciation in excess of capital allowances	-	4	-	-
	<u>3,021</u>	<u>2,053</u>	<u>64</u>	<u>(16)</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

7. Employee benefits expense

The company had 2 employees during the year (2016 – 2). The average number of persons employed by the group (including directors) during the year was 2,554 (2016: 2,493).

The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Wages and salaries	77,847	73,282	181	170
Social security costs	7,808	7,057	23	20
Other pension costs	8,341	8,607	1	1
	93,996	88,946	205	191

Other pension costs comprise contributions to defined benefit schemes of £7,714,000 (2016: £7,579,000) and to defined contribution schemes of £627,000 (2016: £1,028,000) for the group and £nil (2016: £nil) and £1,000 (2016: £1,000) for the company respectively.

<u>Directors' remuneration</u>	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Aggregate emoluments and benefits	186	483	142	154
Aggregate pension contributions	-	33	-	-
Highest paid director's emoluments and benefits	142	154	142	154

One director received emoluments from the company (2016 – one). Three directors (2016 – eleven) received the emoluments above from subsidiary companies, relative to serving on this company's Board. No director is accruing retirement benefits under a defined benefit scheme (2016 - one). Directors' remuneration costs disclosed above exclude employers national insurance costs of £23,059 (2016: £72,224). The directors of Transport for Edinburgh Limited are also considered to be the company's key management personnel.

8. Property, plant and equipment

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2017	26,639	131,183	343	8,025	166,190
Additions	-	24,069	48	2,093	26,210
Disposals	-	(4,021)	(76)	-	(4,097)
At 31 December 2017	26,639	151,231	315	10,118	188,303
Accumulated depreciation					
At 1 January 2017	(1,303)	(58,396)	(309)	(5,654)	(65,662)
Charge for year	-	(8,632)	(36)	(623)	(9,291)
Eliminated on disposal	-	3,463	74	-	3,537
At 31 December 2017	(1,303)	(63,565)	(271)	(6,277)	(71,416)
Net book value					
At 31 December 2017	25,336	87,666	44	3,841	116,887
Net book value					
At 31 December 2016	25,336	72,787	34	2,371	100,528

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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 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	<u>26,639</u>	<u>131,183</u>	<u>343</u>	<u>8,025</u>	<u>166,190</u>
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	<u>(1,303)</u>	<u>(58,396)</u>	<u>(309)</u>	<u>(5,654)</u>	<u>(65,662)</u>
Net book value					
At 31 December 2015	<u>25,336</u>	<u>72,787</u>	<u>34</u>	<u>2,371</u>	<u>100,528</u>
Net book value					
At 31 December 2014	<u>24,435</u>	<u>68,034</u>	<u>92</u>	<u>2,412</u>	<u>94,973</u>

The net book value of tangible assets includes an amount of £10,012,000 (2016: £nil) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £290,000 (2016: £nil) 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 2017 and therefore no depreciation has been charged for the year.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9. Inventories

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Raw materials (fuel)	398	404	-	-
Finished goods	343	248	-	-
	<u>741</u>	<u>652</u>	<u>-</u>	<u>-</u>

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade receivables	1,273	1,469	-	-
Other receivables	276	261	-	-
Prepayments and accrued income	1,810	1,650	10	-
VAT recoverable	2,801	2,689	8	-
Amounts due from Lothian Buses Limited	-	-	-	16
Amounts due from Edinburgh Trams Limited	-	-	1,000	1,000
Amounts due from City of Edinburgh Council	288	142	-	-
Amounts due from Midlothian Council	1	9	-	-
Amounts due from East Lothian Council	18	7	-	-
	<u>6,467</u>	<u>6,227</u>	<u>1,018</u>	<u>1,016</u>
Non-current	-	-	1,000	1,000
Current	6,467	6,227	18	16
	<u>6,467</u>	<u>6,227</u>	<u>1,018</u>	<u>1,016</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 2017

11. Current liabilities

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade and other payables	4,141	5,408	-	-
Other creditors	4,375	4,829	-	-
Current tax payable	1,064	1,476	64	-
Taxation and social security	2,709	2,511	-	-
Obligations under hp/finance leases (note 14)	1,949	-	-	-
Accruals and deferred income	5,868	5,688	9	7
Amounts due to subsidiary companies	-	-	6	-
Amounts due to City of Edinburgh Council	405	330	-	-
	<u>20,511</u>	<u>20,242</u>	<u>79</u>	<u>7</u>
Accrued expenses	1,248	1,221	9	7
Income received in advance	4,620	4,467	-	-
	<u>5,868</u>	<u>5,688</u>	<u>9</u>	<u>7</u>

12. Other financial liabilities (non-current)

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'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	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Assets/(liabilities)				
No later than one year	1,034	768	-	-
Later than one year but no later than five years	(97)	561	-	-
	<u>937</u>	<u>1,329</u>	<u>-</u>	<u>-</u>
Analysed as:				
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Assets/(liabilities)				
Current	1,034	768	-	-
Non-current	(97)	561	-	-
	<u>937</u>	<u>1,329</u>	<u>-</u>	<u>-</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

14. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
No later than one year	1,949	-	-	-
Later than one year but no later than five years	7,144	-	-	-
	<u>9,093</u>	<u>-</u>	<u>-</u>	<u>-</u>

Analysed as:

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Current	1,949	-	-	-
Non-current	7,144	-	-	-
	<u>9,093</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

15. Provisions

	Consolidated Group		Parent Entity	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<u>Deferred tax liabilities</u>				
At beginning of the year	5,490	9,072	-	-
Charge/(credit) for the year to profit or loss	402	(944)	-	-
(Charge)/credit to other comprehensive income	10,560	(2,638)	-	-
At end of the year	<u>16,452</u>	<u>5,490</u>	<u>-</u>	<u>-</u>

The elements of deferred tax are as follows:

Accelerated capital allowances	6,334	5,929	-	-
Short term timing differences	(151)	(148)	-	-
Pension scheme asset/(liability)	10,109	(517)	-	-
Deferred tax on fair value movements on cash flow hedges	160	226	-	-
	<u>16,452</u>	<u>5,490</u>	<u>-</u>	<u>-</u>
Included in the accounts as follows:				
Provision for liabilities and charges	16,452	5,490	-	-
	<u>16,452</u>	<u>5,490</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 2017

15. Provisions (continued)

<u>Claims</u>	Consolidated Group		Parent Entity	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At beginning of the year	1,096	910	-	-
Charge for the year	1,170	1,322	-	-
Paid during the year	(1,006)	(1,136)	-	-
	1,260	1,096	-	-
	1,260	1,096	-	-

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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash at bank and in hand	16,820	18,086	6,665	6,000
	16,820	18,086	6,665	6,000
	16,820	18,086	6,665	6,000

17. Share capital

	Consolidated Group		Parent Entity	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<i>Allotted, called up and fully paid</i> 5,824,000 ordinary shares of £1 each	5,824	5,824	5,824	5,824
	5,824	5,824	5,824	5,824
	5,824	5,824	5,824	5,824

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

18. Reserves

<u>Group</u>	Revaluation Reserve £'000	Other Reserves £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2016	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	<u>11,309</u>	<u>59,929</u>	<u>1,004</u>	<u>9,779</u>
Profit for the year	-	-	-	8,265
Actuarial gain on pension plan	-	-	-	61,550
Deferred tax thereon	-	-	-	(9,671)
Net fair value movements on cash flow hedges	-	-	(356)	-
Deferred tax thereon	-	-	60	-
Dividends	-	-	-	(6,000)
At 31 December 2017	<u><u>11,309</u></u>	<u><u>59,929</u></u>	<u><u>708</u></u>	<u><u>63,923</u></u>
<u>Company</u>				
At 1 January 2016	-	-	-	5,000
Profit for the year	-	-	-	5,934
Dividends	-	-	-	(4,925)
At 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,009</u>
Profit for the year	-	-	-	6,595
Dividends	-	-	-	(6,000)
At 31 December 2017	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>6,604</u></u>

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 2017

19. Non-controlling interest

	Non-controlling interest £'000
At 1 January 2016	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
	<hr/>
At 31 December 2016	8,110
Share of profit for the year	662
Dividends	(610)
Share of cash flow hedges	(35)
Share of deferred tax on movement on cash flow hedges	6
Share of actuarial gain for the year	6,080
Share of deferred tax thereon	(955)
	<hr/>
At 31 December 2017	13,258
	<hr/> <hr/>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

20. Commitments

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

	Consolidated Group		Parent Entity	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Not later than one year	210	258	-	-
Later than one year and not later than five years	317	450	-	-
Later than five years	126	182	-	-
	653	890	-	-
	653	890	-	-

Total operating lease payments in the year to 31 December 2017 recognised through the Statement of Profit or Loss were £296,395 (2016: £290,612).

In November 2017 the Board of Lothian Buses Limited gave approval for expenditure of £17.2m on 75 new buses for 2018, by the end of December 2017 that company had entered into agreements to purchase 5 buses for £1.4m. These are expected to be delivered during mid 2018.

21. Principal subsidiaries

Subsidiaries:	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Edinburgh Trams Ltd	UK	Transport	100%
Lothian Buses Ltd	UK	Transport	91.01%
Subsidiaries of Lothian Buses Limited:			
East Coast Buses Ltd	UK	Transport	100%
Lothian Coaches 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%
Lothian Country Buses 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 Bus and Tram Ltd	UK	Transport	100%

All subsidiary undertakings are included in the consolidation. The registered address of all of the above subsidiary undertakings is 55 Annandale Street, Edinburgh, EH7 4AZ. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

	2017	2016
	£'000	£'000
City of Edinburgh Council (ultimate parent)	1,435	1,396
Midlothian Council (shareholder)	123	147
East Lothian Council (shareholder)	182	173
	1,740	1,716
	1,740	1,716

(b) Purchase of goods and services

	2017	2016
	£'000	£'000
City of Edinburgh Council (ultimate parent)	4,997	5,306
Midlothian Council (shareholder)	4	7
	5,001	5,313
	5,001	5,313

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:

	2017	2016
	£'000	£'000
City of Edinburgh Council (ultimate parent)	695	585
	695	585

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

	2017	2016
	£'000	£'000
<u>Receivables from related parties</u>		
City of Edinburgh Council (ultimate parent)	288	142
Midlothian Council (shareholder)	1	9
East Lothian Council (shareholder)	18	7
<u>Payables to related parties</u>		
City of Edinburgh Council (ultimate parent)	(1,392)	(1,330)
	(1,392)	(1,330)

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 2017

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 2017 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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 2017 £'000	%	Value at 2016 £'000
Equity Securities:				
Consumer	12%	60,978	13%	59,074
Manufacturing	13%	69,260	14%	64,189
Energy and Utilities	4%	21,482	4%	20,884
Financial Institutions	7%	33,877	7%	30,614
Health and Care	7%	37,240	7%	34,717
Information Technology	7%	38,776	12%	54,752
Other	4%	22,831	0%	836
Debt Securities:				
Corporate Bonds	2%	8,749	-	-
UK Government	14%	74,196	14%	65,585
Private Equity:				
All	1%	3,505	1%	6,069
Real Estate:				
UK Property	8%	41,947	8%	38,595
Investment Funds and Unit Trusts:				
Other	1%	6,662	-	-
Bonds	6%	31,799	8%	35,645
Infrastructure	10%	51,511	7%	34,548
Other	-	-	2%	8,830
Cash and Cash Equivalents:				
All	4%	20,342	3%	14,905
	<u>100%</u>	<u>523,155</u>	<u>100%</u>	<u>469,243</u>

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

	2017 £'000	2016 £'000
Fair value of plan assets	523,155	469,243
Present value of scheme liabilities	(463,689)	(472,282)
Asset/(deficit) in the scheme – pension liability	<u>59,466</u>	<u>(3,039)</u>
Net pension asset/(deficit)	<u><u>59,466</u></u>	<u><u>(3,039)</u></u>

TRANSPORT FOR EDINBURGH LIMITED
Notes to the Financial Statements (continued)
For the year ended 31 December 2017

24. Retirement benefits obligation (continued)

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

	2017 £'000	2016 £'000
At 1 January	472,282	367,343
Current service cost	12,966	9,313
Interest cost on obligation	12,800	14,328
Plan participants contributions	1,974	2,082
Unfunded benefits paid	(276)	(289)
Benefits paid	(11,079)	(11,014)
Change in demographic assumptions	(1,459)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(5,697)	94,172
Other actuarial (gains)	(17,822)	(3,653)
At 31 December	463,689	472,282

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

	2017 £'000	2016 £'000
At 1 January	469,243	385,279
Benefits paid	(11,079)	(11,014)
Interest income on plan assets	12,651	15,000
Contributions by employer	7,714	7,579
Contributions by member	1,974	2,082
Contributions in respect of unfunded benefits	276	289
Unfunded benefits paid	(276)	(289)
Return on assets excluding amounts included in net interest	42,652	70,317
At 31 December	523,155	469,243

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

	2017 £'000	2016 £'000
Interest received on pension scheme assets	(12,651)	(15,000)
Interest cost on pension scheme liabilities	12,800	14,328
Finance cost/(income)	149	(672)
Current service cost	12,966	9,313
	13,115	8,641

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

24. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2017 £'000	2016 £'000
Actuarial gains/(losses) in the defined benefit obligation	24,978	(90,519)
Actuarial gains in the fair value of defined benefit assets	42,652	70,317
	<u>67,630</u>	<u>(20,202)</u>

The principal actuarial assumptions used in this valuation were:

	2017	2016
Inflation/pension increase rate	2.4%	2.5%
Salary increase rate	3.4%	4.3%
Discount rate	2.5%	2.7%

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% (2016: 1%).

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

Change in assumption	Approximate % increase to employer asset/(liability)		Approximate increase to employer asset/(liability) (£'000)	
	2017	2016	2017	2016
0.5% decrease in real discount rate	10%	11%	45,034	51,129
0.5% increase in the salary increase rate	2%	3%	8,921	16,309
0.5% increase in the pension increase rate	8%	7%	35,207	33,376

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 2017

24. Retirement benefits obligation (continued)

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

Mortality rates:

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

	Male	Female
Current pensioners	19.7	22.3
Future pensioners	21.9	24.8

The average duration of the benefit obligation at 31 December 2017 is 18 years (2016: 18 years). This number can be analysed as follows:

	2017	2016
Active members	23.1 years	22.8 years
Deferred members	22.1 years	21.0 years
Retired members	11.7 years	10.8 years

Expected contributions to post employment benefit plans for the year ended 31 December 2018 are £7,451,000.

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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	70	69	-	-
Later than one year but no later than five years	274	280	-	-
Later than five years	264	328	-	-
	608	677	-	-

The total annual operating lease income received in the year ended 31 December 2017 was £67,000 (2016: £65,000).

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. Financial risk management

The group's financial instruments consist mainly of deposits with banks, government bonds, short term investments, accounts receivable and payable, loans to and from associated entities and derivatives. Financial Instruments do not include prepayments, VAT, taxation, social security and deferred income.

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

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

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

	Note	Consolidated Group		Parent Entity	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets					
Cash and cash equivalents	16	16,820	18,086	6,665	6,000
Trade and other receivables	10	1,856	1,888	1,000	1,016
Total financial assets		18,676	19,974	7,665	7,016
Financial liabilities					
Current liabilities	11	12,118	11,788	15	7
Non-current finance lease obligations	14	7,144	-	-	-
Non-current financial obligations	12	1,000	1,000	1,000	1,000
Total financial liabilities		20,262	12,788	1,015	1,007

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 27.

Financial risk management

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

Capital management

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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 2017 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 2017

26. Financial risk management (continued)

Financial liability and financial asset maturity analysis

Consolidated Group	Note	Within 1 Year 2017 £'000	1 to 5 Years 2017 £'000	Total 2017 £'000
Financial liabilities due for payment				
Current liabilities	11,12,14	12,118	1,000	13,118
Finance Lease obligations	14	-	7,144	7,144
Total expected outflows		<u>12,118</u>	<u>8,144</u>	<u>20,262</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	16	16,820	-	16,820
Trade and other receivables	10	1,856	-	1,856
Total anticipated inflows		<u>18,676</u>	<u>-</u>	<u>18,676</u>
Net inflow/(outflow) of financial instruments		<u>6,558</u>	<u>(8,144)</u>	<u>(1,586)</u>

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	11,788	1,000	12,788
Total expected outflows		<u>11,788</u>	<u>1,000</u>	<u>12,788</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	16	18,086	-	18,086
Trade and other receivables	10	1,888	-	1,888
Total anticipated inflows		<u>19,974</u>	<u>-</u>	<u>19,974</u>
Net inflow/(outflow) of financial instruments		<u>8,186</u>	<u>(1,000)</u>	<u>7,186</u>

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. Financial risk management (continued)

b. Liquidity risk (continued)

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

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

26. Financial risk management (continued)

c. Market risk

Fuel price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2017 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 net cash flows on settlement of the contracts are paid or received at the end of each month. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the group's profit is exposed as movements in the contract value are taken through the Statement of Comprehensive Income. A 8.7% decrease in the underlying price of fuel decreases the overall net asset of the fixed contracts by 77.5%. 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 2017

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 2017.

	Note	Level 2	
		2017 £'000	2016 £'000
Assets			
Derivative financial instruments	13	937	1,329

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	2017 £'000	2016 £'000
Non-current (liabilities)/assets			
Fuel derivatives	13	(97)	561
Current assets			
Fuel derivatives	13	1,034	768
Total net carrying value		937	1,329

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 2017

27. Derivative financial instruments (continued)

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

Fuel derivatives	2017 £'000	2016 £'000
Fair value at the start of the year	1,329	(6,200)
Changes in the fair value during year	(206)	3,772
Cash paid during the year	(186)	3,757
	<hr/>	<hr/>
Fair value at end of year	<u>937</u>	<u>1,329</u>

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

As at 31 December 2017	Assets/ (Liabilities) £'000
Within one year	1,034
1 to 2 years	(102)
2 to 3 years	5
	<hr/>
	<u>937</u>

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

	Current loans & borrowings £'000	Non-current loans & borrowings £'000	Derivative financial liabilities £'000	Derivative financial assets £'000	Total £'000
At 1 January 2017	-	-	-	(1,329)	(1,329)
<u>Cash flows</u>					
Repayment of capital on finance leases	-	(649)	-	-	(649)
Net receipts from derivative instruments	-	-	-	186	186
<u>Non-cash flows</u>					
New finance leases	1,949	7,793	-	-	9,742
Change in fair value during the year	-	-	-	206	206
Split in aging profile of derivative financial liability/(asset)	-	-	97	(97)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	<u>1,949</u>	<u>7,144</u>	<u>97</u>	<u>(1,034)</u>	<u>8,156</u>