TRANSPORT FOR EDINBURGH LIMITED

Consolidated Financial Statements

For the year ended 31 December 2019

Registered number SC443895

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Company Information

Board of Directors:	Lesley Macinnes (Chair) Karen Doran (Vice Chair) George Lowder James McFarlane Callum Laidlaw Charles Booth (resigned 27 June 2019) Donald MacLeod (appointed 2 May 2019) Claire Helen Innes Miller (appointed 27 June 2019) George Hazel (appointed 30 September 2019) Daisy Narayanan (appointed 17 December 2019) Charlene Wallace (resigned 14 January 2020)	
Company Registration:	Registered Office	55 Annandale Street Edinburgh EH7 4AZ
	Registration Number	SC443895
Bankers:	The Royal Bank of Scotland plc Barclays Bank plc	
Auditor:	Scott-Moncrieff Audit Services Statutory Auditor Exchange Place 3 Semple Street Edinburgh EH3 8BL	

TRANSPORT FOR EDINBURGH LIMITED

Strategic Report

For the year ended 31 December 2019

Principal Activities

The principal activity of the Company is to act as a holding and a parent company for The City of Edinburgh Council's public transport companies; Lothian Buses, which operates approximately 900 buses in Edinburgh and The Lothians and for Edinburgh Trams, the City's Tram Operating Company, which operates 27 Trams between Edinburgh Airport and The City Centre. The Company is also directed to deliver an integrated transport network and transport projects for The City of Edinburgh and The Lothians. The Directors are aware that the activities of the Company are developed in line with The Transport for Edinburgh Strategy for Delivery 2017 - 2021, which was unanimously approved by The City of Edinburgh Council Transport and Environment Committee in January 2017. The Company also delivers additional services for The City in line with the purpose of the Company and The Strategy, most notably: the procurement, launch and oversight of the Edinburgh Cycle Hire Scheme, leadership of the Edinburgh Wayfinding Project and Driver Innovation Safety Challenge (DISC) and the coordination of City wide, major event contingency planning. TfE collaborates with The University of Edinburgh on a number of Projects, including with the Data Driven Innovation Department to develop a clearer understanding of travel demand in, through and around The City. 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 (TfE) 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. TfE will deliver results through a strong commercial focus and transport services through innovative collaborations, cooperation with our neighbours and partners and the coordination of activity. We will reduce costs to The City of Edinburgh Council by drawing down as much other available funding as possible, to enable the delivery of services, particularly around Active Travel and Innovation.

Review of the Business

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. The Directors consider that the results for the year are in line with expectations, with the main reason for the loss in the year being Edinburgh Trams assuming greater responsibility for tram and network maintenance from The City of Edinburgh Council and paying a higher access fee for use of assets including the tramway, trams and tram Depot. As shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income revenue has increased by 5.2% over the previous year to £185.6m, while the loss for the year was £16.8m net after tax. The Statement of Financial Position shows the Group's financial strength at the year end, with net reserves of £129.5m.

The main item of capital expenditure in the year was £26.7m for the addition of new buses to the fleet.

The Group has faced significant operating and cost pressures. We anticipate that these cost pressures will persist in 2020 and we will remain proactive in seeking to mitigate their impact. With the Covid-19 virus outbreak in March 2020 we have had to be extremely proactive in seeking to address and mitigate the impact of the instant revenue decline and cost pressures in order to maintain our business and returns.

Future Prospects

The Directors are of the opinion that the Group remains in a sound position to maintain its role as the major operator of buses, trams, open top tours and cycle hire in Edinburgh and the Lothians. In addition to bus and tram services, TfE procured a cycle hire scheme for the City and is at the heart of the City Wayfinding Project that helps residents, workers, students and visitors; walk, cycle and use public transport in Edinburgh. The Group has been deeply involved in the development of the "trams to Newhaven" project and will remain significantly engaged, whilst continuing to support Edinburgh Trams as it takes maintenance contracts "in house."

The current year's trading to mid March 2020 was line with budgeted expectations until the Covid-19 virus outbreak affected us all. Revenue streams took a severe decline instantly, as the Government used restrictions on movement and "lockdown" to try and limit the spread of the virus. This has had a huge impact on public transport patronage, with levels down some 97%. Services patterns and frequency have been adjusted to meet the demand from essential and key workers, but delivery of these services in loss inducing.

Future Prospects (continued)

The Directors remain positive about the future, despite the significant challenges being brought about by the severe impact on the financial results of the Group. This will bring further, significant, challenges and require dedicated recovery plans, phased with the relaxation of COVID-19 measures, carefully tailored to restore confidence in the use of public transport.

Results and Dividends

The results and dividends are summarised below. An interim dividend of £7,000,000 was paid to the City of Edinburgh Council (CEC) on 26 March 2019.

	2019 £'000	**2018 £'000**
Revenue	185,629	176,466
Loss before income tax expense	(16,873)	(6,920)
Income tax expense	75	154
Net loss for the year	(16,798)	(6,766)
Attributable to:		
Equity holders	(16,076)	(6,830)
Non-controlling interest	(722)	64
Dividend	7,000	6,871

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:

	2019	**2018**	**Change**
Group operating margin – operating loss relative to revenue	-8.9%	-4.7%	-4.2%
Group patronage – year on year movement in passenger journeys	131.65m	126.5m	+5.15m

Group operating margin has decreased by 4.2% due to losses made in 2019 within Lothian Buses and Edinburgh Trams. Group patronage has increased 5.15m year on year. Tram patronage has grown to 7.45m from 7.3m in 2018.

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.

Employees (continued)

We recognise the need to develop our staff and during 2020 we will again invest heavily in our Supervisors, Managers and Leaders to ensure they have the right skills and attributes to lead and inspire our staff. Diversity and inclusion training will continue in 2020, 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 a People Function with dedicated People Managers in each of the three main bus garages. Working alongside both operational and non-operational management they advise and guide on a wide range of employment matters, ensuring legal compliance and best practice is at the fore when dealing with employees. Edinburgh Trams has similarly invested in their People and Training functions.

Risks and Uncertainties

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

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

2019 has highlighted the complexity of decisions surrounding Brexit. This subject is included within our Risk Register and will remain a significant subject, closely monitored and action taken where necessary to ensure all aspects of the business, from operations to employee engagement are fully understood and where necessary communicated by the company to our staff. Working in close partnership with our major suppliers, the Board has received confirmation that they have also taken all necessary steps to ensure they can continue to deliver an uninterrupted level of service to back up our main operations and where applicable have resources in stock to deal with both short term and long-term objectives.

2020 introduced a new risk in the form of Covid-19 and this is now on our Risk Register and is being managed in the best way possible in such difficult circumstances.

Corporate Social Responsibility

2019 has been a successful year for TfE, Lothian Buses and Edinburgh Trams, both in environmental achievements and community partnerships.

Lothian remains committed to reducing its impact on the environment. Lothian has continued to achieve the goals set out in the 5 year Bus2020 Environmental Strategy and continues to work towards cutting its emissions footprint by 42%, operating at a minimum of Euro 5 by the end of 2020. In 2019, Lothian purchased 116 buses, in a mix of Euro 5 and 6, to the fleet operating across several routes running throughout the city centre. These low emission buses emit up to 99% less harmful emissions and provide an enhanced passenger experience. Lothian has 6 fully electric cars/vans in our ancillary fleet. The investments in low emission vehicles support air quality improvements in its operational environment. Lothian ends the year with 87% of its bus fleet at Euro 5 standard or above.

Funding from the Bus Emissions Abatement Retrofit (BEAR) Scheme enabled Lothian to retrofit 36 buses to Euro 6 standard and data provided from the Telematics systems fitted to these vehicles demonstrates a significant reduction in harmful air emissions. Lothian will bid for further funding from the BEAR Scheme in 2020.

Corporate Social Responsibility (continued)

Lothian has been awarded £1.7m by the Green Economy fund which will be used to introduce four Alexander Dennis E400 City Electric Double Decker vehicles onto a city centre route. Discussions with Scottish Power Energy Network and Alexander Dennis are ongoing and it is hoped that these vehicles will be introduced to the bus fleet towards the end of 2020.

Lothian is working with Green Tourism on a project that will be delivered during 2020. Each area of the bus business is being assessed for Green Tourism's new environmental accreditation system which will help develop and take forward the Environmental Strategy following Bus 2020. Their bespoke environmental support tool is being developed and will be trialled in March 2020.

As part of the Environmental Strategy Lothian has also focused on internal operations with improvements in waste, water and energy.

A full energy audit was carried out as part of compliance with the Energy Savings Opportunity Scheme (ESOS), Phase 2 through the chosen auditors, GEP Environmental. Organisations that qualify for ESOS must carry out ESOS assessments every 4 years. These assessments are audits of the energy used by their buildings, industrial processes and transport to identify cost-effective energy saving measures. A detailed report was provided to Lothian at the end of 2019 which will be used to make improvements during 2020.

A small environmental focus group, consisting of 8 members of staff from across the bus business, was formed in 2019. The aim of this group is to improve staff engagement in all matters of an environmental nature, to raise awareness of simple ways work practises can be improved to mitigate negative environmental impacts and to provide an opportunity for staff to share ideas across the organisation.

Across 2019, Lothian also continued to focus on its local community and charity engagement. Lothian Buses completed year two of their Charity of Choice two-year partnership with Macmillan Cancer Support and raised over £16,500 during 2019. Lothian Buses new charity of choice is Support in Mind Scotland and we look forward to working in partnership with them in 2020. Fundraising events during the year included the ever popular Doors Open Day in September, which saw over 5,000 visitors to Central Garage. 2019 also saw Lothian Buses once again support Poppy Scotland in November with a special liveried 'Poppy Bus' for the charity.

Lothian also partnered with The Edinburgh Festival Fringe Society again for Summer 2019 to provide free bus travel as part of a wider initiative to give Fringe Days Out. The successful initiative benefitted 29 local charities and community Groups who may never have been able to experience a show previously.

Lothian Buses partnership with Police Scotland continues our behavioural change campaign and we continue to receive a positive engagement with the programme.

In 2019 TfE and Edinburgh Trams supported Edinburgh Children's Hospital Charity. In particular the "Oor Wullie Big Bucket Trail" raising some £15,000 for the charity.

Edinburgh Cycle Hire Scheme

2019 saw the first full calendar year of the scheme, maintaining some 500 cycles on street, flexing to variable demand throughout the year via 100 hire points across The City. There were 124,001 trips in 2019. In addition to the CAPEX and OPEX provided by our Operating Partner, TfE secured a further £1.1M of grant funding in 2019. This has helped procure 168 e bikes, docking points and other equipment, all capitalised and now TfE assets.

Wayfinding and Other Projects

In 2019 TfE continued to lead The Edinburgh Wayfinding Project. securing external funding and sponsorship, The Driver Innovation Safety Challenge with the support of CEC and funding from Scottish Government and UK Tram, The Edinburgh Festivals Transport Coordination Project with support from The University of Edinburgh and funding from Scottish Enterprise and major City events coordination securing Scottish Government funding.

Edinburgh Trams

In 2019 Edinburgh Trams continued to build on the successes of operations which commenced in May 2014, recording exceptional patronage and revenue growth year on year, giving our owners the confidence to further invest in the system. Edinburgh Trams has a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of the City in under 35 minutes. Edinburgh Trams recorded 99.35 per cent service reliability and 98.33 per cent punctuality in 2019.

Move to Operate and Maintain

New arrangement to pass responsibility for the management of the tram maintenance contracts to The Edinburgh Trams Management Team continued to be developed during 2019. This will eliminate additional third-party involvement allowing full control of operations, revenue streams; including passenger income and advertising, as well as all costs. This gives Edinburgh Trams the levers to improve value for money and contract management. The mid to longer term aspiration is for Edinburgh Trams to return to profitability despite the higher access to assets and infrastructure charges. Whilst challenging, we are confident this will be achieved.

Trams to Newhaven Project

The Edinburgh Trams Management Team have been working in partnership with the CEC Trams to Newhaven Project Team on the Business Case for the completion of Line 1 to Newhaven. The Financial Business Case was developed and extensively reviewed by CEC with a vote to invest £209m on a completion project to be opened in Q1 of 2023.

2019 Trams Performance

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

Central to the continued success of Edinburgh Trams in 2019 has been the robustness of the service. We have continued to support major events at Murrayfield Stadium, as well as operating night trams on Saturdays during the peak Edinburgh Festivals period and for Edinburgh's Hogmanay. To enhance safety and customer service Edinburgh Trams adopts a policy of staffing each tram in service with a Ticketing Services Assistant (TSA).

The operational strategy that improves the efficiency of our operations on event days was introduced in the latter period of 2018 and continues to allow us to operate more tailored journeys for each event. All night trams for Hogmanay and Saturdays during the Edinburgh Festival period also operated again in 2019, generating positive customer responses.

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

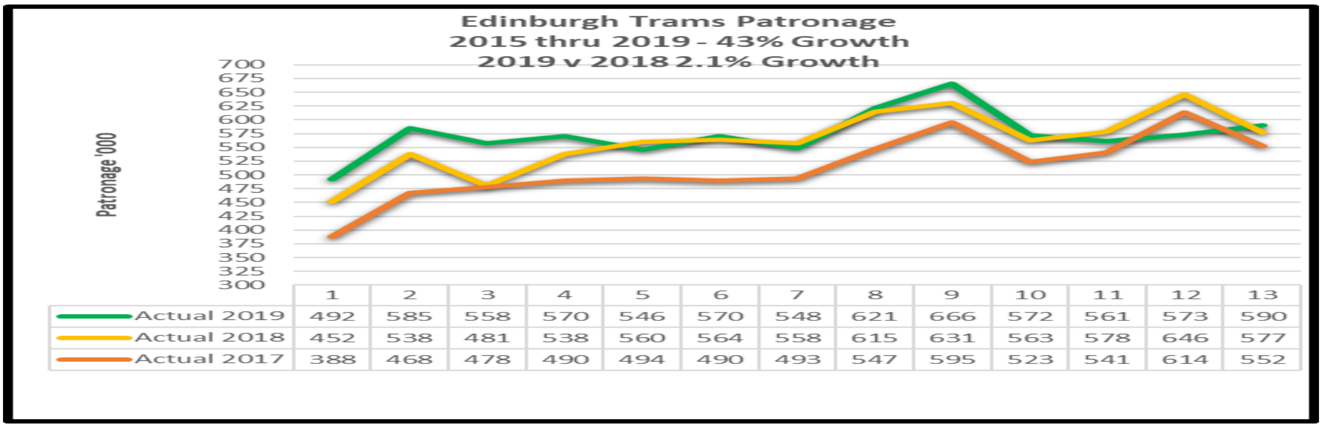
Supporting our strategy is the production, delivery and regular review of the Edinburgh Trams Marketing & Communication Plan. This plan will target potential passenger groups at key "hotspot" locations identified along the system, including Edinburgh Airport, the five dedicated transport interchanges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

Tram Financial Overview

The final results for Edinburgh Trams for 2019 reported a loss of £8.995m after tax compared to a loss of £7.6m in 2018. The loss should be seen in the context of Edinburgh Trams increasing maturity as a business, the complementary decision to recharge Edinburgh Trams' full maintenance costs and access charges and new IFRS 16 rules on operating leases, which came into effect on 1 January 2019 and apply to the lease of the CEC assets.

Tram Financial Overview (continued)

Reviewing our 2019 performance in detail we can confirm that Edinburgh Trams continues to exceed the original business plan as set out in 2013 by the City of Edinburgh Council. Revenue and patronage continue to increase above expectations with Revenue increasing from £15.8m in 2018 to £16.7m in 2019. Patronage levels increased to 7.45m from 7.3m in 2018, up 2%. In 2019 total Revenue rose by 6% overall, driven mainly by an excellent start to the year, beginning with double digit revenue growth. Unfortunately, due to various factors; including, but not exclusively; very poor weather, city centre congestion and reduced airport patronage in the latter months of the year, this was not sustained. The investment in fares, ticket channels and customer relations and engagement, increased services and the decision to strengthen an already robust service, particularly during peak times, gives rise to the high growth. Edinburgh Trams have created a resilient service capable of maximising potential across the network. The graph below highlights the exceptional growth recorded on our tram network from commencement in 2014.



Asset Management

Edinburgh Trams (ET) is once again recognised as a company delivering an award-winning level of customer satisfaction and a leader in this field within our industry. The ability to continue delivering such a service is dependent on the main assets of the company being maintained in a satisfactory condition. Although service commencement started on 31 May 2014 the tram vehicles were procured prior to 2014, giving an average age just now of over 11 years old. Identifying the specific need for management of our asset renewal programme we will now deploy a manager to specifically manage these requirements working in full partnership with ETL, CAF, Siemens & CEC. This will ensure the requirement is controlled, monitored and actioned where necessary in a timely manner, ensuring cost management is also adhered to.

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

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

The Heads of Terms which outline the necessary amendments to the Operating Agreement between ET and CEC has been signed by both parties. A full variation to the Operating Agreement (based upon the Heads of Terms) is currently being drafted by CEC legal team. The full variation will need to be in place prior to the formal variation or procurement of any of the maintenance sub-contracts. We have every confidence we are on track to deliver the above. ET will be liable for the cost of asset maintenance only, any cost relating to asset renewal/ lifecycle will be borne by CEC. As ET will be responsible for the upkeep of the asset(s) a process will be agreed to allow ET to draw on CEC funding for asset renewal activities. ET has agreed that where feasible, subject to value and working within the confines of CEC procurement policy we will use the current contract discussions with sub-contractors to incorporate the maintenance of the York Place to Newhaven extension from 2023.

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

Date: 8th May 2020 **George Lowder (Director)**

TRANSPORT FOR EDINBURGH LIMITED

Corporate Governance Report

For the year ended 31 December 2019

Basis of Principles Applied

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860), the Company has applied these regulations in full and has followed the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website).

The new corporate governance reporting requirements apply for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates principles as an appropriate framework when making disclosures regarding corporate governance arrangements. The Principles applied are set out below.

Principle 1 - Purpose and Leadership

Transport for Edinburgh Limited was set up in 2013 as the holding company for the shares in Lothian Buses Limited (Lothian) and Edinburgh Trams Limited (Trams). Lothian Buses was founded in 1919 and is now in its 101st year. Lothian is owned by the four Lothian local authorities which resulted in the dissolution of the former Lothian Regional Council at the time of the Local Government reorganisation in 1994. The Lothian Group is the principal operator of bus services within the City of Edinburgh, Midlothian and East Lothian Council areas. They also operate bus services in West Lothian and operate open top sightseeing tours in Edinburgh and the City Region, in addition to day tours by coach, private hire and excursions. Edinburgh Trams were founded in 2013 and have a fleet of 27 trams operating seven days a week, offering services from every three minutes to 16 locations, connecting Edinburgh Airport to the heart of Edinburgh in under 35 minutes.

Our vision is to be:

- The most customer led;
- Focussed and innovative public transport operators in Scotland;
- Delivering safe, compliant and reliable bus and tram services.

The Group's purpose, goals and targets were formalised during 2016 in the Strategy for Delivery for 2017-21, under the Board's direction, to guide the organisation's strategy, decisions, processes and culture. The Strategy builds on the Group's existing commitment to good governance and social responsibility.

The Directors and the Shareholding Council see themselves as actively engaged stewards of a socially responsible network of Bus and Tram services. The Directors and the Board maintain a visible presence in the Group, promoting a long-term ethos, inclusion, diversity, community engagement, social responsibility and environmental sustainability.

Principle 2 - Board Composition

Details of each Board Director can be found on page 2.

The Group has a separate Chair and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chair plays a pivotal role in creating the conditions for overall Board and individual Director effectiveness.

The Board comprises a Chair, Vice Chair, Chief Executive, the Chairs from Lothian Buses and Edinburgh Trams and up to seven Directors of which four are Elected Members from leading political parties in Edinburgh. This size and composition is appropriate to our large and complex business. Independent Non-Executive Directors bring experience in transport, systems, procurement, politics, governance, public place making, finance and audit, in addition to perspectives and challenge from outside the sectors and environment in which the Group operates.

We consider there to be sufficient experience and diversity on the Board and recognise that this is not always easy to maintain within the industry as a whole. We are committed to making the Group an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels. We demonstrated our commitment to this area through the Diversity & Inclusion Policy.

Principle 2 - Board Composition (continued)

The Directors have equal voting rights when making decisions, except the Chair, who has the casting vote. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense.

The duties of the Board are executed partially through committees. Some of the Directors attend and act as chair to relevant committees so that they are able to challenge and influence a broad range of areas across the Group.

The Board ensures that the values, strategy and culture align, are implemented and are communicated consistently to the workforces - for example through regular Senior Leadership Team meetings and away days that are available to senior employees.

Directors update their skills, knowledge and familiarity with the Group by meeting with senior management, visiting sites (such as visits to depots) and by attending appropriate external seminars and training courses. There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business, including access to shareholders.

There is an annual Board Effectiveness Review around February of each year and it is attended by all the Directors to maintain impartiality and good governance. The 2019 Board Effectiveness Review held in February 2019 assessed that the Board was competent and well run and had the potential to become even more effective by clearly aligning its agenda to strategic development, encouraging all Directors to share their thoughts, observations and instincts for the benefit of all, and engaging the whole Board more routinely in the active management of shareholder relations.

Since the last Board Effectiveness Review there has been a significant emphasis on strategic issues being considered on a regular basis, with operational matters and performance monitoring spread over the course of the annual Board programme.

The Executive Teams occasionally use externally facilitated sessions to assist executing actions and plans agreed for delivery. The Board considers these externally facilitated sessions important in the delivery of key areas and for strengthening overall output and performance.

Principle 3 – Directors Responsibilities

Accountability

Good governance supports open and fair business, ensures that the company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience. Each Board member has a clear understanding of their accountability and responsibilities. The TfE Board has a programme of a minimum of five principal meetings a year. The Board's key areas of focus in 2019 are included on pages 14 and 15.

The Board members act in accordance with best practice behaviours and values. As part of each Board meeting all members must declare any potential conflicts of interest. These declarations are collated by the Chair and communicated to the Audit & Risk Committee, if necessary. Where there are potential conflicts, appropriate safeguards are implemented.

Committees

The TfE Board delegates authority for the day-to-day management of the companies in the Group to the Executive Teams of Lothian Buses and Edinburgh Trams who meet weekly and are chaired by their respective Managing Directors and whose membership includes their other Executive Directors and key personnel. Leaders of each Business function (for example, Commercial, Human Resources, Health & Safety, etc) are invited to meetings as and when required.

The Directors are wholly independent in that they have no material business or relationships with the company that might influence their independence or judgement. In addition, certain governance responsibilities are delegated to other committees (Audit & Risk, Remuneration or Nomination). These committees include a mix of Directors who support effective decision making and independent challenge.

Integrity of Information

The Board receives regular and timely information (at least quarterly) on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the Group, strategy, operational matters, market conditions and sustainability, all supported by a summary from the Managing Directors of both Lothian and Tram.

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified and ensures the integrity and accurate timely production of this information. The finance function is also provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by Scott Moncrieff on an annual basis and financial controls are reviewed and maintained by the Group's finance function. Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, is reviewed on a regular basis by the finance function with reporting thereon provided to the Audit & Risk Committee.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk.

Opportunity

Long term strategic opportunities are highlighted in the annual Group budget process which is presented to the Board at the end of every year. The Board seeks out opportunities drawn from the business plan, strategy and the committees to which it delegates. Short term opportunities to improve performance, resilience and liquidity are collated through quarterly review process which are attended by the Executive Teams of Lothian Buses and Edinburgh Trams.

Risk

The Audit & Risk Committee, consisting of certain Directors, ensures that inherent and emerging risks are identified and managed appropriately in a timely manner. Its focus is on monitoring the effectiveness of the Group's approach to risk identification, classification and mitigation. The Committee meets at least twice a year and reviews the risk register for any changes in underlying conditions. The Committee continues to refine and enhance the company's risk management framework and the content of the risk register and works to ensure consistency across all operations. A list of emerging risks is maintained by the Audit & Risk Committee and considered at each meeting – an emerging risk is included on the risk register once its likelihood and impact of occurrence becomes material to the Group.

The company's Strategic Report includes the key operational risks and uncertainties that are monitored by the Audit & Risk Committee. The risk register is presented to the Board at each meeting. Specific points raised by the Board are discussed in the subsequent Audit & Risk Committee and vice versa.

The company's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

Responsibilities

The Group has an operating framework which encapsulates the Group's operating rules, processes, best practice standards and delegated authorities. It is the fundamental platform to our internal control and governance framework.

Specifically, the Board approves any contract above a certain value (determined by the Board) or any transaction that requires an unbudgeted allocation of capital, to ensure that the appropriate level of diligence has been performed in understanding the obligations, risks and terms of the contract. This enables the Group to protect the integrity and long-term sustainability of all its businesses, to meet its strategic objectives and to create value for its shareholders, customers and suppliers.

Principle 5 - Remuneration

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by securing and retaining quality senior management who can deliver the Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term plans for senior executives. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Group operates and from other comparable sectors. Pay is aligned with responsibilities and performance and takes in to account fair pay and conditions across the Group's workforce.

An independent review was last performed in 2018, which highlighted that the Group's remuneration policy for Directors and Senior Management is consistent with companies of a similar size and complexity, as well as other companies operating within comparable sectors. The next review is scheduled for March 2020. Directors' remuneration is disclosed on page 37 (note 7).

In 2019, the Group reported its Gender Pay Reporting which highlighted some specific areas of focus for 2019 and beyond. The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the Group's brand, reputation and relationships with all of our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work and serve.

The Board continues to seek to align the Group's strategic direction with its purpose and to the shareholders' long-term aspirations for sustainability, growth, diversification, environmental targets and policy decisions. Lesley Macinnes (Chair) and George Lowder (Chief Executive) of the Board are the primary communication routes between the Board and the Company's shareholders. Together with James McFarlane (Chair of Lothian Buses) and Charlene Wallace (Chair of Edinburgh Trams) they work to ensure common goals amongst the wider shareholder group.

External impacts

The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to: a positive work culture (ensuring the safety, health and wellbeing of everyone who works in the Group); creating positive environmental and social impact; being an employer of choice where everyone is valued and respected; and seeking new ways to ensure the sustainability of the buildings we operate and maintain.

Stakeholders

The Board promotes accountability and transparency with all external stakeholders and with representatives of government and other opinion leaders, whilst maintaining an open and balanced presence in the media. The Group's fundamental belief in promoting the public good is demonstrated and supported by the Chair and Chief Executive's active engagement across industry bodies and our wider stakeholder community.

Every year the Group hosts local Doors Open Day's which are community events where the public get to come along to one of our depots and see a selection of our public service vehicles, both old and new, and enjoy a great day out.

The Group uses customer engagement surveys where the findings are used to improve customer engagement with knowledge being shared across all of our companies and divisions.

In 2019 Lothian Buses obtained Earned Recognition Status which was an external audit and validation mainly of the Group's ability to perform its MOT testing to DVSA standards.

The Annual General Meeting held in June each year provides a briefing on the Group's financial performance and allows individuals to raise any questions or concerns.

The Executive Teams meet regularly with Union representatives of the Group to facilitate communication of current issues and the Group's plans and purpose. During 2019 a new Recognition and Procedural Agreement was completed. The Board considers positive Union engagement a good barometer of the workforce's confidence in the Group's strategic direction, optimism in the future, working conditions and career opportunities. The Executive Teams have taken part in a number of initiatives over the past year to further improve employee relations by engaging further at both Group and divisional level, improving communication, expanding flexible benefits on offer, encouraging more flexible working practices and wellbeing initiatives where possible and updating the Group's intranet and internal TV screens as channels of communication to share information, best practice, achievements and success.

The Group provides both Gender Pay Reporting and Payment Practices & Performance Reporting, both of which are published externally. The Group maintains the additional analysis required to conduct this reporting and welcomes these routes of reporting as it is constantly looking to improve its engagement with stakeholders.

The Group communicates regularly with the Lothian Pension Fund, which operates the Company's defined benefit pension scheme, and Scottish Widows, which operates the Company's defined contribution schemes, both of which are wholly independent of the Company. These regular communications are key to ensuring that the decisions made by both the Company and the scheme reflect the interest of all stakeholders.

The Group's main websites (www.transportforedinburgh.com), (www.lothianbuses.com) and (www.edinburghtrams.com), intranet, TV screens and social media channels provide extensive and up-to-date news on recent developments.

Company Board

Details of individual Directors' attendance at Board and Committee meetings in 2019 are shown below:

Name of Director	Max no. of Board and Committee Meetings Director could attend	No. of Board and Committee Meetings attended	% of Board and Committee Meetings attended
Chair			
Lesley Macinnes	4	3	75%
Chief Executive			
George Lowder	6	6	100%
Directors			
James McFarlane	4	4	100%
Charlene Wallace	4	3	75%
Karen Doran	6	4	67%
Callum Laidlaw	6	6	100%
Charles Booth	3	3	100%
Donald MacLeod	3	3	100%
Claire Helen Innes Miller	2	1	50%
George Hazel	1	1	100%
Daisy Narayanan	-	-	-%

Activities of the Board in 2019

The Board operates a forward agenda of standing items appropriate to the Group's operating and reporting cycles. Items requiring Board approval or endorsement are highlighted clearly. Other items are for monitoring or reviewing progress against strategic priorities, risk management or the effectiveness of internal controls.

During 2019 the Board:

- Approved the Annual Accounts and Reports 2018;
- Set the Group’s 2020 budget and business plans;
- Approved capital spend to support the 2020 budget and business plans;
- Received detailed reports on the Group’s operating and financial performance;
- Gave consideration to the Group’s safety performance;
- Received updates on progress against strategic programmes and tested the overall strategy against the delivery of shareholders’ long-term objectives;
- Frequently considered the evolving economic, political and market conditions relative to Brexit;
- Considered competitor behaviour;
- Considered and agreed in principle an acceptable level of resilience and liquidity;
- Reviewed the Group’s forecast financing requirements, debt capacity and potential financing options that would enable the achievement of the desired resilience targets;
- Regularly reviewed key risks, together with the adequacy of mitigation controls;
- Assessed all material project delivery contracts and investment proposals in excess of approved budgets;
- Received regular updates and reports from the Chairs of the Audit and Risk, Remuneration and Nomination Committees on activities and recommendations of the Committees;

During 2019 the Board (continued):

- Considered the continued personal development of the Executive Team, including senior management succession planning;
- Reviewed the remuneration of the Chief Executive to ensure alignment with policy and shareholder returns;
- Considered the short and long terms trends in sustainability that would help to inform the wider business strategy and the Group's long-term business planning process;
- Considered the data and narrative relevant to the Group's Gender Pay Reporting and Payment Practices & Performance Reporting in preparation for external publication; and
- Approved the annual statements on the Group's policies on anti-slavery and human trafficking, anti-bribery and corruption.

Audit & Risk Committee

The Committee's primary concerns are the integrity of the Group's financial statements; the effectiveness of internal controls; the adequacy of internal audit reviews; the performance and independence of the external auditor and the Group's compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference, which are reviewed annually and are available from the Committee Chair. These outline the Committee's objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting standards and procedures. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls, internal audit and risk management processes and reviewing the scope and results of the external audit.

Callum Laidlaw, was appointed Committee Chair in 2019. The Audit Committee comprised two other independent Non-Executive Directors; Karen Doran and Charles Booth. Donald MacLeod replaced Charles Booth in June 2019. The Board is satisfied that the recent and relevant financial and risk experience of the Committee Chair and the Committee's members during 2019 followed the principles of good governance in relation to their skills, knowledge and experience.

External Auditors

Scott-Moncrieff Audit Services were re-appointed external auditors at the AGM in June 2019. The Committee assesses the effectiveness of their performance every year after completion of the annual audit and in April 2019 the Committee evaluated their performance in relation to the 2018 audit. The evaluation takes the form of speaking to the staff involved in the audit process, including members of the financial, commercial, IT and payroll functions and also members of the Executive Teams. The calibre of the external auditors, their governance, independence and professionalism continues to receive good feedback. Both management and external auditors are committed to a positive working relationship that enhances the effective and efficient execution of the audit process. As a private company, the Group is not subject to external restrictions in terms of non-audit work provided by the external auditors, but for good governance has chosen to implement its own policy in relation to the level of their remuneration and the extent of their non-audit services.

At its meeting in April 2019 the Audit & Risk Committee was satisfied that the Group's external auditors' engagement policy had been complied with and concluded that the external auditors remained objective and independent and that the audit process was effective and robust.

Scott-Moncrieff Audit Services were last reappointed external auditors in June 2017. The Audit Committee identifies re-tendering of the external audit service at least every three years as good practice.

Remuneration Committee

The Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by attracting, retaining and motivating quality senior management who can deliver the Group's strategic ambitions within a framework that is aligned with shareholder interests.

The Committee firmly believes that the best people on the right remuneration, with an emphasis on performance, strengthens the Group's ability to face challenges emanating from economic and market change, and to deliver long-term sustainable value for all stakeholders.

In 2019, the Committee comprised three Independent Non-Executive Directors. The Committee was chaired by Steve Cassidy and the other members are Charles Booth and Karen Doran. Clair Miller replaced Charles Booth in June 2019. There were no meetings during 2019.

Nominations Committee

The Board operates as a Nominations Committee to ensure that the Board remains balanced and effective, that succession plans are in place, and that its structure, composition and skills remain aligned to the Group's strategic objectives. The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, it takes advice from independent external recruitment consultants. In 2019, the Committee comprised all of the Board. The Committee has no formal schedule of meetings and meets as required. There were no meetings held in 2019.

Executive Teams

The Executive Teams are responsible for the day-to-day management of the Group's business affairs under leadership of the Chief Executive and the Chair's of each Company in the Group. The Team's duties include formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

The Executive Teams consist of individuals responsible for the key business units and functions. The Teams include the Directors and Head of Departments.

Risk Register

The Group operates a Risk Register to ensure that inherent and emerging risks are identified and managed in a timely manner and at an appropriate level. The Audit & Risk Committee and the Board review the Risk Register which is updated by the Executive Teams for each meeting. The Committee and Board respond to specific areas of risk and approve and promote standards and best practice processes where control weaknesses are considered to exist. The Risk Register allows the Group's approach to risk management and mitigation to be focused on the key risks affecting the main financial and operational performance issues.

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.

Conflicts of Interest

The Company's Articles permit the Board to consider and, if deemed fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. In the event that a Director becomes aware that they have an interest that may arise in a conflict they are required to notify the Board in writing. Internal controls are in place to ensure that any related party transactions involving Directors are conducted on an arm's length basis. Directors have a continuing duty to update changes to these conflicts. The Board considers that the procedures in place for reporting and considering conflicts of interest are effective.

Corporate Responsibility

Corporate responsibility continues to remain an integral part of the Group's business and long-term strategic plans. The Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which we serve and operate, are communicated and embedded within the business as part of the Group's overarching strategic objectives.

Promoting the Success of the Company

Under Section 172 of the Companies Act 2006 the Directors have regard to responsible behaviour in the Company. The Directors have regard to the likely long-term consequences of decisions made, the interest of the Company's employees, the Company's business relationships with suppliers, customers and other stakeholders, the impact of the Company's operations on the local community and the environment, the Company's reputation for high standards of business conduct and the need to act fairly as between members of the Company.

Statement of Directors' Responsibilities

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

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

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

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

Employees

The Group recognises the importance of engaging with employees to help them make their fullest contribution to the Group, which is fundamental to achieving the Group's strategy and long-term objectives. The Group uses a variety of media platforms to inform employees about the Group's activities, plans and developments together with the Group's purpose, goals and direction and actively takes on board employees' views and opinions. Further communication is effected through the use of in-house electronic bulletins, notice boards, social media as well as the Group's intranet and website.

The Group is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential. Statistics relating to the average number of people employed by the Group during the year can be found in note 7 on page 37.

Share Capital

Details of the Company's share capital are set out in note 16 on page 42.

Articles of Association

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Disclosure of Information to the Auditor

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

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

Auditor

The auditor, Scott-Moncrieff Audit Services, 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: 8th May 2020

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 2019

We have audited the financial statements of Transport for Edinburgh Limited for the year ended 31 December 2019 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 2019 and of the Group and Company's affairs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group and 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the ongoing effect of the COVID-19 pandemic and the uncertainty about its duration means that it is difficult to evaluate all of the potential implications on the company and group's trade, customers, suppliers and the wider economy.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report, the Corporate Governance 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, the Corporate Governance Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

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

Date: 8th May 2020

TRANSPORT FOR EDINBURGH LIMITED

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

For the year ended 31 December 2019

	Note	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
Continuing operations					
Revenue	1i	185,629	176,466	748	473
Gross profit		185,629	176,466	748	473
Administrative expenses		(193,749)	(184,730)	(464)	(292)
(Loss)/profit from operations before exceptional items		(8,120)	(8,264)	284	181
Defined benefit pension past service costs	2	(8,403)	-	-	-
(Loss)/profit from operations after exceptional items		(16,523)	(8,264)	284	181
Loss on disposal of property, plant and equipment	2	(132)	(31)	-	-
Finance income	3	1,895	1,460	-	7,000
Finance costs	4	(2,113)	(85)	-	-
(Loss)/profit before income tax expense		(16,873)	(6,920)	284	7,181
Income tax expense	6	75	154	(54)	(35)
Net (loss)/profit for the year		(16,798)	(6,766)	230	7,146
Attributable to:					
Equity holders	17	(16,076)	(6,830)	230	7,146
Non-controlling interest	18	(722)	64	-	-
Other comprehensive (expense)/income:					
Those that are recyclable net of tax:					
Net fair value movements on cash flow hedges	26	748	(1,445)	-	-
Deferred tax thereon		(127)	245	-	-
Those that are not recyclable net of tax:					
Revaluation gain on land and buildings	8	9,918	-	-	-
Actuarial (loss)/gain on post-employment benefit obligations	23	(19,900)	9,675	-	-
Deferred tax thereon		5,077	(1,021)	-	-
Total comprehensive (expense)/income for the year		(21,082)	688	230	7,146
Attributable to:					
Equity holders		(19,975)	(46)	230	7,146
Non-controlling interest		(1,107)	734	-	-

The accompanying notes on pages 26 to 59 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated and Company Statement of Financial Position

As at 31 December 2019

		Consolidated Group		Parent Entity	
		2019	2018	2019	2018
Assets	**Note**	**£'000**	**£'000**	**£'000**	**£'000**
Non-current assets					
Property, plant and equipment	8	210,759	108,458	-	-
Retirement benefit asset	23	35,606	65,471	-	-
Investments	20	-	-	14,624	5,824
Derivative financial assets	12	6	-	-	-
Total non-current assets		246,371	173,929	14,624	5,824
Current assets					
Inventories	9	776	705	-	-
Trade and other receivables	10	9,026	10,435	183	7,009
Derivative financial assets	10,12	235	-	-	-
Cash and cash equivalents	15	17,581	21,969	983	1,124
Total current assets		27,618	33,109	1,166	8,133
Total assets		273,989	207,038	15,790	13,957
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	14,624	5,824	14,624	5,824
Revaluation reserve	17	20,335	11,309	-	-
Other reserves	17	59,929	59,929	-	-
Retained earnings	17	22,223	58,789	800	7,570
Hedging reserve	17	181	(384)	-	-
Non-controlling interest	18	12,194	13,301	-	-
		129,486	148,768	15,424	13,394
Liabilities					
Non-current liabilities					
Finance lease obligations	13	85,306	5,196	-	-
Deferred tax	14	10,932	15,957	-	-
Provisions	14	1,339	1,611	-	-
Derivative financial instruments	12	-	283	-	-
Total non-current liabilities		97,577	23,047	-	-
Current liabilities					
Trade and other payables	11	1,507	3,386	-	-
Finance lease obligations	13	15,944	1,949	-	-
Other financial liabilities	11	29,475	29,664	366	563
Derivative financial instruments	12	-	224	-	-
Total current liabilities		46,926	35,223	366	563
Total liabilities		144,503	58,270	366	563
Total equity and liabilities		273,989	207,038	15,790	13,957

The financial statements were authorised for issue by the Board of Directors on 8th May 2020 and were signed on its behalf by:

Registered number SC443895

The accompanying notes on pages 26 to 59 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Changes in Equity

As at 31 December 2019

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
Group								
Balance at 1 January 2018		5,824	11,309	59,929	63,923	708	13,258	154,951
Comprehensive income								
(Loss)/profit for the year		-	-	-	(6,830)	-	64	(6,766)
Other comprehensive income								
Actuarial gain on pension plan	23	-	-	-	8,805	-	870	9,675
Deferred tax thereon		-	-	-	(929)	-	(92)	(1,021)
Net fair value movements on cash flow hedges	26	-	-	-	-	(1,315)	(130)	(1,445)
Deferred tax thereon		-	-	-	-	223	22	245
Dividends	5	-	-	-	(6,180)	-	(691)	(6,871)
Balance at 31 December 2018		5,824	11,309	59,929	58,789	(384)	13,301	148,768

	Note	Share Capital £'000	Revaluation Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Hedging Reserve £'000	Non-controlling Interest £'000	Total £'000
Group								
Balance at 1 January 2019		5,824	11,309	59,929	58,789	(384)	13,301	148,768
Comprehensive income								
Loss for the year		-	-	-	(16,076)	-	(722)	(16,798)
Other comprehensive income								
Revaluation gain in year	8	-	9,026	-	-	-	892	9,918
Actuarial loss on pension plan	23	-	-	-	(18,111)	-	(1,789)	(19,900)
Deferred tax thereon		-	-	-	4,621	-	456	5,077
Net fair value movements on cash flow hedges	26	-	-	-	-	681	67	748
Deferred tax thereon		-	-	-	-	(116)	(11)	(127)
Shares issued in year	16	8,800	-	-		-	-	8,800
Dividends	5	-	-	-	(7,000)	-	-	(7,000)
Balance at 31 December 2019		14,624	20,335	59,929	22,223	181	12,194	129,486

The accompanying notes on pages 26 to 59 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Consolidated Group	
	2019	**2018**
	£'000	**£'000**
Cash flow from operating activities		
Loss from operations	(16,523)	(8,264)
Adjustments for:		
Depreciation and amortisation	23,592	19,106
Defined benefit pension current service costs	10,365	12,601
Defined benefit pension past service costs	8,403	-
Benefit contributions	(6,954)	(7,508)
Changes in assets and liabilities:		
Decrease/(increase) in receivables and other financial assets	2,274	(3,388)
(Decrease)/increase in payables	(2,104)	13,860
(Increase)/decrease in inventories	(71)	36
(Decrease)/increase in provisions	(272)	351
Cash flows from operations	18,710	26,794
Interest paid	(182)	(85)
Income tax paid	(865)	(2,761)
Net cash flows from operating activities	17,663	23,948
Cash flow from investing activities		
Purchase of property plant and equipment	(10,281)	(11,501)
Proceeds from disposal of property, plant and equipment	964	793
Interest received	46	37
Net cash flows from investing activities	(9,271)	(10,671)
Cash flow from financing activities		
Issue of share capital	8,800	-
Payments of lease liabilities	(14,580)	(1,948)
Dividends paid	(7,000)	(6,180)
Net cash flows from financing activities	(12,780)	(8,128)
Net (decrease)/increase in cash and cash equivalents	(4,388)	5,149
Cash and cash equivalents at beginning of the year	21,969	16,820
Cash and cash equivalents at end of the year	17,581	21,969
Bank balances and cash	17,581	21,969

The accompanying notes on pages 26 to 59 form part of these financial statements

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements

For the year ended 31 December 2019

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 following standards and interpretations are mandatory for the first time for the year ended 31 December 2019 but are either not applicable or have no material impact on the Group financial statements; IFRIC 23 – Uncertainty over income tax treatments, Amendments to IFRS 9 Financial Instruments – on prepayment features with negative compensation, Amendments to IAS 28 Investments in Associates – on long term interests in associates and joint ventures, Amendments to IAS 19 Employee Benefits – on plan amendment, curtailment or settlement, Annual improvements 2015-2017.

The Group has adopted the following new and amended IFRSs as of 1 January 2019:

- IFRS 16, Leases

The adoption of the new standard resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value. IFRS 16 has been applied using the modified retrospective approach. The standard states that the cumulative effect of adopting the standard should be recognised in equity as an adjustment to the opening balance of retained earnings for the current year. The value of the adjustment is trivial to the financial statements and retained earnings as at 1 January 2019 have therefore not been adjusted. Prior year figures have not been restated following the modified retrospective approach.

For those leases previously classified as finance leases/Hire Purchase contracts, the right-of-use asset and liability are measured at the date of initial application at the same amounts as under IAS17 immediately before the date of initial application.

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 2019, and with potential effect.

International Accounting Standards and Interpretations	**Effective for periods beginning on or after**
IFRS 3, Amendments to IFRS 3 – definition of a business	1 January 2020
IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020
Conceptual Framework, Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17, Insurance Contracts	1 January 2021

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are either not applicable or not expected to have a material impact on the Group financial statements in the period of initial application.

1. Statement of significant accounting policies (continued)

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

a. Going concern

The directors are of the opinion that the Company and Group have adequate resources to enable it to undertake its planned activities for a period of at least one year from the date the financial statements are approved. The directors have revised forecasts and banking facilities accordingly. However, because not all future events or conditions can be predicted, this is not a guarantee as to the Company and Group's ability to continue as a going concern. For example, the ongoing effect of COVID-19 on financial stability is ever-changing and therefore it is difficult to evaluate all of the potential implications on the Company and Group's trade, customers, suppliers and wider economy.

Lothian Buses Limited, has confirmed that it will continue to provide financial support so as to allow its subsidiaries, Edinburgh Bus Tours Limited and East Coast Buses Limited, to continue to meet their liabilities as they fall due for at least 12 months from the date that the financial statements are approved. The ultimate parent undertaking, the City of Edinburgh Council, has confirmed that it will continue to provide sufficient financial support so as to allow Transport for Edinburgh Limited, Lothian Buses Limited and Edinburgh Trams Limited to continue to meet their 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.

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.

1. Statement of significant accounting policies (continued)

c. Current and deferred income tax

The charge for income tax expense for the year is based on the results 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 Statement of Financial Position date.

Deferred tax is accounted for using the Statement of Financial Position 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 Statement of Profit or Loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

d. Property, plant and equipment

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

Heritable property is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation on buildings and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying value. The Directors believe the carrying amount as at 31 December 2019 to be in line with the fair value of the properties.

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.

1. Statement of significant accounting policies (continued)

d. Property, plant and equipment (continued)

Revaluations

Heritable properties were last revalued on 31 December 2019 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 Statement of Profit or Loss, in which case the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

Plant and equipment

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

Depreciation

The depreciable amount of all fixed assets (excluding heritable property) 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.

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
Leased property	Over the lease term, currently 6–25 years

Derecognition and disposal

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

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

1. Statement of significant accounting policies (continued)

e. Leases

Activities as a Lessee
For any new contracts, the Group considers whether a contract is, or contains a lease. To apply definition of a lease under IFRS 16, the Group assesses whether the contract meets three key evaluations: existence of an asset, the right to obtain the economic benefits from use of the asset and the right to direct use of the asset during the contracted period.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability in the Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any initial direct costs. The Group depreciates a right-of-use asset on a straight-line basis over its estimated useful life commencing from the time the asset is brought into use. Ownership of certain leased assets will transfer to the Group at the end of their lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

The Group has elected to account for leases of low-value assets using the practical expedients basis. The payments for these leases are recognised as an expense in profit and loss on a straight-line basis over the lease term. On the Statement of Financial Position, right-of-use assets have been included in Property, plant and equipment and lease liabilities have been included in Lease obligations.

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.

1. Statement of significant accounting policies (continued)

i. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

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

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

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

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

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

Interest income is recognised on an accruals basis.

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

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

j. Value added tax

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

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

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

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

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

1. Statement of significant accounting policies (continued)

k. Employee benefits

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

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

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

The asset or liability recognised in the Statement of Financial Position 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.

1. Statement of significant accounting policies (continued)

l. Critical accounting estimates and judgements

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

i. Impairment

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

ii. Retirement benefit costs

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

iii. Depreciation

The depreciation rate that passenger vehicles are depreciated over is between 10-15 years.

iv. *Lease contracts*

The Group has to determine whether or not a contract contains a lease. Once confirmed, the Group has to estimate an appropriate discount rate to use and the length of the lease term.

m. Financial instruments

Classification

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

i. Loans and receivables

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

ii. Financial liabilities

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

iii. Derivative financial instruments

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

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

1. Statement of significant accounting policies (continued)

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

The effective portion of the gain or loss on the hedging instrument is recognised in the Statement of Other Comprehensive Income, while the ineffective portion is recognised in the Statement of Profit or Loss. Amounts recorded in the Statement of Other Comprehensive Income are transferred to the Statement of Profit or Loss when the hedged transaction affects profit or loss, such as when a hedge contract is being settled.

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

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost. Derivative financial instruments are measured based on mark to market prices at the end of the reporting period.

n. Offsetting financial instruments

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

o. Trade payables

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

Trade payables are recognised at cost.

p. Trade receivables

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

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

q. Share capital

Ordinary shares are classified as equity.

2. (Loss)/profit from operations

	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
(Loss)/profit from operations has been determined after:				
Auditor's remuneration:				
Audit services	54	50	6	5
Non-audit services	17	14	2	2
Pension current service costs (note 23)	10,365	12,601	-	-
Pension past service costs* (note 23)	8,403	-	-	-
Depreciation and other amounts written off tangible fixed assets:				
Owned	13,907	18,277	-	-
Assets held under hire purchase leases	1,914	829	-	-
Right-of-use assets	7,771	-	-	-
Infrastructure maintenance	4,548	5,146	-	-
Loss on disposal of property, plant and equipment	(132)	(31)	-	-

*The costs above for defined benefit pension past service costs of £8,403,000 consist of one-off non-cash amounts of £2,168,000 for the impact of Guaranteed Minimum Pension indexation and £6,235,000 for the impact of the McCloud judgement. Both of these figures are calculated by the Scheme Actuary and are book figures reflected in the financial statements under IAS 19 (see note 23).

3. Finance income

	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
Investment income	46	37	-	7,000
Pension interest income (note 23)	1,849	1,423	-	-
	1,895	1,460	-	7,000

4. Finance costs

	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
Lease charges	2,113	85	-	-

5. Dividends

	2019 £'000	2018 £'000
Ordinary share capital		
CEC - Interim: £1.2019p per share; (2018 – £1.06p)	7,000	6,180
Non-controlling interest - Final: £nil per share; (2018 - £1.2019p)	-	691
	7,000	6,871

An interim dividend of £7,000,000 for equity holders (of £1.2019p per share) was paid on 26 March 2019.

6. Income tax expense

	Consolidated Group		Parent Entity	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current tax:				
Corporation tax	-	1,149	-	-
Deferred tax	(75)	(1,271)	-	-
Adjustment in respect of prior years	-	(32)	-	-
Corporation tax Group relief	-	-	54	35
Tax on results for the year	(75)	(154)	54	35

The effective tax rate for the year ended 31 December 2019 is calculated at 19% (2018: 19%) of the estimated assessable results for the year. The (credit)/charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	Consolidated Group		Parent Entity	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(Loss)/profit for the year before taxation	(16,873)	(6,920)	284	7,181
(Loss)/profit for the year at the effective rate of corporation tax of 19% (2018 – 19%)	(3,206)	(1,315)	54	1,364
Effects of:				
Expenses not deductible for tax purposes	2,292	1,007	-	1
Income not taxable for tax purposes	(355)	(270)	-	(1,330)
Income not taxable for tax purposes – fixed assets	68	32	-	-
Adjust deferred tax to average rate of 17% (2018 – 19%)	122	147	-	-
Adjustment to the tax charge in respect of previous periods	-	(32)	-	-
Loss carried back	-	314	-	-
Other tax adjustments, reliefs and transfers	37	(19)	-	-
Chargeable gains	-	4	-	-
Deferred tax not recognised	967	(22)	-	-
Tax (credit)/charge for the year	(75)	(154)	54	35

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Employee benefits expense

The Company had an average of 3 employees during the year (2018: 2). The average number of persons employed by the Group (including Directors) during the year was 2,832 (2018: 2,706).
The aggregate payroll costs were as follows:

	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Wages and salaries	90,535	82,562	194	175
Social security costs	9,044	8,186	23	21
Other pension costs	8,448	8,413	1	1
	108,027	99,161	218	197

Other pension costs comprise contributions to defined benefit schemes of £6,681,000 (2018: £7,244,000) and to defined contribution schemes of £1,767,000 (2018: £1,169,000) for the Group and £nil (2018: £nil) and £1,000 (2018: £1,000) for the Company respectively.

Directors' remuneration	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Aggregate emoluments and benefits	183	189	146	144
Highest paid Director's emoluments and benefits	146	144	146	144

One Director received emoluments from the Company (2018: one). Two Directors (2018: three) received the emoluments above from subsidiary companies, relative to serving on this Company's Board. No Director is accruing retirement benefits under a defined benefit scheme (2018: none). Directors' remuneration costs disclosed above exclude employers national insurance costs of £21,392 (2018: £21,466). The highest paid Director has an accrued pension of £nil per annum (2018: £nil) and an accrued lump sum of £nil (2018: £nil) at the end of the year. The Directors of Transport for Edinburgh Limited are also considered to be the Company's key management personnel.

8. Property, plant and equipment

Group	**Heritable & Right-of-use Properties £'000**	**Passenger Vehicles £'000**	**Other Vehicles £'000**	**Plant & Equipment £'000**	**Total £'000**
Cost or valuation					
At 1 January 2019	26,639	152,894	341	12,177	192,051
Revaluation	9,918	-	-	-	9,918
Additions	86,886	26,750	86	3,349	117,071
Disposals	-	(12,624)	(5)	(37)	(12,666)
At 31 December 2019	123,443	167,020	422	15,489	306,374
Accumulated depreciation					
At 1 January 2019	(1,303)	(74,706)	(283)	(7,301)	(83,593)
Charge for the year	(7,771)	(14,294)	(39)	(1,488)	(23,592)
Eliminated on disposal	-	11,528	5	37	11,570
At 31 December 2019	(9,074)	(77,472)	(317)	(8,752)	(95,615)
Net book value					
At 31 December 2019	114,369	89,548	105	6,737	210,759
Net book value					
At 31 December 2018	25,336	78,188	58	4,876	108,458

8. Property, plant and equipment (continued)

Group	**Heritable & Right-of-use Properties £'000**	**Passenger Vehicles £'000**	**Other Vehicles £'000**	**Plant & Equipment £'000**	**Total £'000**
Cost or valuation					
At 1 January 2018	26,639	151,231	315	10,118	188,303
Additions	-	9,392	33	2,076	11,501
Disposals	-	(7,729)	(7)	(17)	(7,753)
At 31 December 2018	26,639	152,894	341	12,177	192,051
Accumulated depreciation					
At 1 January 2018	(1,303)	(63,565)	(271)	(6,277)	(71,416)
Charge for year	-	(18,046)	(19)	(1,041)	(19,106)
Eliminated on disposal	-	6,905	7	17	6,929
At 31 December 2018	(1,303)	(74,706)	(283)	(7,301)	(83,593)
Net book value					
At 31 December 2018	25,336	78,188	58	4,876	108,458
Net book value					
At 31 December 2017	25,336	87,666	44	3,841	116,887

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,994,494 at the year end. The Group's heritable properties were last valued on 31 December 2019 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 2019 and therefore no depreciation has been charged for the year.

9. Inventories

	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Raw materials (fuel)	366	385	-	-
Finished goods	410	320	-	-
	776	705	-	-

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade receivables	1,573	2,561	1	-
Other receivables	347	716	-	7,000
Prepayments and accrued income	2,455	1,909	182	9
VAT recoverable	1,550	4,353	-	-
Corporation tax recoverable	1,445	580	-	-
Derivative financial asset	235	-	-	-
Amounts due from City of Edinburgh Council	1,626	306	-	-
Amounts due from West Lothian Council	23	-	-	-
Amounts due from East Lothian Council	7	10	-	-
	9,261	10,435	183	7,009
Non-current	-	-	-	-
Current	9,261	10,435	183	7,009
	9,261	10,435	183	7,009

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

11. Current liabilities

	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade and other payables	1,507	3,386	-	-
Other payables	4,945	4,588	-	-
Taxation and social security	2,670	2,886	6	12
Lease obligations (note 13)	15,944	1,949	-	-
Accruals and deferred income	6,647	5,527	306	9
Derivative financial instruments	-	224	-	-
Dividends payable to non-controlling interest	-	691	-	-
Amounts due to subsidiary companies	-	-	54	42
Amounts due to City of Edinburgh Council	15,213	15,972	-	500
	46,926	35,223	366	563

Accrued expenses	2,339	1,741	306	9
Income received in advance	4,308	3,786	-	-
	6,647	5,527	306	9

12. Derivative financial instruments

	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Assets/(liabilities)				
No later than one year	235	(224)	-	-
Later than one year but no later than five years	6	(283)	-	-
	241	(507)	-	-

Analysed as:	Consolidated Group		Parent Entity	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Assets/(liabilities)				
Current	235	(224)	-	-
Non-current	6	(283)	-	-

13. Lease obligations

As a lessee

The Group has leases for several properties, passenger vehicles and related infrastructure. With the exception of leases of low-value immaterial underlying assets, each lease is reflected in the Statement of Financial Position within Property, plant and equipment and Lease obligations. Payments made under such leases are expensed on straight-line basis. The Group classifies its right-of-use assets in a consistent manner to property, plant and equipment (note 8). For lease interest expense see finance costs (note 4).

Leases of properties have a remaining lease term ranging from 6 to 25 years. Leases of passenger vehicles are generally 3 to 5 years. Leases of Trams and their related infrastructure run until 31 May 2029 with an option to renew. Tram lease payments are renegotiated every 5 years. All other lease payments are fixed and all lease contracts are non-cancellable. The Group does not sublet any of the properties under lease contract.

Analysed as:	**Consolidated Group**		**Parent Entity**	
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Current	15,944	1,949	-	-
Non-current	85,306	5,196	-	-

The lease liabilities are secured on the related underlying assets. The undiscounted maturity analysis of lease liabilities as at 31 December is as follows:

	Consolidated Group		**Parent Entity**	
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Within one year	18,058	2,233	-	-
Between 2 and 5 years	49,472	6,244	-	-
Over 5 years	45,254	2,156	-	-
Total undiscounted liabilities	112,784	10,633	-	-

14. Provisions

	Consolidated Group		**Parent Entity**	
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax liabilities				
At beginning of the year	15,957	16,452	-	-
Credit for the year to profit or loss	(75)	(1,271)	-	-
(Credit)/charge to other comprehensive income	(4,950)	776	-	-
At end of the year	10,932	15,957	-	-
The elements of deferred tax are as follows:				
Accelerated capital allowances	4,945	5,061	-	-
Short term timing differences	(107)	(148)	-	-
Pension scheme asset	6,053	11,130	-	-
Deferred tax on fair value movements on cash flow hedges	41	(86)	-	-
	10,932	15,957	-	-
Included in the accounts as follows:				
Provision for liabilities and charges	10,932	15,957	-	-

There were no deferred tax assets in the year.

14. Provisions (continued)

Claims	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
At the beginning of the year	1,611	1,260	-	-
Charge for the year	1,233	1,493	-	-
Paid during the year	(1,505)	(1,142)	-	-
At the end of the year	1,339	1,611	-	-

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

Under the terms of our insurance Edinburgh Trams liability exposure is limited to £120,000 in any given calendar year.

Under the terms of the Operating Agreement between CEC and Edinburgh Trams the latter is required to reimburse the former up to a maximum of £120,000 per annum in respect of claims within all policy excesses. This will include any claims for injury to cyclists where the cause of the injury is a result of negligence on the part of Edinburgh Trams.

There were two settled claims of note with all outstanding ones are now solely against the CEC as roads authority. As matters stand no allegations of negligence have been made against Edinburgh Trams as the operator or in respect of its maintenance operations.

15. Cash and cash equivalents

	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
Cash at bank and in hand	17,581	21,969	983	1,124

16. Share capital

	Consolidated Group 2019 £'000	Consolidated Group 2018 £'000	Parent Entity 2019 £'000	Parent Entity 2018 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January	5,824	5,824	5,824	5,824
Issued in year	8,800	-	8,800	-
At 31 December	14,624	5,824	14,624	5,824

On 21 August 2019 ordinary shares of 8,800,000 were issued of £1 each.

17. Reserves

Group	**Revaluation Reserve £'000**	**Other Reserves £'000**	**Hedging Reserve £'000**	**Retained Earnings £'000**
At 1 January 2018	11,309	59,929	708	63,923
Loss for the year	-	-	-	(6,830)
Actuarial gain on pension plan	-	-	-	8,805
Deferred tax thereon	-	-	-	(929)
Net fair value movements on cash flow hedges	-	-	(1,315)	-
Deferred tax thereon	-	-	223	-
Dividends	-	-	-	(6,180)
At 31 December 2018	11,309	59,929	(384)	58,789
Loss for the year	-	-	-	(16,076)
Revaluation gain on land and buildings	9,026	-	-	-
Actuarial loss on pension plan	-	-	-	(18,111)
Deferred tax thereon	-	-	-	4,621
Net fair value movements on cash flow hedges	-	-	681	-
Deferred tax thereon	-	-	(116)	-
Dividends	-	-	-	(7,000)
At 31 December 2019	20,335	59,929	181	22,223

Company	**Revaluation Reserve £'000**	**Other Reserves £'000**	**Hedging Reserve £'000**	**Retained Earnings £'000**
At 1 January 2018	-	-	-	6,604
Profit for the year	-	-	-	7,146
Dividends	-	-	-	(6,180)
At 31 December 2018	-	-	-	7,570
Profit for the year	-	-	-	230
Dividends	-	-	-	(7,000)
At 31 December 2019	-	-	-	800

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.

18. Non-controlling interest

	Non-controlling interest £'000
At 1 January 2018	13,258
Share of profit for the year	64
Dividends	(691)
Share of cash flow hedges	(130)
Share of deferred tax thereon	22
Share of actuarial gain for the year	870
Share of deferred tax thereon	(92)
At 31 December 2018	13,301
Share of loss for the year	(722)
Share of revaluation gain on land and buildings	892
Share of cash flow hedges	67
Share of deferred tax thereon	(11)
Share of actuarial loss for the year	(1,789)
Share of deferred tax thereon	456
At 31 December 2019	12,194

19. Commitments

In December 2019 the Board of Lothian Buses Limited gave approval for expenditure of £31.4m on new buses for 2020. The single deck vehicles are expected to be delivered in Autumn 2020, while the double deck vehicles are expected to be delivered during Winter 2020.

20. Principal subsidiaries

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

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

21. 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

	2019 £'000	2018 £'000
City of Edinburgh Council (ultimate parent)	2,006	1,538
Midlothian Council (shareholder)	31	30
East Lothian Council (shareholder)	154	143
West Lothian Council (shareholder)	23	-
	2,214	1,711

(b) Purchase of goods and services

	2019 £'000	2018 £'000
City of Edinburgh Council (ultimate parent)	9,408	18,184
West Lothian Council (shareholder)	56	-
	9,464	18,184

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:

	2019 £'000	2018 £'000
City of Edinburgh Council (ultimate parent)	694	672

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

	2019 £'000	2018 £'000
Receivables from related parties		
City of Edinburgh Council (ultimate parent)	1,626	306
East Lothian Council (shareholder)	7	10
West Lothian Council (shareholder)	23	-
Payables to related parties		
City of Edinburgh Council (ultimate parent)	(15,213)	(15,972)

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.

22. 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

23. Retirement benefits obligation

Some employees of the Group are members of the Lothian Buses Pension Fund, part of the Local Government Pension Scheme, administered by the City of Edinburgh Council. This is a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary. The Lothian Buses Pension Fund was merged into the main Lothian Pension Fund on 31 January 2019 with the members benefits being unaffected.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2017 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

23. 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 2019 £'000	%	Value at 2018 £'000
Equity Securities:				
Consumer	5%	27,896	4%	22,699
Manufacturing	8%	45,335	11%	58,015
Energy and Utilities	4%	22,695	5%	27,604
Financial Institutions	4%	22,351	7%	33,617
Health and Care	3%	18,094	7%	37,792
Information Technology	2%	11,830	4%	19,310
Other	4%	22,150	12%	61,406
Debt Securities:				
Corporate Bonds	19%	112,241	2%	12,151
UK Government	23%	133,518	19%	99,649
Private Equity:				
All	7%	37,242	-	-
Real Estate:				
UK Property	17%	99,859	8%	41,022
Overseas Property	0%	1,041	-	-
Investment Funds and Unit Trusts:				
Equities	1%	5,235	-	-
Bonds	1%	7,619	1%	6,058
Infrastructure	-	-	6%	29,490
Other	1%	7,624	10%	52,446
Cash and Cash Equivalents:				
All	1%	5,176	4%	19,254
	100%	579,906	100%	520,513

The amounts recognised in the statement of financial position are determined as follows:	2019 £'000	2018 £'000
Fair value of plan assets	579,906	520,513
Present value of scheme liabilities	(544,300)	(455,042)
Asset in the scheme – pension liability	35,606	65,471
Net pension asset	35,606	65,471

TRANSPORT FOR EDINBURGH LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

23. Retirement benefits obligation (continued)

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

	2019 £'000	**2018 £'000**
At 1 January	455,042	463,689
Current service cost	10,365	12,601
Past service cost	8,403	-
Interest cost on obligation	13,189	11,620
Plan participants contributions	1,758	1,882
Unfunded benefits paid	(273)	(264)
Benefits paid	(11,697)	(11,308)
Actuarial losses/(gains) arising from changes in financial assumptions	67,301	(22,875)
Other actuarial losses/(gains)	212	(303)
At 31 December	544,300	455,042

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

	2019 £'000	**2018 £'000**
At 1 January	520,513	523,155
Benefits paid	(11,697)	(11,308)
Interest income on plan assets	15,038	13,043
Contributions by employer	6,681	7,244
Contributions by member	1,758	1,882
Contributions in respect of unfunded benefits	273	264
Unfunded benefits paid	(273)	(264)
Return on assets excluding amounts included in net interest	47,613	(13,503)
At 31 December	579,906	520,513

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

	2019 £'000	**2018 £'000**
Interest received on pension scheme assets	(15,038)	(13,043)
Interest cost on pension scheme liabilities	13,189	11,620
Finance income	(1,849)	(1,423)
Current service cost	10,365	12,601
Past service cost	8,403	-
	16,919	11,178

23. Retirement benefits obligation (continued)

Amounts recognised in other comprehensive income:

	2019 £'000	2018 £'000
Actuarial (losses)/gains in the defined benefit obligation	(67,513)	23,178
Actuarial gains/(losses) in the fair value of defined benefit assets	47,613	(13,503)
	(19,900)	9,675

The principal actuarial assumptions used in this valuation were:

	2019	2018
Inflation/pension increase rate	2.2%	2.4%
Salary increase rate	3.9%	4.1%
Discount rate	2.0%	2.9%

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

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 1% (2018: 1%).

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

Change in assumption	Approximate increase to employer asset %		Approximate increase to employer asset £'000	
	2019	2018	2019	2018
0.5% decrease in real discount rate	10%	10%	55,604	44,867
0.5% increase in the salary increase rate	2%	2%	10,527	8,709
0.5% increase in the pension increase rate	8%	8%	43,749	35,386

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.

23. 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 2019 is 19 years (2018: 19 years). This number can be analysed as follows:

	2019	**2018**
Active members	23.1 years	23.1 years
Deferred members	22.1 years	22.1 years
Retired members	11.7 years	11.7 years

Contributions to post employment benefit plans for the year ended 31 December 2020 are expected to be £6,715,000.

24. Operating leases

As a lessor

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

Gross lease receipts:	**Consolidated Group**		**Parent Entity**	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Minimum lease receipts under non-cancellable leases due:				
No later than one year	89	77	-	-
Later than one year but no later than five years	295	275	-	-
Later than five years	202	214	-	-
	586	566	-	-

The total annual lease income received in the year ended 31 December 2019 was £122,000 (2018: £70,000).

25. Financial risk management

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

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

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

The totals for each category of financial instruments, measured in accordance with IFRS 9 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group		Parent Entity	
		2019	2018	2018	2018
		£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	15	17,581	21,969	983	1,124
Trade and other receivables	10	3,576	3,593	1	7,000
Total financial assets		21,157	25,562	984	8,124
Financial liabilities					
Current liabilities	11	39,948	28,327	306	528
Non-current lease obligations	13	85,306	5,196	-	-
Total financial liabilities		125,254	33,523	306	528

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

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.

25. 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 2019 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.

25. Financial risk management (continued)

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

Group	Note	Within 1 Year 2019 £'000	1 to 5 Years 2019 £'000	Total 2019 £'000
Financial liabilities due for payment				
Current liabilities	11,12	24,004	-	24,004
Lease obligations	13	15,944	85,306	101,250
Total expected outflows		39,948	85,306	125,254
Financial assets — cash flows realisable				
Cash and cash equivalents	15	17,581	-	17,581
Trade and other receivables	10	3,576	-	3,576
Total anticipated inflows		21,157	-	21,157
Net outflow of financial instruments		(18,791)	(85,306)	(104,097)

Financial liability and financial asset maturity analysis

Group	Note	Within 1 Year 2018 £'000	1 to 5 Years 2018 £'000	Total 2018 £'000
Financial liabilities due for payment				
Current liabilities	11,12	26,378	-	26,378
Lease obligations	13	1,949	5,196	7,145
Total expected outflows		28,327	5,196	33,523
Financial assets — cash flows realisable				
Cash and cash equivalents	15	21,969	-	21,969
Trade and other receivables	10	3,593	-	3,593
Total anticipated inflows		25,562	-	25,562
Net outflow of financial instruments		(2,765)	(5,196)	(7,961)

25. Financial risk management (continued)

b. Liquidity risk (continued)

Company	**Note**	**Within 1 Year 2019 £'000**	**1 to 5 Years 2019 £'000**	**Total 2019 £'000**
Financial liabilities due for payment				
Current liabilities	11,12	306	-	306
Total expected outflows		306	-	306
Financial assets — cash flows realisable				
Cash and cash equivalents	15	983	-	983
Trade and other receivables	10	1	-	1
Total anticipated inflows		984	-	984
Net inflow of financial instruments		678	-	678

Company	**Note**	**Within 1 Year 2018 £'000**	**1 to 5 Years 2018 £'000**	**Total 2018 £'000**
Financial liabilities due for payment				
Current liabilities	11,12	528	-	528
Total expected outflows		528	-	528
Financial assets — cash flows realisable				
Cash and cash equivalents	15	1,124	-	1,124
Trade and other receivables	10	-	-	-
Total anticipated inflows		1,124	-	1,124
Net inflow of financial instruments		596	-	596

25. 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 2019 consume approximately 25.6m litres of diesel fuel per annum. As a result, the Group's results are exposed to movements in the underlying price of fuel. During the year approximately 21.8m litres of diesel fuel was hedged with the remaining amount being exposed to fuel price volatility.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its results 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 results are exposed as movements in the contract value are taken through the Statement of Other Comprehensive Income. A 1p decrease in the underlying price of fuel decreases the overall net asset of the fixed contracts by approximately £300,000. Likewise, if the price of fuel was to increase above the underlying price of the contracts, then this would result in an increase in the overall net asset.

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

26. Derivative financial instruments

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

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

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

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

The following table presents the Group's derivatives financial instruments that are measured at fair value within the hierarchy at 31 December 2019.

	Note	**Level 2**	
		2019 £'000	**2018 £'000**
Assets/(liabilities)			
Derivative financial instruments	12	241	(507)

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	**2019 £'000**	**2018 £'000**
Non-current assets/(liabilities)			
Fuel derivatives	12	6	(283)
Current assets/(liabilities)			
Fuel derivatives	12	235	(224)
Total net carrying value		241	(507)

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

26. Derivative financial instruments (continued)

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

Fuel derivatives	**2019 £'000**	**2018 £'000**
Fair value at the start of the year	(507)	937
Changes in the fair value during the year	1,543	421
Cash paid during the year	(795)	(1,865)
Fair value at the end of the year	241	(507)

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

As at 31 December 2019	**Assets/ (Liabilities) £'000**
Within one year	235
1 to 2 years	214
2 to 3 years	(208)
	241

27. 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 2018	1,949	7,144	97	(1,034)	8,156
Cash flows					
Repayment of capital on hire purchase leases	(1,948)	-	-	-	(1,948)
Net receipts from derivative instruments	-	-	-	1,865	1,865
Non-cash flows					
Change in fair value during the year	-	-	-	(421)	(421)
Split in aging profile	1,948	(1,948)	410	(410)	-
At 31 December 2018	1,949	5,196	507	-	7,652
At 1 January 2019	1,949	5,196	507	-	7,652
Cash flows					
New leases	12,330	16,820	-	-	29,150
Repayment of lease liabilities	(14,580)	-	-	-	(14,580)
Net receipts from derivative instruments	-	-	795	-	795
Non-cash flows					
New leases	301	79,234	-	-	79,535
Change in fair value during the year	-	-	(1,543)	-	(1,543)
Split in aging profile	15,944	(15,944)	241	(241)	-
At 31 December 2019	15,944	85,306	-	(241)	101,009

28. Post balance sheet events

Trams to Newhaven Project

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

B Shares

On 23 March 2020 a payment of £8.3m was received from City of Edinburgh Council in respect of the purchase of B Shares in Edinburgh Trams.

COVID-19

The emergence and spread of the COVID-19 virus post year end has increased the uncertainty when predicting results. Please refer to the strategic report for more detail of the effect of COVID-19 on the company and group.

Retirement Benefits

Since the year end financial and other markets have seen significant volatility and economic uncertainty associated with the COVID-19 pandemic. The market movements have impacted on the IAS 19 results as at 31 December 2019 that are disclosed in note 23. The retirement benefit asset has been affected by investment returns and changes in the discount rate, pension increase rate and salary increase rate financial assumptions. These are discussed in more detail as follows:

Investment returns
The return on assets for 2020 was expected to be 2.0% p.a. On a pro rata basis, this means the return expected in the first quarter of 2020 was 0.5% p.a. The actual return was -6.6%. This gives a difference between actual and expected returns over the first quarter of 2020 of a loss of around £41m which would affect the line item “Return on assets excluding amounts included in net interest”.

Discount rate
The discount rate has increased from 2.0% p.a. as at 31 December 2019 to 2.3% p.a. as at 31 March 2020. This is due to the increase in yields of long-dated high-quality corporate bonds. In isolation this increase in the discount rate leads to a decrease in the value of the past service liabilities of around £33m.

Pension increase assumption
The Retail Price Inflation (RPI) assumption is derived by considering the difference between yields on fixed-interest and index-linked gilts of similar duration. The “break-even” RPI inflation expectation has fallen from 3.2% p.a. at 31 December 2019 to 2.8% p.a. at 31 March 2020. The default assumed gap between RPI and the Consumer Price Index (CPI) was 1.0% as at 31 December 2019 and as at 31 March 2020 the gap between RPI and CPI was estimated at 0.9%. Taking account of the fall in “break-even” RPI and the reduction in the RPI-CPI gap the pension increase rate assumption has fallen from 2.2% p.a. at 31 December 2019 to 1.9% p.a. In isolation this leads to a reduction in liabilities of around £26m.

Salary growth assumption
Assuming the same derivation as at 31 December 2019 (break-even RPI inflation plus 0.7%) the salary increase assumption has fallen from 3.9% p.a. at 31 December 2019 to 3.5% p.a. at 31 March 2020. In isolation this decrease in the salary growth assumption leads to a decrease in the value of the past service liabilities of around £8m.

These best estimate figures above have been prepared by the Actuary in accordance with the latest version of the IAS 19 Accounting Standard. The detailed calculations have been carried out in accordance with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.