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LOTHIAN BUSES plc

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2000

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LOTHIAN BUSES plc

COMPANY INFORMATION

Board of Directors:

Chairman

Pilmar Smith

Executive Directors

Neil Renilson
John E D Gordon
William W Campbell
William Devlin

Non-Executive Directors

James H. Gray
Phyllis Herriot
Paul W. Nolan
Peter J. Green-Sargent
Peter H. Stillwell

Company Registration:

Registered Office	1 - 4 Shrub Place EDINBURGH EH7 4PA
Registration No.	96849 in Scotland
Secretary	John E D Gordon

Bankers:

The Royal Bank of Scotland plc

Girobank Scotland

Auditors:

PricewaterhouseCoopers

Edinburgh

LOTHIAN BUSES plc

(formerly Lothian Region Transport plc)

REPORT OF THE DIRECTORS

The Directors present their report and accounts for the year ended 31 March 2000

Principal Activities

The principal activity of the company during the year under review was the operation of buses in Edinburgh and the Lothians. The provision of coaching, private hire and vehicle testing complemented the main activity.

Change of Company Name

On 6th January 2000, the company changed its name to Lothian Buses plc.

Review of the Business

The company retained a substantial share of the local transport market while trading profitably. During the year, the company has been undergoing a restructuring process, incurring exceptional costs totalling £2,961,000. The Directors consider that the results for the year are satisfactory.

Results and Dividends

The results and dividends are summarised below. An interim dividend on the ordinary share capital of 12.88 pence per share was paid on 22 March 2000. The Directors recommend that a final dividend of 12.88 pence per share be paid.

	2000 £'000	1999 £'000
Turnover from operations	52,036	49,416
Profit before taxation and exceptional costs	5,530	5,410
Exceptional costs	2,961	-
Profit before taxation	2,569	5,410
Provision for taxation	884	1,984
Profit after taxation	1,685	3,426
Interim dividend	824	2,112
Final dividend	824	-

Future Prospects

The Directors are of the opinion that the company remains in a sound position to maintain its role as the major bus operator in Edinburgh and the Lothians.

REPORT OF THE DIRECTORS (continued)

Directors

The Directors of the company are as set out on Page 2. Mr George B Kirk retired on 31st July 1999. Mr Ronald House retired as a director on 29 June 1999. Mr Angus Mackay resigned as a director on 14th June 1999 and Mr William Bradshaw resigned on 30th September 1999. Mrs Phyllis Herriot retired on 29th June 1999 and was reappointed on 2nd August 1999. Mr William Devlin, Mr William W Campbell and Mr John Gordon were appointed as directors on 29th June 1999, 17th July 1999 and 1st August 1999 respectively.

Six directors, under the terms of the Articles of Association, are due to retire at the Company's Annual General Meeting – Mrs Phyllis Herriot, Mr Peter Stillwell, Mr Pilmar Smith, Mr John Gordon, Mr William Campbell and Mr William Devlin. All except Mrs Herriot offer themselves for re-election.

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

Substantial Shareholding

The City of Edinburgh Council holds 91.01% of the issued share capital of the company.

Employee Involvement

The Board of Directors includes a worker-director nominated by the company employees. The company recognises that employee involvement is fundamental to its success. The Executive Directors have regular meetings with elected staff representatives and informal meetings at employee level from time to time. Employees are encouraged to contribute to discussions on specific areas of importance eg health and safety, staff catering and staff welfare. Employees are made aware of the financial information relating to the performance of the company primarily through the annual report to the company's employees.

Employment of Disabled Persons

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

Employment Practices

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.

REPORT OF THE DIRECTORS (continued)

Political and Charitable Contributions

During the year, the company made no political or charitable contributions.

Creditor Payment Policy

The company has adopted the following policy in relation to the payment of its creditors:-

(1) to settle the terms of payment with suppliers when agreeing the terms of each transaction and ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(2) to pay in accordance with its contractual and other legal obligations.

The directors are satisfied with the payment performance of the company. At the year end approximately 21 days purchases are included in trade creditors.

Millennium Compliance

The company experienced no disruption or malfunctions since the turn of the year arising from its own computer systems or equipment with embedded date relevant chips.

In the year under review the company did not incur and does not anticipate incurring any further costs relating to the Year 2000 issue.

Directors' Responsibilities

The Directors confirm that suitable accounting policies have been used and applied consistently. Reasonable and prudent judgements/estimates have been made in the preparation of the financial statements for the year ended 31st March 2000, to ensure that the statements give a true and fair view of the state of affairs of the company at the period end and of the profit or loss for the period. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors acknowledge their responsibilities for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

A resolution to re-appoint the auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

John E D Gordon
Finance Director and
Company Secretary

By order of the Board
30th May 2000

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2000

	Note	2000 £'000	1999 £'000
CONTINUING OPERATIONS			
Turnover	1	52,036	49,416
Operating costs	2	(46,843)	(44,579)
Exceptional operating costs	2	(2,961)	-
Total operating costs		(49,804)	(44,579)
OPERATING PROFIT		2,232	4,837
Interest receivable		894	1,204
Interest payable	3	(557)	(631)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,569	5,410
Tax on profit on ordinary activities	4	(884)	(1,984)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,685	3,426
Dividends	5	(1,648)	(2,112)
TRANSFER TO RESERVES	6	37	1,314

NOTE ON HISTORICAL COST PROFITS FOR THE YEAR ENDED 31 MARCH 2000

	2000 £'000	1999 £'000
Profit before taxation	2,569	5,410
Difference between historical and actual depreciation charge	569	500
Historical cost profit		
Before Taxation	3,138	5,910
After Taxation and Dividends	606	1,814

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2000

	2000 £'000	1999 £'000
Profit after taxation	1,685	3,426
Unrealised surplus on revaluation of assets	473	602
Total recognised gains for the year	2,158	4,028

LOTHIAN BUSES plc

BALANCE SHEET - 31 MARCH 2000

		2000 £'000	1999 Restated £'000
FIXED ASSETS			
Tangible Assets - Passenger Vehicles	7	25,273	18,436
- Other Assets	8	8,048	7,686
		33,321	26,122
CURRENT ASSETS			
Stocks		591	580
Debtors	9	1,777	1,448
Cash and short term deposits		12,505	20,202
		14,873	22,230
CURRENT LIABILITIES			
CREDITORS:			
Amounts falling due within one year	10	(12,310)	(13,256)
NET CURRENT ASSETS		2,563	8,974
TOTAL ASSETS LESS CURRENT LIABILITIES		35,884	35,096
CREDITORS:			
Amounts falling due after more than one year	11	(5,858)	(7,216)
PROVISIONS:			
Liabilities and charges	12	(2,146)	(510)
NET ASSETS		27,880	27,370
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	13	6,399	6,399
RESERVES			
Revaluation Reserve	14	11,911	13,141
Profit and Loss Account	6	9,570	7,830
EQUITY SHAREHOLDERS' FUNDS	15	27,880	27,370

Approved by the Board of Directors
On 30th May 2000

Neil Renilson
Chief Executive

LOTHIAN BUSES plc

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2000

	Note		2000 £'000		1999 £'000
Net cash inflow from operating activities	16		8,433		8,962
Return on investments and servicing of finance:-					
Interest received		1,005		1,235	
Interest paid on finance leases		(574)		(686)	
			431		549
Taxation:-					
U.K. Corporation Tax paid			(2,280)		(1,832)
Capital Expenditure:-					
Tangible fixed assets - payments		(11,409)		(1,424)	
Tangible fixed assets - receipts		279		71	
			(11,130)		(1,353)
Equity Dividends paid			(824)		(2,624)
Cash (outflow)/inflow before use of liquid resources and finance			(5,370)		3,702
Management of liquid resources:-					
Net decrease/(increase) in term deposits			8,500		(3,799)
Financing:-					
Capital element of finance lease payments			(1,232)		(1,116)
Increase/(decrease) in cash in the period			1,898		(1,213)
Reconciliation of net cash flow to movement in net funds					
Net funds at beginning of year			9,123		5,421
Increase/(Decrease) in cash in period			1,898		(1,213)
Cash used from liquid resources			(8,500)		3,799
Finance leases repaid			1,232		1,116
Net funds at end of year	17		3,753		9,123

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2000

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention modified by the revaluation of passenger vehicles and in accordance with applicable accounting standards in the United Kingdom. The standards have been consistently applied.

FIXED ASSETS

Revaluation of Vehicles
The passenger vehicles are revalued annually at the commencement of the year on the basis of their net current replacement cost as estimated by the directors. Any surplus or deficit arising is dealt with in the revaluation reserve, with an appropriate transfer to the Profit and Loss Account Reserve on disposal.

Depreciation
Depreciation is provided on a straight-line basis so as to write off the cost or the valuation of fixed assets over their estimated useful lives, as follows:

Heritable property	50 years	Passenger Vehicles	6-12 years
Plant and Machinery	10 years	Other Vehicles	4 years
Computers	5 years		

Fixed Assets held under finance leases
Assets financed by leasing arrangements which give rights approximating to ownership are treated as if they had been purchased, and the corresponding liability is included as an obligation under finance leases. Depreciation on leased assets is charged to the profit and loss account on the bases stated above. Finance lease payments consist of capital repayments and finance charges which are charged to the profit and loss account using the annuity method.

STOCK

Stock, which includes vehicle spares, fuel and uniforms, is stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

DEFERRED TAXATION

Deferred taxation is provided in respect of significant timing differences to the extent that it is probable that such a liability will become payable.

EMPLOYEES PENSIONS

Employees participate in the Company's Pension Fund which is managed by The City of Edinburgh Council for all employees who have been admitted to the Local Government Pension Scheme. The Scheme is of the defined benefit type with the assets held in external funds managed by professional investment managers.

The costs of providing pensions are charged to the profit and loss account on a consistent basis over the service lives of the members. These costs are determined by a qualified actuary and any variations from regular costs are spread over the remaining working lifetime of the current members.

1. TURNOVER

The company's turnover derives from the provision of transport services

2. OPERATING COSTS

	2000 £'000	1999 £'000
Operating costs equate to cost of sales and include: -		
Depreciation (Notes 7 and 8)	4,568	3,813
Auditors' remuneration - audit services	27	22
Auditors' remuneration - non-audit services	3	3
Other administrative expenses	647	664
Exceptional costs	2,961	-

During the year, the company has been undergoing a restructuring process. As a result, exceptional costs have been incurred, including £1,261,000 redundancy costs and £1,674,000 early retirement pension enhancements.

3. INTEREST PAYABLE

	£'000	£'000
Finance lease charges (Note 11)	557	631

4. TAX ON ORDINARY ACTIVITIES

	£'000	£'000
Corporation Tax @ 30% (31%)		
Current Tax	1,068	2,095
Deferred Tax	-	(111)
Prior year adjustment	(184)	-
	884	1,984

5. DIVIDENDS

	£'000	£'000
Ordinary Share Capital		
Interim 12.88p per share; declared (1999 - 33p)	824	2,112
Final : proposed 12.88p per share (1999 - nil)	824	-
	1,648	2,112

6. PROFIT AND LOSS ACCOUNT

	£'000	£'000
Balance at 1 April 1999	7,830	5,596
Transfer to reserves	37	1,314
Revaluation Reserve transferred	1,703	920
Balance at 31 March 2000	9,570	7,830

	2000 £'000	1999 £'000
7. TANGIBLE ASSETS - PASSENGER VEHICLES		
Replacement cost basis of accounting		
Net Book Value at 31 March 1999	18,436	20,223
Revaluation at 1 April 1999	473	602
Additions at cost	10,504	938
Disposals	(220)	-
	29,193	21,763
Depreciation charge for year	(4,076)	(3,327)
Depreciation on disposals	156	-
Net Book Value at 31 March 2000	25,273	18,436
Assets under finance leases		
Valuation at 1 April 1999	11,575	13,604
Depreciation charge for year	(2,396)	(2,333)
Net Book Value at 31 March 2000	9,179	11,271
Historical cost basis of accounting		
Depreciation charge for year	3,507	2,827
Accumulated depreciation	24,720	22,076
Net Book Value at 31 March 2000	23,382	16,429

8. TANGIBLE ASSETS - OTHER

	Heritable Property £'000	Other Vehicles £'000	Plant & Equipment £'000	2000 Total £'000	1999 Total £'000
COST					
At 1 April 1999	7,925	348	4,512	12,785	12,377
Additions	727	20	158	905	486
Disposals	(1)	(97)	(76)	(174)	(78)
At 31 March 2000	8,651	271	4,594	13,516	12,785
DEPRECIATION					
At 1 April 1999	1,814	233	3,052	5,099	4,661
Charge for year	167	39	286	492	486
Disposals	—	(62)	(61)	(123)	(48)
At 31 March 2000	1,981	210	3,277	5,468	5,099
NET BOOK VALUE					
At 31 March 2000	6,670	61	1,317	8,048	
At 31 March 1999	6,111	115	1,460		7,686

9. DEBTORS	2000 £'000	1999 £'000
Trade debtors	257	255
Value added tax	820	444
Other debtors	127	315
Prepayments and accrued income	573	434
Amounts falling due within one year	1,777	1,448

10. CREDITORS	£'000	£'000 Restated
Amounts falling due within one year:		
Bank overdraft	1,536	2,631
Finance leases (Note 11)	1,358	1,232
Trade creditors	2,354	1,681
Dividends	826	2
Corporation tax	597	1,993
Other taxes and social security	801	935
Other creditors	2,271	2,197
Accruals and Deferred Income	2,567	2,585
	12,310	13,256

Reclassification has taken place in accordance with FRS12 "Provisions, Contingent Liabilities and Contingent Assets", which has resulted in the Claims provision being shown separately. Please see Note 12.

11. CREDITORS	£'000	£'000
Amounts falling due after more than one year:		
Finance Leases:		
Amounts repayable: Within one year	1,358	1,232
Between 1-2 years	2,457	2,854
Between 2-5 years	3,079	3,225
After 5 years	322	1,137
Total amounts repayable	7,216	8,448
Less: Repayable within one year (Note 10)	1,358	1,232
	5,858	7,216

12. PROVISION FOR LIABILITIES AND CHARGES

	CLAIMS	PENSION PROVISION	TOTAL
	£'000	£'000	£'000
At 1st April 1999	510	-	510
Charged to Profit and Loss Account	561	1,674	2,235
Paid during year	(386)	(213)	(599)
At 31st March 2000	685	1,461	2,146

Claims

The claims provision has been separately disclosed for the first time in line with FRS12. Settlement of such claims is dependent on negotiation and, potentially, litigation with third parties, the time frame of which cannot be predicted accurately.

Pension Provision

As a result of the reorganisation of the company, a number of pension payments will be made for the remaining lives of employees taking early retirement. The amount provided has been calculated by the company pension fund's actuary.

Deferred Taxation

Provision for deferred taxation against a total potential liability has been included in the financial statements as follows:-

	Amount Provided		Potential Liability	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Excess of tax allowance over depreciation	-	-	2,472	2,151
Other timing differences	-	-	(438)	(162)
	-	-	2,034	1,989

An additional tax liability of approximately £0.6 million would arise if the passenger vehicles were sold for their revalued net book value as at 31 March 2000.

13. CALLED UP SHARE CAPITAL	2000 £'000	1999 £'000
Authorised :		
Ordinary - 7,000,000 of £1 each	7,000	7,000
Allotted, Issued and Fully Paid:		
Ordinary - 6,399,139 of £1 each	6,399	6,399

14. REVALUATION RESERVE	£'000	£'000
Balance at 1 April 1999	13,141	13,459
Revaluation surplus (Note 7)	473	602
Released on disposals	(1,703)	(920)
Balance at 31 March 2000	11,911	13,141

15. MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS	£'000	£'000
Opening equity shareholders' funds	27,370	25,454
Profit for year	1,685	3,426
Dividends	(1,648)	(2,112)
Surplus on revaluation of assets	473	602
Net change to equity shareholders' funds	510	1,916
Closing equity shareholders' funds	27,880	27,370

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £'000	1999 £'000
Operating Profit	2,232	4,837
Depreciation	4,568	3,813
Gain on disposal of fixed assets	(164)	(41)
Stocks - Increase	(11)	(12)
Debtors - Increase	(440)	(317)
Creditors - Increase	2,249	682
	8,433	8,962

17. ANALYSIS OF CHANGE IN NET FUNDS

	1 April 1999	Cash Flows	Other Change	31 March 2000
	£'000	£'000	£'000	£'000
Cash in hand and at bank	20,202	(7,697)	—	12,505
Less deposits included	(19,500)	8,500	—	(11,000)
Net cash balance	702	803	—	1,505
Overdrafts	(2,631)	(1,095)	—	(1,536)
	(1,929)	1,898	—	(31)
Finance Leases				
Due within 1 year	(1,232)	1,232	(1,358)	(1,358)
Due after 1 year	(7,216)	—	1,358	(5,858)
Deposits included as cash	19,500	(8,500)	—	11,000
	9,123	(5,370)	—	3,753

18. COMMITMENTS

	2000 £'000	1999 £'000
Future capital expenditure:		
Contracted for but not provided in the accounts	5,486	8,672

19. SUBSIDIARY COMPANIES

The company has six wholly owned dormant subsidiary companies registered in Scotland. The combined issued share capital of the six subsidiary companies is £12 (fully paid).

20. RELATED PARTY TRANSACTIONS

Under the terms of The Lothian Travel Concession Scheme and successful open tendering for route support financing from shareholding local authorities in the area, the Company received sums totalling £3.64 million during the year (1999 - £3.68 million).

21. CONTROLLING PARTY

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

22. EMPLOYEES

The average number of persons employed (including Directors) during the year was as follows:-

	2000	1999
	No.	No.
Bus drivers	1,132	1,104
Other	544	622
	1,676	1,726

The aggregate payroll costs of these persons were as follows:-

	£'000	£'000
Wages and Salaries	28,363	27,805
Social security costs	1,926	2,072
Pension costs	1,218	960
	31,507	30,837

23. DIRECTORS.

The remuneration of directors during the year was as follows:-

	£'000	£'000
Aggregate emoluments and benefits	367	283
Highest paid director	115	106

Four directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £1,250 (1999 - £49,000) and an accrued lump sum of £3,750 (1999 - £147,000) at the end of the year. During the year, compensation for loss of office amounted to £207,000 (1999 – £196,000). This sum comprises termination payments and the provision of motor cars to two former directors.

24. COMPANY PENSION FUND

Pension Fund Valuation

A valuation of the pension fund is carried out triennially using the projected unit method.

The most recent valuation of the fund was at 31st March 1999 and at that date the market value of the assets was £120.2 million. The results of the valuation of the fund at 31st March 1999 show a surplus of £22.5 million.

Results and Assumptions

The 1999 valuation showed that the fund's assets covered 123% of the benefits after allowing for future earnings growth.

The principal assumptions used were:-

Investment returns	9.0% per annum
Salary increases	6.5% per annum
Pension increases	5.0% per annum
Dividend growth	4.5% per annum

Profit and Loss Account

The amount charged to the profit and loss account was £1,218,000 (1999 - £960,000). The actual amount paid was £1,222,000 (1999 - £878,000).

Amortisation of surplus

The amount charged to the profit and loss account includes a credit of approximately £1.9 million (1999 - £2.1 million) in respect of the amortisation of surpluses which are being recognised over 12 years – the estimated remaining service lives of employees.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
PO Box 90
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Auditors' report to the members of Lothian Buses plc (formerly Lothian Region Transport plc)

We have audited the financial statements on pages 6 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 5, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
30 May 2000

PricewaterhouseCoopers is the successor partnership to the UK firms of Price Waterhouse and Coopers & Lybrand. The principal place of business of PricewaterhouseCoopers and its associate partnerships, and of Coopers & Lybrand, is 1 Embankment Place, London WC2N 6NN. The principal place of business of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY. Lists of the partners' names are available for inspection at those places.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.