

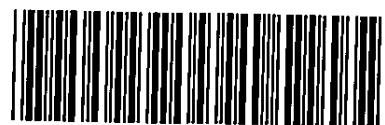
LOTHIAN BUSES PLC

Consolidated Financial Statements

For the year ended 31 December 2012

Registered number SC096849

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LOTHIAN BUSES PLC
Consolidated Financial Statements
For the year ended 31 December 2012

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LOTHIAN BUSES PLC

Company Information

For the year ended 31 December 2012

Board of Directors:

Chairman

Chris Walton

Executive Directors

William Campbell

Ian Craig

William Devlin

Norman Strachan

Senior Independent Director

John Martin

Non-Executive Directors

Owen Boyle

Appointed 24 April 2012

Ann Faulds

Ronald Hewitt

Donald MacLeod

Ian McKay

Marjory Rodger

Company Registration:

Registered Office

Annandale Street
Edinburgh
EH7 4AZ

Registration Number

96849 in Scotland

Secretary

Norman Strachan

Bankers:

The Royal Bank of Scotland Plc

Barclays Bank Plc

Auditor:

Scott-Moncrieff

Chartered Accountants

Exchange Place 3

Semple Street

Edinburgh

EH3 8BL

LOTHIAN BUSES PLC
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For the year ended 31 December 2012
Directors' report

Principal Activities

The principal activity of the group during the year under review was the operation of over 650 buses and open top tours in Edinburgh and the Lothians carrying around 2m passengers per week. There have been no significant changes in the group's principal activities in the year under review. The directors are not aware at the date of this report, of any likely major changes in the group's activities in the next year.

Review of the Business

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

As shown in the Consolidated Statement of Comprehensive Income on page 10, revenue has increased by 4.8% over the previous year while the profit from operations margin for the year is 7.9%. The Statement of Financial Position on page 11 shows the group's financial strength at the year end with net reserves of £54.1m.

Capital expenditure in the year was £5.5m. The main item of expenditure being the continued redevelopment of our Longstone Depot.

The group has faced significant operating and cost pressures, particularly fuel price. We anticipate that these cost pressures will remain in 2013 and we will remain proactive in seeking to mitigate the impact of these cost pressures.

Results and Dividends

The results and dividends are summarised below. An interim dividend of 51.51p per share was approved on 10 December 2012 and was paid on 28 March 2013.

	2012 £'000	2011 £'000
Revenue	122,675	117,092
Profit before income tax expense	9,670	9,792
Provision for income tax expense	(1,483)	(909)
Net profit for the year	8,187	8,883
Interim dividend	3,296	3,296

LOTHIAN BUSES PLC
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Directors' report (continued)

The key performance indicators for the group are:-

	2012	2011	Change
Passenger journeys	111m	111m	0.00%
Service reliability – lost mileage	0.11%	0.12%	-0.01%
Staff turnover	2.3%	2.0%	+0.30%
Vehicle fleet	721	741	-2.70%
Engineering MOT 1 st time pass rate	99.6%	99.8%	-0.20%

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 and open top tours in Edinburgh and the Lothians.

The current year trading is in line with expectations. The directors remain optimistic about the future, continuing to focus on delivery of reliable high quality bus services, which provide value for money.

Directors

The directors are as set out on Page 2. Four directors, under the terms of the Articles of Association, are due to retire at the Company's Annual General Meeting – Mr Ian Craig, Mr William Campbell, Mr John Martin and Mr Ian McKay. They all offer themselves for re-election.

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

Substantial Shareholding

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

Employees

Details of the number of employees and related costs can be found in note 7 on page 26 of the financial statements.

We value our staff and have a strong commitment to equal opportunities and partnership working with trade unions.

Training, development and promotion opportunities, where appropriate, are available to all employees. Employment practices are continuously reviewed and updated to ensure that non-discriminatory legislation and codes of practice apply equally to all current and potential employees.

We recognise the need for ongoing training not just for new recruits but also on an ongoing continuing basis for existing staff. Training programmes include customer care and disability awareness. The training is not only for improving the job but also for individual development.

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

LOTHIAN BUSES PLC

Consolidated Financial Statements

For the year ended 31 December 2012

Directors' report (continued)

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.

Political and Charitable Contributions

During the year, the group made no political contributions and donated £14,700 to local charitable organisations. The Company via the Healthy Working Life initiative, joined with Prostate Scotland to promote Prostate Awareness Partnership where we painted a bus blue and provided posters and publicity on our whole fleet to promote awareness and staff raised £5,000 through activities which was donated to the charity.

Risks and Uncertainties

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

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

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

Commodity Price Risk

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

Corporate Social Responsibility

Lothian Buses has continued with its Corporate Social Responsibility strategy through a mixture of environmental improvements and community engagement.

The company has added 15 diesel-electric hybrid buses to its fleet with help from the Scottish Government Green Bus Fund. These vehicles consume less fuel than conventional buses and the 15 vehicles, which is the largest fleet of double-deck hybrids in Scotland, is projected to reduce the company's carbon footprint by over 600 tonnes per year. The reduced fuel consumption has a corresponding reduction in local air pollutants, and because electric batteries are used to power the bus the vehicles run more quietly, cutting noise pollution in the city.

The company made the decision to use the hybrid vehicles on the service 10 which runs through two Air Quality Management Areas and from areas with a high volume of car commuters to the city centre. In order to encourage modal shift among these commuters the vehicles were given an executive branding, with audio-visual stop announcements and free onboard Wi-Fi. On-bus surveys indicate that more passengers are using the service 10 since the hybrid buses were introduced. The hybrid buses are now also running on night bus services.

Continued environmental improvements to the company's operations led to Edinburgh Tours receiving a Gold Award from the Green Tourism Business Scheme.

A programme to retrofit older buses with SCRT technology was continued from the previous year. An additional 35 vehicles have been fitted with the new exhaust system, which reduces their contribution to local air pollution in the city by cutting their PM10, Hydrocarbon, Carbon Monoxide and CO2 emissions.

LOTHIAN BUSES PLC

Consolidated Financial Statements

For the year ended 31 December 2012

Directors' report (continued)

The company has continued its work on cycle safety. In addition to working with the Bike Station on its Better Way to Work scheme, we funded 500 hi-viz vests which were handed out to cyclists in Edinburgh in the autumn. We also worked with cycle organisation Spokes to produce an audio documentary and a training video for cyclists and drivers promoting safety and encouraging mutual respect on the road.

Our extensive schools engagement work has continued, with company staff visiting a number of schools to help local pupils with employability skills. Through interactive workshops and presentations we help children understand what qualifications they might need for a variety of jobs, and provide advice and guidance on CV writing, job applications and interviews. Similar workshops have also been held for long-term unemployed people.

Creditor Payment Policy

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

- a) 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
- b) to pay in accordance with its contractual and other legal obligations.

The directors are satisfied with the payment performance of the group. At the year-end approximately 25 days purchases are included in trade creditors (2011: 23 days).

LOTHIAN BUSES PLC

Consolidated Financial Statements

For the year ended 31 December 2012

Statement of Directors' Responsibilities

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

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

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

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

Disclosure of Information to Auditor

Each of the directors, whose names and functions are listed in the Company Information confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

Auditor

The auditor, Scott-Moncrieff, 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: 24 April 2013



**Norman J Strachan
Finance Director and
Company Secretary**

LOTHIAN BUSES PLC

Independent Auditor's Report to the Members of Lothian Buses Plc

For the year ended 31 December 2012

We have audited the financial statements of Lothian Buses plc for the year ended 31 December 2012 which comprise the Group and Parent Company Statements of Comprehensive Income, Group and Parent Company Statements of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit on the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication of our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

LOTHIAN BUSES PLC

Independent Auditor's Report to the Members of Lothian Buses Plc (continued)

For the year ended 31 December 2012

Matters on Which We Are Required to Report by Exception

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

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



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

Date: 26 April 2013

LOTHIAN BUSES PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

		Consolidated Group		Parent Entity	
	Note	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Continuing operations					
Revenue	1h	122,675	117,092	118,648	112,395
Gross profit		122,675	117,092	118,648	112,395
Administrative expenses		(113,043)	(109,775)	(110,512)	(107,361)
Profit from operations		9,632	7,317	8,136	5,034
(Loss) on disposal of property, plant and equipment	2	(392)	(221)	(401)	(191)
Finance income	3	810	3,215	810	3,204
Finance costs	4	(380)	(519)	(380)	(519)
Profit before income tax expense		9,670	9,792	8,165	7,528
Income tax expense	6	(1,483)	(909)	(1,124)	(324)
Net profit for the year		8,187	8,883	7,041	7,204
Attributable to: Equity holders		8,187	8,883	7,041	7,204
Other comprehensive income:					
Actuarial (loss)/gain on post employment benefit obligations	22	(20,157)	12,182	(20,157)	12,182
Total comprehensive income for the year		(11,970)	21,065	(13,116)	19,386
Attributable to: Equity holders		(11,970)	21,065	(13,116)	19,386

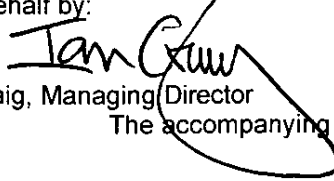
The accompanying notes on pages 14 to 45 form part of these financial statements

LOTHIAN BUSES PLC

Consolidated and Company Statement of Financial Position

		Consolidated Group		Parent Entity	
	Note	As at 31 December 2012 £'000	As at 31 December 2011 £'000	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Non-current assets					
Property, plant and equipment	8	87,798	91,271	86,895	90,165
Total non-current assets		<u>87,798</u>	<u>91,271</u>	<u>86,895</u>	<u>90,165</u>
Current assets					
Inventories	9	513	673	513	673
Trade and other receivables	10	3,665	1,993	3,646	1,966
Cash and cash equivalents	15	11,934	8,859	11,105	7,561
Total current assets		<u>16,112</u>	<u>11,525</u>	<u>15,264</u>	<u>10,200</u>
Total assets		<u>103,910</u>	<u>102,796</u>	<u>102,159</u>	<u>100,365</u>
Equity and liabilities					
Equity attributable to equity holders of the parent					
Share capital	16	6,399	6,399	6,399	6,399
Revaluation reserve	17	6,617	6,757	6,617	6,757
Retained earnings	17	41,064	56,190	34,889	51,161
		<u>54,080</u>	<u>69,346</u>	<u>47,905</u>	<u>64,317</u>
Liabilities					
Non-current liabilities					
Finance lease obligations	12	5,187	9,156	5,187	9,156
Deferred tax	1,13	7,836	8,643	7,772	8,545
Retirement benefits obligation	22	11,876	(7,073)	11,876	(7,073)
Provisions	13	1,598	1,905	1,563	1,820
Total non-current liabilities		<u>26,497</u>	<u>12,631</u>	<u>26,398</u>	<u>12,448</u>
Current liabilities					
Trade and other payables	11	4,198	2,388	4,130	2,348
Current tax payable	11	1,320	525	1,122	219
Finance lease obligations	12	3,969	5,229	3,969	5,229
Other financial liabilities	11	13,846	12,677	18,635	15,804
Total current liabilities		<u>23,333</u>	<u>20,819</u>	<u>27,856</u>	<u>23,600</u>
Total liabilities		<u>49,830</u>	<u>33,450</u>	<u>54,254</u>	<u>36,048</u>
Total equity and liabilities		<u>103,910</u>	<u>102,796</u>	<u>102,159</u>	<u>100,365</u>

The financial statements were authorised for issue by the Board of Directors on 24 April 2013 and were signed on its behalf by:


Ian Craig, Managing Director

Registered number SC096849

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

LOTHIAN BUSES PLC
Consolidated Statement of Changes in Equity
As at 31 December 2012

	Note	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2011		6,399	6,897	38,281	51,577
Comprehensive income					
Profit for the year		-	-	8,883	8,883
Other comprehensive income					
Depreciation transfer on land and buildings, net of tax	17	-	(140)	140	-
Actuarial gain on pension plan	22	-	-	12,182	12,182
Dividends	5	-	-	(3,296)	(3,296)
Balance at 31 December 2011		<u>6,399</u>	<u>6,757</u>	<u>56,190</u>	<u>69,346</u>

		Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2012		6,399	6,757	56,190	69,346
Comprehensive income					
Profit for the year		-	-	8,187	8,187
Other comprehensive income					
Depreciation transfer on land and buildings, net of tax	17	-	(140)	140	-
Actuarial loss on pension plan	22	-	-	(20,157)	(20,157)
Dividends	5	-	-	(3,296)	(3,296)
Balance at 31 December 2012		<u>6,399</u>	<u>6,617</u>	<u>41,064</u>	<u>54,080</u>

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

LOTHIAN BUSES PLC

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Consolidated Group	
	2012 £'000	2011 £'000
Cash flow from operating activities		
Profit from operations	9,632	7,317
Adjustments for:		
Depreciation and amortisation	8,215	7,737
Defined benefit pension cost	7,188	7,469
Benefit contributions	(7,760)	(8,298)
Changes in assets and liabilities:		
(Increase)/decrease in receivables and other financial assets	(1,646)	485
Increase/(decrease) in payables	2,980	(507)
Decrease in inventories	160	12
(Decrease) in provisions	(307)	(6)
Cash flows from operations	18,462	14,209
Interest paid	(380)	(519)
Income tax paid	(1,495)	(2,175)
Net cash flows from operating activities	16,587	11,515
Cash flow from investing activities		
Purchase of property plant and equipment (Note 8)	(5,505)	(5,335)
Proceeds from disposal of property, plant and equipment	370	267
Interest received	148	170
Net cash flows from investing activities	(4,987)	(4,898)
Cash flow from financing activities		
Payments to hire purchase/finance lease creditors	(5,229)	(7,108)
Dividends paid	(3,296)	(2,197)
Net cash flows from financing activities	(8,525)	(9,305)
Net increase in cash and cash equivalents	3,075	(2,688)
Cash and cash equivalents at beginning of year	8,859	11,547
Cash and cash equivalents at end of year	11,934	8,859
Bank balances and cash	11,934	8,859

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

LOTHIAN BUSES PLC

Notes to the Financial Statements

For the year ended 31 December 2012

1. Statement of significant accounting policies

The consolidated financial statements of Lothian Buses Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

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

Adoption of new and revised standards

The group has adopted the following new and amended standards as of 1 January 2012. There were no new or revised accounting standards issued during the year that would have a material impact on the Group. The amendment to IAS 12: Deferred Tax is not considered material to the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Lothian Buses' financial statements are listed below. This listing is of standards and interpretations issued, which Lothian Buses reasonably expects to be applicable at a future date. Lothian Buses intends to adopt those standards when they become effective.

The following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning after 1 January 2012, and have not been adopted early by the Group:

- IFRS 9, 'Financial Instruments', is effective for accounting periods beginning on or after 1 January 2015. The standard was issued in November 2009, which was added to in October 2009 and further amended in December 2011 amending the effective date from 1 January 2013 to 1 January 2015. Currently IFRS 9 outlines the recognition and measurement of financial assets, financial liabilities and the derecognition criteria for financial assets. Financial assets are to be measured either at amortised cost or fair value through profit and loss, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. A financial asset can only be measured at amortised cost if the Group has a business model to hold the asset to collect contractual cash flows and the cash flows arise on specific dates and are solely for payment of principal and interest on the principal outstanding. On adoption of the standard the Group will have to redetermine the classification of its financial assets specifically for available-for-sale and held-to-maturity financial assets. Most financial liabilities will continue to be carried at amortised cost, however, some financial liabilities will be required to be measured at fair value through profit and loss (for example derivatives) with changes in the liabilities' credit risk to be recognised in other comprehensive income. The derecognition principles of IAS 39, 'Financial Instrument: Recognition and Measurement', have been transferred to IFRS 9. There is unlikely to be an impact on the Group from this section of the standard when it is applied. The Group has not evaluated the full extent of the impact that the standard will have on its financial statements.
- IFRS 7 (amendment), 'Disclosures – Offsetting Financial Assets and Financial Liabilities' and IAS 32 'Offsetting Financial Assets and Financial Liabilities'. The amendment to IFRS 7 addresses the disclosures surrounding the offsetting of financial assets and financial liabilities. The IAS 32 amendment clarifies the existing offsetting requirements and therefore will have no impact on the group. The overall impact of these amendments will result in additional disclosures being provided on adoption. The amendments are effective for annual periods beginning on or after 1 January 2013.

LOTHIAN BUSES PLC

Notes to the Financial Statements

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

- IFRS 10, 'Consolidated Financial Statements', is effective for accounting periods beginning on or after 1 January 2013. The standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard provides extensive guidance on applying the principle of control, which then governs the consolidation of an entity. The standard sets out the accounting requirements for the preparation of consolidated financial statements, which are unchanged from those that are required by the current IAS 27, 'Consolidated and Separate Financial Statements'. However IAS 27 has been amended to conform with IFRS 10, and will only apply to separate financial statements when IFRS 10 is applied. The Group has not evaluated the full extent of the impact that the standard will have on its financial statements but given that most of the subsidiaries of the group are wholly owned, IFRS 10 is likely to have little impact on the Group.
- IFRS 11, 'Joint Arrangements', is effective for accounting periods beginning on or after 1 January 2013. The standard applies to all entities that are a party to a joint arrangement and will replace IAS 31, 'Interest in Joint Ventures'. The accounting treatment is dependent on the type of joint arrangement, which is determined by considering the rights and obligations of the investor. On application of IFRS 11, IAS 28 is amended and retitled to 'Investment in Associates and Joint Ventures'. The group does not currently have any joint arrangements that would fall within the scope of this standard therefore the introduction of the standard is unlikely to have a material impact on the organisation.
- IFRS 12, 'Disclosures of Interests in Other Entities' is effective for accounting periods beginning on or after 1 January 2013. The standard requires disclosure of information on the nature of, and risks associated with, interests in other entities; and the effects of those interests on the primary financial statements. The disclosures required relate to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is unlikely to have a material effect on the Group.
- IFRS 13, 'Fair Value Measurement', is effective for accounting periods beginning on or after 1 January 2013. The standard outlines a single framework for measuring fair value when required by other IFRSs and the disclosures required about fair value. The standard is unlikely to impact the fair value measurement of assets and liabilities that are recognised at fair value, however there will be greater disclosures given as all items measured at fair value will need to fall within the fair value hierarchy.
- IAS 1 (amendment), 'Presentation of Items of Other Comprehensive Income', is effective for accounting periods beginning on or after 1 July 2012. The amendment requires items of other comprehensive income to be split between those that have the potential to be recycled to profit or loss and those that do not. As the Group presents its other comprehensive items on a gross basis, the tax on those items will also need to be split between those that have the potential to be recycled to profit or loss and those that do not. The primary performance statement is retitled to the statement of profit or loss and other comprehensive income. The impact of the amendment will result in a change in the presentation for other comprehensive income but not the items reflected within.
- IAS 19 (revised), 'Employee Benefits' is effective for accounting periods beginning on or after 1 January 2013. The revised standard amends the recognition and presentation requirements for defined benefit schemes. Actuarial gains and losses can no longer be deferred in the statement of financial position, however this will have no impact on the Group as it does not apply the 'corridor approach', however the past service costs deferred will need to be recognised in full and will impact the Group, as will the change in the presentation of costs in the statement of comprehensive income. The revised standard also amends the accounting treatment for termination benefits. The Group is still considering the full impact the revised standard will have in accounting for its defined benefit scheme.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

- IAS 16 (amendment), 'Property, Plant and Equipment', is effective for accounting periods beginning on or after 1 January 2013. The amendment as part of the Annual Improvements 2012, clarifies that as long as servicing equipment meets the definition of property, plant and equipment, it should be classified as such in accordance with IAS 16, regardless of whether the equipment is used in connection with an item of property, plant and equipment. Given the value of inventory this amendment is unlikely to have a material effect on the Group.

Basis of preparation

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

a. 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.

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 direct 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 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.

b. Current and deferred Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

c. 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 2012 to be in line with the fair value of the properties.

Revaluations

Heritable properties were revalued on 1 January 2010 and 31 December 2011 by Graham and Sibbald. The fair values of the properties have been estimated using an active market.

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

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

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

Plant and equipment

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use. Improvements to non-heritable properties are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
Heritable property	50 years
Non-heritable property	50 years
Passenger vehicles	10 – 15 years
Other vehicles	4 years
Plant, machinery and other equipment	3 – 10 years

Derecognition and disposal

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

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

d. Leases

Activities as a Lessee

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

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

Activities as a Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

e. 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.

f. Inventories

Inventories, which includes vehicle spares and fuel, are stated at cost after making due allowance for obsolete and slow-moving items.

g. 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.

h. Revenue

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

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

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

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

The group receives a Bus Services Operating Grant (BSOG) on mileage operated on local registered bus services to reimburse an element of excise duty paid on the fuel used in operating such services.

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

i. 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.

j. 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.

k. Share capital

Ordinary shares are classified as equity.

l. Employee benefits

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

Most employees of Lothian Buses plc 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 Comprehensive Income as they arise. The assets of the scheme are held separately from those of the company in independently administered funds. The group has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

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 Tours Ltd participate in a Pension Fund, which is managed by Scottish Widows.

Both schemes are of the defined contribution type and contributions are charged to the statement of 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.

m. Critical accounting estimates and judgements

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

Key estimates – impairment

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. Statement of significant accounting policies (continued)

n. 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.

Recognition and measurement

Loans and receivables are subsequently carried at amortised cost.

o. Offsetting financial instruments

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

2. Profit for the year

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Profit for the year before income tax expense has been determined after:				
Auditor's remuneration:				
Audit services	24	27	21	24
Non-audit services	8	15	7	14
Depreciation and other amounts written off tangible fixed assets:				
Owned	6,536	5,620	6,280	5,384
Assets held under hp/finance leases	1,679	2,117	1,679	2,117
(Loss) on disposal of property, plant and equipment	(392)	(221)	(401)	(191)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3. Finance income

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Investment income	174	154	174	143
Pension income (note 22)	636	3,061	636	3,061
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	810	3,215	810	3,204
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. Finance costs

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Finance lease charges	380	519	380	519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	380	519	380	519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

5. Dividends

	2012	2011
	£'000	£'000
<i>Ordinary Share Capital</i>		
Interim: 51.51p per share declared; (2011 51.51p declared)	<u>3,296</u>	<u>3,296</u>
	<u>3,296</u>	<u>3,296</u>

The interim dividend for 2012 was approved on 10 December 2012 and was paid on 28 March 2013.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

6. Income tax expense

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Current tax:				
Corporation tax expense	2,290	1,138	1,897	514
Deferred tax	(807)	(229)	(773)	(190)
Tax on profits for the year	<u>1,483</u>	<u>909</u>	<u>1,124</u>	<u>324</u>

The effective tax rate for the year ended 31 December 2012 is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year.

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

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Profit for the year before taxation	<u>9,670</u>	<u>9,792</u>	<u>8,165</u>	<u>7,528</u>
Profit for the year at the effective rate of corporation tax of 24.5% (2011 – 26.5%)	2,369	2,594	2,000	1,995
Effects of:				
Expenses not deductible for tax purposes	79	35	79	35
Income not taxable for tax purposes	(297)	(1,040)	(297)	(1,034)
Income not taxable for tax purposes – fixed assets	35	-	35	-
Adjustment in respect of previous years	-	2	-	2
Adjust deferred tax to average rate of 24.5% (2011:26.49%)	(685)	(682)	(678)	(674)
Temporary differences not recognised in tax computation	(14)	-	(14)	-
Other tax adjustments, reliefs, transfers	(4)	-	(1)	-
Tax charge for the period	<u>1,483</u>	<u>909</u>	<u>1,124</u>	<u>324</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

7. Employee benefits expense

The average number of persons employed by the group (including directors) during the year was 2,019 (2011: 1,984).

The aggregate payroll costs of these persons were as follows:

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Wages and salaries	57,412	55,147	56,083	53,801
Social security costs	4,676	4,388	4,551	4,270
Other pension costs	7,626	8,072	7,610	8,056
	<u>69,714</u>	<u>67,607</u>	<u>68,244</u>	<u>66,127</u>

8. Property, plant and equipment

	Heritable Properties £'000	Non-Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group						
Cost or valuation						
At 1 January 2011	16,340	227	102,881	299	3,654	123,401
Additions	-	-	15,221	59	1,257	16,537
Disposals	-	(227)	(1,370)	(51)	(195)	(1,843)
Inter-co adjustment	-	-	(4,410)	(10)	(4)	(4,424)
At 31 December 2011	<u>16,340</u>	<u>-</u>	<u>112,322</u>	<u>297</u>	<u>4,712</u>	<u>133,671</u>
Accumulated depreciation						
At 1 January 2011	(120)	(150)	(37,956)	(227)	(1,990)	(40,443)
Charge for year	(120)	(14)	(6,924)	(51)	(628)	(7,737)
Eliminated on disposal	-	164	949	47	195	1,355
Inter-co adjustment	-	-	4,410	10	5	4,425
At 31 December 2011	<u>(240)</u>	<u>-</u>	<u>(39,521)</u>	<u>(221)</u>	<u>(2,418)</u>	<u>(42,400)</u>
Net book value						
At 31 December 2011	<u>16,100</u>	<u>-</u>	<u>72,801</u>	<u>76</u>	<u>2,294</u>	<u>91,271</u>
Net book value						
31 December 2010	<u>16,220</u>	<u>77</u>	<u>64,925</u>	<u>72</u>	<u>1,664</u>	<u>82,958</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2012	16,340	112,322	297	4,712	133,671
Additions	3,305	760	58	1,382	5,505
Disposals	-	(3,301)	(37)	(1,341)	(4,679)
At 31 December 2012	<u>19,645</u>	<u>109,781</u>	<u>318</u>	<u>4,753</u>	<u>134,497</u>
Accumulated depreciation					
At 1 January 2012	(240)	(39,521)	(221)	(2,418)	(42,400)
Charge for year	(120)	(7,388)	(65)	(642)	(8,215)
Eliminated on disposal	-	2,554	37	1,325	3,916
At 31 December 2012	<u>(360)</u>	<u>(44,355)</u>	<u>(249)</u>	<u>(1,735)</u>	<u>(46,699)</u>
Net book value At 31 December 2012	<u>19,285</u>	<u>65,426</u>	<u>69</u>	<u>3,018</u>	<u>87,798</u>
Net book value At 31 December 2011	<u>16,100</u>	<u>72,801</u>	<u>76</u>	<u>2,294</u>	<u>91,271</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Non- Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company						
Cost or valuation						
At 1 January 2011	16,340	227	96,382	290	3,648	116,887
Additions	-	-	15,221	59	1,257	16,537
Disposals	-	(227)	(1,521)	(51)	(195)	(1,994)
Inter-co adjustment	-	-	253	(1)	2	254
At 31 December 2011	16,340	-	110,335	297	4,712	131,684
Accumulated depreciation						
At 1 January 2011	(120)	(150)	(32,794)	(218)	(1,984)	(35,266)
Charge for year	(120)	(14)	(6,688)	(51)	(628)	(7,501)
Eliminated on disposal	-	164	1,095	47	195	1,501
Inter-co adjustment	-	-	(253)	1	(1)	(253)
At 31 December 2011	(240)	-	(38,640)	(221)	(2,418)	(41,519)
Net book value At 31 December 2011	16,100	-	71,695	76	2,294	90,165
Net book value At 31 December 2010	16,220	77	63,588	72	1,664	81,621

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

8. Property, plant and equipment (continued)

	Heritable Properties £'000	Passenger Vehicles £'000	Other Vehicles £'000	Plant & Equipment £'000	Total £'000
Company					
Cost or valuation					
At 1 January 2012	16,340	110,335	297	4,712	131,684
Additions	3,305	760	58	1,382	5,505
Disposals	-	(3,649)	(37)	(1,341)	(5,027)
At 31 December 2012	<u>19,645</u>	<u>107,446</u>	<u>318</u>	<u>4,753</u>	<u>132,162</u>
Accumulated depreciation					
At 1 January 2012	(240)	(38,640)	(221)	(2,418)	(41,519)
Charge for year	(120)	(7,132)	(65)	(642)	(7,959)
Eliminated on disposal	-	2,849	37	1,325	4,211
At 31 December 2012	<u>(360)</u>	<u>(42,923)</u>	<u>(249)</u>	<u>(1,735)</u>	<u>(45,267)</u>
Net book value					
At 31 December 2012	<u>19,285</u>	<u>64,523</u>	<u>69</u>	<u>3,018</u>	<u>86,895</u>
Net book value					
At 31 December 2011	<u>16,100</u>	<u>71,695</u>	<u>76</u>	<u>2,294</u>	<u>90,165</u>

The net book value of tangible assets includes an amount of £21,120,000 (2011: £27,671,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £1,679,000 (2011: £2,117,000) has been charged during the year in respect of these assets.

The net book value of the revalued assets, had they not been revalued and remained to be carried under the cost model, would be £15,537,000 at the year end. The group's heritable properties were last valued on 31 December 2011 by an independent valuer, Graham and Sibbald Chartered Surveyors. Valuations were made on the basis of recent market transactions on an arms length basis. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'revaluation reserve' in shareholder's equity.

9. Inventories

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Raw materials (fuel)	219	432	219	432
Finished goods	294	241	294	241
	<u>513</u>	<u>673</u>	<u>513</u>	<u>673</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

10. Trade and other receivables

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade receivables	1,610	543	1,610	543
Other debtors	115	72	115	72
Prepayments and accrued income	847	756	828	729
VAT recoverable	1,093	622	1,093	622
	<u>3,665</u>	<u>1,993</u>	<u>3,646</u>	<u>1,966</u>

Trade receivables aged as:

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Less than three months	1,610	543	1,610	543
Three to six months	-	-	-	-
	<u>1,610</u>	<u>543</u>	<u>1,610</u>	<u>543</u>

The group and company consider the fair value of receivables to be in line with carrying values.

11. Current liabilities

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade and other payables	4,198	2,388	4,130	2,348
Amounts due to subsidiary companies	-	-	4,874	3,216
Other creditors	3,604	3,644	3,561	3,598
Current tax payable	1,320	525	1,122	219
Taxation and social security	1,919	1,838	1,882	1,799
Obligations under hp/finance leases	3,969	5,229	3,969	5,229
Accruals and deferred income	5,027	3,899	5,022	3,895
Dividends	3,296	3,296	3,296	3,296
	<u>23,333</u>	<u>20,819</u>	<u>27,856</u>	<u>23,600</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

12. Obligations under hp/finance leases

Gross finance lease liabilities – minimum lease payments:	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
No later than one year	3,969	5,229	3,969	5,229
Later than one year but no later than five years	5,187	3,969	5,187	3,969
Later than five years	-	5,187	-	5,187
	<u>9,156</u>	<u>14,385</u>	<u>9,156</u>	<u>14,385</u>
Analysed as:	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current	3,969	5,229	3,969	5,229
Non-current	<u>5,187</u>	<u>9,156</u>	<u>5,187</u>	<u>9,156</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

13. Provisions

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<i>Deferred tax liabilities</i>				
At beginning of the year	8,643	8,872	8,545	8,735
Charge for the year to comprehensive income	(807)	(229)	(773)	(190)
At end of the year	<u>7,836</u>	<u>8,643</u>	<u>7,772</u>	<u>8,545</u>
<i>Claims</i>				
At beginning of the year	1,905	1,911	1,820	1,824
Charge for the year	650	650	625	638
Paid during the year	(957)	(656)	(882)	(642)
At end of the year	<u>1,598</u>	<u>1,905</u>	<u>1,563</u>	<u>1,820</u>

There were no deferred tax assets in the year.

The elements of deferred tax are as follows:

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Movement in the year	(115)	458	(89)	486
Effect of increased/decreased tax rate on opening balance	(692)	(660)	(684)	(649)
Effect of increased/decreased tax rate on closing balance	-	(27)	-	(27)
	<u>(807)</u>	<u>(229)</u>	<u>(773)</u>	<u>(190)</u>
Included in the accounts as follows:				
- Provision for liabilities and charges	(807)	(229)	(773)	(190)
	<u>(807)</u>	<u>(229)</u>	<u>(773)</u>	<u>(190)</u>

Claims

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

14. Accruals and deferred income

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Accrued expenses	980	1,408	975	1,404
Income received in advance	4,047	2,491	4,047	2,491
	<u>5,027</u>	<u>3,899</u>	<u>5,022</u>	<u>3,895</u>

15. Cash and cash equivalents

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	<u>11,934</u>	<u>8,859</u>	<u>11,105</u>	<u>7,561</u>

16. Share capital

	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Authorised				
Ordinary shares of £1 each	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>
	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>
Allotted, called up and fully paid				
Ordinary shares of £1 each	<u>6,399</u>	<u>6,399</u>	<u>6,399</u>	<u>6,399</u>
	<u>6,399</u>	<u>6,399</u>	<u>6,399</u>	<u>6,399</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

17. Reserves

Group	Revaluation Reserve £'000	Retained Earnings £'000
At 1 January 2011	6,897	38,281
Depreciation transfer	(140)	140
Profit for the year	-	8,883
Actuarial gain on pension plan	-	12,182
Dividends	-	(3,296)
At 31 December 2011	6,757	56,190
Depreciation transfer	(140)	140
Profit for the year	-	8,187
Actuarial loss on pension plan	-	(20,157)
Dividends	-	(3,296)
At 31 December 2012	6,617	41,064

18. Commitments

Commitments under non-cancellable operating leases are as follows.

	2012 Group	Company
	Land and Buildings £'000	Land and Buildings £'000
Operating leases which expire:		
- Not later than one year	292	292
- Later than one year and not later than five years	949	949
- Later than five years	507	507
	1,748	1,748

Total operating lease payments in the year to 31 December 2012 recognised through the Statement of Comprehensive Income and Expenditure were £317,015 (2011: £275,959).

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19. Principal subsidiaries

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Edinburgh Bus and Coach Ltd	UK	Transport	100%
Lothian Region Transport Ltd	UK	Transport	100%
Majestic Tours Edinburgh Ltd	UK	Transport	100%
Edinburgh City Transport Ltd	UK	Transport	100%
City Sightseeing Edinburgh Ltd	UK	Transport	100%
The Overground Ltd	UK	Transport	100%
Edinburgh Shuttle Ltd	UK	Transport	100%
Edinburgh Tours Ltd	UK	Transport	100%
Leith Walk Property Ltd	UK	Transport	100%
Mactours Ltd	UK	Transport	100%
Lothian Trams Ltd	UK	Transport	100%
Lothian Transport Ltd	UK	Transport	100%
Trams for Edinburgh Ltd	UK	Transport	100%
Edinburgh Buses Ltd	UK	Transport	100%
Edinburgh Bus and Tram Ltd	UK	Transport	100%

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

20. Related party transactions

Group

The group is controlled by the City of Edinburgh Council (incorporated in the UK), which's owns 91.01% of the company's shares and it is also the ultimate parent. The following transactions were carried out with related parties:

(a) Sale of goods and services

	2012 £'000	2011 £'000
Route support:		
City of Edinburgh Council (ultimate parent)	2,131	941
Midlothian Council	101	105
East Lothian Council	101	39
Tie Limited (subsidiary of City of Edinburgh Council)	-	240
	2,333	1,325

(b) Purchase of goods and services

	2012 £'000	2011 £'000
Maintenance services:		
City of Edinburgh Council (ultimate parent)	1,331	1,420
Midlothian Council	6	6
	1,337	1,426

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

20. Related party transactions (continued)

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

	2012	2011
	£'000	£'000
Receivables from related parties		
- City of Edinburgh Council (ultimate parent)	461	58
- Midlothian Council	10	2
- East Lothian Council	10	-
Payables to related parties		
- City of Edinburgh Council (ultimate parent)	81	17

(d) Director's remuneration

	Consolidated Group		Parent Entity	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Aggregate emoluments and benefits	925	855	925	855
Aggregate pension contributions	123	115	123	115
Highest paid director's emoluments and benefits	265	211	265	211
Highest paid director's pension contributions	36	31	36	31

Four directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £17,258 (2011: £12,648) and an accrued lump sum of £17,993 (2011: £15,962) at the end of the year.

21. Controlling interest

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

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

22. Retirement benefits obligation

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

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2012 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

The group's share of the fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long Term Rate of Return 2012	Value at 2012 £'000	Long Term Rate of Return 2011	Value at 2011 £'000
Equities	4.5%	231,129	6.0%	185,533
Bonds	4.5%	19,731	3.1%	40,665
Property	4.5%	22,549	4.2%	22,874
Cash	4.5%	8,456	3.2%	5,083
		281,865		254,155

The amounts recognised in the balance sheet are determined as follows:

Fair value of employer assets	281,865	254,155
Present value of scheme liabilities	(293,741)	(247,082)
(Deficit)/asset in the scheme – pension liability	(11,876)	7,073
Net pension (liability)/asset	(11,876)	7,073

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

	2012 £'000	2011 £'000
At 1 January	247,082	260,079
Current service cost	7,188	7,469
Interest on obligation	12,840	14,064
Contributions paid	2,277	2,367
Unfunded benefits paid	(280)	(283)
Benefits paid	(9,496)	(8,797)
Actuarial losses/(gains)	34,130	(27,817)
At 31 December	293,741	247,082

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

22. Retirement benefits obligation (continued)

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

	2012 £'000	2011 £'000
At 1 January	254,155	251,080
Benefits paid	(9,496)	(8,797)
Expected return on plan assets	13,476	17,125
Contributions by employer	7,480	8,015
Contributions by member	2,277	2,367
Contributions in respect of unfunded benefits	280	283
Unfunded benefits paid	(280)	(283)
Actuarial gains/(losses)	13,973	(15,635)
At 31 December	281,865	254,155

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2012 £'000	2011 £'000
Expected return on pension scheme assets	(13,476)	(17,125)
Interest on pension scheme liabilities	12,840	14,064
Finance income	(636)	(3,061)
Current service cost	7,188	7,469
	6,552	4,408

Amounts recognised in other comprehensive income:

	2012 £'000	2011 £'000
Actuarial (losses) /gains in the defined benefit obligation	(34,130)	27,817
Actuarial gains / (losses) in the fair value of defined benefit assets	13,973	(15,635)
	(20,157)	12,182
Cumulative actuarial (loss) / gain recognised in the Statement of Comprehensive Income	(6,794)	13,363

The actual return on plan assets was £27,494,000 (2011: (£553,000)).

The principal actuarial assumptions used in this valuation were:

	2012	2011
Inflation/pension increase rate	2.3%	2.3%
Salary increase rate	4.1%	4.6%
Expected return on assets	4.5%	5.3%
Discount rate	4.5%	5.2%

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.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

22. Retirement benefits obligation (continued)

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

Change in assumption	Approximate % increase to employer liability	Approximate increase to employer liability (£'000)
0.5% decrease in real discount rate	10%	£30,125
1 year increase in life expectancy	3%	£8,812
0.5% increase in the salary increase rate	3%	£8,398
0.5% increase in the pension increase rate	7%	£21,509

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	18.4	21.6
Future pensioners	21.7	24.8

Amounts for the current and previous four periods:

	31 Dec 2012 £'000	31 Dec 2011 £'000	31 Dec 2010 £'000	31 Dec 2009 £'000	31 Dec 2008 £'000
Present value of defined obligation	(293,741)	(247,082)	(260,079)	(251,685)	(181,844)
Fair value of plan assets	281,865	254,155	251,080	212,379	175,457
(Deficit)/surplus	<u>(11,876)</u>	<u>7,073</u>	<u>(8,999)</u>	<u>(39,306)</u>	<u>(6,387)</u>
Experience gains/(losses) on plan assets	13,973	(15,635)	21,480	23,282	(51,419)
Experience (losses)/gains on plan liabilities	(4,247)	2,203	318	(167)	10,302
History of actuarial gains/ (losses)	31 Dec 2012 £'000	31 Dec 2011 £'000	31 Dec 2010 £'000	31 Dec 2009 £'000	31 Dec 2008 £'000
Actuarial gains / (losses) on employer assets	13,973	(15,635)	21,480	23,282	(51,419)
Actuarial (losses) / gains on obligation	<u>(34,130)</u>	<u>27,817</u>	<u>(9,129)</u>	<u>(56,373)</u>	<u>41,225</u>
Actuarial (losses) / gains recognised in other comprehensive income	<u>(20,157)</u>	<u>12,182</u>	<u>12,351</u>	<u>(33,091)</u>	<u>(10,194)</u>

Expected contributions to post employment benefit plans for the year ended 31 December 2013 are £6,768,000.

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

23. Operating leases

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

Gross operating lease receipts:	Consolidated Group		Parent Entity	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Minimum lease receipts under non-cancellable operating leases due:				
No later than one year	70	-	70	-
Later than one year but no later than five years	280	-	280	-
Later than five years	558	-	558	-
	<u>1,748</u>	<u>-</u>	<u>1,748</u>	<u>-</u>

The total annual operating lease income received in the year ended 31 December 2012 was £41,000 (2011: £nil)

24. Financial risk management

The group's financial instruments consist mainly of deposits with banks, government bonds, short term investments, accounts receivable and payable, loans to and from associated entities and derivatives.

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

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

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

	Note	Consolidated Group		Parent Entity	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Financial assets					
Cash and cash equivalents	15	11,934	8,859	11,105	7,561
Trade and other receivables	10	3,665	1,993	3,646	1,966
Total financial assets		<u>15,599</u>	<u>10,852</u>	<u>14,751</u>	<u>9,527</u>
Financial liabilities					
Financial liabilities at amortised cost:					
Trade and other payables	11,12	28,675	29,975	33,043	32,756
Total financial liabilities		<u>28,675</u>	<u>29,975</u>	<u>33,043</u>	<u>32,756</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

24. Financial risk management (continued)

Financial risk management

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

Treasury risk management

Senior management meet on a regular basis to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Financial risk exposures and management

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

a. Credit risk

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

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

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

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

The credit risk for all counter parties included in trade and other receivables at 31 December 2012 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.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2012

b. Liquidity risk (continued)

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.

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year	1 to 5 Years	Total
	2012	2012	2012
	£'000	£'000	£'000
Financial liabilities due for payment			
Trade and other payables	(23,488)	(5,187)	(28,675)
Total expected outflows	(23,488)	(5,187)	(28,675)
Financial assets — cash flows realisable			
Cash and cash equivalents	11,934	-	11,934
Trade, term and loan receivables	3,665	-	3,665
Total anticipated inflows	15,599	-	15,599
Net (outflow) of financial instruments	(7,889)	(5,187)	(13,076)

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year	1 to 5 Years	Total
	2011	2011	2011
	£'000	£'000	£'000
Financial liabilities due for payment			
Trade and other payables	(20,819)	(9,156)	(29,975)
Total expected outflows	(20,819)	(9,156)	(29,975)
Financial assets — cash flows realisable			
Cash and cash equivalents	8,859	-	8,859
Trade, term and loan receivables	1,993	-	1,993
Total anticipated inflows	10,852	-	10,852
Net (outflow) of financial instruments	(9,967)	(9,156)	(19,123)

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

Parent Entity	Within 1 Year 2012 £'000	1 to 5 Years 2012 £'000	Over 5 Years 2012 £'000	Total 2012 £'000
Financial liabilities due for payment				
Trade and other payables	(27,856)	(5,187)	-	(33,043)
Total expected outflows	<u>(27,856)</u>	<u>(5,187)</u>	<u>-</u>	<u>(33,043)</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	11,105	-	-	11,105
Trade, term and loan receivables	3,646	-	-	3,646
Total anticipated inflows	<u>14,751</u>	<u>-</u>	<u>-</u>	<u>14,751</u>
Net (outflow) of financial instruments	<u>(13,105)</u>	<u>(5,187)</u>	<u>-</u>	<u>(18,292)</u>

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

Parent Entity	Within 1 Year 2011 £'000	1 to 5 Years 2011 £'000	Over 5 Years 2011 £'000	Total 2011 £'000
Financial liabilities due for payment				
Trade and other payables	(23,600)	(3,969)	(5,187)	(32,756)
Total expected outflows	<u>(23,600)</u>	<u>(3,969)</u>	<u>(5,187)</u>	<u>(32,756)</u>
Financial assets — cash flows realisable				
Cash and cash equivalents	7,561	-	-	7,561
Trade, term and loan receivables	1,966	-	-	1,966
Total anticipated inflows	<u>9,527</u>	<u>-</u>	<u>-</u>	<u>9,527</u>
Net (outflow) of financial instruments	<u>(14,073)</u>	<u>(3,969)</u>	<u>(5,187)</u>	<u>(23,229)</u>

c. Market risk

- Price risk

The group is exposed to commodity price risk. The group's operations as at 31 December 2012 consume approximately 21.7m litres of diesel fuel per annum. As a result, the group's profit is exposed to movements in the underlying price of fuel.

The group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The group has a policy of managing the volatility in its fuel costs by maintaining an advance contracting strategy to fix the cost of fuel through a fixed price contract. These contracts are commodity swap agreements.

At the settlement date of the contract, where the price of fuel is below the agreed contract price, the group are liable for the difference in price for the volume of the commodity agreed in the contract. Where the value of the commodity is above the price agreed, the group have a financial asset based on the difference in price over the volume of the contract. The swap agreements carrying value is exposed to the movement in the underlying price of fuel. Consequently, the group's profit is exposed as movements in the contract value are taken through the Statement of Comprehensive Income. A 4.29%

LOTHIAN BUSES PLC

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

c. Market risk (continued)

increase in the underlying price of fuel decreases the net overall value of the fixed contracts by 99%. Likewise, if the price of fuel was to fall below the underlying price of the contracts then this would result in an overall net liability.

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