

**LOTHIAN BUSES plc**  
**CONSOLIDATED REPORTS AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

	PAGE
Company Information	3
Report of the Directors	4
Independent Auditors' Report to the Shareholders	8
Profit and Loss Account	10
Statement of Total Recognised Gains and Losses	11
Balance Sheet	12
Cash Flow Statement	13
Accounting Policies	14
Notes to the Accounts	16

**LOTHIAN BUSES plc**  
**COMPANY INFORMATION**

**Board of Directors:**

*Chairman*

Ronald Hewitt	Appointed 23 November 2010
David Mackay	Appointed 1 January 2010
	Resigned 3 November 2010

*Executive Directors*

William Campbell	
Iain Coupar	Resigned 31 December 2010
Ian Craig	
William Devlin	
Norman Strachan	

*Non-Executive Directors*

Ann Faulds	
Jane Gray	
Irene Kitson	Resigned 15 June 2010
Donald Macleod	
John Martin	Appointed 23 November 2010
Ian Mckay	Appointed 23 November 2010
Marjory Rodger	Appointed 1 January 2010
Alison Ross	Resigned 15 June 2010

**Company Registration:**

Registered Office	Annandale Street Edinburgh EH7 4AZ
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Registration Number	96849 in Scotland
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Secretary	Norman Strachan
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**Bankers:**

The Royal Bank of Scotland plc  
Barclays Bank PLC

**Auditors:**

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

**LOTHIAN BUSES plc**  
**REPORT OF THE DIRECTORS**

**The directors present their report and accounts for the year ended 31 December 2010**

**Principal Activities**

The principal activity of the group during the year under review was the operation of buses and open top tours in Edinburgh and the Lothians. 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 satisfactory.

As shown in the profit and loss account on page 10, turnover has increased by 0.4% over the previous year while the operating profit margin for the year is 26.7%. This figure is heavily distorted by an FRS17 inflation valuation assumption change from RPI to CPI which resulted in a credit to past service costs of £17.1m. The operating profit margin (excluding the FRS17 credit) is 11.6%. The balance sheet on page 12 shows the group's financial strength at the year end with net assets of £48.3. The balance sheet has also been significantly impacted by the FRS17 pension valuation which is detailed in note 23 on page 24.

Capital expenditure in the year was £4.1m with the main item being the addition of 19 new public service vehicles. (Refer to note 8 on page 18.)

The group has faced significant operating and cost pressures, particularly fuel price. We anticipate that these cost pressures will remain in 2011 and we will remain proactive in seeking to mitigate the impact of these costs.

**Results and Dividends**

The results and dividends are summarised below. An interim dividend of 34.34p per share was approved on 14 December 2010 and was paid on 31 March 2011.

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Turnover from operations	112,642	112,158
Profit before taxation	30,050	8,494
Provision for taxation	(3,760)	(2,753)
Profit after taxation	26,290	5,741
Second interim dividend	-	2,198
Interim dividend	2,197	2,197

**LOTHIAN BUSES plc**  
**REPORT OF THE DIRECTORS**

The key performance indicators for the group are:-

	<b>2010</b>	<b>2009</b>	<b>Change</b>
Passenger journeys	109m	107m	+1.9%
Service reliability – lost mileage	0.15%	0.14%	+0.01%
Staff turnover	3.8%	5.1%	-1.3%
Vehicle fleet	681	694	-1.9%
Engineering MOT 1 <sup>st</sup> time pass rate	99.4%	99.8%	-0.4%

### **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 services, which provide value for money.

### **Directors**

The directors are as set out on Page 3. Three directors, under the terms of the Articles of Association, are due to retire at the Company's Annual General Meeting – Mr William Devlin, Mr Ronald Hewitt and Ms Jane Gray. 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 21 on page 23 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.

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.

**LOTHIAN BUSES plc**  
**REPORT OF THE DIRECTORS**

**Political and Charitable Contributions**

During the year, the group made no political contributions and donated £12,100 to local charitable organisations.

**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, 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 use 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 developed a comprehensive Corporate Social Responsibility strategy which involves both community engagement activities and environmental performance improvements.

Over the last twelve months the company has supplemented investment in new fleet with a programme of retro-fitting SCRT exhaust systems to older buses to reduce air pollution in key sensitive areas of the city. One route has now been completely converted to SCRT operation which has led to real time savings of air pollutants such as PM10 particulates by 32.7Kg/year; hydrocarbons by 185Kg/year; carbon monoxide by 681.5Kg/year, and NOx emissions by 1.7Tonnes/year on this route.

As part of improving the environmental performance of the business more widely the company has instigated a full recycling policy where all waste coming from company activities (excluding food waste) is sent for sorting into recycle streams. The company is now saving up to 550 tonnes of landfill waste from this initiative.

The company is also a partner in the Climate Challenge Fund funded project 'A Better Way To Work' in which employees of SME's are targeted to change their travel to work behaviour. Through this project, which includes the secondment of a Lothian Buses staff member to the project team at The Bike Station, employees are pointed towards either walking, cycling or bus travel – the latter through the provision of free day tickets. Internally the company has been able to take advantage of the promotion of cycling and walking for our drivers, engineers and administrators. Through the running of 3 'Dr Bike' sessions, staff have been able to try a range of bicycles, hire bikes, have bikes serviced and receive walking guidance and maps. The net result of this, together with improvements to cycle facilities at our depots, has been an increase in our cycle to work percentage from 6% to 8%.

The corporate social responsibility programme has been developed with a strong emphasis on involvement with local community schools. The most high profile success of this work so far was through a collaborative project with Liberton High School in which pupils designed a piece of work for our buses which was unveiled by HRH Prince Charles at the launch of his Project Start initiative in Edinburgh.

Our involvement with local schools also includes a key steering role in the Business Advisory Groups at Liberton, Craigroyston and Craigmount High Schools out of which the school and Lothian Buses jointly work on sections of the Curriculum for Excellence to develop pupils and give them opportunities for study in an out of school environment.

This work, along with a selection of other changes to business practices to support sustainability goals in less significant ways has led to Lothian Buses being a Green Business Partnership 'Two-ticks' accredited supplier, a Princes May Day Network company, being Highly Commended in the European Employee Volunteering Awards and its Environmental Manager being listed on the 2010 Scottish Green List. Finally, the company is a sponsor of a Young Scottish Green List award in 2011.

## LOTHIAN BUSES plc

### REPORT OF THE DIRECTORS

#### 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 (2009: 29 days).

#### 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law). 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 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 UK Accounting Standards 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 group will continue in business.

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

#### Directors' Responsibilities to the Auditors

To the knowledge and belief of each of the persons who are directors at the time this report is approved:

- a) so far as the director is aware, there is no relevant information of which the group's auditor is unaware; and
- b) he/she has taken all the steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information, and to establish that the group's auditor is aware of the information.

#### Auditors

A resolution to re-appoint the auditors, Scott-Moncrieff, will be proposed at the annual general meeting.

By order of the Board  
5 April 2011

*N Strachan*  
Norman Strachan  
Finance Director and  
Company Secretary

## **LOTHIAN BUSES plc**

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the financial statements of Lothian Buses plc for the year ended 31 December 2010 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members as a body, in accordance with Sections 495 – 496 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 auditors' 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 Auditors**

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 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 Boards (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 accounting policies are appropriate to the 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.

#### **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 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 AUDITORS' REPORT TO THE SHAREHOLDERS**

**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  
Semple Street  
Edinburgh  
EH3 8BL

6 April 2011

**LOTHIAN BUSES plc**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

<b>CONTINUING OPERATIONS</b>	<b>Note</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Turnover	1	112,642	112,158
Operating costs (includes savings of £17.1m relating to the reduction of FRS17 past service costs - 2009: (£1.9m))	2	(82,511)	(102,865)
<b>OPERATING PROFIT</b>		<u>30,131</u>	<u>9,293</u>
Gain on disposal of fixed assets		68	209
		<u>30,199</u>	<u>9,502</u>
Interest receivable		99	79
Other finance income	23	543	-
Interest payable	3	(791)	(1,087)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>30,050</u>	<u>8,494</u>
Tax on profit on ordinary activities	4	(3,760)	(2,753)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	6	<u><u>26,290</u></u>	<u><u>5,741</u></u>

LOTHIAN BUSES plc

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
Profit for the financial year		26,290	5,741
Actuarial gain/(loss) on net pension liability	23	12,351	(33,091)
<b>TOTAL RECOGNISED GAIN/(LOSS) FOR THE YEAR</b>		<b>38,641</b>	<b>(27,350)</b>

**LOTHIAN BUSES plc**

**BALANCE SHEET – 31 DECEMBER 2010  
(COMPANY NUMBER SC96849)**

	Note	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
<b>FIXED ASSETS</b>					
Investment in subsidiary	7	-	-	-	-
Tangible assets					
- passenger vehicles	8	64,925	63,588	68,032	66,719
- other	8	14,751	14,751	15,544	15,544
		<hr/>	<hr/>	<hr/>	<hr/>
		79,676	78,339	83,576	82,263
<b>CURRENT ASSETS</b>					
Stock		685	685	675	675
Debtors	9	2,755	2,732	2,834	6,310
Cash and short term deposits		11,547	9,420	6,626	5,425
		<hr/>	<hr/>	<hr/>	<hr/>
		14,987	12,837	10,135	12,410
<b>CURRENT LIABILITIES</b>					
<b>CREDITORS:</b>					
Amounts falling due within one year	10	(21,468)	(21,555)	(22,156)	(25,197)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(6,481)	(8,718)	(12,021)	(12,787)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		73,195	69,621	71,555	69,476
<b>CREDITORS:</b>					
Amounts falling due after more than one year	11	(5,118)	(5,118)	(10,291)	(10,291)
<b>PROVISIONS FOR LIABILITIES</b>	12	(10,783)	(10,559)	(10,107)	(9,841)
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<hr/>	<hr/>	<hr/>	<hr/>
		57,294	53,944	51,157	49,344
<b>PENSION (LIABILITY)</b>	23	(8,999)	(8,999)	(39,306)	(39,306)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<hr/>	<hr/>	<hr/>	<hr/>
		48,295	44,945	11,851	10,038
<b>CAPITAL AND RESERVES</b>					
<b>CALLED UP SHARE CAPITAL</b>	13	6,399	6,399	6,399	6,399
<b>RESERVES</b>					
Profit and loss reserve including pension reserve		50,895	47,545	44,758	42,945
Pension reserve		(8,999)	(8,999)	(39,306)	(39,306)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit and Loss Reserve	6	41,896	38,546	5,452	3,639
<b>EQUITY SHAREHOLDERS' FUNDS</b>	14	<hr/>	<hr/>	<hr/>	<hr/>
		48,295	44,945	11,851	10,038

*I Craig*  
Ian Craig  
Managing Director

The financial statements were authorised for issue by the Board on 5 April 2011 and signed on its behalf by:

**LOTHIAN BUSES plc**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	£'000	2010 £'000	£'000	2009 £'000
<b>Net cash inflow from operating activities</b>	15		19,987		18,232
<b>Return on investments and servicing of finance</b>					
Interest received		69		82	
Interest paid on hire purchase contracts/finance leases		(792)		(1,089)	
			(723)		(1,007)
<b>Taxation</b>					
UK corporation tax paid			(2,479)		145
<b>Capital Expenditure</b>					
Tangible fixed assets – payments		(4,079)		(7,883)	
Tangible fixed assets – receipts		166		2,393	
			(3,913)		(5,490)
<b>Equity dividends paid</b>			(2,197)		(2,198)
<b>Cash inflow before use of liquid resources and finance</b>			10,675		9,682
<b>Management of liquid resources</b>					
Net decrease/(increase) in term deposits			1,000		(519)
<b>Financing</b>					
Capital element of hire purchase/finance lease payments			(5,754)		(5,337)
<b>Increase in cash in the year</b>			5,921		3,826
<b>Reconciliation of net cash flow to movement in net funds</b>					
Net funds at beginning of year			(9,419)		(15,529)
Increase in cash in the year			5,921		3,826
Cash (from)/to liquid resources			(1,000)		519
Capital element of hire purchase/finance lease payments			5,754		5,337
New hire purchase/finance lease obligations			-		(3,572)
<b>Net funds at end of year</b>	16		1,256		(9,419)

## LOTHIAN BUSES plc

### ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

#### ACCOUNTING CONVENTION AND BASIS OF CONSOLIDATION

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value and in accordance with applicable accounting standards in the United Kingdom.

The group financial statements consolidate the financial statements of Lothian Buses plc and its one trading subsidiary for the year ended 31 December 2010.

Transactions and balances between Lothian Buses plc and the subsidiary have been eliminated; no profit is taken on sales between the companies.

No Profit and Loss Account is presented for Lothian Buses plc as permitted by Section 408 of the Companies Act 2006.

A summary of the principal accounting policies, which have been applied consistently throughout the year, is set out below.

#### FIXED ASSETS

##### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

##### Depreciation

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

Heritable property	50 years
Passenger vehicles	10-15 years
Other vehicles	4 years
Plant and equipment	3-10 years
Computers	3 years

##### Fixed assets held under hire purchase contracts and 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 hire purchase contracts/finance leases. Depreciation on such assets is charged to the profit and loss account on the bases stated above. Hire purchase/finance lease payments consist of capital repayments and finance charges, which are charged to the profit and loss account using the annuity method.

#### LIQUID RESOURCES

Current asset investments include cash balances and short term deposits which are placed on deposit for periods ranging from overnight to twelve months.

#### BUS SERVICE OPERATORS GRANT (BSOG)

The Group receive BSOG on mileage operated on local registered bus services to reimburse an element of the excise duty paid on the fuel used in operating such services.

## LOTHIAN BUSES plc

### ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2010

#### **OPERATING LEASE**

Rental payments for operating leases are charged to the profit and loss account on a payable basis over the term of the lease.

#### **STOCK**

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

#### **DEFERRED TAXATION**

Deferred taxation is provided in respect of all timing differences that have originated, but not reversed by the balance sheet date, where there is an obligation to pay more tax in the future as a result of the reversal of those timing differences. Deferred taxation is not provided on permanent differences.

#### **EMPLOYEE PENSIONS**

##### **Defined benefit scheme**

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.

In accordance with "FRS 17 – Retirement Benefits", the operating and financing costs of pension and post retirement schemes (determined by a qualified actuary) are recognised separately in the profit and loss account. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise.

The differences between actual and expected returns on assets during the year, including changes in actuarial assumptions are recognised in the total statement of recognised gains and losses.

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. The charge made to the profit and loss account for contributions payable relating to the accounting period were £47,677 with an amount of £6,065 outstanding at the year end.

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**1. TURNOVER**

The group's turnover derives wholly from the provision of transport services in the United Kingdom.

**2. OPERATING COSTS**

**2010**                      **2009**  
**£'000**                      **£'000**

Operating costs equate to cost of sales and include:

Depreciation (Note 8)	7,881	8,312
Auditors' remuneration – audit services	25	25
Auditors' remuneration – tax services	4	4
Auditors' remuneration – other service	8	10
Other administration expenses	1,860	1,744
Operating lease charges – land and buildings	256	255
FRS17 past service costs	<u>(17,063)</u>	<u>1,897</u>

The FRS17 past service cost reduction is a one-off saving due to the announcement in the Chancellor's budget statement advising that future pension increases will be based upon CPI rather than, as previously, RPI.

**3. INTEREST PAYABLE**

Hire purchase/finance lease charges	<u>791</u>	<u>1,087</u>
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**4. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**(a) Analysis of charge in the year:**

*Current tax:*

UK corporation tax on profits of the year	3,169	1,735
Adjustments in respect of prior years	(261)	398
	<u>2,908</u>	<u>2,133</u>

*Deferred tax:*

Movement in deferred tax liability	1,148	603
Adjustments in respect of prior years	-	17
Effect of increased/decreased tax rate on opening balance	(296)	-
	<u>852</u>	<u>620</u>

<i>Tax on profit on ordinary activities</i>	<u>3,760</u>	<u>2,753</u>
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**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**(b) Factors affecting tax charge for year:**

The tax assessed for the year is lower than the standard rate of corporation tax of 28%.  
The differences are explained below:

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before tax	30,050	8,494
Profit on ordinary activities at standard rate of tax 28% (2009:28%)	8,414	2,378
<i>Effects of:</i>		
Expenses not deductible for tax purposes	27	269
Income not taxable for tax purposes	(5,028)	(48)
Income not taxable for tax purposes – fixed assets	-	(261)
Capital allowances in excess of depreciation	(288)	(499)
Adjustment to the tax charge in respect of previous years	(261)	398
Utilisation of tax losses and other deductions	-	(3)
Other short term timing differences	41	(101)
Unrelieved tax losses and other deductions arising in the year	3	-
	2,908	2,133
<i>Current tax charge for year (Note 4a)</i>	2,908	2,133

**5. DIVIDENDS**

*Ordinary Share Capital*

Second interim 2008: 34.34p per share paid	-	2,198
Interim: 34.34p per share declared; (2009: 34.34p declared)	2,197	2,197
	2,197	4,395
	2,197	4,395

The interim dividend for 2010 was approved on 14 December 2010 and was paid on 31 March 2011.

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2010	5,452	3,639	37,197	33,518
Profit for the year	26,290	24,753	5,741	7,607
Dividends paid	-	-	(2,198)	(2,198)
Dividends proposed	(2,197)	(2,197)	(2,197)	(2,197)
Profit and loss account carried forward	29,545	26,195	38,543	36,730
Actuarial gain/(loss) on pension fund (Note 23)	12,351	12,351	(33,091)	(33,091)
At 31 December 2010	41,896	38,546	5,452	3,639
	41,896	38,546	5,452	3,639

**7. INVESTMENT IN SUBSIDIARIES**

	<b>£</b>	<b>£</b>
At 1 January 2010 and 31 December 2010	2	2
	2	2

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**8. TANGIBLE ASSETS**

<b>GROUP</b>	<b>Heritable Property £'000</b>	<b>Passenger Vehicles £'000</b>	<b>Other Vehicles £'000</b>	<b>Plant &amp; Equipment £'000</b>	<b>Total £'000</b>
<b>COST</b>					
At 1 January 2010	17,357	100,977	242	5,205	123,781
Additions	-	3,553	64	462	4,079
Disposals	-	(1,649)	(7)	(2,013)	(3,669)
At 31 December 2010	17,357	102,881	299	3,654	124,191
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2010	(3,976)	(32,945)	(197)	(3,087)	(40,205)
Charge for year	(366)	(6,562)	(37)	(916)	(7,881)
Disposals	-	1,551	7	2,013	3,571
At 31 December 2010	(4,342)	(37,956)	(227)	(1,990)	(44,515)
<b>NET BOOK VALUE</b>					
At 31 December 2010	13,015	64,925	72	1,664	79,676
At 31 December 2009	13,381	68,032	45	2,118	83,576
<b>TANGIBLE ASSETS</b>					
<b>COMPANY</b>	<b>Heritable Property £'000</b>	<b>Passenger Vehicles £'000</b>	<b>Other Vehicles £'000</b>	<b>Plant &amp; Equipment £'000</b>	<b>Total £'000</b>
<b>COST</b>					
At 1 January 2010	17,357	96,631	233	5,199	119,420
Additions	-	4,078	64	462	4,604
Disposals	-	(4,327)	(7)	(2,013)	(6,347)
At 31 December 2010	17,357	96,382	290	3,648	117,677
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2010	(3,976)	(29,912)	(188)	(3,081)	(37,157)
Charge for year	(366)	(6,335)	(37)	(916)	(7,654)
Disposals	-	3,453	7	2,013	5,473
At 31 December 2010	(4,342)	(32,794)	(218)	(1,984)	(39,338)
<b>NET BOOK VALUE</b>					
At 31 December 2010	13,015	63,588	72	1,664	78,339
At 31 December 2009	13,381	66,719	45	2,118	82,263

The net book value of tangible assets includes an amount of £23,800,000 (2009: £29,635,000) in respect of assets held under hire purchase contracts/finance leases. Depreciation of £2,175,000 (2009: £2,523,000) has been charged during the year in respect of these assets.

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

9.	<b>DEBTORS</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>	<b>Group 2009 £'000</b>	<b>Company 2009 £'000</b>
	<b>Amounts falling due within one year:</b>				
	Trade debtors	864	864	1,563	1,563
	Dividends	-	-	-	3,511
	Corporation tax	262	262	-	-
	Value added tax	629	629	503	503
	Other debtors	284	284	11	11
	Prepayments and accrued income	716	693	757	722
		<hr/>	<hr/>	<hr/>	<hr/>
	Amounts falling due within one year	2,755	2,732	2,834	6,310
		<hr/>	<hr/>	<hr/>	<hr/>
<b>10.</b>	<b>CREDITORS</b>				
	<b>Amounts falling due within one year:</b>				
	Hire purchase/finance leases (Note 11)	5,173	5,173	5,754	5,754
	Trade creditors	2,764	2,738	2,219	2,185
	Dividends	2,197	2,197	2,197	2,197
	Corporation tax	1,824	1,515	1,135	790
	Other taxes and social security	1,773	1,737	1,659	1,624
	Other creditors	3,599	3,524	3,671	3,625
	Accruals and deferred income	4,138	4,118	5,521	5,511
	Amounts due to subsidiary companies	-	553	-	3,511
		<hr/>	<hr/>	<hr/>	<hr/>
	Amounts falling due within one year	21,468	21,555	22,156	25,197
		<hr/>	<hr/>	<hr/>	<hr/>

LOTHIAN BUSES plc

NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010

11. CREDITORS	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
<b>Amounts falling due after more than one year:</b>				
<i>Hire purchase/finance leases:</i>				
Amounts payable: within one year	5,173	5,173	5,754	5,754
between 1-2 years	3,007	3,007	5,173	5,173
between 2-5 years	2,111	2,111	5,118	5,118
	<hr/>	<hr/>	<hr/>	<hr/>
Total amounts payable	10,291	10,291	16,045	16,045
Less: repayable within one year (Note 10)	(5,173)	(5,173)	(5,754)	(5,754)
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts due after more than one year	5,118	5,118	10,291	10,291
	<hr/>	<hr/>	<hr/>	<hr/>
<b>12. PROVISIONS</b>		<b>Deferred Tax Group £'000</b>	<b>Claims Group £'000</b>	<b>Total Group £'000</b>
At 1 January 2010		8,020	2,087	10,107
Charged to profit and loss account		852	571	1,423
Paid during year		-	(747)	(747)
		<hr/>	<hr/>	<hr/>
At 31 December 2010		8,872	1,911	10,783
		<hr/>	<hr/>	<hr/>
		<b>Deferred Tax Company £'000</b>	<b>Claims Company £'000</b>	<b>Total Company £'000</b>
At 1 January 2010		7,869	1,972	9,841
Charged to profit and loss account		866	585	1,451
Paid during year		-	(733)	(733)
		<hr/>	<hr/>	<hr/>
At 31 December 2010		8,735	1,824	10,559
		<hr/>	<hr/>	<hr/>

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

<b>Deferred taxation</b>	<b>Amount Provided 2010 £'000</b>	<b>Amount Provided 2009 £'000</b>
Excess of tax allowance over depreciation	9,242	8,359
Other timing differences	(367)	(339)
Losses and other deductions	(3)	-
	8,872	8,020
	8,872	8,020

**Claims**

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

<b>13. CALLED UP SHARE CAPITAL</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Allotted, issued and fully paid:</b>		
Ordinary – 6,399,139 of £1 each	6,399	6,399

<b>14. MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>	<b>Group 2009 £'000</b>	<b>Company 2009 £'000</b>
Opening equity shareholders' funds	11,851	10,038	43,596	39,928
Profit for the year	26,290	24,753	5,741	7,596
Pension gain/(loss) (Note 23)	12,351	12,351	(33,091)	(33,091)
Dividends (Note 5)	(2,197)	(2,197)	(4,395)	(4,395)
	36,444	34,907	(31,745)	(29,890)
Net change in equity shareholders' funds	36,444	34,907	(31,745)	(29,890)
Closing equity shareholders' funds	48,295	44,945	11,851	10,038

<b>15. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Operating profit	30,131	9,293
Depreciation	7,881	8,312
FRS17 current service (gains)/costs	(9,078)	7,974
Employers' pension contributions	(8,335)	(8,146)
Stocks – (increase)	(10)	(66)
Debtors – decrease	371	226
Creditors – (decrease)/increase	(973)	639
	19,987	18,232
Net cash inflow from operating activities	19,987	18,232

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

<b>16.</b>	<b>ANALYSIS OF CHANGE IN NET FUNDS – GROUP</b>	<b>1 Jan 2010 £'000</b>	<b>Cash Flows £'000</b>	<b>Other Changes £'000</b>	<b>31 Dec 2010 £'000</b>
	Cash in hand and at bank	6,626	4,921	-	11,547
	Less deposits included	(3,100)	1,000	-	(2,100)
		<hr/>	<hr/>	<hr/>	<hr/>
	Net cash balance	3,526	5,921	-	9,447
	Overdrafts	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		3,526	5,921	-	9,447
	Hire purchase/finance leases:				
	Due within one year	(5,754)	5,754	(5,173)	(5,173)
	Due after one year	(10,291)	-	5,173	(5,118)
	Deposits included as cash	3,100	(1,000)	-	2,100
		<hr/>	<hr/>	<hr/>	<hr/>
		(9,419)	10,675	-	1,256
		<hr/>	<hr/>	<hr/>	<hr/>
<b>17.</b>	<b>CAPITAL AND FINANCING COMMITMENTS</b>	<b>Group 2010 £'000</b>	<b>Company 2010 £'000</b>	<b>Group 2009 £'000</b>	<b>Company 2009 £'000</b>
	<b>Operating lease commitments:</b>				
	<i>Land and buildings</i>				
	Annual charges expiring:				
	Between 1-2 years	-	-	-	-
	Between 2-5 years	34	16	32	16
	After 5 years	223	223	223	223

**Capital commitments:**

There are commitments for capital expenditure on passenger carrying vehicles by the group of approximately £15 million for which no provision has been made in these financial statements.

**18. SUBSIDIARY COMPANIES**

The group has fifteen wholly owned dormant subsidiary companies registered in Scotland. The combined issued share capital of the fifteen subsidiary companies is £21 (fully paid). The group also has one wholly owned trading subsidiary company registered in Scotland, Edinburgh Tours Limited, which operates open top bus tours in Edinburgh. The issued share capital of the company is £1 (fully paid). The group has a bank overdraft facility which is secured over group assets and by an intercompany guarantee with Lothian Buses plc, Lothian Region Transport Limited, Edinburgh Buses Limited, Mactours Limited and Edinburgh Tours Limited.

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**19. RELATED PARTY TRANSACTIONS**

	<b>Receipts £'000</b>	<b>Payments £'000</b>	<b>Debtor/ (Creditor) At 31/12/10 £'000</b>
City of Edinburgh Council	1,142	1,598	7
Midlothian Council	282	6	20
East Lothian Council	72	-	8
Tie Limited	424	30	106
	1,920	1,634	141
	1,920	1,634	141

The above related 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 arms length basis.

**20. CONTROLLING PARTY**

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

**21. EMPLOYEES**

**2010**                      **2009**

The average number of persons employed (including directors) was as follows:

Bus drivers	1,470	1,570
Other	506	516
	1,976	2,086
	1,976	2,086

The aggregate payroll costs of these persons were as follows:

	<b>2010 £'000</b>	<b>2009 £'000</b>
Wages and salaries	52,426	53,230
Social security costs	3,980	3,930
Pension costs	8,181	8,329
	64,587	65,489
	64,587	65,489

**22. DIRECTORS**

The remuneration of directors during the year was as follows:

	<b>2010 £'000</b>	<b>2009 £'000</b>
Aggregate emoluments and benefits	946	922
Aggregate pension contributions	129	121
Highest paid director's emoluments and benefits	202	184
Highest paid director's pension contributions	30	27

Five directors are accruing retirement benefits under a defined benefit scheme. The highest paid director has an accrued pension of £9,768 (2009: £6,715) and an accrued lump sum of £15,612 (2009: £14,632) at the end of the year.

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**23. PENSION OBLIGATIONS**

As explained in the Accounting Policies, Lothian Buses plc participates in the Lothian Buses Pension Fund (defined benefit scheme), which is part of the Local Government Pension Scheme, administered by the City of Edinburgh Council.

A valuation of the pension fund is carried out triennially. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value.

<b>Analysis of the amounts recognised in the profit and loss account:</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Current service costs	7,985	5,210
Interest on obligations	14,400	11,863
Expected return on plan assets	(14,943)	(11,123)
Past service (gains)/costs	(17,063)	1,897
Losses on curtailments and settlements	-	127
	<hr/>	<hr/>
Total	(9,621)	7,974
	<hr/>	<hr/>
Actual return on plan assets	36,474	34,450
	<hr/>	<hr/>
	<hr/>	<hr/>
<b>Changes in present value of defined benefit obligation:</b>	<b>31 Dec 2010 £'000</b>	<b>31 Dec 2009 £'000</b>
Opening defined benefit obligation	251,685	181,845
Contributions by members	2,401	2,378
Service costs	7,985	5,210
Past service (gains)/costs	(17,063)	1,897
Losses on curtailments	-	127
Interest costs	14,400	11,863
Actuarial losses	9,129	56,372
Estimated unfunded benefits paid	(288)	(277)
Benefits paid	(8,170)	(7,730)
	<hr/>	<hr/>
Closing defined benefit obligation	260,079	251,685
	<hr/>	<hr/>

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

<b>Changes in fair value of plan assets are as follows:</b>	<b>31 Dec 2010 £'000</b>	<b>31 Dec 2009 £'000</b>
Opening fair value of plan of assets	212,379	175,457
Contribution by members	2,401	2,378
Contributions by employer	8,047	7,869
Expected return	14,943	11,123
Contributions in respect of unfunded benefits	288	277
Actuarial gains	21,480	23,282
Unfunded benefits paid	(288)	(277)
Benefits paid	(8,170)	(7,730)
	<hr/>	<hr/>
Closing fair value of employer assets	251,080	212,379
	<hr/>	<hr/>

The Group expects to contribute £7.5m towards its defined benefit plan during 2011.

**The major categories of plan assets relating to total plan assets are as follows:**

Equities	203,375	146,542
Bonds	17,576	40,352
Property	22,597	16,990
Cash	7,532	8,495
	<hr/>	<hr/>
<b>Total</b>	251,080	212,379
	<hr/>	<hr/>

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

	<b>31 Dec 2010 £'000</b>	<b>31 Dec 2009 £'000</b>
Fair value of employer assets	251,080	212,379
Present value of funded liabilities	(255,314)	(246,596)
	(4,234)	(34,217)
Net (under) funding		
PV of unfunded liabilities	(4,765)	(5,089)
	(8,999)	(39,306)
Net (liability)		

**Principal actuarial assumptions at balance sheet date (expressed as weighted averages):**

	<b>31 Dec 2010 %pa</b>	<b>31 Dec 2009 %pa</b>
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**Financial assumptions:**

Discount rate at 31 December	5.40%	5.70%
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The expected return on assets is based on the actuaries recommended return assumptions derived from the HRAM model, the proprietary stochastic asset model developed and maintained by Hymans Robertson LLP.

Expected return on plan assets	6.80%	7.00%
Future salary increases	5.10%	5.30%
Future pension increases	3.10%	3.80%

The FRS17 past service cost reduction is a one-off saving due to the announcement in the Chancellor's budget statement advising that future pension increases will be based upon CPI rather than, as previously, RPI.

**Breakdown of the expected return on assets by category:**

Equities	7.30%	7.80%
Bonds	4.80%	5.10%
Property	5.30%	5.70%
Cash	4.40%	4.80%

**LOTHIAN BUSES plc**

**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 2010**

**Mortality Rates:**

Baseline life expectancy is based on member specific VitaCurves 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:

	<b>Males</b>	<b>Females</b>
Current pensioners	19.1	22.6
Future pensioners	19.4	23.6

**Amounts for the current and previous four periods:**

	<b>31 Dec 2010 £'000</b>	<b>31 Dec 2009 £'000</b>	<b>31 Dec 2008 £'000</b>	<b>31 Dec 2007 £'000</b>	<b>31 Dec 2006 £'000</b>
Present value of defined obligation	(260,079)	(251,685)	(181,844)	(208,842)	(204,100)
Fair value of plan assets	251,080	212,379	175,457	210,763	192,200
Surplus/(deficit)	(8,999)	(39,306)	(6,387)	1,921	(11,900)
Experience gains/(losses) on plan assets	21,480	23,282	(51,419)	2,154	4,047
Experience gains/(losses) on plan liabilities	318	(167)	10,302	120	3,877

**Amounts recognised in the STRGL:**

	<b>2010 £'000</b>	<b>2009 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
Actuarial gains/(losses)	12,351	(33,091)	(10,194)	13,182	7,924
Actuarial gains/(losses) recognised in STRGL	12,351	(33,091)	(10,194)	13,182	7,924