



Date: 11 July 2012

Item 5: **Renewal of TfL's Medium Term Note Programme**

This paper will be considered in public.

1. Summary

- 1.1 To be in a position to borrow from the bond and commercial paper markets under its existing Euro Medium Term Note (MTN) and Euro Commercial Paper (CP) Programmes, TfL has to ensure that the documentation relating to the MTN and CP Programmes is up to date, as explained in section 3 of this paper. While the MTN Prospectus (as described in paragraph 3.5(a)) (the "Prospectus") has to be updated every year, the documentation relating to the CP Programme may be updated at less frequent intervals and TfL considers that an update of such documentation is not currently required. This paper relates to the update of the MTN Programme documentation, including the Prospectus and other related MTN documentation.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.
- 1.3 Under TfL Standing Orders, the Board has delegated the approval of the MTN Programme documentation to the Finance and Policy Committee.

2. Recommendations

2.1 That the Committee:

- (a) note the paper;**
- (b) approve the update of the Euro Medium Term Note (MTN) Programme documentation;**
- (c) approve the substantive terms of the Prospectus (included as Appendix 1 in the paper on Part 2 of the agenda), subject to any changes raised at the meeting and any further amendments that the Commissioner, the Managing Director, Finance, General Counsel or the Chief Finance Officer may approve further to the delegation specified in paragraph 2.1(f) below;**

- (d) note that the Prospectus needs to be in a form satisfactory to the UK Listing Authority (UKLA) in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and that it is important that the Prospectus is complete and accurate and not misleading as it can give rise to legal liability for TfL;**
- (e) note that a verification process has been undertaken by senior TfL officers to ensure the accuracy of the information contained in the Prospectus;**
- (f) delegate authority to the Commissioner, the Managing Director, Finance, General Counsel and the Chief Finance Officer such that any one of them may approve:**
 - (i) any further amendments to the Prospectus; and**
 - (ii) the issuance and content of any Supplemental Prospectus, whether required by the UKLA, driven by legislation or otherwise;**
- (g) delegate authority to the Commissioner, the Managing Director, Finance, General Counsel and the Chief Finance Officer such that either one of them may:**
 - (i) approve, authorise and agree on behalf of TfL the final terms and conditions of any and all documentation relating to the MTN Programme, including the Prospectus, and any amended and restated documentation (including the Trust Deed and the Programme Manual); and**
 - (ii) sign, execute (if necessary, by authorising the fixing of the TfL seal) and deliver on behalf of TfL any and all documentation (including the Prospectus, the amended and restated Trust Deed, the Programme Manual, any notes issued under the MTN Programme (Notes) and any agreements, deeds, guarantees, announcements, notices, contracts, certificates, letters or other documents) to be entered into by TfL relating to the MTN Programme and to perform the obligations set out therein;**
- (h) in relation to the Borrowing Strategy 2012/13, contained within the Treasury Management Strategy 2012/13, approve the issuance by TfL of Notes under its MTN Programme during the period between the meeting of the Committee held on 11 July 2012 and the Committee meeting in October 2012, provided that:**
 - (i) the Managing Director, Finance has approved such issuance;**
 - (ii) such issuance is otherwise in accordance with any relevant parameters set out in the Borrowing Strategy 2012/13; and**

- (iii) the Managing Director, Finance discusses the proposed term and amount of any such Note issuance and the issue and content of any Supplemental Prospectus which may be required with the members of the Committee who are available by conference call in advance of such Note issuance;**
- (i) subject to the terms of the approval of the Committee referred to in paragraph (h) above, having been complied with, delegate authority to and authorise the Commissioner, Managing Director, Finance, General Counsel, the Chief Finance Officer and the Group Treasurer so that each one of them may:**
- (i) approve, authorise and agree on behalf of TfL the final terms and conditions of any such Note issuance(s) and all documentation relating thereto, including the form of the final terms relating to any Notes, any subscription agreement or other agreement, any Supplemental Prospectus, deed, document, or certificate in connection therewith;**
 - (ii) sign, execute (if necessary, by authorising the fixing of the TfL seal) and deliver on behalf of TfL and any and all documentation (including the final terms of any Notes, any subscription agreement, any Supplemental Prospectus and any other agreements, deeds, guarantees, announcements, notices, contracts, certificates, letters or other documents) to be entered into by TfL relating to such Note issuance(s) and to perform the obligations set out therein; and**
- (j) note that the Committee will be notified of any issuance under the MTN Programme at the meeting following such issuance.**

3. Update of MTN Programme Documentation

- 3.1 TfL established its MTN Programme in 2004 and since then has issued three long term fixed rate interest rate notes and a one year £300m floating rate note, for a total of £900m.
- 3.2 Under the rules of the UKLA, a prospectus is valid for 12 months after its date of publication for an offer of securities or an admission to trading, provided that it is supplemented if required. The Prospectus must also incorporate the audited accounts of the issuer for the latest two financial years.
- 3.3 The TfL MTN Programme (including the Prospectus) was last updated in August 2011, following the publication of TfL's audited accounts for the year ended 31 March 2011.
- 3.4 In addition, due to a number of material events, which occurred after August 2011 and in anticipation of a potential note transaction¹ prior to the update of

¹ TfL issued a one year £300m Floating Rate Note under the MTN Programme in March 2012.

the Prospectus in July 2012, a Supplemental Prospectus (Appendix 1) was approved and published in January 2012 to disclose such material events.

Key Documents to MTN Programme

- 3.5 The key documents to the MTN programme are:
- (a) the **Prospectus**, which describes to investors the terms and conditions of the Notes, the business description of TfL and its subsidiaries, key risk factors and incorporates by reference the audited annual accounts. TfL will be required to update / supplement this document with any relevant information: (i) if prior to the issue of any Notes a material change has occurred or (ii) on an annual basis (whichever occurs first);
 - (b) the **Dealer Agreement**, between TfL and the various investment banks that are involved in the MTN Programme as dealers, which sets out the key terms and conditions relating to issues of Notes under the MTN Programme and representations and warranties of TfL;
 - (c) the **Paying Agency Agreement** between TfL and the Paying Agent, which sets out, amongst other things, the mechanics for payment in respect of the Notes. The Paying Agent acts as the conduit for monies between TfL and the Noteholders at the time of any drawdown or interest and principal payments;
 - (d) the **Trust Deed**, which documents the relationship between TfL and the Trustee (the representative of the Noteholders). TfL covenants to the Trustee to make debt service payments. The Trustee holds the benefit of the covenant of trust for the Noteholders; and
 - (e) the **Programme Manual**, which outlines the administrative steps which need to be taken by all the relevant parties to effect an issue of Notes under the Programme and includes the form of Final Terms relating to the Notes. The Programme Manual is not a legally binding document, but it is signed by TfL, the Trustee and the Paying Agents for identification purposes.

Update of Prospectus and other documentation

- 3.6 An updated Prospectus has been prepared with the advice of TfL's external legal adviser and in discussion with Morgan Stanley and HSBC (joint arrangers of the MTN Programme).
- 3.7 The draft Prospectus will be discussed under Part 2 of the agenda.
- 3.8 The Trust Deed will also be amended and restated in order to make certain changes to the terms and conditions of the Notes, as required by certain legislative amendments coming into effect in July 2012.
- 3.9 The Programme Manual will also be updated in order to make certain changes to the Final Terms relating to the Notes.

Note Issuance under Borrowing Strategy

- 3.10 Following approval of the updated MTN Programme documentation, TfL will be able to issue notes in the capital markets for the following twelve months.
- 3.11 Under the Borrowing Strategy for 2012/13, the approval of the Committee is required for any new debt issuance under the MTN programme (including the approval of any Supplemental Prospectus that may be required). This paper seeks delegation of (i) the decision to issue Notes; and (ii) the approval of the issue and content of any Supplemental Prospectus that may be required, where such Notes issuance(s) are otherwise in accordance with the Borrowing Strategy 2012/13. Delegation is sought for the period between this Committee's meeting and the meeting of the Committee in October 2012, should opportunities arise to proceed with a Note issuance over that period. It is proposed that the Managing Director, Finance will discuss the proposed Note issuance (and the issue and content of any Supplemental Prospectus that may be required) with the members of the Committee who are available by conference call ahead of the actual transaction.

4. Legal Implications

- 4.1 TfL has to ensure that it complies with the various legal requirements arising in respect of the Prospectus as the offering document provided to potential investors, and the contractual documentation entered into with the investment banks who distribute the Notes issued by TfL under the MTN Programme.
- 4.2 The risks of non-compliance with the legal requirements can be (and are) mitigated to a great extent by appropriate due diligence and verification carried out by TfL.

5. Financial Implications

- 5.1 TfL chose to opt into the Prospectus Directive requirements. As a result, a delay in the update and approval of the documentation relating to the MTN Programme would result in a delay to TfL's ability to issue notes in the capital markets, thus limiting TfL's sources of borrowing until such time as the MTN Programme is successfully updated.

List of appendices to this report:

Appendix 1 – Supplemental Prospectus

A paper on Part 2 of the agenda contains exempt supplemental information and documentation.

List of Background Papers:

A background paper is attached as Appendix 1.

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**SUPPLEMENT DATED 23 JANUARY 2012
TO THE BASE PROSPECTUS DATED 11 AUGUST 2011**



(established in England)

£5,000,000,000

Euro Medium Term Note Programme

This Supplement (the "**Supplement**") is supplemental to, forms part of and must be read in conjunction with, the base prospectus dated 11 August 2011 (the "**Base Prospectus**") prepared by Transport for London (the "**Issuer**" or "**TfL**") in connection with its £5,000,000,000 Euro Medium Term Note Programme (the "**Programme**"). Terms given a defined meaning in the Base Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Supplement.

This Supplement has been approved by the United Kingdom Financial Services Authority (the "**FSA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus supplement issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in, or incorporated into, the Base Prospectus, the statements in (a) above will prevail.

Except as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus which is capable of affecting the assessment of Notes issued under the Programme has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

The Issuer accepts responsibility for the information contained in this Supplement. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

An investor which has agreed, prior to the date of publication of this Supplement, to purchase or subscribe for Notes issued under the Programme may withdraw its acceptance before the end of the period of two working days beginning with the first working day after the date on which this Supplement is published in accordance with the Prospectus Directive.

AMENDMENTS OR ADDITIONS TO THE BASE PROSPECTUS

This Supplement has been produced in order to describe recent acquisitions of financial instruments made by the TfL Group, update the disclosure contained in the Base Prospectus relating to certain litigation matters, describe certain recent share acquisitions made by the TfL Group, provide an update in respect of the TfL Group's operations and certain funding matters and to disclose significant changes in TfL's financial position since 31 March 2011.

With effect from the date of this Supplement the information appearing in, or incorporated by reference into, the Base Prospectus shall be amended and/or supplemented in the manner described below.

LONDON UNDERGROUND

ACQUISITION OF TUBE LINES (FINANCE) PLC NOTES

On 23 August 2011, Tube Lines (Finance) PLC ("**TLF**"), a wholly owned subsidiary of TfL, acquired £217,063,000 (in face value) of its Class A-1 5.5400% Guaranteed Notes due 2031. On 12 September 2011, TLF acquired all of the outstanding Class A-2C 5.5170% Guaranteed Notes due 2031 (face value: £95,260,000). On 14 October 2011, TLF completed the acquisition of all outstanding Class A-1 5.5400% Guaranteed Notes due 2031 (face value: £929,350,000). The notes acquired were cancelled upon acquisition and de-listed from the Irish Stock Exchange. As such notes were guaranteed by TfL, the total amount of TLF debt directly guaranteed by TfL was reduced accordingly. The price paid to acquire the notes referred to above represented a significant saving compared to the price the TfL Group would have had to pay for an early redemption of the notes as set out in the terms and conditions of the notes.

SIGNALLING SYSTEM CONTRACT WITH THALES

Agreement has now been reached between Tube Lines and Thales on the disputed heads of cost referred to at page 104 of the Base Prospectus.

CBSO CLAIM

The claims between CBS Outdoor Limited and LUL (referred to in the last two paragraphs on page 103 of the Base Prospectus) have now been resolved.

LONDON RAIL - DOCKLANDS LIGHT RAILWAY

ACQUISITION OF CITY AIRPORT RAIL ENTERPRISES PLC ("CARE") AND WOOLWICH ARSENAL RAIL ENTERPRISES LIMITED ("WARE")

On 23 November 2011, TfL acquired the entire issued share capital and shareholder loan notes of City Airport Rail Enterprises (Holdings) Limited and Woolwich Arsenal Rail Enterprises (Holdings) Limited and their respective subsidiaries CARE and WARE, the companies responsible for constructing and maintaining the London City Airport and Woolwich Arsenal branches of the Docklands Light Railway (DLR). The

outstanding senior commercial debt of CARE and WARE (excluding the European Investment Bank loan to WARE) was prepaid on 28 November 2011.

DLR EXTENSION

The fully accessible DLR Stratford International extension opened on 31 August 2011. The extension includes four new stations and connects five London 2012 Olympic and Paralympic venues.

CABLE CAR SYSTEM

Docklands Light Railway Limited is the contracting party for a project to build a cable car system across the Thames. On 7 October 2011, TfL announced that the airline Emirates will sponsor the new cable car river crossing in a ten-year deal worth £36 million. This will be known as the Emirates Air Line and will provide a new crossing of the River Thames between two new terminals called Emirates Greenwich Peninsula and Emirates Royal Docks. The cable car system is due to open in the summer of 2012.

CROSSRAIL

On 22 November 2011, CRL awarded the main construction contracts for the Farringdon and Whitechapel stations, estimated to be worth £375 million and £250 million respectively. The remaining station construction contracts for Bond Street, Tottenham Court Road and Liverpool Street will be awarded in 2012.

FARES ANNOUNCEMENT

On 29 November 2011, in the Autumn Statement the Chancellor of the Exchequer announced that TfL and regulated rail fares would increase by the Retail Price Index ("RPI") plus one per cent. for one year from January 2012. TfL had originally planned to increase fares by RPI plus two per cent. To offset the decrease in fare revenues resulting from a lower increase in fares, the Secretary of State for Transport agreed to increase TfL's Transport Grant by £136m (over the period 2012/13 to 2014/15), an amount which covers in full the predicted reduction in fare revenues.

NO SIGNIFICANT CHANGE

Save as disclosed in the following paragraphs, since 31 March 2011, there has been no significant change in the budgetary system, debt, financial position and resources or income and expenditure figures of the TfL Group and, since such date, save as disclosed in the following paragraphs, there has been no material adverse change in the financial position or prospects of the TfL Group.

As at 10 December 2011, non-current assets had increased by £1.1 billion compared to 31 March 2011 and cash had increased by £0.2 billion. As at 10 December 2011, finance lease creditors and provisions had decreased by £0.1 billion compared to 31 March 2011. As at 10 December 2011, external borrowings had increased by £0.2 billion compared to 31 March 2011.

As at 10 December 2011, earmarked and other usable reserves had increased by £0.1 billion compared to 31 March 2011, including the write off of goodwill arising on the acquisition of City Airport Rail Enterprises (Holdings) Limited and Woolwich Arsenal Rail Enterprises (Holdings) Limited and their respective subsidiaries CARE and WARE .

To acquire the TLF notes described in "*Acquisition of Tube Lines (Finance) PLC Notes*" above, the TfL Group incurred a premium of £168.5 million over book value.

The above financial information as at 10 December 2011 has been determined by applying the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards. These remain consistent with the financial statements for the year ending 31 March 2011, which were prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The above financial information as at 10 December 2011 reflects the provisional impact of the acquisition of City Airport Rail Enterprises (Holdings) Limited and Woolwich Arsenal Rail Enterprises (Holdings) Limited and their respective subsidiaries CARE and WARE in November 2011. The fair value of assets and liabilities acquired, and therefore the amount of goodwill arising on acquisition, will be finalised by 23 November 2012, in accordance with the requirements of IFRS 3 Business Combinations.