

## **Fitch Affirms Transport for London at 'AA'; Outlook Stable**

Fitch Ratings-London/Barcelona-15 February 2008: Fitch Ratings has today affirmed Transport for London's (TfL) ratings at Long-term local and foreign currency 'AA' and Short-term 'F1+'. The Outlooks for the Long-term ratings are Stable.

The ratings reflect TfL's importance to the economic development of the greater London area, the ongoing strong government support and direct grant funding, and the entity's sound operational and budgetary performance. However, the ratings also take into account TfL's ambitious capital spending plan, which will be partially debt-financed and have limited revenue flexibility.

The Stable Outlook reflects the political and financial visibility of TfL as set out in the government's spending review and TfL's business plan. Despite ambitious capital expenditure projects, including the Crossrail, and the future transfer of the Metronet contracts to TfL, the continued strong government backing and still conservative risk profile support the ratings and Outlooks.

Though relatively rigid, TfL's budget structure gives good predictability: it is funded by the Department for Transport through the Transport grant (41% of TfL's total resources in 2006-07), which is backed by long-term settlements and fares set by the Mayor. Although TfL has demonstrated its capacity to increase fares if necessary and will use this flexibility to support its development, it has limited leeway given the already relatively high levels. Other revenue sources (including the congestion charge, which applies to an enlarged portion of London's city centre since February 2007) provide limited scope for material increase. Expenditure is also relatively inflexible, with staff costs and contract payments making up the bulk.

The Crossrail project will be an important future investment for TfL, estimated to cost GBP16bn. Nevertheless, with the additional funding from the central government and increased earmarked revenue sources, it is expected that this project will not result in a substantial increase in net operational costs for TfL.

The TfL group (corporation and subsidiaries) currently has a moderate debt outstanding and a high level of liquidity. Although debt level is projected to rise to part-finance TfL's capital expenditure, the debt burden remains within the present rating category. The exercise of the "put option" of the Metronet debt back to TfL for approximately GBP1.74bn on 5th February 2008 has been funded by a grant from the state for a similar amount. Metronet was one of the infracos undertaking the infrastructure maintenance and refurbishment for TfL, under a PPP scheme, and is now in administration.

TfL, which reports to London's mayor, is a functional body of the Greater London Authority. TfL was created in 2000 and, for most financial and accounting purposes, it is treated as a local authority. In July 2000, it took over all responsibilities for buses and other transport functions in London from the government, including roads and bridges, buses, Docklands Light Railway, river services and taxis. London Underground Limited was passed to TfL in July 2003. TfL's 408km of tube and 458 million passenger kms of bus networks operated annually serve an urban area that is home to 7.4 million people. It employs around 20,300 staff.

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