

Transport for London

Full Rating Report

Ratings

Foreign Currency

Long-Term Rating	AA+
Short-Term Rating	F1+

Local Currency

Long-Term Rating	AA+
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Outlooks

Long-Term Foreign-Currency Rating	Negative
Long-Term Local-Currency Rating	Negative

Financial Data

Transport for London

	31 Mar 12	31 Mar 11
Operating revenue including grants (GBPm)	7,619.0	7,334.8
Direct debt (GBPm)	7,131.8	6,350.7
Total risk including finance leases (GBPm)	8,159.3	7,769.7
Operating profit/total revenue (including grants; %)	35.6	33.0
Total risk/total revenue including grants (%)	104.8	103.1
Total risk/total assets (%)	28.2	29.2
Cash and liquid deposits/total risk (%)	32.6	26.6

Key Rating Drivers

Strong Government Support: The ratings of Transport for London (TfL) are credit linked to the UK sovereign (AAA/Negative/F1+) under Fitch Ratings' public-sector entity criteria. This link is due to the strong support for TfL from the central government through multi-year funding, letters of credit, oversight of borrowing limits and shared priorities because of the strategic importance of TfL for London and the UK economy.

Multi-Year Public Funding: About 46% of TfL's total revenue comes directly from central government through grants paid by the Department for Transport (DfT) to the Greater London Authority (GLA). The UK government has part-funded TfL's investment plan and pledged to support its long-term commitments. Total general and capital grants received in FY12, excluding Crossrail funding, amounted to GBP3.438bn, slightly below GBP3.451bn in FY11.

Balanced Financial Performance: Fare revenue accounts for 42% of TfL's total revenues. TfL has a balanced business plan and through Project Horizon has achieved efficiency savings by a review of its operating and management structure. Over 2012-2015, TfL estimates GBP494m of additional new savings will be delivered, and the new target has increased to GBP9.8bn for the period FY10-FY18.

Passenger Patronage Resilient: Despite the economic contraction, passenger journeys across all modes of transport increased in the financial year to end-March 2012 (FY12). Recent forecasts suggest there will be further increases in FY13 and in future years with a 4.6% rise forecast over the three years to FY15 for bus passengers and by 8% by FY15 for the tube.

Crossrail on Track: Construction of the new line at sites across the city is under way and many of the big contracts are already let. Investment in Crossrail and the tube is vital to secure future economic growth in the capital. Crossrail will increase London's rail capacity by 10% and enable new and faster journeys. TfL's total contribution/risk has been capped at GBP7.1bn and if the costs breach a pre-determined level, there is a put option to the DfT.

Significant Capital Expenditure: Ambitious capital expenditure has led to increased debt. Direct debt is forecast to increase to GBP8.5bn, a rise of GBP1.4bn between FY12 and FY15. TfL has the flexibility to respond to pressures within its business plan by delaying capital expenditure, reducing operating costs or increasing fares if necessary.

Strong Liquidity: At end-2012, TfL had GBP2.6bn of cash and liquid assets including GBP1.2bn ring-fenced for Crossrail. A minimum cash balance of GBP250m is maintained and TfL has access to GBP200m of undrawn overdraft facilities. TfL is a statutory corporation and is regulated for capital finance purposes. It can borrow from the Public Works Loan Board (PWLb), which mitigates liquidity/refinancing risk.

Rating Sensitivities

Weaker Government Support: A downgrade could occur due to weakening support from central government or a substantial decrease in revenue not matched by tangible support. A significant increase in debt servicing to revenue ratio could also lead to a downgrade.

Debt Reduction: An upgrade could arise from closer or more direct links or stronger commitment from the central government. A significant reduction in debt could lead to a positive action although this is unlikely due to TfL's large investment programme.

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Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
16 March 12	AA+/Neg	AA+/Neg
02 March 12	AA+/Stab	AA+/Stab
10 March 11	AA+/Stab	AA+/Stab
17 March 04	AA/Stab	AA/Stab

Profile

TfL is a statutory body created in 1999 and established in 2000 by the Greater London Authority Act when it took over all responsibility for London buses and other transport from the central government. London Underground Limited (LUL) was passed to TfL in 2003 and since autumn 2007, it has taken on some overground rail services including the East London Line and the North London Railway. It is now also responsible for the Docklands Light Railway (DLR), river services and taxis, cycling as well as roads and bridges. TfL is regulated under the Local Government Act 2003 and Local Government Finance Act for capital finance purposes and is a statutory corporation. TfL is a functional body of the Greater London Authority (GLA) and reports to the mayor of London.

Legal and Accounting Framework

Links Between the GLA, Central Government and TfL

The GLA has a strategic role in London’s planning and operations. Its main responsibilities are transport, policing, fire and emergency planning, and culture and the environment across the Greater London area. The GLA is run by its mayor and the 25-member assembly who are directly elected every four years.

Four separate functional bodies undertake these responsibilities: TfL; the Mayor’s office for Policing and Crime Authority (MOPAC), previously the Metropolitan Police Authority (MPA); the London Fire Emergency Planning Authority (LFEPA); and the London Legacy Development Corporation (LLDC), previously the London Development Agency (LDA). The aggregate budget (excluding debt raising) for the GLA and its functional bodies was GBP13.3bn in FY12. TfL received 66% of the budget in FY12, and policing received 27%. The GLA only receives 2% of the total budget as is funded through grants and a council tax precept.

TfL funds itself through a mixture of central government grants (both block and tied) and own revenue such as fares. The GLA channels the block grants, which cannot be intercepted and used for anything other than intended and cannot be used to fund shortfalls in one functional body through surpluses in another. Central government would bail out TfL in case of need as the GLA would not have the funding or resources to do so.

From April 2013, TfL will be able to receive a proportion of its funding through a locally retained share of London’s business rates, replacing part of the funding currently paid as grant from the department of transport. The business rate will be collected by the GLA and, although it is not ring-fenced for TfL, Fitch expects that all the proceeds will be passed on.

Central Government Grants Key to the Rating

Central government grants, paid by the department of transport to the GLA, account for 46% of TfL’s revenue. The transport grant is regulated by the four-year spending review. The government has part-funded TfL’s investment grant, which offsets to some extent the decrease in general grant. The government has also pledged to support TfL’s long-term commitments.

The transport grant totals GBP8bn over the three years FY13-FY15. This includes GBP3.9bn of general grant, GBP1.5bn in business rates retention as well as GBP2.7bn of London investment grant, which supports the delivery of TfL and government-shared priorities. An additional GBP96m was included in November 2012 as a result of the rail fare announcement by the Prime Minister in October 2012 when rail fares’ increases were capped at 1% above inflation rather than 3% for the remainder of the current spending review period until FY15.

The central government supported the upgrade of London’s transport network ahead of the 2012 Olympic Games. GBP6bn of TfL’s investment programme directly supported the games, although GBP5.5bn of this was already planned prior to the bid. All infrastructure projects were completed on time and to budget. TfL also ensured the smooth and safe functioning of transport across the city for an additional three million daily journeys to the average 25 million,

Related Criteria

[Tax Supported Rating Criteria \(August 2011\)](#)

[Ratings of Public Sector Rating Entities - Outside the United States \(March 2013\)](#)

of which TfL provides over eight million. The success of the 2012 Olympic Games and the cross-agency cooperation, public and staff volunteers and management of travel demand during the Olympics created a legacy that can be used by TfL to deliver future large events.

TfL's Strategic Policy Set by London Mayor

On 3 May 2012, Boris Johnson of the Conservative party was re-elected as the mayor of London, who has been in the role since May 2008. His focus during his first mandate was to maintain the modernisation of the tube infrastructure, with an emphasis on security as well as a commitment to the Crossrail project. In the current business plan, his focus is on reducing tube delays by 30% by 2015, building Crossrail and orbital rail to the London suburbs, and securing a better deal for London from central government. The top priority for the current mayoral term will be jobs and growth. The updated business plan is structured around broad requirements for the city, including driving employment and population growth.

In May 2012, the Secretary of State for Transport expressed the DfT's continued support for TfL. She also confirmed that TfL's overall funding for the spending review period would not be affected by the reform of the Local Government Finance Act. The DfT has confirmed it will continue to pay a transport grant to the GLA for TfL and that the changes to the payment arrangements through the business rate should not be construed as any weakening of government support.

Strategic Importance of London's Economic Development

Greater London has a population of about 7.8 million, 13% of the population of the UK, accounting for 21.5% of national GVA. TfL's business plan includes investment to support an estimated population growth of one million over the next 20 years and a potential growth in employment of more than 600,000. Demand across the tube, London Overground, DLR, buses and TfL's road network increases by one million a day every five years.

TfL's most significant developments in 2012 included London's first New Bus for London coming into service; the Jubilee line running up to 30 trains per hour; the start of Crossrail tunnelling; the arrival of Wi-Fi at 103 tube stations in partnership with Virgin Media; the roll out of new air conditioned tube trains on sub-surface railway lines; the completion of the Victoria line upgrade; the New South London line opening for passengers; and the use of contactless cards on London's buses from December.

The Emirates AirLine cable car was completed ahead of time in June, carrying one million passengers in just over two months since opening. This crosses the river and connects the Royal Docks with the Greenwich Peninsula. The Barclays cycle hire scheme was also expanded east in March 2012 and in central London more docking points were added. Since July 2010, more than 17 million journeys have been made, and usage was up 45% on the same period last year, with a record numbers of hires in August 2012.

Finance and Performance

Accounting Regime Primarily Based on Local Authority Framework

TfL is treated as a local authority for accounting purposes and is required to deliver a balanced budget. KPMG audits TfL's accounts, which consolidate TfL's subsidiaries. In FY11 TfL followed the code of practice on local authority accounting, based on IFRS adopted by the EU. The most significant changes were the immediate recognition of capital grants and contributions in the income statement when there is reasonable assurance that all conditions relating to those grants have been met. Prior to this, only revenue grants would be included in the income statement and capital grants would be taken to the balance sheet as deferred grant. FY12 was the second year for TfL to present its accounts in this way.

Since 2004 a prudential scheme for local authorities, including the GLA and its bodies, has been in place, allowing TfL to borrow up to authorised limits. Under the agreement with the DfT,

TfL's borrowing must be contained within the following annual limits: GBP445m additional borrowing for FY13; GBP345m for FY14; and GBP650m for FY15. Other sources of financing include PWLB funding, the MTN and CP programme, private finance initiatives (PFIs) and European Investment Bank (EIB) funding.

Revenue

Fares Critical but Offer Little Flexibility

TfL's fare structure is complex, and market-oriented with off-peak prices and family discounts. To help fund the capital expenditure programme, the mayor of London, who has sole responsibility for fares, confirmed that fare increases must be in line with the retail price index (RPI) plus a percentage increase. Following the department of transport announcement in October 2012, the business plan assumes a fare increase at RPI plus 1% each January until FY15, the period in which TfL has a funding settlement with the government.

A new ticketing payment system is in development that will enable customers to use contactless enabled debit or credit cards on Oysters yellow readers, removing the need to queue for Oyster card top-ups. This scheme was launched on buses in December 2012 and will be extended across the tube, London Overground, DLR, and tram services in late 2013. The extension of contactless cards usage on the tube, and other forms of transport is expected to cut the number of journeys paid for in cash rather than leading to a decrease in Oyster card usage. The availability of contactless-card ticketing will lead to general efficiencies and makes it easier for individuals to use public transport. The aim is for people to avoid using their cars in London.

Total use of public transport has increased since FY10 across all lines of transport including the London Underground, buses, and London Rail, including DLR, London Overground and Tramlink. Greater demand has resulted from the rising population living in the urban area and the congestion charge has also increased the usage of public transport.

The pattern of passenger growth on the tube is related to economic growth in the city whereas bus usage is more linked to the growth of the population in London. TfL bases its revenue projections on growth forecasts provided by GLA Economics and growth in London is generally forecast at 0.5% higher than national projections. Real GVA growth has been forecast at 1.8% in 2013 and 2.5% in 2014.

London Underground

For FY13, the tube is expected to cover 51% of total fares. Passenger journeys are forecast to increase to 1.215bn. The record number of passenger journeys was set at 4.57pm on Tuesday 7 August 2012 during the Olympics, a significant rise from the previous record of 4.17m on 9 December 2011, generally a busy time of year before Christmas.

Figure 1

Revenue by Mode and Patronage

	FY13 forecast ^c			FY12			FY11			FY10		
	Revenue ^a	(%) Patronage ^b		Revenue ^a	(%) Patronage ^b		Revenue ^a	(%) Patronage ^b		Revenue ^a	(%) Patronage ^b	
London underground	2,294	52	1,215	2,179	52	1,171	1,941	50	1,107	1,796	50	1,065
Buses	1,417	32	2,349	1,335	32	2,344	1,257	32	2,289	1,166	32	2,257
Surface (incl. congestion charging)	357	8		376	9		430	11		366	10	
London Rail, including:	280	6		228	5		196	5				
Docklands light railway			100			86			78	142	4	69
London overground			122			103			57			34
London tramlink (incl tube lines)			30			29			28			27
Other (corporate items)	39	1		63	2		60	2		125	3	
Total	4,387		3,816	4,181		3,732	3,884		3,559	3,595		3,452

Notes: Revenue includes fare revenue as well as advertising, rent etc. There are no fare revenue numbers that can be compared across the board

^a (GBPm)

^b Passenger journeys (m)

^c Q313 operational and finance report

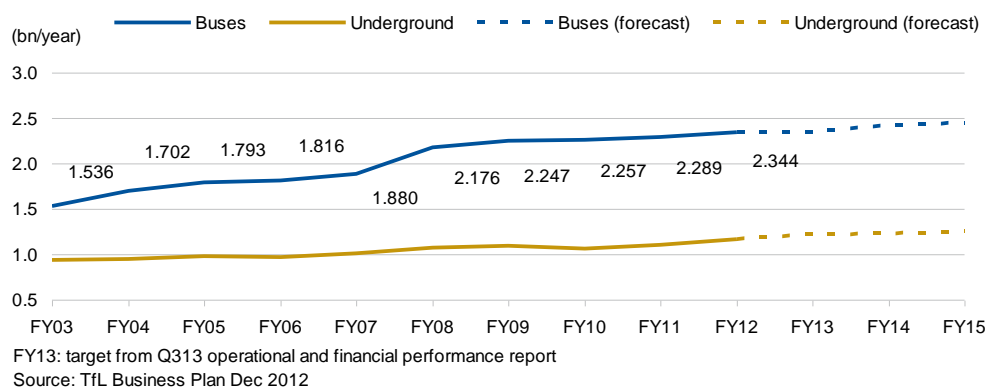
Source: TfL

A new signalling system has now been implemented on the Jubilee Line, leading to quicker journeys and more frequent services. The latter part of the testing on the Jubilee signalling was done offsite, which minimised disruption significantly. New walk-through air conditioned trains are now running on the Metropolitan line.

In January 2013, TfL celebrated 150 years since London's first underground train, and the world's first transit system journey. The growth of the underground led to the growth of London, facilitated by the extension of the tube and rail to and within the city. Various events will be held in London, focusing on the important role that engineering and infrastructure play in the UK.

Figure 2

Passenger Journeys



Surface Transport

Surface transport is responsible for buses, congestion charging, traffic signalling, roads, bridges and tunnels and cycling and walking. It is forecast to deliver 42% of revenues in FY13 and passenger journeys on the buses are forecast to rise to 2.349bn from 2.344bn. Bus usage in London has risen due to increased investment as well as measures supporting public transport. The bus is the most used public transport mode in London, responsible for half of all daily journeys and now accounts for nearly half of all UK bus journeys.

TfL outsources some of its operations, including bus services. Six private companies operate on 90% of bus routes, on five-year contracts. A new bus was introduced in February 2012 to replace London's old Routemaster bus, which was withdrawn from service in 2005. These buses meet TfL's targets for low carbon emissions, achieved through low weight construction for fuel efficiency. The engines are designed to be on the road for 22 hours, travelling at 6mph and stopping every 100m. The first eight buses are in service on route 38 and by spring 2016 there will be 600 new buses.

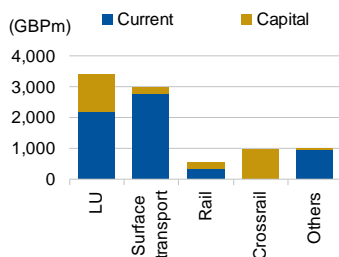
Congestion charging was initially launched in 2003 to reduce cars entering the most congested central areas. It has been extremely successful in its primary objective of restricting car traffic and increasing bus patronage.

Ninety-five per cent of London's roads are controlled and managed by the London boroughs. TfL's investments support improvements where problems are most acute. SCOOT (Split Cycle Offset Optimisation Technology) was in use at 40% of London's traffic signals at end-FY12 contributing to an average 13% reduction in delays on the TfL road network. In 2010 the introduction of the London permit scheme for road and street works led to a significant reduction in disruption due to the better co-ordination of utility works.

Barclays cycle hire scheme has been expanded to the south-west and the aim is that by 2014, the number of bikes will be increased by 2,400 to more than 10,000.

Figure 3

Breakdown of Expenditure FY12



Source: TfL

Rail

This covers both the DLR and the London Overground. On the Overground, passenger journeys are expected to rise to 121 million in FY13. This will be helped by the completion of the East London line and the new South London line opening to passengers in December 2012, which now provides an orbital network around London. In the first month of operation, the new South London line carried one million passengers.

On the DLR, the introduction of three-car trains in November 2010 led to an increase in capacity of 50%. In May 2011, a major capacity upgrade was completed on the DLR delivering 55 new carriages, longer platforms and the extension to Stratford International airport was completed in August 2011. In 2013, the three-car service will be launched on the Bank to Woolwich Arsenal route and on Friday 3 August 2012, more than 500,000 journeys were made on a single day.

Expenditure

Service Expenditure, Staff Costs: Main Components of Operating Expenditure

TfL is one of the largest employers in London with average full-time equivalents of 25,668 in FY12, a decrease from 26,653 in FY11. Staff costs accounted for 24% of operating costs (including depreciation) in FY12. In the past, a significant part of TfL's expenditure was on PPPs and PFIs. TfL since August 2010 no longer has any PPPs.

PFIs were contracted where TfL controls the use of infrastructure and residual interest at the end of the arrangement and which are treated as service concession arrangements. These include:

Connect provides the network wide integrated radio and transmission communication services to LUL (LUL). *Power* maintains, manages and procures the electricity supply services for the London Underground. In August 2012, it was announced that this contract would come to an end a year later in August 2013. *British Transport Police* provides improved operational infrastructure to support policing of the Jubilee line extension and LULs long-term policing system. *A13 Thames Gateway* designs and constructs improvements to the A13. *Dockland Light Railway contracts for Greenwich* involve the design, construction and maintenance of the extension. The PFI contracts for City airport and Woolwich Arsenal extensions were bought by TfL in November 2011.

Capital Expenditure Includes Tube Infrastructure and Crossrail

TfL's capital expenditure plan aims to increase capacity on the tube by 30% by end-2020 and by 10% on rail. In FY12, 46% of capital expenditure was on the tube, down from 56% in FY11.

The focus of tube upgrades will be on the Northern line, sub-surface lines and the deep tube programme. The Northern line upgrade that is expected to be completed by the end of 2014, will increase capacity by 20% and reduce journey times by 18%. The updates include a new control centre, computerised signalling and automatic train control system.

The sub-surface lines should be completed by end-2018, and will be the largest investment on the underground yet. It will include the Circle, Hammersmith and City and Metropolitan lines. The upgrades include delivery of 191 new air-conditioned trains, automatic train control system, new control centre, new signalling, power upgrades and train depot improvements. The deep tube programme includes development of the next generation of line upgrades for the Piccadilly, Central, Bakerloo and Waterloo and City lines and development of a new train for these lines and new signalling.

Crossrail is TfL's most significant capital expenditure project. A high frequency, high capacity service will be delivered to 37 stations. It will expand the city's rail network capacity by 10%, reducing congestion by up to 60% on many underground lines as well as on the DLR and

Southeastern train services and it aims to generate GBP42bn for the UK economy. There will be 118 kilometres of rail that will link Heathrow in west London and Maidenhead in Berkshire to Shenfield in Essex and Abbey Wood in the south-east. An additional 1.5 million people will be within 45 minutes commuting distance of the capital's key business districts. Part of Network Rail's existing infrastructure will be used.

Services will begin in phases; the first new trains are planned to begin operating in 2017 and Crossrail services will start running in the central tunnel section towards the end of 2018. At the peak of construction in early 2013 up to 14,000 people will be employed on the project. The project is expected to be completed in 2018 and GBP14.8bn has been set aside for funding. This will be covered by government grant, the private sector and Network Rail. TfL's exposure has been capped at GBP7.1bn and there is a put option to the department of transport if the costs breach a pre-determined level. The committed budget is GBP9bn, GBP5.1bn from the department of transport, and GBP4.1bn from the GLA. To fund part of its contribution TfL has taken on additional borrowing.

Crossrail tunnelling began in May 2012. Procurement of Crossrail's GBP1.2bn rolling stock and depot project is underway. In October 2012 four bids were received and it is anticipated that financial close will be finalised by spring 2014.

Upgrades on rail capacity on London Tramlink, the London Overground and DLR are also planned. In terms of Tramlink, services have been increased by the introduction of new trams and increasing frequency leading to increased capacity. On the London Overground, additional trains are expected. Upgrades on the DLR will include double tracking on current single-tracked sections.

Overall Performance

As a result of the transition to IFRS in 2011, government grant (including capital grant) is now shown in full on the Group Comprehensive Income and Expenditure statement, which creates an accounting surplus on provision of services. This surplus represents the funding of the capital investment programme and is spent on various projects, including Crossrail and tube upgrades, as set out in TfL's business plan and agreed by the Mayor.

For FY12, TfL recorded a surplus on provision of services of GBP1.404bn, a decrease from the GBP2.417bn surplus recorded for FY11. This was mainly due to an actuarial (non-cash) loss of GBP755.2m being recorded in FY12 compared to a gain of GBP647.2m in FY11.

Another item affecting the final result was that in FY11 GBP321m was recorded for the net loss on disposal of assets, compared to a GBP3m gain in FY12. Total operating income for FY13 is expected to be slightly lower than budget as a result of lower fare income.

Projections: Revised Business Plan (BP), Published December 2012

TfL's most recent business plan was published in December 2012. Although it covers the next ten years, projections for only three years up to FY15 are included, in line with the funding settlement with the department of transport and the government's parliamentary term. The focus of the plan is on the ongoing renewal of assets and the sustained investment in infrastructure.

Financing of the operating and capital plans can be seen in Figure 4 but primarily comes from general grant for the operating plan, and from investment grant, new borrowing and reserves for the capital plan. Total operating income is projected to rise to GBP4.3bn from GBP3.8bn in FY13. Nevertheless, TfL has flexibility to delay some capex if the increase in future fare income is lower than projected.

Figure 4
Finance Sources (GBPm)

Operating plan	2012/13	2013/14	2014/15	Total
General grant	1,954	1,102	827	3,883
Overground grant	27	28	28	83
GLA precept	6	6	6	18
Business rates retention	0	771	771	1,542
Other revenue grants	140	20	8	168
Total revenue grants	2,127	1,927	1,640	5,694
Surplus/(deficit) to fund capital plan	478	348	176	1,002
Capital plan				
Surplus/(deficit) from above	478	348	176	1,002
Investment grants	881	904	928	2,713
Metronet grant	352	184	0	536
Other capital grants	54	0	0	54
Working capital	2	-210	21	-187
New borrowing and reserve movements	-388	777	1,339	1,728
Total	1,379	2,003	2,464	5,846

Source: TfL Business Plan (Dec 2012)

Key themes in the business plan to deliver TfL's priorities, as well as shared national priorities include: Crossrail tunnelling, station and rolling stock procurement; Northern line, sub-surface lines and deep tube programme; Overground upgrade, Tramlink and DLR; Investment in rail and tube to meet the 30% target; congestion relief, and step free access at stations including Bank, Paddington and Elephant & Castle; upgrades on the roads including asset renewals, reliability, safety and capacity schemes including cycling; the new Routemaster bus for London and renewal of bus stations; Northern line extension, Silvertown tunnel and ferry extensions; and changes to tube ticketing, and a focus on air quality and low emission zone phase 5.

TfL has also identified further savings across the board to reduce expenditure. Project Horizon was set up to review TfL's organisation structure, identify a new structure and ways of working, and reduce non-operational staff costs. These include continuing savings from the previous plan and a new savings plan that will further reduce TfL's costs. Over FY13-FY15, TfL estimates GBP494m savings will be delivered. TfL's new target for efficiency savings has increased to GBP9.8bn from GBP7.6bn for the period FY10-FY18.

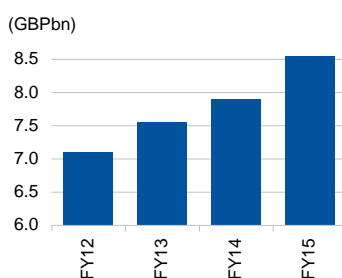
From 2008-2012 GBP2.1bn of savings were achieved through reorganisation of ticket offices, rationalisation of back office support after the integration of Metronet and reduction in non-operational staff and the termination of the Prestige PFI contract. For FY13, net savings of GBP1.293bn are forecast, 65% of which had been achieved by early December 2012. The programme is GBP41m below target due to some movement of property sales into future years and well as costs from termination of the Powerlink PFI contract.

Debt, Liquidity and Contingent Liabilities

TfL's direct debt totalled GBP7.123bn at end-FY12, an increase of 12% or GBP781m from GBP6.351bn the prior year. GBP1.858bn was commercial paper borrowing taken out to refinance Tube Lines debt, the acquisition of CARE and WARE and the ongoing capital investment programme. GBP1.223bn of fixed rate Tube Lines debt was repaid/refinanced. GBP200m was borrowed as the third instalment of a total facility of GBP1bn of an EIB loan for Crossrail, and GBP300m of one-year floating rate notes were taken out. The weighted average maturity of debt at end-FY12 was 16 years. Of total debt at end-2012, GBP974m was in bonds and GBP1.858bn in commercial paper.

In July and August 2012, TfL issued a total GBP1.0bn under its MTN programme, and an additional GBP300m in November 2012. This latter five-year bond was priced at gilts plus 70bp and aimed at refinancing the one-year floating rate notes. In November 2012, the UK government introduced the PWLB certainty rate on loans of up to 50 years, which reduced rates to 80bp from 100bp over gilts. Direct debt stood at GBP7.8bn at 31 December 2012 and

Figure 5
Actual and Projected Debt



FY12: Actual; FY13-FY15: Business plan
Source: TfL

is expected to decline to GBP7.5bn at end-2013. TfL will raise external funding over the business plan period under its prudential borrowing programme.

Contingent Liabilities Reduced Since Acquisition of Tube Line

Guarantee contracts have been given to some of TfL's subsidiaries, which total GBP1.5bn. This is based on approximate amounts of debt that were envisaged to be drawn by the counterparty at the signing of each agreement. TfL is legally required to fair value its guarantees and those that have value are recorded as a liability on the balance sheet. All £1.5bn of guarantees have currently been assessed as having zero or immaterial value and therefore disclosed for the information purposes only. At FYE12 the guaranteed agreement with WARE and with CARE (former PFI partners of DLR) was no longer in place since the acquisition of these groups of companies. Guarantees of Powerlink cease to be relevant following the termination notice in August 2012.

Some of TfL's PFI contracts contain commitments that could result in breakage costs in the event of early termination. TfL provided performance guarantees to the International Olympic Committee for projects to be delivered.

For a portion of borrowing requirements, TfL uses interest rate derivatives. TfL is allowed to enter into derivatives to mitigate risk under section 49 of the TfL Act of 2008. At the start of FY13, Transport for London Finance Limited (TFLFL) had GBP1.848bn of interest rate derivatives including gilt locks and swaps. During FY13, TfL had additional interest rate derivative activity including gilt locks, swaps and forward starting swaps.

Pensions

In FY12, the fair value of the assets of the public sector section of the TfL pension fund increased by GBP337m. There was an increase in the actuarial value of future liabilities of GBP979m due to a reduction in the discount rate required for accounting valuations. As a result, the deficit of pension scheme assets over future liabilities for the TfL pension fund increased by GBP642m.

Most of TfL's employees are covered by a defined-benefit scheme managed by one of its wholly owned subsidiaries. The level of contributions to be made by employees to ensure its long-term solvency is recommended by an actuary. The last triennial valuation from March 2012 will not be published until June 2013 although the funding position is expected to have improved from the 73% funding position in 2009. The previous valuation from March 2009 assumed a GBP1.33bn deficit. Under a 10-year recovery plan the fund is on course to be fully funded by 2020.

Strong Liquidity Position

TfL still has access to traditional liquidity facilities and total collective limits are GBP200m, which are mitigated by cash and liquid deposits of GBP2.6bn at end-FY12. Of this GBP1.2bn is ring-fenced for Crossrail. To diversify and mitigate risk, TfL expanded its number of approved investments.

Much of TfL's investment is in UK Treasury bills, UK gilts and government guaranteed, along with 'AAA'-rated money market funds, supnationals and UK clearing banks. Additionally, TfL has GBP200m of undrawn overdraft facilities and access to PWLB funding.

Appendix A

Figure 6
Transport for London (Consolidated)

(GBPm)	31 Mar 08	31 Mar 09	31 Mar 10		31 Mar 11	31 Mar 12
	Re-stated	Re-stated	Actual	Re-stated in 2011 accounts	Actual	Actual
Income statement						
Revenues	3,278.8	3,451.5	3,594.3	3,595.0	3,884.2	4,180.9
Fares	2,445.8	2,577.5	2,665.9	2,662.8	2,942.3	3,271.1
Others	833.0	874.0	928.4	932.2	941.9	909.8
Operating costs	-5,739.7	-6,020.0	-6,075.1	-6,108.0	-6,066.6	-6,230.4
Staff costs	-1,005.5	-1,308.7	-1,304.5	-1,298.0	-1,455.6	-1,514.6
Other net operating expenditure	-4,126.6	-4,003.8	-3,969.2	-3,996.2	-3,761.3	-3,820.5
Depreciation	-607.6	-707.5	-801.4	-813.8	-849.7	-895.3
Operating profit from operations	-2,460.9	-2,568.5	-2,480.8	-2,513.0	-2,182.4	-2,049.5
Transport grant and other transfers	2,411.4	1,306.8	1,367.6	3,337.8	3,652.6	3,606.1
Crossrail ring fenced grant	0.0	0.0	0.0	172.0	1,020.0	1,217.0
Operating profit after transport grant	-49.5	-1,261.7	-1,113.2	996.8	2,490.2	2,773.6
Other non-operating items	512.0	379.2	398.6	-999.5	652.5	-871.7
Profit pre-interest	462.5	-882.5	-714.6	-2.7	3,142.7	1,901.9
Interest receivable	114.0	104.6	13.9	13.9	9.4	13.4
Interest expensed	-289.4	-322.1	-390.7	-410.9	-395.5	-352.4
Other financing income/(expense)	16.6	-41.7	-98.7	-78.7	-18.9	-162.6
Exceptional items	-258.7	1,503.2	0.0	0.0	0.0	0.0
Loss on disposal of assets	-29.5	-85.8	-14.5	-105.2	-321.8	2.5
Taxation income	0.0	0.0	0.0	0.0	1.3	1.5
Surplus (deficit)	15.5	275.7	-1,204.6	-583.6	2,417.2	1,404.3
Ratio analysis						
Profitability (%)						
Operating profit after transfers/total revenues including grants ^a	-0.9	-26.5	-22.4	14.4	33.0	35.6
Transfers and grants ^a /total revenues including grants ^a	42.4	27.5	27.6	48.1	48.5	46.3
Fares/total revenues including grants ^a	43.0	54.2	53.7	38.4	39.0	42.0
Surplus (deficit) total revenues including grants ^a	0.3	5.8	-24.3	-8.4	32.1	18.0
Credit ratios						
Total risk (before pension obligations)/total reserves (%)	109.3	124.1	269.7	60.9	52.8	50.6
Total risk (before pension obligations)/total assets (%)	27.4	27.1	29.6	30.8	29.2	28.2
Total risk (before pension obligations)/total revenues inc. grants ^a (%)	92.5	125.0	142.4	107.9	103.1	104.8
Cash & liquid deposits/total assets (%)	9.9	9.1	6.3	6.2	7.8	9.2
Cash & liquid deposits/total risk (%)	36.3	33.7	21.4	20.2	26.6	32.6
Interest revenue/financial expenses (%)	39.4	32.5	3.6	3.4	2.4	3.8
Current assets/current liabilities (%)	128.0	120.7	107.7	88.5	97.9	74.2
Funds from operations/net debt (%)	417.6	20.0	14.4	15.2	9.0	7.6
Net debt/EBITDA (%)	7.5	-196.5	-839.0	159.7	184.7	182.3
EBITDA/interest	3.2	-2.5	-0.8	4.1	6.0	7.2
Gearing (%)	121.9	148.1	351.6	78.7	63.8	64.9

Note: For the FY11 accounts, TfL adopted International Financial Reporting Standards (IFRS) and this resulted in a re-statement of the FY10 and FY09 accounts. Under standard accounting practice, previous years are not re-stated, so FY08 are not compliant

^a (Excludes Crossrail ring fenced grant)

Source: Fitch

Appendix B

Figure 7
Transport for London (Consolidated)

Balance sheet (GBPm)	Actual	Re-stated in 2011 accounts		Actual	
	31 Mar 08 ^a	31 Mar 09	31 Mar 10	31 Mar 11	31 Mar 12
Infrastructure and office buildings	13,273.6	13,373.9	14,158.5	16,107.7	16,788.4
Rolling stock	1,374.5	1,414.0	1,378.7	1,688.3	2,012.2
Other fixed assets	497.6	4,797.4	6,114.5	5,608.7	6,305.4
Other non-current assets	1,572.6	410.9	496.3	440.8	586.1
Other financial assets	0.0	0.0	0.0	4.9	0.0
Non-current assets	16,718.3	19,996.2	22,148.0	23,850.4	25,692.1
Stocks	4.2	20.2	18.3	35.6	37.6
Short term debtors	601.9	475.5	607.1	600.4	523.3
Other current assets	0.0	0.0	0.0	14.5	0.0
Short term derivative financial instruments	0.0	0.0	0.0	0.0	0.8
Cash, deposits & liquid investments	1,908.0	2,001.9	1,509.4	2,066.8	2,661.7
Current assets	2,514.1	2,497.6	2,134.8	2,717.3	3,223.4
Total assets	19,232.4	22,493.8	24,282.8	26,567.7	28,915.5
Borrowings & lease liabilities	556.5	356.4	398.0	563.4	2,247.2
Short term derivative financial instruments	0.0	0.0	0.0	0.0	8.0
Short term creditors	882.8	1,788.9	1,720.0	1,956.8	1,950.1
Short term provisions	524.2	46.3	294.9	254.1	140.8
Accruals & deferred income	0.0	0.0	0.0	0.0	0.0
Current liabilities	1,963.5	2,191.6	2,412.9	2,774.3	4,346.1
Borrowings & lease liabilities	4,704.1	5,923.1	7,075.6	7,242.3	5,903.2
Long term derivative financial instruments	0.0	0.0	0.0	0.5	74.0
Other long term creditors	26.1	37.0	38.1	55.6	51.3
Deferred grants	6,864.2	0.0	0.0	0.0	0.0
Pension and other liabilities	606.8	1,187.5	2,193.7	1,620.1	2,292.7
Provisions	256.1	107.0	270.5	165.7	134.7
Non-current liabilities	12,457.3	7,254.6	9,577.9	9,084.2	8,455.9
Total liabilities	14,420.8	9,446.2	11,990.8	11,858.5	12,802.0
Net assets	4,811.6	13,047.6	12,292.0	14,709.2	16,113.5
Capital and reserves					
Issued ordinary shares	0.0	0.0	0.0	0.0	0.0
Share premium account	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	1,869.7	0.0	0.0	0.0	0.0
Other reserves	2,941.9	13,047.6	12,292.0	14,709.2	16,113.5
Profit & loss/revenue reserves	0.0	0.0	0.0	0.0	0.0
Total equity/minority interests	4,811.6	13,047.6	12,292.0	14,709.2	16,113.5
Total liabilities & equity	19,232.4	22,493.8	24,282.8	26,567.7	28,915.5
Debt schedule					
A. Debt structure					
Debt source					
Bank	1,357.1	3,017.6	3,525.5	5,750.7	6,157.8
Non-bank	592.9	600.0	600.0	600.0	974.0
Total financial debt	1,950.0	3,617.6	4,125.5	6,350.7	7,131.8
Other Fitch classified debt (finance leases)	3,310.6	3,261.9	3,355.8	1,419.0	1,027.5
Total risk before pension obligations	5,260.6	6,879.5	7,481.3	7,769.7	8,159.3
Unfunded pension obligations	606.8	1,187.5	2,193.7	1,620.1	2,292.7
Total risk	5,867.4	8,067.0	9,675.0	9,389.8	10,452.0
Debt maturity (including finance leases)					
Less than 1 year	556.5		398.0	564.1	2,245.7
1 to 5 years	2,405.4		1,843.1	750.1	474.8
More than 5 years	2,298.7		5,240.2	6,455.5	5,438.8
Total debt	5,260.6	6,879.5	7,481.3	7,769.7	8,159.3
Cash & deposits	1,908.0	2,001.9	1,509.4	2,066.8	2,661.7
Net debt/(cash)	3,352.6	4,877.6	5,971.9	5,702.9	5,497.6
Outstanding risk under guarantees: guarantees in respect of its subsidiary companies' contracts	3,107		3,897	1,897	1,515

Note: For the 2010-11 accounts, TfL adopted International Financial Reporting Standards (IFRS) and this resulted in a re-statement of the 2009-10 and 2008-09 accounts

^a Including Crossrail Limited

Source: Fitch

Appendix C

Figure 8
TfL Funding, Income, Operating and Capital Expenditure Plan

TfL operating plan	2012/13	2013/14	2014/15	2012/13 - 2014/15	Total
GBP(m)					
Fares income	3,835	4,089	4,328		12,252
Other operating income	613	676	725		2,014
Total operating income	4,448	4,765	5,053		14,266
Operating expenditure (net of third-party contributions)	-5,825	-5,960	-6,183		-17,968
Operating balance	-1,377	-1,195	-1,130		-3,702
Interest income	10	8	9		27
Debt interest	-293	-344	-382		-1,019
Group items	11	-48	38		1
Current balance	-1,649	-1,579	-1,465		-4,693
Finance sources					
General grant	1,954	1,102	827		3,910
Overground grant	27	28	28		83
GLA precept	6	6	6		18
Business rates retention	0	771	771		1,515
Other revenue grant	140	20	8		168
Total revenue grants	2,127	1,927	1,640		5,694
Surplus/(deficit) to fund capital plan	478	348	175		1,001
TfL capital plan					
GBP(m)					
Capital expenditure	-1,647	-2,067	-2,351		-6,065
Third party contributions - capital	53	69	116		238
Capital expenditure (net of third party contributions)	-1,594	-1,998	-2,235		-5,827
Sales of property and other assets	57	177	81		315
Net capital expenditure (core TfL)	-1,537	-1,821	-2,154		-5,512
Crossrail sponsors' funding commitment	-1,904	-2,247	-2,002		-6,153
Crossrail funding sources	2,062	2,065	1,693		5,820
Net crossrail contribution	158	-182	-309		-333
Total capital expenditure	-1,379	-2,003	-2,463		-5,845
Finance sources					
Operating surplus/(deficit) from above	478	348	176		1,002
Investment grant	881	904	928		2,713
Metronet grant	352	184	0		536
Other capital grants	54	0	0		54
Working capital	2	-210	21		-187
Net borrowing, other financing and reserve movements	-388	777	1,339		1,728
Total	1,379	2,003	2,464		5,846

Note: Following publication of the BP on 12 December 2012, the Secretary of State for Communities and Local Government announced that 1.7% of the Business Rate collected in 2013 and 2014 would be withheld. This has an expected impact on TfL's funding by GBP12.5m for each year. This reduction is expected to be fully absorbed by operating revenue and planned efficiency savings
Source: TfL Business Plan Update

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