

## **FITCH AFFIRMS TRANSPORT FOR LONDON AT 'AA' ON TUBE LINES ACQUISITION**

Fitch Ratings-London/Barcelona/Frankfurt-29 June 2010: Fitch Ratings has today affirmed Transport for London's (TfL) Long-term foreign and local currency ratings at 'AA', respectively, and its Short-term foreign currency rating at 'F1+'. The Outlooks on the Long-term ratings are Stable.

The rating affirmation follows TfL's confirmation that it has acquired 100% of the share capital of Tube Lines plc from its present shareholders, Bechtel and Amey (Ferrovial), for a cash consideration of GBP310m.

Tube Lines was the remaining public private partnership (PPP) provider responsible for the maintenance and upgrade of part of the Underground network following the collapse of Metronet and its subsequent acquisition by TfL. The price for the PPP contract is renegotiated every seven-and-a-half years and Tube Lines had estimated that the refurbishment cost for the network was around GBP6.8bn, whilst TfL had calculated the cost at GBP4.1bn. The PPP arbiter draft directions, published on 17 December 2009, determined that the economic and efficient price for improving the tube network from mid-2010 should be GBP4.4bn, i.e. an amount commensurate with TfL's estimates.

Following the acquisition, TfL initially intends to maintain Tube Lines as a separate company within the TfL group, and Amey will continue to provide management and maintenance services. TfL will nonetheless review the tube upgrade programme to identify cost savings and to minimise passenger disruption. TfL will also review the structure of Tube Lines in due course.

As part of the acquisition, TfL has entered into arrangements to restructure Tube Lines' GBP1.75bn debt. The latter's debt that was previously serviced indirectly by TfL as part of the PPP will now be directly guaranteed by TfL. As a result, the company will now account for this debt as direct borrowing rather than finance lease obligation. The transfer of Tube Lines' debt to the TfL group will not have any impact on TfL's credit quality as Fitch has already taken these liabilities into account in assessing TfL's overall risk profile.

TfL, which reports to London's mayor, is a functional body of the Greater London Authority. It was created in 2000 and subsequently took over all responsibilities for buses and other transport functions in London from the government. Its remit includes roads and bridges, buses, the Docklands Light Railway, river services and taxis. London Underground Limited was passed to TfL in July 2003.

Applicable criteria, "Revenue-Supported Rating Criteria", dated 29 December 2009, and "Ratings of Non-US Public Finance Entities", dated 1 September 2009, are available on [www.fitchratings.com](http://www.fitchratings.com).

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Revenue-Supported Rating Criteria

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