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Research Update:

Transport For London 'AA/A-1+' Ratings Affirmed; Outlook Negative

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Overview

- We anticipate a further weakening of U.K. municipalities' revenue and expenditure balances given that locally raised additional revenues and spending cuts fail to fully compensate the ongoing and further potential reductions in central government grants.
- Consequently, we are revising downward our assessment of the institutional framework under which U.K. municipalities, including Transport for London (TfL), operate.
- This revision does not, however, further affect our assessment of TfL's stand-alone credit profile. Therefore, we are affirming our 'AA' long-term and 'A-1+' short-term ratings on TfL.
- The outlook remains negative and indicates that we would lower the rating on TfL if we lowered our long-term rating on the U.K. or if we observed significant weakening in the quality of TfL's financial management combined with materially adverse economic conditions in London.

Rating Action

On Aug. 12, 2016, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on Transport for London (TfL). We also affirmed our 'A-1+' short-term issuer credit rating on TfL. The outlook is negative.

As defined in EU CRA Regulation 1060/2009 (EU CRA Regulation), the ratings on Transport for London are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2016 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: Midyear Update," published Aug. 10, 2016, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is our downward revision of the institutional framework for U.K. municipalities. The next scheduled rating publication on Transport for London will be on Oct. 14, 2016.

Rationale

The affirmation follows the downward revision of our institutional framework assessment for U.K. municipalities to very predictable and well-balanced from extremely predictable and supportive.

Our downward revision of the institutional framework for U.K. municipalities reflects our anticipation of further deterioration in the revenue and expenditure

balance amongst U.K. municipalities (for more information see "Cuts In Grants Are Weighing On U.K. Municipalities Ratings," published on Aug. 12, 2016).

The long-term rating on TfL is equivalent to our 'aa' assessment of its stand-alone credit profile. In our view, London will continue to be of strategic importance to the U.K. economy, and TfL continues to benefit from its exceptional liquidity position. The ratings on TfL also reflect the very predictable and well-balanced institutional framework within which it operates as a U.K. local authority. Positively, we view TfL's overall commitment to fiscal discipline and the quality of its financial management as very strong. At the same time, we believe the U.K.'s referendum decision to leave the EU has led to an uncertain and more challenging operating environment for TfL, and much depends on the outcome of detailed Brexit negotiations. The rating is constrained by the weakening budgetary performance driven by the reduction in government grants and substantial capital expenditure. Furthermore, TfL has a high level of tax-supported debt, which we expect to reach about 167% of consolidated operating revenues by 2019.

Outlook

The negative outlook indicates that we would lower the rating on TfL if we lowered our long-term rating on the U.K. government because we do not believe that the institutional and financial framework allows U.K. local and regional governments to be rated above the sovereign.

We could also lower the rating over the next 24 months if we anticipated a considerable weakening in its financial management and control, potentially from adverse economic conditions in London or cost pressures from its significant capital projects.

We could revise the rating to stable over the next 24 months, if the outlook on the U.K. government was revised to stable and, at the same time, if TfL performs in line with our base-case expectations.

Key Statistics

- For TfL's published key statistics, please refer to: *Research Update: Transport for London Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Now Negative - June 29, 2016.*

Ratings Score Snapshot

Transport for London Ratings Score Snapshot

Key Rating Factors

Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Very strong
Budgetary Flexibility	Satisfactory
Budgetary Performance	Very Weak
Liquidity	Exceptional
Debt Burden	High
Contingent Liabilities	Very low

*S&P Global Ratings' local and regional government ratings are based on eight main factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

- Sovereign Risk Indicators - July 6, 2016 (a free interactive version can be viewed at <http://www.spratings.com/sri>)

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Research Update: Transport for London Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Now Negative - June 29, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - April 21, 2016
- Default, Transition, and Recovery: 2014 Annual International Public Finance Default Study And Rating Transitions - June 08, 2015

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee

by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

	Rating	
	To	From
Transport for London		
Issuer Credit Rating		
Foreign and Local Currency	AA/Negative/A-1+	AA/Negative/A-1+
Senior Unsecured		
Local Currency	AA	AA
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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