MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Transport for London

United Kingdom

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Transport for London and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale

The Aa1 debt rating of Transport for London (TfL), with stable outlook reflects the essential nature of TfL's services as the dominant provider of urban transport in London and the stability that the government of London and the national government have given it in agreeing long-term funding plans.

However, this stable funding dynamic faces significant challenges, particularly in the face of large government deficits anticipated throughout UK public finances in the coming years.

- TfL has substantial operating risk from its responsibilities for the London Underground and bus services as well as in its rail and congestion charging systems. Although own-source funding levels are forecasted to grow substantially up to 2018, and TfL's record of increasing revenue has been good, the share of government transfers is projected to fall to levels that would be considered extraordinarily low for a major urban transport entity. This could eventually raise concerns regarding the future robustness of TfL's finances and its ability to deliver what is now a very large and growing investment plan.
- TfL also bears political risk in a) its process of setting fares and b) in assuring receipt of subsidies over the medium to longer term, which could be reconsidered by national political priorities. TfL's operating costs of delivering service and the maintenance and scope of investment programmes may also be strongly affected by the political environment in which TfL operates.
- TfL has significant contingent liabilities, either directly through PFI and PPP contracts or through its agreements on programme management, particularly its investment in Crossrail.
- The above risks are strongly mitigated by the importance of TfL's services both to London and to the national economy. This encourages close practical links with the government, which have been manifested in long-term funding agreements and a high level of disclosure on TfL's operations and investments.
- Whilst the Mayor directs TfL's operations and financial management through policy and board appointments, Moody's expects the central government to help address the worst downsides of any distress case, particularly if the co-operative framework of long-term funding agreements and good service delivery by TfL is maintained.

International Comparisons

TfL's operating and investment risks are similar in profile and scale to those of other major urban providers of public transport; its services are vital for regional and national economic productivity. TfL does not enjoy direct legal integration into sovereign financial policy, as granted, for example, through EPIC status to the RATP in Paris; as a result, its rating is not equivalent to the sovereign Aaa of the UK. In contrast to the Metropolitan Transportation Authority of New York, it has a more tightly integrated operational structure across services; and it benefits from being able to set agreements with a single, political funding source, the Department of Transport, and then to set its fares directly via the Mayor.

Rating Outlook

It is unlikely that TfL would rise to the same rating on its debt as the UK government without provisions which approach an effective guarantee on its obligations. A deterioration in the quality of the services it delivers and an increase in political friction on the agency could place downward pressure on the rating, particularly in the face of national budgetary pressures.

Issuer Overview

Established in July 2000 under national legislation[1], TfL is the key component of the local government of greater London. TfL is the dominant provider of urban transport for the UK capital. It is the sole owner of the London Underground (Tube) network and the Docklands Light Railway (DLR), Croydon tram systems, and has full control of the franchising of the Greater London bus network to private operators. TfL has also taken on certain portions of the above-ground rail system operating mostly within London, serving areas not well covered by the Tube and to develop Crossrail. Finally, TfL has responsibility for the major roads into London, for a congestion charging system that applies to central London, and for regulating the taxis.

TfL is the sole or majority shareholder in a number of subsidiary companies, with the dominant enterprises matching to the bus, tube, rail and DLR systems. The full structure of transport for London appears in appendix 1.

Key Rating Considerations

Institutional Framework

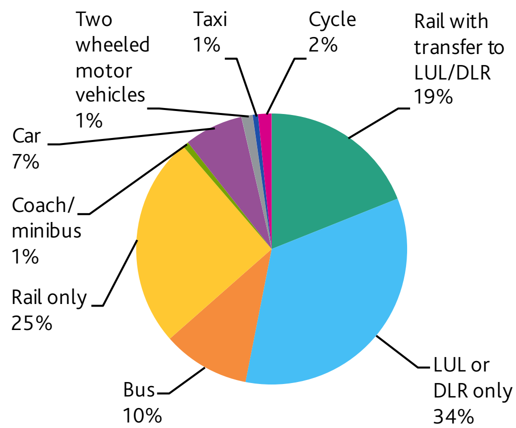
Necessity of services TfL provides supports the rating

More than 69% of trips to the central business district[2] (CBD) of London are provided for by TfL's services, as seen in the Figure 1 below. In practice, the segments not under TFL control are either very small or, like the large share of surface rail outside of TfL's control, are effectively at-or-close-to capacity and cannot strongly compete with TfL's services. TfL provides over eight million trips per day across its various systems[3] and over 500 million kilometres of service per year.

[1] The GLA Act of 1999.
[2] The central business district of London has a particularly high concentration in finance, business, retail, government, and internationally important cultural institutions.
[3] Transport for London website, www.tfl.gov.uk; Table 1.1.1 Daily average number of journey stages.

FIGURE 1

Share of trips to the London CBD



Source: [Moody's calculations from TfL website]

The scale and importance of TfL's systems are most comparable to those of New York, Paris, Tokyo, Moscow and Beijing. As with each of these cities, the urban mass-transport system is essential for the local economy, and for some of the countries' leading industries in the global economy.[4]

Growth of transport system tied to growth in the economy

The GLA projects the population of greater London rising an additional 800,000 to 1.0 million residents to 8.3 million by 2026. The importance of effective public transport to meet this demand while allowing for proper spatial development, reducing energy consumption and preserving the environment also support TfL's role. It is often argued that limits in transport will limit London's economic growth and compete in the longer term. Whilst recent extensions and construction of the Docklands Light Railway and the Jubilee Line Extension have significantly expanded the network, bottlenecks remain, and capacity is constrained through much of the system.

Virtuous cycle of service quality supporting long-term funding support, which in turn allows efficient planning and service delivery

Like all other major urban public transportation entities, TfL's systems rely on significant subsidies for infrastructure investment and, to a lesser degree, to fund its operations. TfL projects receiving over GBP30 billion of grant to 2018 and more than GBP5 billion for Crossrail, so the scale of government funding commitments forces direct consideration of TfL's finances and performance within the debate on national finances. The size of TfL's grant also exposes TfL to potential competition from other governmental programmes.

TfL's fares and service levels, too, can be influenced by politics. Before the turn of the millenium, funding for transport in London had been highly variable, in the words of one minister – 'chopped and changed'. With substantial uncertainty in resources, planning could become more aspirational than realistic, and long-term infrastructure investment would be caught up in inefficient annual cycles of 'use it or lose it' spending.

Long-term public funding arrangements have mitigated political risk, and create basis for efficient delivery

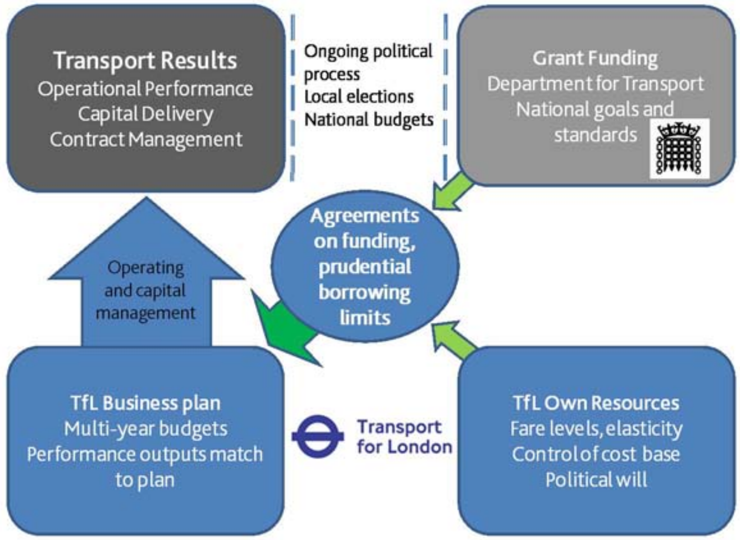
Since 2003, TfL has enjoyed longer term funding agreements between the GLA and government, which it has used to plan its own revenues and spending targets, and then as a foundation for efficient service delivery. The current agreement on funding and prudential borrowing with the Department for Transport runs to 2017/2018. Although the agreements reflect current government policy and are published on the TfL website, they are not legally binding to future governments. This cycle is shown in broad terms in figure 2.

[4] London's role in the international economy is reinforced by arguments of its position and traditions in international trade and commercial law. It is estimated that 99% of global activity is located in time zones that overlap with London's working day; over 300 languages are spoken in London, its 50% share of all European banking activity, the LSE's role as the most international exchange and the estimated half-trillion pounds of daily forex trading, as well as its employing over half a million persons in creative and cultural industries. *London School of Business, The Facts, 2010.*

FIGURE 2

Political, Planning, and Delivery Cycle

Transportation investment in London



TfL has a solid track record of delivering on investments

In practice TfL has the obligation (sometimes explicitly covered within its letter agreements with the government) to demonstrate that meets its investment and service targets, in order the justify the large grant receipts provided on its behalf.

TfL has established a good track record has been good on key projects. These include:

» Improvements to bus services and dramatic increases in passenger levels since 2000	» Additional capacity achieved on Jubilee Line trains by late 2005	» Establishment of London Overground network; the conversion of certain heavy rail routes within London to metro frequencies and standards
» The establishment of a solid transport plan for the 2012 Olympics in London; infrastructure projects are progressing well	» The completion and opening of the East London Line within expected timeframe	» Agreements on the Crossrail network, a subsidiary of TfL, project progressing to bidding major construction packages
» The delivery of DLR extensions and capacity improvements on-time and within budget	» The rollout of the Oyster contact-less smart card system	» The management of London Underground PPP contracts with minimal disruption to operations; takeover of Metronet with modest delays to key investment programmes

Performance delivery good, as key operating performance indicators stable or improved

Key performance indicators for TfL's major systems (see figure 3) have either remained stable or improved from 2004/05 to 2008/09. These results have been achieved despite the intensive refurbishment of the Underground network since 2001 and the large volume of road works in London undertaken by TfL and others.

FIGURE 3

	2008/09	2007/08	2006/07	2005/06	2004/05
Buses					
Passenger journeys (millions)	2.247	2.176	1.880	1.816	1.702
Kilometers operated (millions)	478	468	458	454	450
Schedule operated (per cent)	97	97,5	97,5	97,7	97,7
Excess wait time (high frequency minutes)	1,1	1,1	1,1	1,1	1,1
Passenger satisfaction	80	79	78	78	78
London Underground					
Passenger journeys (millions)	1.089	1.072	1.014	971	976
Kilometers operated (millions)	70,6	70,5	69,8	68,8	69,5
Schedule operated (per cent)	96,4	94,8	94,5	93,6	95,3
Excess wait time (high frequency minutes)	6,6	7,8	8,1	7,5	7,2
Passenger satisfaction	79	77	76	78	78
Docklands Light Railway					
Passenger journeys (millions)	66	67	61	54	50
Kilometers operated (millions)	3,9	4,4	4,4	3,6	3,3
On-time performance	94,6	97,3	97,8	97,3	96,0
Passenger satisfaction	92,0	97,3	96,8	95,4	94,9

Source: TfL 2009 Annual Report

Even smaller initiatives have seen improvements. For example, from 2000 to June 2009, TfL witnessed a 91% rise in cycling on its road network, to more than 500,000 cycle journeys per day.

Financial Position and Performance

Plan to 2018 depends on tight cost controls and substantial increases in TfL's share of own revenues

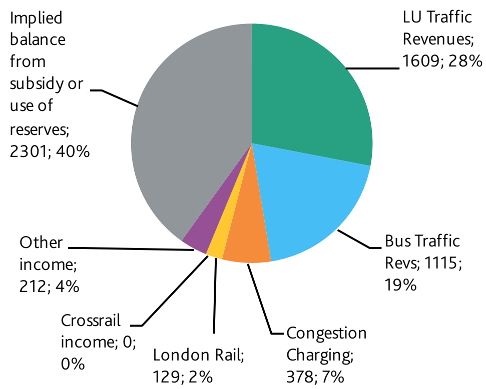
Although the long-term funding agreements and a multi-year business plan provide a stable a framework for managing TfL's finances, the shrinking share of grant (or use of reserves) for operations could put stress on politically sensitive fare revenues. If TfL fails to generate targeted levels of own-source revenues, particularly when major capital expenditures are in train, it could loosen the long-term framework and funding consensus, erode performance, and ultimately weaken TfL's standalone credit strength. At the same time, the failure to maintain broad consensus and stable funding may also undermine Moody's expectation of strong extraordinary support, further weakening the credit.

The use of grant funding or reserves for operations is planned to fall substantially from 2011 to 2018. TfL's own revenues[5] are expected to grow from 60% in 2009/10, which is already in the higher range for large capital-intensive systems, to 78% of operating expenditure by 2017/18 (compare figure 4 to figure 5). The decline of implied use of subsidy or reserves (see annual figures in figure 5 below) from GBP2.3 billion to GBP1.5 billion is 34% in nominal terms, possibly up to 50% in real terms.

[5] LUL Traffic revenues, bus traffic revenues, congestion charging, London rail, Crossrail income, and other income.

FIGURE 4

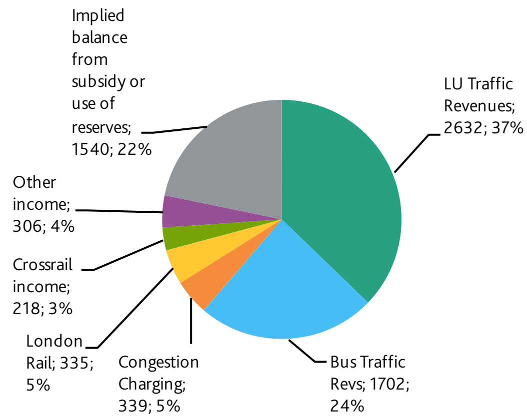
Operating Revenue Projections 09/10



Source: Moody's calculations from TfL Plan revenues

FIGURE 5

Operating Revenue Projections 17/18



Source: Moody's calculations from TfL Plan revenues

For the medium term, finances remain manageable within framework

TfL has managed its finances well over the 'medium' periods of local- and parliamentary-political cycles. As seen in projections made back in 2004 (see figure 6 on following page), TfL has largely been able to hit its targets as plans roll forward. This is particularly significant when taking into account the disruptions of terrorist attacks on the underground and bus system in 2005, the current recession and the substantial construction work over the years. But achieving future revenue projections in the later years of the plan will depend increasingly on the successful delivery of capacity improvements from particularly large projects, such as the East London line (now open) and Crossrail. The politically sensitive congestion charge and enforcement systems would also have to be continued as per current plan assumptions so as to not add further stress to total own-source revenues.

The most recent projections of operating expenses for 2009/10 fall slightly below those originally envisaged in 2004. As a result, TfL has shown that it can keep net operating costs to a historically consistent range.

Cuts in grant raise pressure; if result in debt increases with weak support

Whilst grant funding is not guaranteed[6], the amounts delivered since the first long-term funding agreement in 2003 have been largely in line with plan for the past five years. As of the date of this publication, TfL reports that it could face a reduction of GBP108 million of grant in 2010, as part of a broader set of GBP6.2 billion in cuts announce 24 May across government in the UK. A governmental spending review to be completed in the summer may target additional cuts in TfL grant, which could create further pressures within TfL's expenses and which could weaken the long-term balance of service quality and fare levels.

Whilst debt has risen against earlier projections, largely the result of capital expenditures for Crossrail, interest costs have come in below initial projections due to lower rates from actual sales. Were cuts in grant to be met with continuing increases in debt, the pressures could have direct impact on the rating.

[6] Whilst the wording of the letters focus mostly on changes to TfL's net costs, the drafting notes "[these] pressures will also be weighed against DfT's public expenditure position", which may have significance given the current deficits in UK government finances.

Reserves to fall sharply, and may reduce margin to manoeuvre against increased capital spending

Whilst baseline results have been good to date, the pressure on TfL's declining cash reserves is anticipated to increase sharply. TfL's cash reserves have been largely earmarked for capital projects and may be used to meet other short-term expenses. Cash and equivalents reached GBP1.5 billion, as of 31 March 2010, and have provided flexibility to deal with risks from the termination of private investment contracts and re-organisation of their related works.

Long-term funding needs are now projected to drop reserves quickly to GBP250 million (excluding funds allocated for Crossrail, which are programmatically separate) by the end of 2010/11. This level, the planned floor for the remainder of the plan to 2018, is roughly 3%[7] of total annual expenditure. This lower level reduces TfL's ability to deal with new revenue shocks – witness the reduction of GBP220 million of revenues and GBP52 million of interest income in the plan revisions for the year 2009/10 – or other budget shortfalls against what will be sharply higher levels of capital expenditure in future plan years.

FIGURE 6
Projections for financial year 2009/10 have been largely stable over time

£ MILLION FOR 2009/10 AS PUBLISHED IN…	(2004)	(2009)
Income	3.439	3.443
Operating costs	-5.827	-5.744
Net operating expenditure	**-2.388**	**-2.301**
Net capital expenditure	-735	-1.956
Debt service	-253	-168
Other	53	15
Net expenditure	**-3.323**	**-4.410**
Working capital	93	-40
Other		-694
Cash required	**-3.230**	**-5.144**
Funded by:		
Transport grant	2.651	2.887
Borrowing	550	1.100
Use of capital reserves, other	29	1.157
Cash funding	**3.230**	**5.144**

Future revenues and costs more likely to be stressed

TfL's projections are now facing significant challenges associated with the economic downturn in the UK and London. The 6.2% drop in passenger revenues against the prior projection for 2009/10[8]. To help close the funding gap after the new round of spending cuts (discussed below), on 15 October 2009, the Mayor of London instituted fare increases of 12.7 percent on buses and 3.9 percent on tube passengers, which took effect in January 2010. Whilst the Mayor has announced that he will cancel the western extension of the congestion charging zone, the central zone will remain intact and baseline charges will rise to GBP10 per day.

After the fare increases, TfL is projecting an aggregate of GBP1.27 billion less in total income to 2017/18, placing significant pressures on non-fare revenues. The reliance on asset sales of GBP612 million are also subject to higher risk in the current economic climate, as current difficulties in the property market in London make the timing and amount of revenues more variable .

Total cost cutting has therefore been substantial (even before potential cuts in grant), with a reduction of over GBP3.6 billion in operations in the 2009 plan revision, equal to roughly 6.3% of the GBP57 billion of total opex to 2018. These cuts may have to be carefully managed to maintain industrial relations supporting service quality. So will a 27% cut in management overheads, when monitoring

7 GBP250 million compared to total TfL operating (GBP7.1 billion) and TfL group capital expenditures (GBP1.7 billion) for 2018, 2009 Business Plan p. 90.
8 Comparison of total income projections for 2009/10 GBP from 2008 Business Plan (p. 93) to same from 2009 revision (p. 90).

requirements and risk-management are increasing, with the Metronet and possibly Tubelines works being directed by London Underground, and with Crossrail going forward under TfL control.

A summary table of the revised 2009/2018 business plan is presented in Appendix 3 and the detail of recent revisions is presented in Appendix 4.

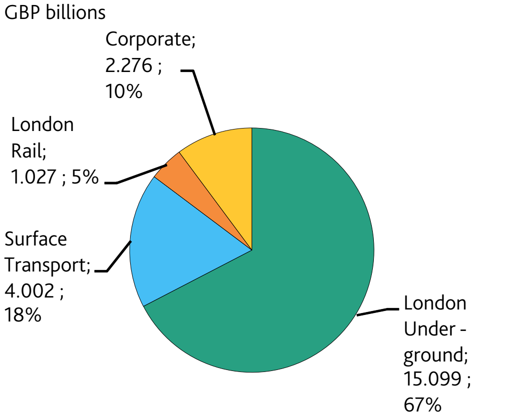
Increased responsibility for capital expenditures raises financial and programme risk

TfL is currently funding GBP15.6 billion in capital works, which does not include investments in Crossrail from 2009 to 2018. The largest project is the revised Metronet works, now integrated into the London Underground, estimated at over GBP7 billion. TfL's 2004 business plan projected approximately GBP700-GBP800 million per year of works under TfL control (not counting PFI or PPP expenditures, including Tubelines capex previously estimated at). The most recent plan pushes this figure to GBP2 billion per year, before taking into account TfL's share of Crossrail, for which spending is anticipated to peak at an additional GBP2.5 billion per year in 2013. The growth of this figure underscores the heightened political accountability that TfL will face in the delivery of the programme, which is now only higher as the Tubelines PPP contract are now planned to be terminated.

FIGURE 7

Modal investment expenditure 2009/2018

GBP billions



Source: TfL

Crossrail offers benefits to London, but adds to substantial investment management risk

Crossrail is projected to increase the capacity of London's rail network by 10%, linking east and west London, with connections to Heathrow Airport and is expected to generate benefits of up to GBP36 billion in job growth, time savings and increased productivity. With GBP16 billion in estimated costs, Crossrail is the largest single transport improvement planned in the UK. Costs are to be shared between the national government, London businesses, developers, land sales and TfL. TfL plans to meet its contribution of GBP2.055 billion largely from direct borrowing and an allocation of GBP590 million from currently held capital reserves. The detailed funding plan for Crossrail is in Appendix 5.

Whilst the project builds on over ten years of engineering and repeated reviews of costing and contingencies, its scale means that even a small percentage variance in outturn (roughly 1% is equivalent to GBP160 million) can have a major impact on TfL's finances. The GBP460 million potential gap in the Business Plan that the Tubeline's arbitration presented as a revised costing of planned capital works underscores the budgetary risk involved in expensive, long-term, large-scale capital projects. Whilst this exposure may be eliminated by restructuring investment works and taking efficiencies from better co-ordination with other TfL works, the scale of revised costs is indicative.

Debt & Liquidity

Flexible borrowing alternatives with good access to capital

As a local government entity, TfL must issue debt within the restrictions of Section 13 (3) of the Local Government Act of 2003. Debt ranks *pari passu* with all other existing obligations, which in practice links payment for essential operations to other contractual agreements and debt. TfL may raise flexible, low-cost lending from the Public Works Loan Board (PWLB), which effectively acts as a lender of last resort. This mitigates the threat of liquidity shocks, so long as TfL maintains its obligations under the prudential code.

Since 2003, TfL has made use of additional financing to introduce increasing degrees of market scrutiny into its operations and investment programmes. The European Investment Bank (EIB) has provided funding for the East London Line, the DLR, and for costs associated with Crossrail. TfL has also used its EMTN programme for attractive international bond financing. TfL is likely to continue to use PFI or PFI-related financing for appropriate projects.

Debt levels are high, but are anticipated and provided for in funding settlements

The Department for Transport approves and establishes limits for TfL's debt projections, subject to requirements of prudence and affordability required under the Prudential Code. TfL's debt will rise from GBP3.9 billion[9] as of year-end 2009 to GBP8.4 billion, or approximately 118% of the operating cost base and 90% of total revenues (including DfT grant)[10] by 2018. Assuming that interest expense on debt rises no higher than a 6% coupon on an aggregate basis, debt service should rise to between 6.0%-7.0% of operating costs. No material principal will be repaid before 2018; thereafter, refinancing risk associated with planned maturities would be limited to approximately GBP150 million per year.

TfL also guarantees PFI or PPP contracts for some of its subsidiary companies, which may relate to significant debts (see appendix 2). Counting the attributable financing costs of these contracts at their related debt values of GBP3.6 billion as 'debt-like' obligations to TfL, Moody's assesses TfL's current total financing burden at approximately GBP7.5 billion, or 130% of the operating cost base, rising to approximately GBP12 billion, or 170% of operating costs by 2018. This amount, whilst substantial, is supported by government grant which has been sized to compensate for much of the cost burden for these contracts. As TfL does not receive PFI credits, a funding allocation to local governments which explicitly schedules such amounts, the completeness and stability of the long-term funding framework agreed between London and the central government is essential for providing this attributable funding support.

Cancelling Tubelines contract to cost GBP310 million, but gives long-term flexibility on costs

The review and arbitration of the "Tubelines" PPP contract, covering 30 years of investment and refurbishment works for the Jubilee, Northern, and Piccadilly lines produced a proposal that was GBP460 million higher than what TfL has provided in its business plan to 2018. TfL and Tubelines have subsequently agreed to a sale of the equity in the PPP to TfL for GBP310 million. TfL reports that it requires no additional call on funding from the government to effect this sale or to restructure the works planned under the contract. The Tubelines contracts have GBP1.8 billion of attributable finance (see Appendix 2), which is supported by TfL's payments of infrastructure service charges under the contract. The sale, including arrangements for lenders and bondholders, is anticipated by 30 June 2010.

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9 These calculations do not take into account roughlyGBP3.0 billion of debt to be issued by the GLA in support of Crossrail, to be paid by business rates on London commercial properties.

10 2017/18 Total income of 5.533, 3rd party contributions of .046, prop sales of .94, interest income of .014 million, Dft Transport grant of 3.791 million, .012 GLA precept.

Governance and Management Factors

TfL's controls are detailed and pervasive

Historically, the links between the Mayor and TfL have been very strong and well co-ordinated on key matters of operations and funding. The Mayor provides the Transport Strategy, which is the guiding document for TfL's specific programmes of operation and investment. The Mayor also appoints the Board and sets fare levels.

The Board approves the Commissioner for Transport, the executive head of TfL. The Board also oversees the creation and delivery of the multi-year business plan and annual budgets through various committees, including operations, the finance committee and a separate audit committee. Most materials considered in public session are made available on the TfL website.

The TfL Board approves policies in line with preserving liquidity in Treasury management. Absolute levels of planned liquidity reserves are included in annual budgets and any variances must be reported to the Finance Committee. All short-term investments are denominated in pounds sterling and held in UK government instruments or similar highly rated securities.

Under the Prudential Code, TfL may borrow for capital purposes up to a level agreed with the Mayor, subject to reserve powers retained by the government. Borrowing limits are also agreed within the multi-year funding agreements with the national government. TfL's accounts are audited by the Audit Commission, which also reviews 'best value' procedures.

Local finance law imposes statutory obligations upon officers and permits government intervention in cases of mismanagement or financial failure. The recent review of the Department of Communities and Local Government regarding potential intervention in the case of Doncaster (and further back in history, assertive government warnings regarding its plans to intervene to force repayment on debt in the face of the 'Rates Crisis' of the mid 1980's), indicate that the UK government' reserve powers and ability to introduce emergency legislation should be considered essentially unfettered in its management of local governments.

Governance is critical to the success of TfL's future performance

The Jubilee Line Extension – completed in 2000, with substantial budget overruns and negative political ramifications – underscores TfL's need to deliver investment efficiently, so as to preserve the confidence of its funding partners. As a result, TfL closely monitors the effectiveness of its investments in order to ensure cost controls and prudent delivery, from PFIs to hybrids to standard contracts. TfL has established an internal capital programme oversight group, and an Investment Programme Advisory Group made up of senior executives in external engineering companies, to provide review and oversight to all maintenance, renewal, upgrades and major projects.

Disclosure is comprehensive by international standards

TfL has many stakeholders, and like most other municipal public transport providers it operates in a highly competitive political and media environment. TfL provides substantial public disclosure on its operations, capital works, finances, as well as its commentary on key policy issues that could influence its operations and funding:

Broad public disclosure of investment and operations

- A ten-year business plan
- Annual budgets, and quarterly updates on finances and key operating statistics
- Audited annual financial reports, conforming to local government financing law and accounting guidance; TfL is also reviewed by the Audit Commission, which reports to Parliament
- Board meetings, papers and minutes are public; generally only issues of commercial confidentiality are addressed in private
- A review of its investment programme, with project-by-project descriptions and reviews as per cost and time-frame to completion
- Treasury reports of debt, investments and cash positions
- Detailed operating statistics, down to the level of passenger entries by Underground stations Other reports that may be required to demonstrate conformance to the Mayor's Transport plan or national requirements.
- Many documents available in other languages; fifteen noted on the TfL website.

Under the accounting standards for local governments, the revenue and expenditure recognition of Transport for London's financial statements may significantly vary from the budget, which then differs from the longer-term business plans. The change in allocation of costs from investment contracts to internal TfL works also produces large variances which are challenging to reconcile across years and across formats. To address any discrepancies arising from the differing standards of the annual statements, budgets and projections, TfL has each document separately approved by the TfL Board. TfL is regularly reviewed by the Audit Commission, which reports to the UK Parliament.

Application of Joint-Default Analysis

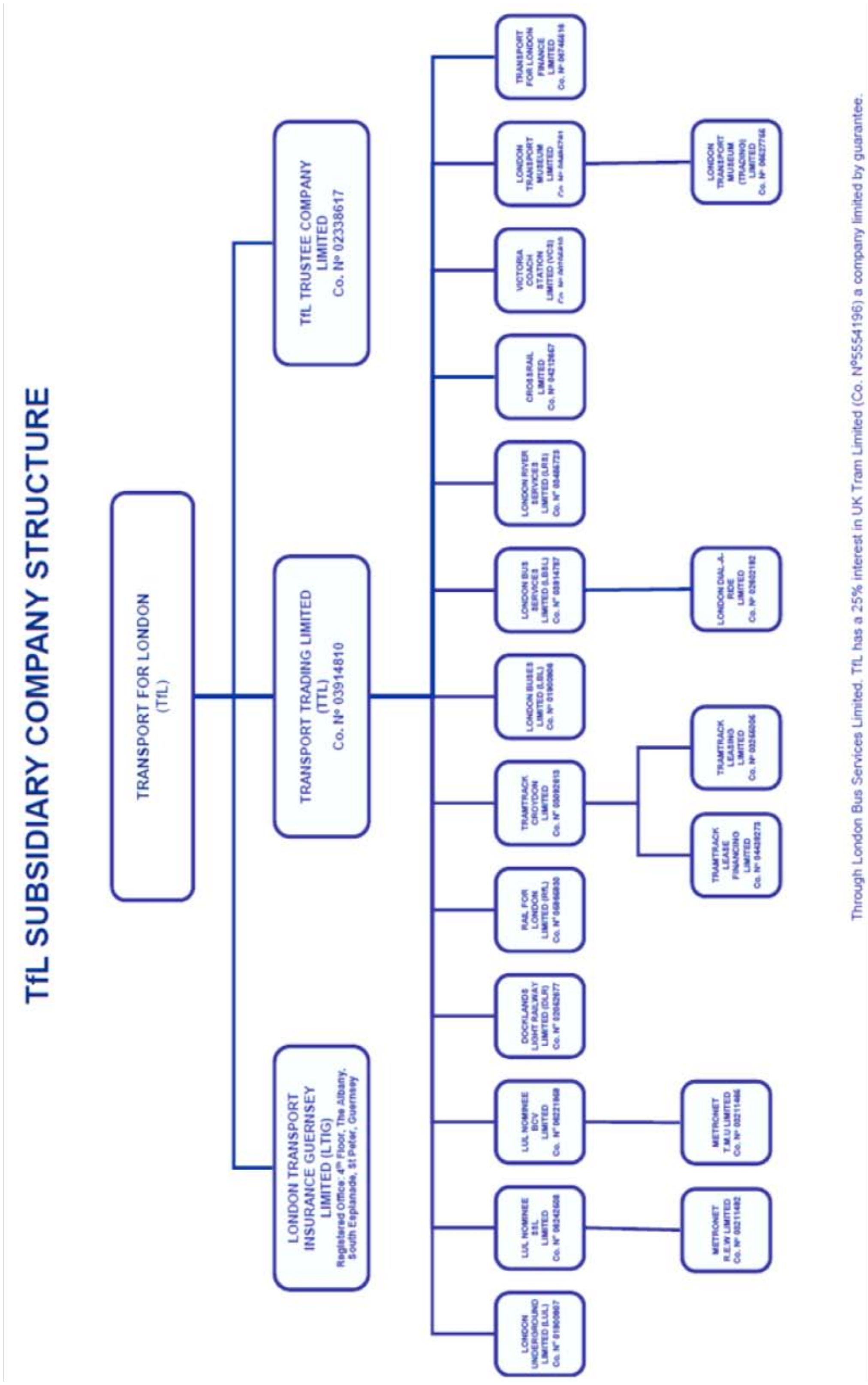
As a reflection of the application of Moody's joint-default analysis methodology for government related issuers Transport for London's Aa1 rating is composed of three principal inputs: a baseline credit assessment (BCA) of 10 (on a scale of 1 to 21, in which 1 represents the lowest credit risk), a very high likelihood that the United Kingdom (rated Aaa, stable outlook) would act to prevent a default by TfL and a high level of default dependence between the United Kingdom and TfL. Whilst any intervention may include drastic changes to the management, services and finances of Transport for London, the very high likelihood of support reflects Moody's assessment of the disruption a default would cause to the London transport system, which is essential to the regional and national economy, the risk to the United Kingdom's reputation if TfL were allowed to default pursuing policies appropriate to national goals, as well as indications of a moderately positive government policy stance, illustrated by the flexibility inherent in the system of national-regional transfers.

Company Annual Statistics

Transport for London

GBP MILLION FYE - FISCAL YEAR END 31 MARCH	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009
INCOME AND EXPENDITURE ACCOUNT					
Revenues	**2554,5**	**2737,6**	**2965,6**	**3278,8**	**3451,5**
Fares	1949,1	2068,0	2269,4	2445,8	2557,5
Other	605,4	669,6	696,2	833,0	894,0
Amortisation of deferred capital grants	310,6	334,8	365,2	512,0	379,2
Operating costs	**4736,4**	**5006,9**	**5283,2**	**7698,4**	**4566,8**
Personnel costs	732,9	790,0	880,4	1005,5	1308,7
Depreciation	524,4	550,2	601,0	607,6	659,5
Other	3479,1	3666,7	3801,8	6085,3	2598,6
Operating surplus/(deficit) before interest	**(1871,3)**	**(1934,5)**	**(1952,4)**	**(3907,6)**	**(736,1)**
Surplus/(deficit) on disposal of assets	(5,5)	(15,8)	(23,6)	(29,5)	(85,8)
Net finance cost	**(10,3)**	**56,0**	**129,0**	**175,4**	**166,2**
Finance income	55,4	58,2	70,4	114,0	104,6
Finance cost	65,7	114,2	199,4	289,4	270,8
Pensions interest cost and expected return	(13,9)	(7,9)	23,9	16,6	(41,7)
Other	(254,4)				
Financing surplus/(deficit)	**(2134,8)**	**(2014,2)**	**(2081,1)**	**(4095,9)**	**(1029,8)**
Transport grants for operations	2121,3	1974,6	1979,8	2220,2	1231,4
Othe grants to fund exceptional items				1700,0	
Other grants	12,2	15,9	44,2	179,2	63,4
Other	25,8	20,0	12,0	12,0	12,0
Surplus/(deficit) for the year	**24,5**	**(3,7)**	**(45,1)**	**15,5**	**277,0**
Revenue by type:					
Transport grants	2260,1	2180,4	2390,3	4382,4	3033,5
Other grants	38,0	35,9	56,2	191,2	75,4
Own-source	2.609,9	2.795,8	3.036,0	3.392,8	3.556,1
Total revenue	**4.908,0**	**5.012,1**	**5.482,5**	**7.966,4**	**6.665,0**

Appendix 1. Organisational structure of TfL



Appendix 2. Value of TfL Guarantees

	GBP MILLIONS
Agreement with Tubelines*	1.803
Agreement with CityLink	502
Agreement with Canary Wharf Properties (Crossrail) Limited	500
Agreement with WARE	218
Agreement with Transys	197
Agreement with PADCo and EDF Energy Powerlink Ltd	168
Agreement with CARE	164
Agreement with Pittville Leasing Limited	51
Agreement with APSLL	4
	3.607

Source: Annual Report and Statement of Accounts, 2008/09

☐ On 7 May TfL and Tubelines agreed to the sale of Tubelines shares to TfL.

Appendix 3. TfL Business Plan, 2009/10 – 2017/18

TfL_2009 Group (£m)	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	9 year total
Income										
Fares	2,854	3,013	3,181	3,446	3,691	4,004	4,280	4,652	4,887	34,008
Congestion charging, LEZ and enforcement	378	342	291	302	304	303	301	323	339	2,882
Other income	212	230	245	268	279	286	293	300	306	2,418
Total income	**3,443**	**3,586**	**3,716**	**4,016**	**4,275**	**4,592**	**4,873**	**5,275**	**5,533**	**39,309**
Operating expenditure										
Operating costs (excl. PPP/PFI2)	-4,874	-4,981	-4,907	-5,138	-5,145	-5,334	-5,505	-5,761	-6,091	-47,737
Tube PPP contract costs	-628	-934	-959	-973	-932	-874	-885	-841	-817	-7,843
PFI activities (incl. staffing)	-267	-180	-182	-184	-192	-194	-201	-214	-209	-1,823
Third-party contributions - revenue	25	45	55	42	43	45	46	44	46	391
Total operating expenditure	**-5,744**	**-6,050**	**-5,994**	**-6,254**	**-6,227**	**-6,358**	**-6,544**	**-6,771**	**-7,071**	**-57,012**
Net operating expenditure	**-2,300**	**-2,464**	**-2,277**	**-2,238**	**-1,952**	**-1,766**	**-1,671**	**-1,497**	**-1,539**	**-17,703**
Capital expenditure										
Capital expenditure – TfL Group	-2,131	-2,145	-1620	-1858	-1636	-1503	-1453	-1561	-1,707	-15,613
Capital expenditure - Metronet	0	0	0	0	0	0	0	0	0	0
Third-party contributions - capital	176	65	23	11	12	3	3	3	3	299
Total net capital expenditure	**-1,956**	**-2,080**	**-1,596**	**-1,848**	**-1,623**	**-1,500**	**-1,450**	**-1,558**	**-1,703**	**-15,314**
Property sales (capital income)	54	33	43	63	72	71	91	94	94	612
Debt service	-168	-207	-258	-313	-349	-368	-398	-433	-467	-2,962
Interest income	12	5	4	8	15	16	8	11	14	94
TfL contingency	0	0	0	0	0	0	0	0	0	0
Assumed efficiencies (net)	0	0	0	0	0	0	0	0	0	0
Group items	-51	-110	-122	-97	-131	-135	-139	-142	-147	-1,075
Net expenditure	**-4,409**	**-4,824**	**-4,207**	**-4,426**	**-3,968**	**-3,682**	**-3,559**	**-3,524**	**-3,748**	**-36,348**
Working capital released/(created)	-40	23	40	10	-116	-97	-76	26	45	-183
Crossrail cash commitment	-694	-1052	-1410	-2049	-2,537	-2212	-1631	-549	-622	-12,757
Cash required	**-5,143**	**-5,853**	**-5,577**	**-6,464**	**-6,621**	**-5,991**	**-5,266**	**-4,046**	**-4,326**	**-49,287**
Funded by:										
DfT transport grant	2,887	3,314	3,028	3,174	3,329	3,491	3,588	3,689	3,791	30,292
Other grant items	150	106	15	82	0	0	0	0	0	352
GLA precept	12	12	12	12	12	12	12	12	12	108
TfL prudential borrowing and other	1,100	405	575	652	1298	233	482	282	282	5,309
Crossrail funding	172	1237	1547	2150	2296	1744	1184	293	144	10,767
Reserve transfers	0	0	0	0	0	0	0	0	0	0
Additional Metronet funding	0	291	424	369	216	0	0	0	0	1,300
Cash funding	**4,321**	**5,365**	**5,601**	**6,439**	**7,150**	**5,480**	**5,267**	**4,276**	**4,229**	**48,128**
Opening cash position1	1561	739	251	275	250	779	268	268	498	--
Closing cash position1	739	251	275	250	779	268	268	498	402	

Appendix 4., variation of 2010 - 2018 plan from 2008 to 2009 revision

TfL_GBP change 2009 vs 2008 Group (£m)	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	9 year total
Income										
Fares	-189	-218	-260	-236	-161	-57	0	163	266	-691
Congestion charging, LEZ and enforcement	4	-31	-79	-60	-57	-52	-57	-55	-60	-447
Other income	-41	-40	-17	-11	-6	-6	-5	-5	-7	-137
Total income	**-226**	**-288**	**-357**	**-307**	**-222**	**-115**	**-63**	**104**	**201**	**-1,274**
Operating expenditure										
Operating costs (net PPP/PFI)	-450	-544	-267	-218	-143	-221	-284	-445	-619	-3,191
Tube Lines and Metronet Opex	571	577	544	572	626	624	677	674	694	5,559
PFI	74	209	103	113	114	115	114	106	117	1,065
Third-party contributions - revenue	1	26	33	17	21	23	24	21	23	191
Total operating expenditure	**196**	**268**	**412**	**484**	**617**	**540**	**532**	**359**	**215**	**3,624**
Net operating expenditure	**-29**	**-20**	**57**	**177**	**395**	**424**	**469**	**461**	**415**	**2,350**
Capital expenditure										
Capital expenditure - TfL Group	-758	-1,117	-823	-994	-856	-833	-923	-751	-664	-7,718
Capital expenditure - Metronet	768	1,021	1,024	1,000	925	873	723	825	938	8,095
Third-party contributions - capital	24	-41	-1	7	-4	-10	-2	1	1	-25
Total net capital expenditure	**33**	**-138**	**201**	**11**	**66**	**31**	**-202**	**74**	**276**	**352**
Property sales (capital income)	9	-5	2	-47	9	10	10	10	10	5
Debt service	-2	0	-31	-63	-80	-80	-84	-56	-57	-455
Interest income	-52	-26	-12	-26	-27	-5	-11	-22	-17	-198
TfL contingency	89	77	78	79	79	80	81	82	82	727
Assumed efficiencies (net)	48	-61	-230	-273	-298	-303	-283	-224	-214	-1,840
Group items	-51	-110	-122	-97	-131	-135	-139	-142	-147	-1,075
Net expenditure	**45**	**-284**	**-59**	**-241**	**14**	**22**	**-160**	**183**	**346**	**-134**
Working capital released/(created)	-67	-54	-64	72	-76	-39	99	23	13	-92
Crossrail contribution	-77	-220	-622	-1,250	-1,413	-1,292	-944	46	268	-5,505
Cash required	**-99**	**-558**	**-745**	**-1,418**	**-1,475**	**-1,310**	**-1,005**	**253**	**626**	**-5,730**
Funded by										
DfT transport grant	-10	14	-12	-13	-13	-13	-14	-14	-14	-87
Other grant items	11	25	-2	-12	0	0	0	0	0	21
GLA precept	0	0	0	0	0	0	0	0	0	0
financing	0	-102	-143	-1,091	949	6	7	-244	-282	-900
Crossrail funding	164	247	672	1,291	1,358	1,149	747	-54	-51	5,523
Reserve transfers	-889	-405	-170	849	-505	-343	265	289	-375	-1,285
Additional Metronet funding	0	291	424	369	216	0	0	0	0	1,300
Cash funding	**-723**	**70**	**769**	**1,393**	**2,004**	**799**	**1,006**	**-23**	**-723**	**4,571**

Note that substantial variances in line-items within the revised plan may be due to shifts in organisation. For example, see the shift in roughly equal amounts between *Capital Expenditure – Metronet* to *Capital Expenditure TfL Group,* reflecting the cancelation of the Metronet contract and the organisation of the works within London Underground. A similar restructuring of the Tubelines contracts, would create similar shifts. Also, the line-item *Assumed Efficiencies* has been allocated to specific operational costs as cost reductions, whilst the TfL contingency is included amongst other costs within *Group Items*.

Appendix 5. Funding Projections for Crossrail

FIGURE 12

Crossrail funding plan

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Crossrail cash commitment*	694	1.052	1.410	2.055	2.539	2.218	1.638	547	669	12.822
DfT committed funding	172	220	622	1.250	1.313	1.142	800	-	-	5.519
GLA funding (bond)	-	1.002	868	829	886	518	-	-	-	4.103
Developer funding	-	15	57	71	97	79	130	60	91	600
Sale of surplus land	-	-	-	-	-	5	254	233	53	545
TfL funding	522,00	- 185	- 137	- 95	243	474	454	254	525	2.055
	694	1.052	1.410	2.055	2.539	2.218	1.638	547	669	12.822

* Includes net operating expenditure of GBP66 million

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