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Supplementary Analysis:

Transport for London

Primary Credit Analyst:
Hugo C Foxwood, London (44) 20-7176-3781; hugo.foxwood@standardandpoors.com

Secondary Contact:
Pierre-Brice Hellsing, Stockholm +46 (0)8 440 59 06; Pierre-Brice.Hellsing@standardandpoors.com

Research Contributor:
Robin Froggatt-Smith, London (44) 20-7176-3609; robin.froggatt-smith@standardandpoors.com

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Supplementary Analysis:

Transport for London

This report supplements our research update "Transport for London 'AA+/A-1+' Ratings Affirmed Despite Ongoing Grant Reductions; Outlook Stable," published on May 9, 2014. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

Rationale

Issuer Credit Rating
AA+/Stable/A-1+

The ratings on TfL reflect the predictable and supportive institutional framework within which it operates as a U.K. local authority, its very positive liquidity position, and the strong growth of London's economic output and population, which underpins demand for TfL's services. Although TfL has a major capital program, the U.K. government effectively underwrites much of the exposure to cost overruns on TfL's largest capital project, Crossrail, thereby limiting TfL's contingent liabilities. In addition, TfL has considerable flexibility to defer many elements of its capital program. Although its ability to increase fares can be subject to political constraints, we view TfL's overall commitment to fiscal discipline, and the quality of its financial management, as being very positive for its credit profile.

Constraining factors for the rating include the prospect of deficits after capital accounts and rising debt levels as grant funding reduces and as TfL continues its planned investments in infrastructure. That said, as we noted in our previous outlook statement, we believe that TfL's credit strengths will be sufficient to maintain the rating, even though its financial profile is set to weaken (see "Transport for London 'AA+/A-1+' Ratings Affirmed Despite Ongoing Grant Reductions; Outlook Stable," published on Nov. 15, 2013).

TfL is a functional body of the Greater London Authority (GLA) and is responsible for implementing the mayor's transport strategy in London. TfL has many subsidiaries that together comprise the TfL Group. In our analysis, we focus on this consolidated group.

We continue to view the U.K. institutional framework, within which TfL operates as a local authority, as stable and predictable. Although many local authorities will face continued spending pressures over the coming years, as the U.K. seeks to reduce its fiscal deficit, we anticipate that they will have the capacity to properly plan and reduce expenditures without threatening their mandatory responsibilities. Reflecting the austerity in the U.K. public sector, TfL is experiencing reductions in its grant income, but these have been small for the sector. And unlike other local authorities, TfL has been allocated a substantial multiyear capital grant up to 2020/21. This reflects the ongoing central government support for investment in the London transport network, which is vital to London's economy.

The strength of London's economy, the growth in its population, and the consequent demand for public transport, are key to TfL's creditworthiness. These factors support both its ability to generate fare revenues, and the rationale for continued central government funding. We estimate that London's gross value added (GVA) per capita was £37,232 in 2012, and we forecast growth in GVA will continue to gather pace, rising to 2.9% in 2014, supported by rising

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employment levels. We expect London will grow faster than the U.K. average, reflecting the more-flexible and service-oriented nature of London's economy, in which financial services play a key role. London is both pivotal to the U.K.'s economic growth and a major net contributor to the U.K.'s fiscal position.

Supported by London's economy, the growth in TfL's fare revenues has proved buoyant. Combined with its grant income, this has led to strong overall financial performance in previous years. Over the past three years, for instance, TfL has posted operating balances averaging in excess of 20% of operating revenues and surpluses after capital accounts averaging about 5% of total revenues. In the year ended March 31, 2014, TfL outperformed our previous forecast, posting an operating surplus of about 20% and a 3% surplus after capital accounts (where we had previously forecast a deficit). Looking ahead, however, we forecast a structural decline in financial performance that primarily reflects a reduction in government grants combined with substantial investment in capital infrastructure. Consequently, we expect TfL to post deficits after capital accounts over the next three years averaging 13% of total revenues and lower operating surpluses of about 5% on average.

We expect the decline in operating balances from 2015 to be more marked than the fall in balances after capital accounts. We forecast that TfL will even post a temporary operating deficit in 2015/2016. That said, the size of this fall is largely due to a change in the way that some government grant will be classified, and has limited significance from a credit perspective.

The change relates to the investment grant that TfL is set to receive from 2015. TfL currently receives an equivalent grant that can be used for either operating or capital expenditure, but the investment grant allocated from 2015 will be restricted for general capital expenditure only. Our forecasts for 2015 onward therefore assume that we will reclassify this portion of TfL's grant as a capital revenue, rather than an operating revenue. This change will affect a number of our key ratios for assessing budgetary performance, budgetary flexibility, and debt, but we do not anticipate that it will have any rating implications. This investment grant is set to be highly predictable, and its restricted nature will have little effect on TfL's flexibility to ease financial pressure by deferring capital expenditure, given that annual capital expenditures are typically 3x the level of this investment grant.

As a consequence of its capital program, we forecast that TfL's debt (including lease obligations) will increase from £8.9 billion to £10.5 billion. The change in our ratio of tax-supported debt to operating revenues implies a more marked increase in TfL's debt burden, from 115% in March 2014 to about 145% in 2017, due to the decrease in the operating-revenue denominator, as described above.

We understand that TfL is willing and able to defer or cancel many aspects of its large and diverse capital program, if necessary. We view TfL's ability to control these expenditures as its main source of budgetary flexibility. Although TfL has significant flexibility to raise its transport fares in theory, given its near-monopoly position over public transport in London, we believe that this is tempered in reality by political constraints, particularly nearing Mayoral and General Elections. Therefore, in our base-case scenario, we forecast that TfL will increase fares less than is assumed in its business plan.

We view TfL's overall commitment to fiscal discipline, and the quality of its financial management, as being very positive for its credit profile. This reflects our view, in particular, of TfL's detailed long-term planning, clear budgetary

procedures, and high level of transparency.

Liquidity

We view TfL's liquidity position as very positive. It has a very positive debt service coverage of 3.2x, supported by strong and predictable cash flows. TfL also has ready access to external liquidity, which we view as exceptional in international terms, based on its ability to borrow from the U.K. government's Public Works Loan Board (PWLB). TfL also has an established track record of issuing on the capital markets.

We estimate that, on average, TfL will have cash and short-term investments that cover the next 12 months' debt service by 3.2x, after allowing for some loss of value in a stress scenario. We calculate debt service to include repaying commercial paper. (TfL also has access to an undrawn overdraft of £200 million and has arranged an undrawn £500 million term loan related to Crossrail, which we do not include in this 3.2x calculation.)

Beyond the next 12 months, we see TfL's levels of free cash and equivalents continuing to diminish to fund its planned capital program. TfL has effectively been prefunding its capital program by raising debt in advance of the associated capital expenditure.

We view TfL as having exceptional access, in international terms, to external liquidity. This is primarily due to the U.K. government's PWLB, which can provide funding to TfL within 48 hours of an application, as long as TfL is operating according to the Prudential Code. In addition, TfL has an established track record of issuing commercial paper and medium-term notes on the capital markets.

Outlook

The stable outlook reflects our expectation that TfL's credit strengths, particularly its flexibility, financial management, and liquidity, will be sufficient to maintain its rating, even though its financial profile is set to weaken as grant reduces and capital investment continues, resulting in deficits of capital accounts.

We may consider raising the rating within the next two years if TfL's total revenues rise such that deficits after capital accounts shrink to an average of less than 5% of revenues. This increase could be supported by higher income from fares, charges, other commercial sources, and the general revenue grant. Such a scenario would also likely involve TfL demonstrating increased autonomy over its revenues, which could also improve our assessment of budgetary flexibility.

Conversely, we could consider lowering the rating in the next two years if TfL substantially increases its capital expenditure, whether as a result of cost overruns or a shift in financial strategy, resulting in financial performance deteriorating more sharply than we expect. In such a scenario, we might consequently revise downward our view of TfL's financial management, and its willingness to use its expenditure flexibilities.

Predictable And Supportive Institutional Framework

Standard & Poor's views the U.K. institutional framework for local and regional governments (LRGs) as one of the

strongest in the world. Under our criteria, we assess the U.K.'s framework as "predictable and supportive," and have assigned it a score of 1 (the highest) on a scale of 1 to 6. This is based on our view of its high degree of transparency, accountability, and predictability, as well as the supportive role of the U.K. government (for further details see our system report, "Public Finance System Overview: U.K. Local and Regional Governments," published on April 5, 2011, on RatingsDirect).

Although the U.K. government has reduced funding for local authorities in recent years, and may continue to do so, we believe that the system remains supportive from a credit perspective. In general, local authorities have significant flexibility to reduce operating expenditures, while maintaining their mandatory responsibilities. In addition, the system normally prevents them from running operating deficits, unless these can be met from general reserve accounts. For further details, see "Sector Reforms Are Unlikely To Damage U.K. Local And Regional Governments' Strong Creditworthiness In The Short Term," published on March 23, 2012.

Strong And Diversified Economy Supports Demand For Transport

We believe that demand for TfL's transport services will continue to be supported by London's strong and diversified economy, sustained employment levels, and a growing population. The capital's population is now projected to rise to 10 million by 2030 (GLA population projections), which will take TfL to full capacity even with Crossrail and other major transport infrastructure projects becoming operational.

London's key position within the U.K. economy

We estimate that London's gross value added (GVA) per capita was £37,232 in 2012, and we forecast growth in GVA will continue to gather pace, rising to 2.9% in 2014, supported by rising employment levels. Combined with a 1% growth in population, we believe these factors will lead to increasing demand for public transport. London's economy will in our view grow faster than the U.K. average--as it has done since 2011 (source: Experian via GLA Economic Outlook)--reflecting the more flexible and service-oriented nature of London's economy, in which law, accountancy, and financial services play a key role.

London accounts for more than 20% of the U.K.'s GVA, and with its GVA per capita at 170% of the U.K. average (2012 Office for National Statistics [ONS]), it is both key to the U.K.'s economic growth and a major net contributor to the U.K.'s fiscal position. The transport infrastructure provided by TfL is one of the key assets supporting London's economy and its continued economic growth. The central government therefore has a strong incentive to improve the quality of London's infrastructure. As such, we believe that TfL will continue to receive support from the U.K. government.

Demand for transport has proved resilient

Demand for TfL's transport services has proved relatively resilient to the economic cycle in recent years. For instance, following the U.K. recession in 2009, passenger journeys held steady, with a 2.2% reduction in London Underground journeys compensated for by an increase in (cheaper) bus journeys and other forms of transport. Since then, Underground journeys have increased each year (see table 1), and we understand they are set to rise by nearly 3.5% in 2014.

Looking ahead, we believe demand for rail and underground services will be supported by continued economic growth and rising employment levels. Meanwhile, bus usage will be especially supported by growth in population that the ONS forecasts at 14% over the next decade.

Table 1

Transport for London Economic Growth And Transport Demand Indicators						
TFL Passenger Journeys (Annual Growth Rate %)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014f**
London Underground	1.6	(2.2)	3.9	5.8	2.9	3.4
Buses	3.3	0.4	1.4	2.4	0.6	1.5
Docklands Light Railway	(1.5)	4.5	13	10.3	1.5	6.4
London Tramlink	2.7	(1.9)	5.3	2.2	3.7	(1.9)
London Overground	15.3	3.3	66.8	79.4	8.9	3.6
Total	3.3	0.6	2.7	4.4	0.9	2.3

f--Standard & Poor's forecast based on TfL figures.

Good Track Record In Financial Management

Management demonstrates a track record of controlling expenditure

We view TfL's financial management as being very positive for the rating. The executive management team is highly experienced, with a track record of successfully delivering projects on time and within budget, such as those related to the transport arrangements for the Olympics. Although we forecast that TfL is to start posting deficits after capital accounts, after several years of surpluses, we believe that its financial strategy remains disciplined, and that these deficits are part of a sustainable long-term plan that has been given more clarity by government than others in the LRG system. TfL operates with a very high degree of transparency, has a good track record of detailed and clear reporting, and a very long-term planning horizon.

We also believe TfL's approach to debt management remains prudent and sophisticated, with limited exposure to market risks. Although TfL partly finances its capital expenditure (capex) through a commercial paper program to reduce its interest costs, we believe that the associated refinancing risk is effectively mitigated through its large cash holdings, its committed facilities, and its access to the government-owned Public Works Loan Board.

High Levels Of Budgetary Flexibility

We view TfL's level of financial flexibility as a credit strength, particularly on the expenditure side. The size of TfL's capex program (about 35% of total expenditures) provides it with considerable flexibility to adjust expenditures. We also believe TfL has revenue flexibility, given its control over fare revenues and the congestion charge. Together, these charges comprise nearly 60% of its operating revenues, which we forecast to rise to almost three quarters by 2017.

Potential to increase operating revenues

In our base-case scenario, TfL's revenues from fares and congestion charges (its modifiable revenues) account for 60% of consolidated operating revenues in its budget for the year ending March 31, 2015. (Fare revenues form 95% of this income, whereas congestion charging fees account for about 5%.) As government grants decrease over our forecast

period, and as fare revenues rise with increased passenger journeys, we anticipate that modifiable revenues will rise to 72% of revenues by March 2017. This is a far higher share than that of most other U.K. local authorities.

Despite TfL's monopoly over public transport and the price inelasticity of demand for its services, we believe that TfL's ability to raise fares could be limited by the politically sensitive nature of fare increases with a General Election upcoming in 2015 and a London Mayoral Election in 2016. Therefore, in our base-case scenario, we forecast that TfL will increase fares less than is assumed in its business plan.

Strong expenditure flexibility, particularly in relation to its large capital program

In recent years, TfL has developed a track record of expenditure flexibility. In the financial year to March 31, 2014, TfL forecast that it would make an additional 60% over and above planned operating savings. Given this strong track record, we believe that TfL is likely to continue to deliver its targeted operating expenditure reductions. Between 2010 and 2021, for instance, it has targeted efficiency savings of £16 billion, of which about £12 billion have already been secured.

We account for the capital-intensive nature of TfL's business in our assessment of budgetary flexibility. As seen over the years, TfL is able to postpone capex if required; as of December 2013, £113 million (about 7% of non-Crossrail capex) has been rephased into later years. Much of TfL's capex program could be postponed without much implication for fare revenues in the short-term, and less than half of its capex would be termed as essential for the continued provision of existing services. Equally, TfL has recently brought forward part of its investment program to expand capacity by adding extra carriages to trains on the London Overground. This expansion had been planned for further in the future but the growth of traffic on this line has prompted management to carry it out within the forecast period.

About half of TfL's capital program relates to Crossrail, the costs of which will amount to £6.1 billion over 2013-2015. Although TfL could in theory defer much of this capex, to do so would in practice defer its receipt of at least some of the associated operating revenues. It expects to start receiving these following Crossrail's completion, with the first passengers travelling in May 2017 on the part of the line from Liverpool Street to Shenfield.

Budgetary Performance Set To Weaken Slightly

TfL's financial performance has been very strong over the past three years, with operating balances in excess of 20% of operating revenues, and small surpluses after capital accounts. However, we believe that operating performance will weaken sharply to about 10% of operating revenues this year, and to a slight small deficit in 2015-2016, before recovering slightly to 2% the following year. That said, the size of this fall in 2015-2016 is largely due to a change in the way that some government grants will be classified, and has limited significance from a credit perspective. The change relates to the investment grant that TfL is set to receive from 2015. TfL currently receives an equivalent grant that is not restricted, but the investment grant allocated from 2015 will be restricted for general capex. Our forecasts for 2015 onward therefore assume that we will reclassify this portion of TfL's grant as capital revenue, rather than operating revenue.

On the capital side, we forecast a deficit after capital accounts of 15% of total revenues in the current financial year, moving to 6% in 2015-2016 and back to 17% in 2016-2017. Our base case reflects reductions in the government grant,

pressure on fare increases in election years, and TfL's continued investment in capital infrastructure.

Beyond 2016, we believe that recurrent deficits after capital accounts of about 5% are likely, given the fiscal pressures on the U.K. Such pressures are likely to constrain TfL's grant funding, coupled with the increasing demands on London's transport infrastructure. We believe, however, that the consequent increases in debt are likely to be sustainable at the current rating level, given TfL's relatively conservative approach to financial management, the prospect of buoyant fare revenues, its continued financial flexibility, and the U.K. government's ongoing support. In its latest review of TfL's grant funding, for instance, the government allocated annual grant income of about £900 million for investing in capital projects up to 2021.

Operating performance to gradually weaken, albeit from a high level, as grants reduce

In our calculation of TfL's consolidated operating revenues, we include all grants that TfL receives (excluding ring-fenced grants provided for Crossrail and grant from central government that will be earmarked for capital purposes from 2015). Following the U.K. government's decision to improve its fiscal position by reducing general government spending, TfL is set to see its grant decline significantly. This will lead to a reduction in centrally-allocated revenues from approximately 40% of operating revenues in the financial year ended March 31, 2014, to about 20% (also reflecting reclassification of Investment Grant) by 2016. In another important change, some of TfL's grant (representing about 10% of operating revenues) will now be allocated by the GLA, rather than by the Department for Transport. We will monitor the implications of this, but at present believe that this is likely to be neutral for TfL's creditworthiness. The interests of the GLA and TfL are closely aligned, with both being under the leadership of the directly elected Mayor of London, Boris Johnson. In addition, TfL and the GLA are each required to produce balanced budgets under the statutory framework for local authorities in the U.K. For the year just ended in March 2014 and the current financial year, the Mayor agreed to allocate the level of grant that TfL had previously been expecting under its funding settlement with the Department for Transport, and we understand that this is likely to increase in line with RPI.

In our view, TfL will be better placed than most U.K. local authorities to absorb its expected reduction in grant, partly because its overall grant reduction has been lower, but mostly because of its sizable revenues from fares and congestion charges, which currently comprise about half its total revenues. These revenues are set to be supported by increased passenger volumes, and by fare increases with inflation. In our base-case scenario, we believe the growth of London's population and economy will increase passenger journeys by about 2% per year. Growth in London's economy is also likely to support London's business rates (a tax on commercial properties), which will be centrally-allocated to the GLA, according a formula linked to growth in London's business rate revenues. Growth in business rates is therefore likely to be favorable for the level of grant that the GLA will allocate to TfL. Although there may be further reductions in grants to come, we note that the effect on TfL's overall operating revenues will become less significant, as grant reduces to about 20% of total operating revenues by 2016/17.

In our base case, we believe that TfL will post a slight operating deficit in 2015-2016, owing to the above changes in grant classification and some additional operating expenditure on the London Underground (that was previously factored in as capex). We also include in our forecasts TfL's ongoing plans for efficiency savings, curbing growth in operating expenditure. From the year beginning April 1, 2016, however, we anticipate some improvement in TfL's operating position as extra capacity generated by the rail and underground investment program drives up fare

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revenues, supported by other income (such as from advertising and property rentals). We understand that management aims for TfL to be generating operating surpluses from its own operations (excluding grant funding) in the medium term. On average, however, we currently forecast that TfL's operating balance will decline from about 10% of operating revenues on average over the three years to March 31, 2016, to less than 5% over the same period to 2017 (including a small deficit in 2015-2016).

Ongoing deficits after capital accounts are likely, on the back of a substantial capital program

We acknowledge that TfL has some degree of flexibility over its capital program, and this is also set to result in some volatility in deficits after capital accounts in our base-case forecasts. We do not consider this as a weakness for budgetary performance at the moment as we believe it reflects timing differences and reprofiling of certain projects.

After taking into account the growing size of TfL's capital expenditure program, we believe that TfL will post deficits after capital accounts averaging about 13% of total revenues over the next three years. This is a deterioration from the small surpluses after capital accounts posted over the previous three years. And given the increased demands for infrastructure spending in London, and the likelihood that government grant will continue to decline in real terms, we believe that an underlying deficit after capital accounts of around 5% may well recur beyond this period.

Crossrail: Construction and financing risks mitigated by government

Crossrail is a £14.8 billion major rail project for the London metropolitan area. It is TfL's largest project, and will provide a fast urban train system that connects Heathrow and Reading to West London, Essex, and South East London. It is expected to increase the capacity of urban transport by 10%. We would expect demand for TfL's transport services to have expanded so as to readily use this capacity by the time of Crossrail's completion in December 2018.

Crossrail is a complex project that is exposed to a number of major risks, particularly those associated with tunneling under London. Given its national significance, it is regulated by a specific project agreement between TfL and the Department of Transport. As part of the agreement, the Department of Transport effectively takes on the risk of cost over-runs beyond a certain level (for more on this, see Contingent Liabilities below). To date, however, we understand that Crossrail's construction is currently on track to be completed on time and to budget. Procurement activity is largely finished, and tunneling is now approximately 50% complete.

The project is co-funded from several sources (see table 2), with the majority of funding coming from the U.K. government (via the Department of Transport) and the GLA. TfL itself will only take on about £2 billion of associated debt. The GLA's contribution is to be mainly funded through borrowing (£3.5 billion), supported by supplementary business rates revenues. A Business Rates Supplement (BRS) of 2p has applied since April 2010 to business properties with a rateable value of more than £50,000 in the Greater London area.

Table 2

Crossrail Funding Plan

From London Boroughs	**(Mil. £)**
Developer Contributions	300
Community Infrastructure Levy	300

Table 2

Crossrail Funding Plan (cont.)	
From GLA	
GLA Borrowing backed by Business Rates Supplement	3,500
Surplus on Business Rates Supplement	600
From Transport for London(TfL)	
EIB Corporate Loan to TfL	1,000
Other TfL borrowing	1,000
Sale of Surplus Land and Property	444
DfT funding	
BAA Plc	230
City of London Corporation	250
Department for Transport Grant	4,700
Other funding	
Network Rail Surface Works and Other	2,500
Total Funding	14,825

Source: Transport for London. GLA--Greater London Authority. DfT--Department for Transport.

Debt Burden Set To Gradually Increase

TfL's capital program is to be funded by a combination of operating surpluses, capital revenues, drawdowns from its reserves, and debt issuance. As TfL has effectively pre-funded some of the program through previous debt issuance, we expect TfL's debt burden to rise only gradually from tax-supported debt of 115% of operating revenues as at March 2014, to about 145% by 2017. This is in line with our previous forecast, and the trajectory beyond 2015-2016 partially reflects the reclassification of a portion of grant funding as capital revenues; debt stock (including lease obligations) will increase from £8.9 billion to £10.5 billion over 2014-2017 (a less marked increase than is implied by the anchor ratio).

In our base case, we believe the interest costs associated with this, including adjustments for finance leases, will rise to about 7% of operating revenues by 2017, which should be sustainable at this rating level. We believe that debt levels are unlikely to be much in excess of the forecast by 2017, given that any borrowing increases are effectively constrained by the U.K. government at levels that were set out to 2021 for TfL in the Spending Review 2013.

As of March 2014, we calculate that TfL's tax-supported debt will amount to almost £9 billion, or 115% of consolidated operating revenues. This measure of debt includes about £7.8 billion of direct debt and £1.1 billion of leases. In our calculation of tax-supported debt, we base our analysis at a group level, taking into account both the liabilities of TfL, and the liabilities of its subsidiaries, irrespective of whether or not those liabilities are formally guaranteed by TfL as parent. TfL's debt is diversified among a number of lenders. As at March 2014, £2.7 billion of TfL's long-term direct debt was sourced from the government-funded PWLB, £1.9 billion from the EIB, and about £2.6 billion from the market in bonds. The long-term debt is predominantly held at fixed rate, and refinancing risk is managed through a mixed debt maturity profile. As at March 2014, TfL is also funded by about £725 million of commercial paper. (For

more on TfL's approach to the use of commercial paper, see the Financial Management section above.) Looking ahead, we believe TfL's borrowing will continue to be funded from similar sources.

Limited exposure to pension liabilities and derivatives

TfL's current unfunded pension liability amounts to about £740 million, representing about 8% of total revenues. We understand that TfL has a plan to cover this deficit by 2020. (We do not include these liabilities in our calculation of tax-supported debt.)

Unlike other local authorities, the TfL Act of 2008 allows TfL to enter into derivatives for hedging purposes. TfL therefore makes use of derivatives to hedge interest rate volatility. As of March 2014, TfL has about £833 million of interest rate derivatives, of which about £200 million is forward-starting swaps. None of these derivatives expose TfL to any potential requirement to pay cash collateral. TfL has also taken on foreign exchange risk management itself through use of derivatives, with £7 million outstanding as of March 31, 2014.

Limited Contingent Liabilities

In our opinion, TfL's contingent liabilities are moderate and are mainly related to its significant investment plan, particularly with regard to Crossrail.

Crossrail's Project Development Agreement protects TfL from major cost overruns

Crossrail's Project Development Agreement caps TfL's financial exposure to the project in case of significant cost overruns, thereby protecting TfL's credit profile. The "Project Development Agreement" includes several review phases (or "intervention points"), which could help TfL identify potential cost overruns in advance and put timely correction mechanisms into place. If costs were to overrun significantly, under certain conditions, TfL could exercise its right under a put option--an agreement it has with the Department for Transport--which would transfer the project ownership back to the Department for Transport. In practice, if there were major cost over-runs, we believe that Dft and TfL would likely co-operate in managing and funding the completion of Crossrail.

Published Rating Factor Scores

Table 3

Summary Of Published Rating Factor Scores*	
RATING FACTOR	**SCORE**
Institutional framework	Predictable and supportive
Financial management	Very positive
Liquidity	Very positive

*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria (see below). We publish our scores for the three rating factors above.

Key Statistics

Table 4

Transport for London Economic Statistics

	--Year ended Dec. 31--					
	2010	**2011**	**2012**	**2013bc**	**2014bc**	**2015bc**
Population	8,061,511	8,204,484	8,308,417	8,399,810	8,483,808	8,577,130
Population growth (%)	N.M.	1.77	1.27	1.1	1	1.1
GDP per capita (£)	35,896	36,976	37,232	38,464	40,025	41,609
Real GDP growth (%)	1.7	4.4	1.5	1.9	2.9	2.8
Unemployment rate (%)	8.9	9.1	10	8.9	7.8	7.5

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Limited. N.M.--Not meaningful.

Table 5

Transport for London Financial Statistics

	--Year beginning April 1--						
(Mil. £)	**2010**	**2011**	**2012**	**2013bc**	**2014bc**	**2015bc***	**2016bc**
Operating revenues	7,198	7,522	7,954	7,809	7,637	6,896	7,293
Operating expenditures	5,385	5,606	5,873	6,284	6,723	6,914	7,143
Operating balance	1,813	1,916	2,081	1,525	914	(18)	150
Operating balance (% of operating revenues)	25.19	25.48	26.16	19.53	11.97	(0.3)	2.06
Capital revenues	1,272	1,468	2,046	2,056	1,416	3,157	1,523
Capital expenditures (capex)	2,937	2,776	3,237	3,280	3,707	3,787	3,199
Balance after capital accounts	148	609	890	301	(1,377)	(648)	(1,526)
Balance after capital accounts (% of total revenues)	1.75	6.77	8.9	3.05	(15)	(6)	(17)
Debt repaid	654	3,407	1,255	1,274	823	837	871
Balance after debt repayment and onlending	(506)	(2,798)	(365)	(974)	(2,200)	(1,485)	(2,397)
Balance after debt repayment and onlending (% of total revenues)	(6.0)	(31)	(4)	(10)	(24.3)	(14.8)	(27.2)
Gross borrowings	2,658	2,637	1,533	1,538	1,375	1,325	1,425
Balance after borrowings	2,152	(161)	1,168	564	(825)	(160)	(972)
Operating revenue growth (%)	N.M.	4.5	5.75	(1.82)	(2.2)	(9.7)	5.75
Operating expenditure growth (%)	N.M.	4.09	4.77	7	6.99	2.84	3.31
Modifiable revenues (% of operating revenues)	49.22	51.06	51.89	56.26	60.77	71.96	72.24
Capital expenditures (% of total expenditures)	35.29	33.12	35.53	34.29	35.54	35.39	30.93
Direct debt (outstanding at year-end)	6,350	7,129	7,564	7,898	8,526	9,100	9,747
Direct debt (% of operating revenues)	88.22	94.78	95.1	101.14	111.63	131.96	133.65
Tax-supported debt (% of consolidated operating revenues)	112.08	112.29	109.44	115.01	124.99	145.61	145.15

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Table 5

Transport for London Financial Statistics (cont.)							
Interest (% of operating revenues)	5.66	4.85	4.6	5.14	5.52	6.68	6.86
Debt service (% of operating revenues)	14.75	50.14	20.38	21.46	16.3	18.82	18.8

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. *In 2015, we assume that some of the grant that TfL receives is re-classified from operating revenues to capital revenues, as explained above. This largely explains the sharp move in the ratios showing operating balance, modifiable revenues, and tax-supported debt as a percentage of operating revenues. bc--Base case, reflecting Standard & Poor's expectations of the most likely scenario. N.M.-Not meaningful.

Key Sovereign Statistics

- Sovereign Risk Indicators, March 24, 2014

Related Criteria And Research

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Public Finance System Overview: U.K. Local and Regional Governments, April 5, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- 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, Oct. 15, 2009

Ratings Detail (As Of June 5, 2014)	
Transport for London	
Issuer Credit Rating	AA+/Stable/A-1+
Commercial Paper	A-1+
Senior Unsecured	AA+
Issuer Credit Ratings History	
03-Dec-2010	AA+/Stable/A-1+
20-Sep-2010	AA/Watch Pos/A-1+
29-Mar-2010	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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