

Fitch Affirms Transport for London at 'AA'

Fitch Ratings-London/Paris/Barcelona-29 December 2005: Fitch Ratings has today affirmed Transport for London's ("TfL") ratings at Long-term local and foreign currency 'AA' and Short-term 'F1+'. The Long-term rating Outlooks are Stable.

The ratings primarily reflect TfL's position in the British political and institutional set-up, giving it good access to governmental funding, which is secured by a five-year agreement. The ratings also consider TfL's sound budgetary performance. However, they take into account TfL's ambitious capital spending plan, which will be partially debt-financed. The Stable Outlook reflects the political and financial visibility of TfL in the next two years of operations. Fitch will monitor TfL's financial planning to ensure that borrowing is in line with projections and hence remains compatible with the 'AA' rating.

"TfL has remarkably reached the first operational and financial targets set in the business plan that it introduced in 2003. Overall, the projections of the plan remain balanced, and the amount of debt to be raised until 2010 remains at GBP3.3bn," says Nicolas Painvin, Senior Director in the International Public Finance Group at Fitch. "However, Fitch still views the planned borrowing over the next five years as compatible with a 'AA' rating."

The ambitious capital spending plan for 2005-2010 has been increased by GBP2.7 billion, of which GBP1.75bn is to be financed by third parties. Of the increase, GBP950m is attributed to new projects and cost increases, including approximately GBP200m for the Olympic bid for 2012. These GBP950m will be funded through an increase in own resources, primarily fares and fees.

TfL has presented balanced budgets, as required by statute, and reported good budgetary performance since 2003/04. Its budget structure is relatively rigid: it is primarily funded by the Department for Transport ("DfT") through the transport grant (46% of TfL's resources in 2004/05), which is paid to the Greater London Authority ("GLA") and ring-fenced for TfL. Fares (44% of revenue) are set by the London Mayor.

Although TfL has demonstrated its capacity to increase fares if necessary and will use this leeway to support its development, there is only limited latitude in this area given the already relatively high fares. Local taxation (GLA council tax precept) is only 0.5% of revenues and provides limited scope for increase, as do other revenue sources (including congestion charge), all of which total 10% of revenue. Expenditure is also relatively inflexible, with staff costs (17%) and contract payments (55%) making up the bulk.

The TfL group (corporation and subsidiaries) has set up a GBP3.3bn medium-term note programme under which it has raised only GBP196m in 2004. It has a high level of liquidity, with liquid assets exceeding financial liabilities as at 31 March 2005. The debt programme is expected to be fully utilised at end-2010.

TfL has contingent liabilities related to the Public Private Partnerships scheme used for upgrading the "Tube" infrastructure (through 30-year PPP contracts signed with three private infrastructure companies). These liabilities (a possible early redemption of up to GBP4.5bn of the contractors' debt) are backed by a letter of comfort provided by the DfT to investors.

TfL, which reports to the London Mayor, is a functional body of the GLA. TfL was created in 1999, and for most regulatory purposes is treated as a local authority. It took on all of London Regional Transport's (a central government agency) previous responsibilities for buses, and other transport functions (roads and bridges, buses, river services and taxis etc) in London from the government on July 2000. London Underground Limited was passed on to TfL only in July 2003.

TfL's 437 km of subway routes and 580 km of road network serve an urban area that is home to 7.4 million people; the group employs 19,000 staff.

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