

Analysis

Moody's Sub-Sovereign

September 2007

Transport for London

United Kingdom

Summary Rating Rationale

The Aa1 debt rating of Transport for London (TfL), with stable outlook, reflects the application of Moody's rating methodology for government-related issuers (see Related Research section). In accordance with this methodology, the rating reflects a combination of the following inputs: (1) a baseline credit assessment of 10 (on a scale of 1 to 21, where 1 represents the lowest credit risk); (2) the Aaa rating of the UK government; (3) a high probability of support from the national government; and (4) high default dependence.

The BCA of 10 can be attributed to two key institutional factors. Firstly, in common with many urban public transport systems, TfL faces numerous challenges regarding the setting of fares, and the financing of operating and capital expenditures, and can justifiably be deemed to rely heavily on government transfers. Secondly, TfL has a significant level of contingent liabilities in relation to bonds issued as part of the financing of the public and private partnership (PPP) for the Tube Lines and the two Metronet PPP deals comprising Metronet SSL and Metronet BCV. In the event of a project default on all contracts, TfL could be liable to pay up to 95% of the issued debt of the PPP deal obligor. TfL's guarantees for the PPP contracts are in the amount of GBP4.5 billion, of which GBP2.7 billion relates to the Metronet companies.

The put option arrangements permit bondholders, following a 90-day standstill period, to accelerate payment of the aforementioned debt. It is probable that TfL, whilst currently holding significant liquidity in the form of cash and other liquidity accumulated for capital investment, would not be able to meet this requirement without support from the UK government. Therefore, it has been provided with a letter of comfort to the PPP lenders, affirming the UK government's support for TfL should it find itself liable under the put option arrangements.

The high support assessment for TfL reflects not only the letter of comfort but also the importance that has been attached to the transport system and infrastructure improvement in London by the UK government. TfL is regarded as a strategic asset in the government's medium-term transport plans, and this role is heightened by the key role of public transport provision for the 2012 Olympics. High default dependence reflects TfL's necessary reliance upon UK government funding and its lack of economic viability as a standalone entity.

Table of Contents:

Summary Rating Rationale	1
Rating Outlook	2
Issuer Overview	2
Key Rating Considerations	3
Financial Fundamentals	5
Company Annual Statistics	10
Moody's Related Research	13

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This 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. [Click here to link.](#)



Moody's Investors Service

Transport for London

Rating Outlook

The rating outlook is stable. The most salient risks that could negatively affect TfL's rating would be the assignment of a substantially higher financial burden to TfL or a dilution in the level of support from the UK government.

Issuer Overview

Transport for London

TfL was established in July 2000 as an executive body of the Greater London Authority (GLA) with the remit to create an integrated transport policy for London whilst overseeing and improving transport networks in London. TfL is in charge of the Tube, buses, certain railway stations, piers, as well as bridge and some roads, and the London Transport Museum. TfL is chaired by the Mayor of London, Ken Livingstone, who also appoints the board of TfL.

TfL's legal status is that of a local authority, which ensures that it is bound by the CIPFA¹ code and, in practice, government-approved borrowing limits as well as being legally obligated to set a balanced budget on an annual basis. Additionally, TfL's accounts are audited by the Audit Commission and implement 'best value' procedures. The local authority structure imposes statutory obligations upon officers and permits government intervention in cases of mismanagement or financial failure.

TfL is an independent body and, in practice, a key component of the government's national transport policy, via the auspices and scrutiny of the GLA. It is the sole or majority shareholder in eight subsidiary companies: Transport Trading Limited (TTL) (which is the holding company for all other subsidiary companies), London Underground Ltd., Docklands Light Railway Ltd., London Bus Services Ltd., Victoria Coach Station Ltd., London River Services Ltd., London Regional Transport Pension Fund Trustee Co. Ltd, London Transport Insurance (Guernsey) Ltd, Rail for London Ltd, and Cross Rail Links Ltd. As the controlling party within the group, TfL has a statutory obligation to ensure that none of its subsidiaries acts in a way that could be deemed *ultra vires* and exercises appropriate controls to prevent any of them exceeding its specific remit.

Since its inception in July 2000, TfL has benefited from a stable and experienced management team that has drawn upon expertise in the fields of transport administration, public policy, risk management and corporate finance. Affirmation of TfL's management ability has come in the form of the Audit Commission's 2006 report, which described TfL as capable of "making proper arrangements to secure economy, efficiency and effectiveness in its use of resources", and after a 2004 Initial Performance Assessment that rated the agency as "Excellent".

Relationship between TfL and the GLA

TfL was established within the GLA Act of 1999. The GLA's legal status is also that of a local authority and has been functioning since May 2000, when the Mayor and the assembly were elected for the first time. The GLA was established to promote economic development, social development, wealth creation and improvement of the environment in London. It is an elected regional government body and is responsible for four functional bodies:

- TfL
- Metropolitan Police Authority (MPA)
- London Fire and Emergency Planning Authority (LFEPA)
- London Development Agency (LDA)

These four bodies have operational autonomy and responsibility for their own budgets and business plans; however, the Mayor sets budgets for the organisations and, after consultation, creates their overall strategic aims. The Mayor also makes appointments to the boards of both the LDA and TfL and directs their activities.

¹ Chartered Institute of Public Finance and Accountability

Transport for London

The London Assembly (25 elected persons) has a statutory duty to hold the Mayor accountable and scrutinises his actions and decisions, considers budgets (which it can amend with a two-thirds majority), and investigate matters important to London. It is also possible for the GLA to move money between the four functional bodies; however, the GLA may not legally retain any of the transport grants earmarked from DfT (Department for Transport / Central Government) for TfL and simply acts as a funding conduit for TfL in this respect.

London Underground (Tube) Network

The underground railway (Tube) network in London, the largest in Europe, dates from the late 19th century and is composed of 12 inter-connecting tube lines, which criss-cross the English capital. Development of the sub-surface and overland lines accelerated in the early 20th century, mirroring London's economic development and rise to prominence as a world trade hub and major financial centre, whilst recent extensions and construction of new lines (such as the Docklands Light Railway) in the past 20 years have significantly grown the network.

Due, in part, to the age of the network and also to an increasing number of passengers, towards the end of the 1990s there was a steady decline in the standard and reliability of the infrastructure and associated assets, which resulted in capacity constraints across the whole network. Speed restrictions were commonplace, with mandatory maintenance work disrupting services. Since 2001, refurbishment works have been increasing, with both periods of planned closures on limited sections of the system and service disruptions resulting from possession overruns. Nonetheless, given that the vast majority of journeys occur during peak hours and the relative inelasticity of these services, there remains an expanding demand for the Tube.

Historically, as the network has expanded, demand for new services has increased almost immediately. A good example of this is the Jubilee Line Extension, which stretched the network eastwards to the Docklands business district, enabling improved access for more passengers. Instead of seeing a proportionate decrease in passengers on other lines to compensate for the increased number using the new facilities, overall demand simply rose further.

Key Rating Considerations

Business Profile and Operations

Dominant provider of public transport in an expanding European capital city...

TfL enjoys a near monopoly on public transport provision in London, via ownership and control of the London Underground (Tube) network and control of the Greater London bus network. London is enjoying a sustained period of demographic growth. GLA predicts that an additional 800,000 to 1 million inhabitants will swell London's population to over 8.3 million by 2026. London's role as the financial capital of Europe proves a major employment draw, and City workers commute from all over the country, with the vast majority using public transport for all or some of their journey.

...with a proven track record and some major achievements to its name, including significant efficiency savings in recent years

In spite of its relatively recent creation, over the past five years TfL has demonstrated a proven track record of delivery against its business plan and has enjoyed several notable successes; principally the initial implementation of the Congestion Charge and its westward expansion on 19 February 2007, together with the increase in the charge from GBP5 to GBP8.

TfL's other achievements include improvements to bus services and dramatic increases in passenger levels, the Docklands Light Railway extension to London City Airport, the addition of a seventh carriage to all Jubilee Line trains in late 2005, and the openings of Wembley Park underground station in March 2006 and the new Kings Cross ticket hall in May 2006. Additionally, in FY2006, TfL recorded annual efficiency savings amounting to GBP222 million related to the continuing operational and back office efficiencies, including LU contractual efficiencies, continuing focus on delivering efficiencies through the contracting arrangements relating to the bus network, and additional operational efficiencies as a result of reducing cash on buses.

Transport for London

TfL is in sole control of the Greater London bus network

Since deregulation of the UK's public transport network began in the late 1980s, private companies have run the vast majority of bus services in the nation's major metropolitan areas. In London, private companies tender for five-year contracts which pertain to routes and levels of frequency prescribed by TfL. Private sector operators are paid a fixed price by TfL for a fixed level of service provision. One of the services provided by the private sector operators is revenue collection; however, with the introduction of the 'Oyster' card, it is intended that TfL will increasingly collect all fare revenue derived from bus transport as more of the network moves towards cashless operation.

Passenger journeys on the bus network increased by 1.3% in FY2006 (1,816 millions of journeys) and by 3.5% in FY2007 (1,880 millions of journeys) also following the announced fare structure encouraging the use of Oyster card, which at present accounts for more than 73% of the total trips made on the London transport system (vs. 60% one year ago). Over the life of the 2010 business plan, TfL plans to grow the bus network's capacity as well as increase the frequency of services. Additionally, TfL is investing heavily to replace its obsolete real-time bus information system.

Since July 2003, TfL has owned and controlled the Tube...

On 15 July 2003, TfL took over responsibility for London Underground Ltd., which was incorporated as a wholly owned subsidiary company.² Passenger journeys on the underground network decreased by 0.5% in FY2006 (around 971 millions of journeys), but increased by a significant 4.4% in FY2007 (around 1,014 millions of journeys). Following the attacks on the London Underground in July 2005, no major damage was caused to network infrastructure and patronage soon returned to previous levels, underscoring the stability of the public transport demand and TfL's dominant market position.

...but also acquired significant contingent liabilities through PPP contracts as a result of the transfer

TfL has substantial contingent liabilities in relation to bonds issued as part of the financing of the Tube Lines PPP and the two Metronet (SSL and BCV)³ PPP deals. In the event of a project default on all contracts, TfL could be liable to pay up to 95% of the issued debt of the PPP deal obligor. TfL notes its guarantees for PPP contracts for a total of GBP4.5 billion, of which GBP2.7 billion relates to the Metronet companies.

The put option arrangements permit bondholders, following a 90-day standstill period, to accelerate payment of the aforementioned debt. It is probable that TfL, whilst currently holding significant liquidity in the form of cash and other liquidity accumulated for capital investment (about GBP2 billion at March 2007), would not be able to meet this requirement without support from the UK government. The government has provided a letter of comfort, affirming its support for TfL should it find itself liable under the put option arrangements.

These contingent liabilities are key factors underpinning TfL's BCA of 10. The letter of comfort supports Moody's assessment that the probability of support for TfL is 'high'.

² However, TfL does not operate in parts of Greater London south of the river Thames because, at the turn of the 19th century, it was found that the softer, clay-based soil was unsuitable for sub-surface trains. Overland services were instead developed in and around London's southern suburbs, with only 30 tube stations south of the river Thames.

³ SSL is responsible for the Metropolitan, District, Circle, Hammersmith & City and East London tube lines, which are collectively known as the sub-surface lines. BCV is responsible for the Bakerloo, Central, Victoria and Waterloo & City lines, which are the 'deep tube' lines running under the streets of London.

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Metronet contracts experiencing difficulties have been placed into PPP administration...

Metronet Rail BCV Limited and Metronet Rail SSL Limited (Infracos) were placed into a special form of insolvency, PPP Administration, on 18 July 2007. The infracos raised debt through two separate finance companies Metronet Rail BCV Finance and Metronet Rail SSL Finance to finance the operation, maintenance and upgrade of capital assets as part of London Underground. The PPP Administration provides for the continued operation of the contracted services and the subsequent transfer of it to another entity (the PPP Administrators have the power to adjust sub-contracts if deemed appropriate).

Moody's downgraded Metronet Rail BCV Finance and Metronet Rail SSL Finance senior debt ratings to B1 with negative outlook from Ba2, reflecting the increased probability of default for these companies implied by the PPP Administration, given that these finance companies' source of cash flow is subject to an insolvency procedure, and the uncertainty surrounding the prospects for full repayment of senior debt. The ratings recognise the probability that in the shorter term BCV Finance and SSL Finance may have access to sufficient cash to meet debt service on a timely basis. During the PPP administration, TfL is paying the infrastructure service charge (ISC) to the administrator for the benefit of Metronet. The ISC payments were sized to provide Metronet's anticipated cost of financing when the contracts were undertaken.⁴

...but with no rating impact on TfL

Despite these recent negative developments, Moody's does not believe there is sufficient pressure on TfL's rating to prompt a downgrade; we view central government support for the company as remaining high. The continued high support assessment for TfL reflects not only the letter of comfort but also the importance that has been attached to the transport system and infrastructure improvement in London by the UK government. TfL is regarded as a strategic asset in the government's medium-term transport plans, and this role is heightened by the key role of public transport provision for the 2012 Olympics.

In addition, we expect that the PPP administration process will be orderly and will proceed with a view towards maintaining stable finances for TfL and reliable passenger service. Although we acknowledge a degree of uncertainty with regard to the current situation, prospects should become clearer as the PPP Administration progresses and resolutions are put forward, including the final costs of resolving the Metronet contracts. We will monitor plans for addressing the PPP debt obligations, including the level of support for TfL's finances and longer-term investment plans from the central government. The most salient business risks that could negatively affect TfL's rating would be the assignment of a substantially higher financial burden to TfL or a dilution in the level of support from the UK government.

Financial Fundamentals

Funding Arrangements – Changes to the previous regime

In 2004, TfL moved to a five-year fully funded business plan. In addition to the two years covered in the spending review, TfL now receives a firm three-year, post-spending review commitment. This represents a unique settlement among UK local authorities and provides both greater clarity in terms of strategic planning and a more robust, almost corporate, approach to the way TfL conducts its budgeting process. The changes are depicted in the table below.

Previous Regime	New Regime
Two years fixed settlement, subject to appropriations, third year indicative	Five years fixed settlement, subject to appropriations

⁴ For more details, please refer to Moody's Special Comment "Metronet in PPP Administration – Where to from here?", published August 2007.

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The maintenance of its multi-year funding arrangements is a key support to TfL's investment plans and, as a result, an important element underpinning its credit quality. The current five year business plan is financially balanced.

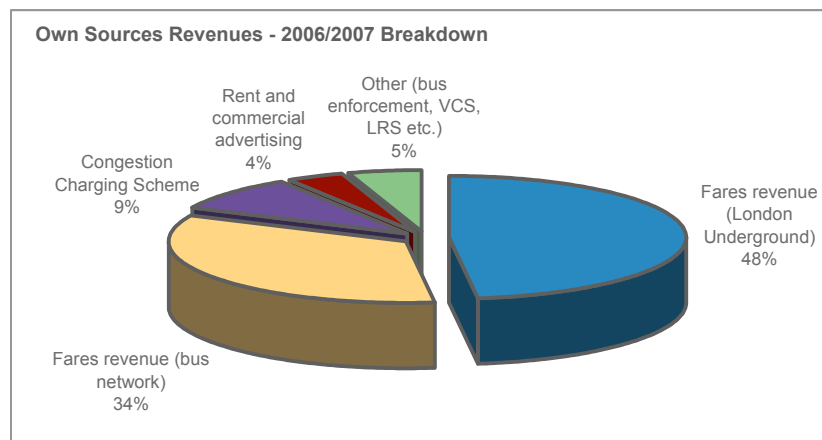
Funding Arrangements – New borrowing regime

The prudential borrowing capacity enacted as a result of the Local Government Act (LGA) of 2003 has enabled TfL to borrow for capital purposes up to a level agreed with the Mayor, subject to reserve powers retained by the government. No local authority may borrow to fund an operating deficit and TfL's annual borrowing limit is set in relation to the investment plans outlined in the current business plan and noted in a letter provided by the government related to its funding support for the business plan period.

Revenue

In common with many urban public transport systems, TfL is heavily subsidised. Transport grants have comprised, on average, 44% of TfL's total revenues over the past five full accounting years (2002/2003 – 2006/2007). Own-source revenues of GBP2.97 billion in 2006/2007 have been growing and provided almost 58% of TfL's total revenues; this component has, on average, accounted for 53% of TfL's total revenues over the period. The remainder of TfL's revenue comes from interest and investment income, proceeds from asset sales, transfers from reserves, property rentals, advertisement, and the GLA precept, which is a London-wide tax levied by the GLA that is ring-fenced for the improvement of transport infrastructure and transferred to TfL.

As can be seen from the chart⁵ below, fare revenues from the Tube and surface transport services accounted for 48% and 34%, respectively, of own-source revenues in 2006/2007.



Fuelled by continuing growth in demand and inelastic pricing, fares were increased in line with the Mayor's funding strategy and TfL's business plan. Fares were increased by around 4% (RPI + 1%) on the Underground and around 13% (RPI + 10%) on London buses in January 2006, while in January 2007 the increases were 4.3% and 7.1%, respectively.

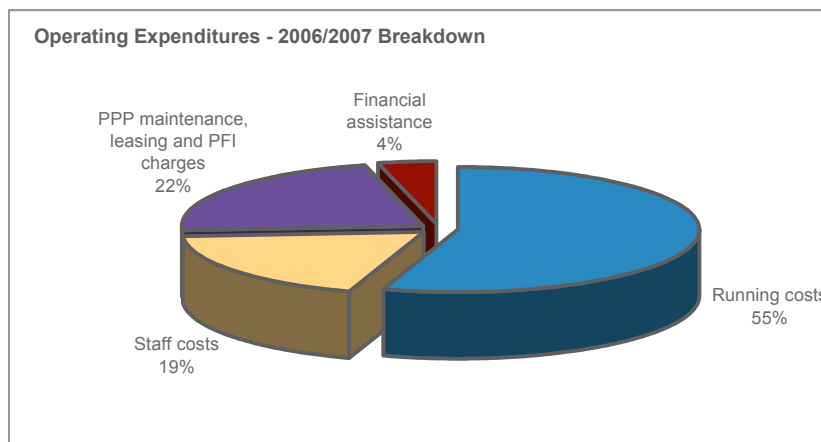
The Congestion Charge, which was introduced in February 2003, is now at a daily rate of GBP8 and applies to all vehicles entering a specified charging zone within central London, recently enlarged to include portions of Kensington and Chelsea and a wider area of the City of Westminster. Current revenues were GBP252 million in 2006/2007.

⁵ Source: TfL 2006/2007 Annual Report.

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Expenditure

Approximately 70% of TfL's expenditure is operating costs, and includes running and staff costs for the Tube and surface transport services as well as maintenance and leasing costs under the PPP arrangements; the remaining 30% is of a capital nature. Operating expenditure is broken down according to the chart⁶ below.



In 2006/2007, of the GBP4.64 billion of operating expenditure, GBP1.97 billion related to the Tube and GBP2.35 billion related to surface transport (year-on-year growth of 0.2% and 6.5% respectively). The Docklands Light Railway accounted for GBP62 million of operating expenditure, whilst other sectors accounted for GBP258 million.

Capital expenditure has been growing in the last three years as shown in the table below. Over three-quarters of TfL's capital expenditure related to capital works being undertaken on London Underground's infrastructure. About three-quarters of LU's capex relates to capital works undertaken by the Infracos through PPP contracts.

GBP million	2004/2005	2005/2006	2006/2007
LU	948	1,268	1,504
Surface Transport	160	290	205
DLR	16	186	60
Other	33	41	95
Capital expenditure	1,157	1,785	1,864

Business Plan

Following the five-year settlement agreed with the UK government in 2004 and reaffirmed in November 2006, TfL published a five-year business plan which detailed capital projects intended to be executed by 2009/2010. In July 2005, the International Olympic Committee awarded London the right to host the 2012 Olympic Games and, in Moody's view, this has heightened the profile of TfL's overall mission and underscored the urgency for the overhaul of London's public transport infrastructure.

As seen from the table below, the business plan provides a balanced five-year programme of operations and investment, based upon projected levels of fare revenues and approximately GBP12.8 billion level of transport grants committed under the five-year settlement and including the scheduled payments under the PPP. In view of the risk that the periodic review may increase operating costs under the PPP contracts and that the resolution of the PPP administration process may result in increased costs, or significant foregone investments, Moody's will continue to monitor the programme and its balance going forward.

⁶ Source: TfL 2006/07 Annual Report.

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Financial performance for 2006/2007 has been reported to be in line with plan.

Five-Yr. Balanced Plan Projections (from 2006/2007 - 2009/2010 Business Plan in nominal GBP million – as of Nov 2006)

	2005/06 actual	2006/07	2007/08	2008/09	2009/10	TOTAL
Total income	2,880	3,096	3,397	3,597	3,779	16,749
Operating costs	-4,996	-5,360	-5,705	-6,005	-6,318	-28,384
Net operating expenditure	-2,116	-2,264	-2,308	-2,408	-2,539	-11,635
Capital projects (net of over-programming)	-713	-736	-1,240	-1,579	-1,257	-5,525
Third-party funding	175	185	186	220	165	931
Debt service	-10	-58	-70	-106	-151	-395
Contingency	0	-26	-27	-28	-28	-109
Net expenditure	-2,664	-2,899	-3,459	-3,901	-3,810	-16,733
Working capital and reserve transfers	-102	-106	249	358	372	771
Funding required	-2,766	-3,005	-3,210	-3,543	-3,438	-15,962
Funded by:						
Total transport grant	2,196	2,389	2,598	2,781	2,826	12,790
Precept	20	12	12	12	12	68
Prudential borrowing	550	604	600	750	600	3,104
Total	2,766	3,005	3,210	3,543	3,438	15,962

TfL is due to execute over GBP5 billion of capital projects directly. The largest project is the extension of the East London Line (ELL), which is costed at approximately GBP900 million. The ELL will expand TfL's service area in the east and the south-east of the capital. The project is perceived to be relatively straightforward due to its use of existing track, existing tunnels, and TfL's taking the line out of operation during the works. Nevertheless, it is a significant undertaking and TfL's ability to manage costs and deliver the programme will provide a key indicator of its ability to handle the large investment programme overall. TfL's other directly funded projects are significantly smaller, and may be shifted in timing or adjusted in scope and cost to maintain balance in the capital programme.

TfL has responsibility for approximately GBP2.2 billion in Olympics-related investment. This amount is included in the GBP5.5 billion of TfL's direct investments (which includes the East London Line), and is incorporated into the existing business plan. TfL has offered a number of guarantees that certain projects will be completed within the agreed timeframe ahead of 2012 and, ultimately, TfL will be judged on its ability to deliver on its Olympic commitments.

Moody's notes that TfL's track record of delivering against its business plan is generally good, having completed several complex logistical projects, such as the expansion of bus services, the congestion charging system and extensions, Docklands Light Rail extensions, rollout of the Oyster smart card and the seventh-car upgrade of the Jubilee Line. Moreover, TfL's management team has extensive experience and can draw on expertise in the fields of transport administration, public policy, risk management and corporate finance and, as such, appear capable of meeting these challenges.

An additional long-term consideration for the credit is the overall funding for transport in London against initiatives that are not currently included in TfL programmes. In particular, Crossrail is the largest single transport improvement planned in the UK (estimated at about GBP16 billion). Its legislation has been submitted to Parliament and its financing scheme is anticipated to require substantial funding sources beyond those incorporated in TfL's current plans. The allocation of costs and risks of such a large programme has not been set, and Moody's will monitor how the project would be implemented were it to proceed.

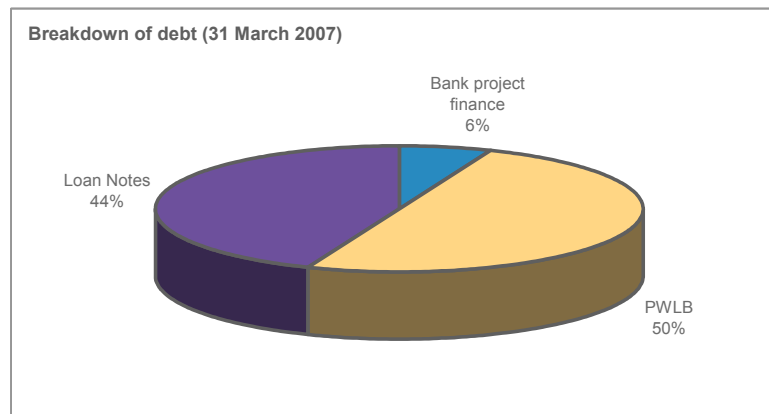
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Debt management – The EMTN programme

TfL raises debt in order to ensure that its overall debt maturity matches the life of the assets in the investment programme.

As at 31 March 2007, TfL's debt totalled GBP1.35 billion. When including financial leasing, mostly related to PPP contracts, the overall exposure was GBP3.92 billion. All debt issued by TfL is covered under Section 13 (3) of the LGA of 2003, which stipulates that all debt issued by UK local authorities must rank *pari passu* with all other existing obligations.

TfL's main public borrowing vehicle is a GBP3.3 billion MTN programme. Moody's has examined the documentation pertaining to the MTN programme and is satisfied that the pledge and cross-default clause on the obligations relate solely to TfL and its subsidiaries and are in accordance with securities law. As such, TfL's MTN programme has been rated at Aa1. Under the programme, TfL has issued notes for a total of GBP600 million. Other sources of funding are the Public Works Loan Board (PWLB) and the European Investment Bank (EIB).



Liquidity management

In managing its budgetary risks, TfL maintains high cash reserves against potential operating and capital variances. As at 31 March 2007, cash and equivalents totalled GBP2.028 billion. This balance comprises a TfL general fund reserve, a similar general fund reserve for London Underground which relates to PPP expenditure, a fund reserve for creditors and a planned funding reserve to meet capital expenditures over the plan period. The first three are anticipated to be maintained at current levels over the business plan period, whilst the planned funding reserve will be drawn down as TfL progresses with the investment plan.

TfL's reserves provide a cushion against unforeseen expenses in the event of a potential liquidity crisis. Whilst a number of TfL's reserves are programmatically 'earmarked' for spending against specific projects or uses, TfL may divert some or all of its reserves to meet any expenditure. Reserve levels beyond the end of the plan period are uncertain, but Moody's expects TfL to provide for adequate levels to manage variances in its operating budgets and its subsequent investment plans.

The Board approves policies to preserve liquidity in Treasury management. All short-term investments are denominated in sterling and held in UK government instruments or similarly highly rated securities. TfL may not provide corporate loans or invest in equity.

Guarantees

TfL has given guarantees mainly in respect of some of its subsidiary companies contracts. The amount that could be payable under the guarantees varies depending on a number of factors. The approximate maximum amount of debt that was envisaged to be drawn by the counterparty at the signing of the agreements was reported at GBP5.75 billion, of which GBP4.5 billion relates to the three PPP contracts with LU. This figure may not represent the amount that could be payable by TfL under the guarantees, but give an indication of the relative size.

Transport for London

Company Annual Statistics

Transport for London - Group Revenue Account

	2002/03	2003/04	2004/2005	2005/2006	2006/2007
	Realised	Realised	Realised	Realised	Realised
	GBP M	GBP M	GBP M	GBP M	GBP M
Highways, Road and Transport Services					
Expenditure	-3,178.1	-3,937.2	-4,189.9	-4,433.8	-4,634.7
Depreciation net of Release of Deferred Grants	-241.6	-198.4	-213.8	-215.4	-235.8
Capital Financing Charges	-126.8	--	--	--	--
Own Source Revenues	1,941.0	2,320.8	2,554.5	2,737.6	2,965.6
Net Cost of Services	-1,605.5	-1,814.7	-1,849.2	-1,911.6	-1,904.9
Losses of JVCO before Grant	-12.6	-15.6	-22.1	-22.9	-47.5
Finance Lease Charges	-23.3	-33.6	-61.6	-104.0	-162.3
Pensions Interest Cost	--	-20.5	-13.9	-7.9	23.9
Depreciation net of Release of Deferred Grants - Reversal	125.8	0.0	0.0	0.0	0.0
Capital Financing Charges - Reversal	126.8	0.0	0.0	0.0	0.0
Net Interest and Investment Income	31.4	18.2	55.4	58.2	70.4
Profit on sale of fixed assets	--	19.9	--	--	--
Loss on sale of fixed assets (*)	--	--	-5.5	-3.9	-23.6
Appropriations	-456.9	-341.9	-233.8	-11.2	
Interest Payable	--	--	-4.1	-10.2	-37.1
Sub-Total	-208.8	-373.5	-285.6	-101.9	-176.2
Net Operating Expenditure	-1,814.3	-2,188.2	-2,134.8	-2,013.5	-2,081.1
Revenue Transport Grant	1,791.1	2,230.2	2,121.3	1,974.6	1,979.8
Other Revenue Grant	5.1	5.7	12.2	15.9	44.2
GLA Precept	35.8	57.8	25.8	20.0	12.0
SURPLUS / DEFICIT FOR THE YEAR	17.7	105.5	24.5	-3.0	-45.1

Transport for London

Transport for London - Group Balance Sheet

	2002/03	2003/04	2004/2005	2005/2006	2006/2007
as at 31 March					
Tangible Fixed assets					
Infrastructure and other property	2,837.3	9,844.8	10,309.4	11,274.0	12,485.9
Rolling Stock	288.6	1,230.2	1,292.8	1,357.7	1,366.6
Plant and Equipment	0.0	472.1	444.3	449.3	493.7
Non Operational Assets	120.2	619.2	789.4	990.5	1,003.1
Total Tangible Fixed Assets	3,246.1	12,166.3	12,835.9	14,071.5	15,349.3
Investment in subsidiaries and joint venture	--	--	--	--	--
Total Fixed Assets	3,246.1	12,166.3	12,835.9	14,071.5	15,349.3
Current Assets					
Stocks	4.5	5.7	5.0	5.1	4.3
Debtors	170.1	367.4	338.4	301.6	302.7
Short-Term investments	162.6	852.6	1,326.5	1,663.1	2,004.3
Cash at bank and in hand	0.4	22.2	24.0	24.0	23.5
Total Current Assets	337.6	1,247.9	1,693.9	1,993.8	2,334.8
Short Term borrowings	20.0	--	--	--	--
Current Liabilities	324.0	--	--	--	--
Creditors -falling due within one year	17.6	1,104.0	1,457.5	1,699.5	1,753.8
Total Current Liabilities	361.6	1,104.0	1,457.5	1,699.5	1,753.8
Net Current Assets	-24.0	143.9	236.4	294.3	581.0
Total Assets less current liabilities	3,222.1	12,310.2	13,072.3	14,365.8	15,930.3
Creditors:falling due after one year	229.8	403.6	636.5	1,267.8	2,064.1
Provisions for liabilities and charges	89.5	136.5	217.5	260.2	248.2
Borrowings due after more than one year	--	--	195.6	745.9	1,349.8
Net Asset excluding grants	2,902.8	11,770.1	12,022.7	12,091.9	12,268.2
Deferred grants	685.1	6,766.8	6,681.7	6,695.1	6,845.1
Net assets excluding pension and other post retirement liabilities	2,217.7	5,003.3	5,341.0	5,396.8	5,423.1
Pension and other post-retirement liabilities	--	882.7	960.7	769.9	948.2
Total Net Assets	2,217.7	4,120.6	4,380.3	4,626.9	4,474.9
Capital and Reserves					
General Fund	20.9	126.0	150.5	147.5	147.8
Earmarked Reserves	--	433.7	972.6	1,198.9	1,299.8
Capital Financing Account	345.5	148.5	23.4	31.8	31.5
Fixed Asset Restatement Account	1,851.3	1,655.5	1,586.1	1,499.6	1,445.6
Revaluation Reserve	--	1,900.7	1,907.0	1,891.5	1,900.6
Net Growth in Other Reserves	--	-143.8	-259.3	-142.4	-350.4
Total Capital Employed	2,217.7	4,120.6	4,380.3	4,626.9	4,474.9

Transport for London

Transport for London - Key Ratios

	2002/03	2003/04	2004/2005	2005/2006	2006/2007
Transport Grant / Total Revenues (%)	45%	50%	45%	42%	40%
Own Source Revenues / Total Revenues (%)	48%	50%	54%	57%	58%
Surplus / Deficit for the year / Total Revenues (%)	0.4%	2.3%	0.5%	-0.1%	-0.9%
Current Assets / Current Liabilities (%)	93.4	113.0	116.2	117.3	133.1
Long-Term Borrowings / Net Assets (%)	--	--	1.5	5.2	8.5
General Fund and Earmarked Reserves / Long-Term Borrowings (x)	--	--	5.7	1.8	1.1
General Fund and Earmarked Reserves / Interest Payable (x)	--	--	-273.9	-132.0	-39.0

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Moody's Related Research

Rating Methodology

- The Application of Joint Default Analysis to Government-Related Issuers, April 2005 (92432)

Special Comment:

- Metronet in PPP Administration – Where to from here?, August 2007 (104346)

Credit Opinions:

- Metronet Rail BCV Finance Plc (July 2007)
- Metronet Rail SSL Finance Plc. (July 2007)

Analysis:

- United Kingdom, February 2007
- Cornwall County Council, January 2006 (96373)
- Regie Autonome des Transports Parisiens, June 2007 (103444)
- MTR Corporation Limited, December 2006 (98904)

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