

Announcement: [Transport for London](#)

Moody's affirms TfL's Aa1 ratings following Metronet entering PPP administration

Milan, July 19, 2007 -- Moody's Investors Service today affirmed the Aa1 issuer and debt ratings of Transport for London ("TfL") with their existing stable outlook. This announcement follows the entry of Metronet Rail BCV Limited and Metronet Rail SSL Limited -- which provide infrastructure maintenance services to London Underground Limited as part of the London Underground Public Private Partnership ("PPP") -- into PPP Administration.

On 18 July 2007, Moody's downgraded the senior secured un-guaranteed debt ratings of Metronet Rail BCV Finance plc and Metronet Rail SSL Finance plc -- the financing conduits for the two Metronet companies -- to B1 from Ba2, reflecting the increased probability of default 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. The debt raised was used to finance the operation, maintenance and asset upgrade of part of London Underground. During the PPP administration, TfL is continuing to make payments of infrastructure service charge to Metronet. The ISC payments were sized to provide Metronet's anticipated cost of financing when the contracts were undertaken.

Moody's recognises that TfL could be liable to pay up to 95% of the PPP deal obligor's issued debt as a result of a put option arrangement that permits bondholders to accelerate payment of the aforementioned debt in the case of default. However, the rating agency does not believe there is sufficient downward pressure on TfL's ratings to prompt a downgrade as it views central government support for the company as remaining high, as indicated by the letter of comfort to PPP investors affirming the UK government's intention to support TfL's ability to make payments should it find itself liable under the put option arrangements.

The continued high support assessment for TfL additionally reflects 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.

Moody's expects that the PPP administration process will be orderly and will proceed with a view towards maintaining stable finances for TfL.

Although Moody's acknowledges a degree of uncertainty with regard to the current situation, prospects should become clearer as the PPP Administration progresses and resolutions are put forward. Over the coming months, Moody's 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 ratings would be the assignment of a substantially higher financial burden to TfL or a dilution in the level of support from the UK government.

TfL was established in July 2000 as an executive body of the Greater London Authority 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, river services, roads, certain railway stations as well as bridge and road maintenance, and the London Transport Museum. TfL is chaired by the Mayor of London, Ken Livingstone, who also appoints the board of TfL.

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