

# London Underground Limited

## Annual Report and Financial Statements Year ended 31 March 2015



Registered Office  
Windsor House  
42-50 Victoria Street  
London  
SW1H 0TL

Registered in England and Wales  
Number 01900907

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# Directors' Report

## Introduction

The directors present their annual report on the affairs of London Underground Limited (the "Company" or "LU") together with the Financial Statements for the year ended 31 March 2015. The Company is a subsidiary undertaking of Transport Trading Limited ("TTL") and is part of the group headed by Transport for London ("TfL").

## Principal Activity

The principal activity of the Company is the provision of rail passenger transport services in London.

## Directors

The directors, who served throughout the year and up to the date of this Report, were as follows:

M. Brown	Managing Director
S. Atkins	
J. Collis	
S. Griffiths	appointed 15 June 2015
P. Hufton	resigned 2 January 2015
A. Pollins	
G. Powell	
M. Strzelecki	
D. Waboso	

None of the directors had any beneficial interest in the shares of the Company or any other company within the TfL Group.

The Company maintains directors' and officers' liability insurance.

## Employee Involvement and Communications

The Company has an employee communications strategy and plan in place to ensure that employees are provided with information on matters of concern to them, ensure that employees and union representatives are consulted on matters that may affect them, encourage employee engagement in the Company's strategy and performance, and enable employees to be aware of financial and economic factors that affect the Company's performance.

Consultation on issues affecting the workforce also takes place at regular intervals with representatives from the Company and trade unions.

## Employee Practice

The Company values the diversity which exists in our city and aspires to this being reflected in our workforce. This is reflected not only in our recruitment and selection processes, but also throughout the employment cycle of every member of staff. The Company is committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements and promotion and performance appraisal. The Company is committed to comply with our legal responsibilities under the Disability Discrimination Act to make reasonable adjustments to a person's working conditions wherever possible. In the event

# Directors' Report

of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and to provide specialised training where this is appropriate. Employee numbers are disclosed in the notes to the accounts.

## Health, Safety, Security and Environment

The Company is committed to continuous improvement in health, safety, security and environmental ("HSSE") performance. In addition to HSSE management as part of the normal business activity, HSSE objectives are identified and regularly reviewed to form short and longer term plans as a basis for improving health, safety, security and environment for customers, employees and suppliers.

## Charitable Donations and Political Contributions

No donations were made to charities during the year (£nil in 2013/14). No political contributions were made during the year (£nil in 2013/14).

## Dividends

No interim dividends were paid during the year (2013/14 £nil) and the directors do not recommend the payment of a final dividend (2013/14 £nil).

## Corporate Governance

London Underground Limited is a wholly owned subsidiary of TfL, which in turn is controlled by TfL, which appoints all the directors of the Company. The Board of London Underground Limited, through its management structure, implements the corporate aims and controls laid down by TfL. Particulars in respect of corporate governance can be found in TfL's Annual Governance Statement.

## Auditor

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. Accordingly, no auditors have been appointed.

Signed on behalf of the Board by



A. Pollins

Director

23 June 2015

# Strategic Report

## Activities and Future Developments

As stated in the Directors' Report, the principal activity of the Company is the provision of rail passenger transport services in London. The Company does not anticipate any changes in its principal activities in the foreseeable future.

## Financial and Business Review

Demand for LU's services continues to grow, with Passenger journeys in 2014/15 reaching a new annual high of 1,305.4 million, an increase of 3.2 per cent (40.8 million journeys) from last year.

These passengers are benefitting from improved underlying performance, with LU achieving its best ever customer satisfaction score. This reflects notable improvements in reliability, the delivery of line upgrades, and increased service frequencies, with only five per cent of those surveyed saying that they had experienced a disruption or delay.

LU has launched a wide ranging programme to transform its service to its customers. Since February staff have been moving out of ticket offices and back areas to public parts of stations, such as ticket halls and platforms, making them more visible and available to help customers. To support this, the first 1,318 staff members have undertaken our new customer service training. Whilst the introduction of enhanced ticket machines and contactless payments have also played an important role in making it easier for our customers to buy tickets and travel.

New "S stock" trains, with their distinctive walk-through design, are now in timetabled passenger service on the Circle, District, Hammersmith & City and Metropolitan lines. The spacious and accessible new trains bring increased capacity, plus air conditioning, wider doors and walkways and automated visual displays. They also feature onboard station announcements, CCTV and dedicated wheelchair areas.

The first of the 35 year old District line "D stock" train carriages have been taken out of service, and will be gradually phased out until the entire fleet has been replaced by the end of 2016. The new trains have one more car than those they replace, providing a significant increase in capacity.

The 55 year old maintenance shed at Upminster has been renovated to accommodate S stock trains, and a new facility for 180 train operators, managers and support staff has opened at Barking. It provides much improved facilities for staff including new training space.

Our campaign of track renewals continues, with 31 points and crossings renewed and over 48,000 meters of track and drainage replaced or upgraded during the year. The strengthening of drainage gives better management of groundwater ingress and so reduces the signal failures it causes.

Bond Street Station reopened fully on 5 December. The Jubilee line platform strengthening works will relieve congestion and prepare it for the forecasted increased growth as Crossrail becomes operational in 2018 and more customers use the station for commuting and leisure travel. Excavation for the new northern escalators and the northern tunnels concourse enlargement has been completed. This will provide the Jubilee line with new lifts and escalators improving accessibility and providing step-free access from street to platform.

# Strategic Report

The new entrance and ticket hall at Tottenham Court Road Station opened on 12 January. The new entrance on Oxford Street has three additional escalators leading down from the entrance to the ticket hall and a further three new escalators leading from the ticket hall to the Northern line lower concourse. Work at the station continues and by 2016, the station will be fully accessible, with five new lifts providing step-free access from the ticket hall to the platforms.

The modernisation of Vauxhall station is 50 per cent complete. This work will enlarge Vauxhall's ticket hall with the aim of reducing congestion and allowing for the 40 per cent passenger growth which is expected at the station over the next few years. The ticket hall, subways and stairways are being completely refurbished, with new signage, CCTV, ceilings, floor and wall tiling.

A new lift between the ticket hall and platforms, combined with the existing lift from the bus station to the Underground ticket hall, will give step-free access from the street to Victoria line trains. New station control and electrical switch rooms, offices, a staff mess room and staff toilets are almost finished.

Modernisation work on Hammersmith station is now complete and includes a new exit and entrance on Beadon Road, an extended platform for longer trains and a new gateline. In addition, the ticket hall has been retiled and the flooring refurbished.

Following substantial work, the lifts at Russell Square, Gloucester Road and Covent Garden re-opened with enhanced capacity.

Construction work on the old cleaning shed at Ruislip depot is now complete, transforming it from a storage area into a brand new automatic train control (ATC) fitment facility that will be used to install the onboard equipment on the engineering vehicle fleet.

In June, the Edgware branch became the last section of the Northern line to be switched over to the new signalling system. The new signalling system allows LU to safely run more trains, closer together and at higher average speeds.

In October the Mayor and LU Managing Director, Mike Brown, formally launched our design vision for the next generation of trains to serve customers on the Piccadilly, Bakerloo, Central and Waterloo & City lines. These trains, which we aim to introduce from the mid-2020s, will be the first deep-level Underground trains to feature air-cooling. They will also be more accessible than the trains they replace, providing step-free access from the platform to the cars, and will also have wider doors and a walk-through design similar to the new trains on London Overground and the Circle, District, Hammersmith & City and Metropolitan lines. The new trains will be introduced as part of a wide-ranging modernisation project which will increase capacity on the four lines mentioned above by up to 60 per cent.

Final preparations are being made for the launch of the Night Tube in September 2015. Night Tube is our new overnight service that will create a 24-hour Tube service on the Jubilee, Victoria and most of the Piccadilly, Central and Northern tube lines on Fridays and Saturdays.

## Principal Risks and Risk Management

The Company identifies, manages and mitigates significant areas of business risk as part of the normal course of business. The London Underground Limited Risk Management framework is set up to complement this basic management by the business and to provide a framework for the organisation to ensure that business risks are appropriately identified, regularly reviewed and progress tracked on the management of key business risks.

## Strategic Report

The principal risks that the Company is exposed to include safety, terrorism, employee relations, contractual claims, reputation and financial. All business risks are recorded on a risk register. For each risk, an owner has been identified who is responsible for implementing the mitigation strategy that has been identified.

As part of its overall corporate governance brief within the TfL Group, the TfL Audit and Assurance Committee has specific responsibility for assuring the TfL Board that effective risk management arrangements are in place. The risk management process is subject to annual review by the TfL Group's Director of Internal Audit.

Signed on behalf of the Board by



A Pollins

Director

23 June 2015

# Statement of Directors' Responsibilities

## In Respect of the Directors' Report, the Strategic Report and the Financial Statements

The directors are responsible for preparing the Directors' Report, the Strategic Report, and the Financial Statements in accordance with applicable law and regulations

Company law requires the directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and applicable law.

Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with Adopted IFRSs, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

## Income Statement

For the year ended 31 March

		2015	2014
	Note	£m	£m
Revenue	1	2,620.4	2,476.2
Net operating costs		(2,629.9)	(2,541.5)
<b>Operating loss</b>	2	(9.5)	(65.3)
Other gains and losses	3	196.0	168.1
<b>Total profit from operations</b>		186.5	102.8
Financial expenses	6	(211.9)	(194.8)
<b>Loss before taxation</b>		(25.4)	(92.0)
Income tax expense	7	-	-
<b>Loss for the year attributable to the owners of the Company</b>		(25.4)	(92.0)

## Statement of Comprehensive Income

For the year ended 31 March

	2015	2014
	£m	£m
<b>Loss for the year</b>	(25.4)	(92.0)
<b>Items that will not be subsequently reclassified to profit or loss</b>		
Revaluation of property, plant and equipment	73.1	36.6
<b>Total comprehensive income and expenditure for the year attributable to owners of the Company</b>	47.7	(55.4)



# Statement of Financial Position

		31 March 2015 £m	31 March 2014 £m
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	8	18,056 3	17,310 0
Investment property	9	411 0	564 5
Trade and other receivables	12	-	1 0
		<u>18,467 3</u>	<u>17,875 5</u>
<b>Current assets</b>			
Inventories	10	-	0 8
Assets classified as held for sale	11	375 7	-
Trade and other receivables	12	72 0	85 5
Cash and cash equivalents	13	16 5	18 5
		<u>464 2</u>	<u>104 8</u>
<b>Current liabilities</b>			
Trade and other payables	14	(666 0)	(655 7)
Finance lease liabilities	16	(54 3)	(48 9)
Provisions	18	(53 8)	(39 1)
		<u>(774 1)</u>	<u>(743 7)</u>
<b>Non-current liabilities</b>			
Trade and other payables	14	(45 2)	(21 6)
Borrowings	15	(5,290 9)	(4,985 9)
Finance lease liabilities	16	(339 2)	(393 6)
Provisions	18	(0 6)	(0 4)
Deferred grants and other contributions	19	(10,797 2)	(10,198 5)
		<u>(16,473 1)</u>	<u>(15,600 0)</u>
<b>Net assets</b>		<u>1,684 3</u>	<u>1,636 6</u>
<b>Equity</b>			
Share capital	21	430 0	430 0
Share premium account		36 1	36 1
Revaluation reserve		166 1	94 1
Retained earnings		<u>1,052 1</u>	<u>1,076 4</u>
<b>Total equity attributable to the owners of the Company</b>		<u>1,684 3</u>	<u>1,636 6</u>

## Statement of Financial Position

The directors

- (a) confirm that the Company was entitled to exemption under section 479A of the Companies Act 2006 relating to subsidiary companies from the requirement to have its Financial Statements for the financial year ended 31 March 2015 audited,
- (b) confirm that members have not required the Company to obtain an audit of its Financial Statements for that financial year in accordance with section 476 of the Companies Act 2006, and
- (c) acknowledge their responsibilities for
  - (i) ensuring that the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006, and
  - (ii) preparing Financial Statements which give a true and fair view of the state of affairs of the Company as at the end of its financial year and of its surplus or deficit for the financial year in accordance with the requirements of sections 393 and 394 of the Companies Act 2006, and which otherwise comply with the requirements of that Act relating to financial statements, so far as applicable to the Company

The notes on pages 12 to 48 form part of these Financial Statements. These Financial Statements were approved by the Board on 23 June 2015 and signed on its behalf by



A Pollins

Director

Company Registration Number 01900907

## Statement of Changes in Equity

	Called up share capital	Share premium account	Revaluation reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
At 1 April 2013	430.0	36.1	58.1	1,167.8	1,692.0
Loss for the year	-	-	-	(92.0)	(92.0)
Other comprehensive income and expenditure					
Net gain on revaluation of property, plant and equipment	-	-	36.6	-	36.6
Release of revaluation reserve in respect of non- historic cost depreciation	-	-	(0.6)	0.6	-
At 31 March 2014	430.0	36.1	94.1	1,076.4	1,636.6
Loss for the year	-	-	-	(25.4)	(25.4)
Other comprehensive income and expenditure					
Net gain on revaluation of property, plant and equipment	-	-	73.1	-	73.1
Release of revaluation reserve in respect of non- historic cost depreciation	-	-	(1.1)	1.1	-
At 31 March 2015	430.0	36.1	166.1	1,052.1	1,684.3

# Statement of Cash Flows

For the year ended 31 March

		2015	2014
	Note	£m	£m
<b>Cash generated from operating activities</b>			
Loss for the year		(25.4)	(92.0)
<b>Adjustments for</b>			
Depreciation of property, plant and equipment	8	631.0	623.9
Loss on disposal of property, plant and equipment	3	3.1	22.3
Loss/(gain) on disposal of investment properties	3	0.1	(13.3)
Change in fair value of investment properties	3	(199.2)	(177.1)
Financial expenses	6	211.9	194.8
Release of deferred grant to the Income Statement	19	(479.6)	(462.0)
<b>Cash flow from operating activities before movements in working capital</b>		<b>141.9</b>	<b>96.6</b>
Decrease/(increase) in inventories		0.8	(0.1)
Decrease in trade and other receivables		1.7	34.4
Decrease in trade and other payables		(43.6)	(229.2)
Increase in provisions		14.9	37.1
<b>Net cash generated from/(utilised by) operating activities</b>		<b>115.7</b>	<b>(61.2)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		0.5	1.0
Proceeds from disposal of investment properties		14.8	25.1
Acquisition of investment properties		(27.3)	-
Acquisition of property, plant and equipment		(1,244.4)	(1,199.9)
Capital grants received		1,094.6	1,336.4
<b>Net cash (utilised by)/generated from investing activities</b>		<b>(161.8)</b>	<b>162.6</b>
<b>Cash flows from financing activities</b>			
Drawdown of loans from fellow group undertakings		305.0	133.6
Payments of obligations under finance leases		(81.3)	(79.3)
Interest paid		(179.6)	(159.6)
<b>Net cash generated from/(utilised by) financing activities</b>		<b>44.1</b>	<b>(105.3)</b>
<b>Decrease in net cash during the year</b>		<b>(2.0)</b>	<b>(3.9)</b>
<b>Net cash and cash equivalents at the start of the year</b>		<b>18.5</b>	<b>22.4</b>
<b>Net cash and cash equivalents at the end of the year</b>		<b>16.5</b>	<b>18.5</b>

# Accounting Policies

## a) Reporting entity

London Underground Limited (the "Company" or "LU") is a company domiciled in the United Kingdom. The Company's registration number is 01900907. The address of the Company's registered office is 55 Broadway, London, SW1H 0BD. The Company is a subsidiary of Transport Trading Limited ("TTL") which is in turn a subsidiary of Transport for London ("TfL").

## b) Statement of accounting policies

This section explains the Company's main accounting policies, which, unless otherwise stated, have been applied to all periods presented in these Financial Statements.

## c) Basis of preparation

### *Statement of Compliance*

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("Adopted IFRSs").

### *Basis of measurement*

The accounts are made up to 31 March and have been prepared under the accruals concept and in accordance with the historical cost accounting convention, modified by the revaluation of certain categories of non-current asset.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the Financial Statements in order to aid the reader's understanding of the Company's financial performance.

## d) Uses of estimates and judgements

The preparation of Financial Statements in compliance with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the Financial Statements are disclosed below. It is not considered likely that any reasonably possible changes in key assumptions in the next 12 months would have a material impact on the carrying amounts of balance sheet items not already held on the Statement of Financial Position at fair value.

- **Leases**

In assessing whether a lease is an operating lease or a finance lease, judgement must be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Company. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the Company.

- **Determining whether an arrangement contains a lease**

When determining whether an arrangement contains a lease, as required by IFRIC 4, judgement needs to be exercised in determining whether the arrangement conveys the right to use an asset. Given that this could result in additional finance leases being recognised on the Statement of Financial Position this can have a significant effect on the reported financial position of the Company.

- **Classification of investment property**

IAS 40 Investment properties ("IAS 40") requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Company owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. To comply with IAS 40, judgement needs to be exercised in determining whether these properties should be classified as investment properties. As investment properties are valued at fair value with movements in the fair value being recorded in the Income Statement this could have a significant effect on the financial performance of the Company.

## Accounting Policies

- **Investment property**

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value as calculated by external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Gains and losses from changes in the fair value of investment property are included in the Income Statement for the period in which they arise.

- **Office buildings**

Office buildings held within property, plant and equipment are held at fair value as calculated by external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Movements in the fair value of the property are taken to the revaluation reserve.

- **Provisions**

Estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Company. This can be very complex, especially when there is a wide range of possible outcomes.

- **Useful economic life of property, plant and equipment**

When determining the useful economic life of property, plant and equipment, judgement must be exercised in estimating the lengths of time the assets will be operational.

### e) New standards and interpretations adopted for the first time in these Financial Statements

Standards and interpretations issued by the International Accounting Standards Board ("IASB") are only applicable if endorsed by the EU. The following amendments have been applied for the first time in these Financial Statements:

- 'Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities' The amendments to IFRS 10 define an investment entity and introduce an exception to the requirement to consolidate subsidiaries for an investment entity. Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.
- 'Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities' The amendments clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.
- 'Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets' These amendments remove the requirement to disclose the recoverable amount of a Cash-Generating Unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements that apply when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions, and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.
- 'Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting' These amendments provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness, and
- 'IFRIC 21 Levies' This interpretation addresses the issue of when to recognise a liability to pay a levy. IFRIC 21 defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation.

## Accounting Policies

The application of these and any other standards, amendments or interpretations issued by the IASB and applicable for the first time to these Financial Statements has not had a material impact on the accounts

### f) New standards and interpretations not yet adopted

The following new and revised IFRSs will be applicable in future periods, subject to endorsement where applicable. These have been issued, and adopted by the EU, but have not been applied by the Company in these Financial Statements

- 'IFRS 9 Financial Instruments' (as revised in 2014) IFRS 9 (as revised in 2014) will supersede 'IAS 39 Financial Instruments: Recognition and Measurement'. The new standard contains the requirements for three areas: a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting. With respect to classification and measurement, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. The standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. With respect to impairment methodology, the revised model reflects expected credit losses as opposed to the incurred credit losses recognised under IAS 39. And with regards to hedge accounting, IFRS 9 (as revised in 2014) introduces greater flexibility to the types of transactions eligible, specifically broadening the types of instruments that qualify as hedging instruments. The revised standard is mandatory for years beginning on or after 1 January 2018.
- 'IFRS 15 Revenue from Contracts with Customers' (mandatory for years beginning on or after 1 January 2017) IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The core principle of the new standard is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
- 'Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations' (mandatory for years commencing on or after 1 January 2016) These amendments provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business.
- 'Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation' (mandatory for years commencing on or after 1 January 2016) The amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment, whilst the amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.
- 'Amendments to IAS 19 Defined Benefit Plans: Employee Contributions' (mandatory for years commencing on or after 1 July 2014) The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties that are linked to service in relation to defined benefit plans. For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction of the service cost in the period in which the related service is rendered or attribute them to the employees' periods of service, whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

## Accounting Policies

- 'Annual Improvements to IFRSs 2010-2012 Cycle' (mandatory for years commencing on or after 1 July 2014)  
The Annual Improvements include amendments to a number of IFRSs including IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets, and IAS 24 Related Party Disclosures.
- 'Annual Improvements to IFRSs 2011-2013 Cycle' (mandatory for years commencing on or after 1 July 2014)  
These Annual Improvements include amendments to IFRS 3 Business Combinations in relation to scope exceptions for joint ventures, IFRS 13 Fair Value Measurement (portfolio exception for fair value measurement) and IAS 40 Investment Property (clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as an investment or owner-occupied property).
- 'IFRS 14 Regulatory Deferral Accounts' (mandatory for years commencing on or after 1 January 2016) IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities, and is available only to first-time adopters of IFRS who recognised regulatory deferral account balances under their previous GAAP. This does not apply to the TfL Group, and
- 'Amendments to IAS 16 and IAS 41 Agriculture – Bearer Plants' (mandatory for years commencing on or after 1 January 2016)

Other than where indicated above, the Company does not consider that these or any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the Financial Statements

### g) Going concern

The Financial Statements have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons

- The Company is dependent on funds provided to it by TfL, its ultimate parent, in order to ensure working capital requirements are satisfied. TfL has indicated that for at least 12 months from the date of approval of these Financial Statements, it will continue to make such funds available to the Company. In addition, as set out in section 479A of the Companies Act 2006, the Company's immediate parent, TTL, has issued a guarantee over all outstanding liabilities to which the Company is subject as at 31 March 2015.
- The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.

Based on this undertaking, the directors believe that it remains appropriate to prepare the Financial Statements on a going concern basis.

### h) Revenue

Traffic revenue arises from activities such as the sale of tickets, revenue in respect of free and reduced fare travel.

Other revenue arises from commercial advertising receipts and rental income.

Revenue is measured after deductions for value added tax (where applicable).



# Accounting Policies

## ***Fare revenue***

Revenue from annual or periodic tickets and travel cards is recognised in the Income Statement on a straight line basis over the period of validity of the ticket or travel card. Revenue received in advance not yet recognised in the Income Statement is recorded in the Statement of Financial Position and held within current liabilities under receipts in advance. Oyster pay as you go revenue is recognised on usage and one day travel cards and single tickets are recognised on the day of purchase.

## ***Revenue in respect of free and reduced fare travel for the elderly and disabled***

Revenue from the London Borough Councils and County Authorities in respect of free and reduced fare travel for the elderly and disabled is recognised on a straight line basis over the financial year to which the settlement relates.

## ***Commercial advertising***

Commercial advertising revenue is recognised on an accruals basis as adverts are displayed in accordance with the detail of the relevant agreements.

## ***Rental income***

Rental income is recognised on a straight line basis over the term of the relevant lease.

### ***i) Grants and other funding***

Grants and other contributions received towards the cost of capital expenditure are recorded as deferred income in the Statement of Financial Position and released to the Income Statement over the estimated useful economic lives of the assets to which they relate.

Revenue grants received for the funding of operations are credited to the Income Statement on a systematic basis to match costs.

### ***j) Employee benefits***

#### ***Defined contribution scheme***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement in the periods during which services are rendered by employees.

#### ***Defined benefit plans multi-employer exemption***

The majority of employees are members of a defined benefit scheme to which the Company contributes. However, it is not possible for the Company to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. For this reason, as permitted by the multi-employer exemption in IAS 19 Employee Benefits ("IAS 19"), the scheme is accounted for as a defined contribution scheme and the Company's contributions are charged to the Income Statement as incurred. The disclosures required under IAS 19 are given in Note 20.

# Accounting Policies

## *Other employee benefits*

Other short and long term employee benefits, including holiday pay and long service leave, are measured on an undiscounted basis and are recognised as an expense over the period in which they accrue

## **k) Leases (the Company as lessee)**

### *Leased assets*

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Company's Statement of Financial Position.

### *Lease payments*

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### *Determining whether an arrangement contains a lease*

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

The Company has applied the transitional provisions in IFRIC 4 as permitted under IFRS 1 to determine whether existing arrangements contain a lease at the date of transition to Adopted IFRSs based on the facts and circumstances existing at that date.

# Accounting Policies

## **l) Leases (the Company as lessor)**

Rental income from operating leases and initial direct costs are recognised on a straight line basis over the term of the relevant lease

## **m) Financial income and expenses**

Financing and investment income consists of interest income on funds invested. Interest income is recognised as it accrues in the Income Statement, using the effective interest rate method.

Financing costs comprise the interest expense on borrowings and finance lease liabilities accrued using the effective interest rate method, and the net financing cost on defined benefit pension obligations. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. In accordance with IFRS 1 First time adoption of International Financial Reporting Standards ("IFRS1") and IAS 23 Borrowing Costs ("IAS 23"), the Company has taken the option not to capitalise borrowing costs on assets prior to the date of transition to IFRS.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Income Statement using the effective interest rate method.

## **n) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Income Statement except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities, to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same tax authority and the Company has the right of set off.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# Accounting Policies

## **o) Property, plant and equipment**

### ***Recognition and measurement***

Infrastructure consists of tunnels, viaducts, bridges, stations, track, signalling and properties attached to infrastructure and surplus properties held to facilitate construction of infrastructure

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses

Assets under construction are measured at cost less accumulated impairment losses

The cost of certain items of property, plant and equipment was determined by reference to a previous GAAP valuation. The Company elected to apply the optional exemption allowed under IFRS 1 to use this previous valuation as deemed cost at 1 April 2009, the date of transition.

Office property consists of business properties, used by the Company for its own purposes, which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (e.g. offices).

These properties are valued at fair value by external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Valuations are performed on a rolling basis, with approximately 75% of the portfolio by value being valued each year. Movements in the fair value of the property are taken to the revaluation reserve, with the exception of permanent diminutions in value which are recognised in the Income Statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### ***Subsequent costs***

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the Income Statement as incurred.

# Accounting Policies

## *Depreciation*

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term

The estimated useful lives for the current and comparative periods are as follows

Tunnels and embankments	up to 100 years
Bridges and viaducts	up to 100 years
Track	up to 50 years
Signalling	15-40 years
Stations	up to 50 years
Other property	20-50 years
Rolling stock	30-50 years
Lifts and escalators	25-40 years
Plant and equipment	3-40 years
Computer equipment	3 years

Assets under construction and freehold land are not depreciated

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate

## *Gains and losses on disposal*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds of disposal with the carrying amount, and are recognised net within other gains and losses in the Income Statement

## **p) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are ready for their intended use. Qualifying assets are defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time has been interpreted as being one year or longer. In accordance with IFRS 1 and IAS 23, the Company has taken the option not to capitalise borrowings costs on assets prior to the date of transition to IFRS.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred

## **q) Assets held for sale**

Long-term assets (and disposal groups comprising a group of assets and potentially some liabilities that an entity intends to dispose of in a single transaction) are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable. On initial classification as held for sale, long-term assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on long-term assets (including those in disposal groups) classified as held for sale.

## Accounting Policies

### **r) Private Finance Initiative ("PFI") arrangements**

The Company has entered into PFI arrangements with the private sector in relation to the construction, maintenance and operation of parts of London Underground infrastructure. In the absence of alternative guidance, arrangements are treated as service concession arrangements following the guidance, from a lessor's point of view, contained in IFRIC 12 Service Concession Arrangements ("IFRIC 12"), an interpretation under Adopted IFRS.

IFRIC 12 requires the Company to account for infrastructure PFI schemes where it controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. The Company therefore recognises PFI assets as items of property, plant and equipment together with a liability to pay for them. The fair values of services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- a) The service charge
- b) Repayment of the capital
- c) The interest element (using the interest rate implicit in the contract)

#### **Services received**

The fair value of services received in the year is recorded in net operating costs.

#### **Assets**

Assets are recognised as property, plant and equipment or intangible assets when they come into use. The assets are measured initially at fair value in accordance with IAS 17 Leases ("IAS 17").

Where the operator enhances assets already recognised in the Statement of Financial Position, the fair value of the enhancement in the carrying value of the asset is recognised as an asset.

#### **Liabilities**

A PFI liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the year, and is charged to 'Financial expenses' within the Income Statement.

The element of the unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

#### **Life cycle replacement**

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Company criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

PFI arrangements accounted for as operating leases are not recognised in the Statement of Financial Position and are dealt with as detailed in note k) above.

# Accounting Policies

## s) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with any changes therein recognised in the Income Statement in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Properties are valued by external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in the Income Statement in the period in which the property is derecognised. The gain or loss on disposal of the property is calculated as the difference between the proceeds on disposal and the carrying amount of the asset.

## t) Inventories

Inventories consist primarily of fuel, uniforms, and materials required for the operation and maintenance of infrastructure. Equipment and materials held for use in a capital programme are accounted for as stock until they are issued to the project, at which stage they become part of assets under construction.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## u) Impairment

### *Non-financial assets*

Impairment occurs when an asset would otherwise be recorded in the Financial Statements at an amount more than is recoverable from its use or sale.

At each reporting date, the Company reviews the carrying amount of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Impairment losses are recognised in the Income Statement.

## v) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at Management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date, and are discounted to present value where the effect is material.

# Accounting Policies

## w) Financial instruments

Financial assets within the scope of IAS 39 Financial Instruments Recognition and Measurement ("IAS 39") are classified as

- financial assets at fair value through the Income Statement,
- loans and receivables, or
- available for sale financial assets

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the Income Statement or financial liabilities measured at amortised cost

The Company determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transactional costs. The exception to this is for assets and liabilities measured at fair value through the Income Statement, where transaction costs are immediately expensed. The subsequent measurement of financial instruments depends on their classification as follows

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the Income Statement' or 'available for sale'. Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

- ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Company will not be able to recover all amounts due, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Income Statement.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

- ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with maturity, at the date of acquisition, of less than or equal to three months.

- ***Financial liabilities measured at amortised cost***

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

- ***Trade and other payables***

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.



# Accounting Policies

- ***Interest bearing loans and borrowings***

All loans and borrowings are classified as financial liabilities measured at amortised cost

- ***Obligations under finance leases and PFI arrangements***

All obligations under finance leases and PFI arrangements are classified as financial liabilities measured at amortised cost

## ***Fair value measurement of financial instruments***

IFRS 7 requires that financial instruments that are measured in the Statement of Financial Position at fair value are measured by level of the following fair value measurement hierarchy

- ***Level 1: quoted prices (unadjusted) in active markets for identical assets***

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

- ***Level 2: inputs other than quoted prices included that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)***

The fair value of financial instruments that are not traded in an active market (for example over the counter derivatives or infrequently traded listed investments) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable the instrument is included in level 2.

- ***Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)***

Specific valuation techniques, such as discounted cash flow analysis, are used to determine fair value of the remaining financial instruments.

## ***Impairment of financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant assets are tested for impairment on an individual basis. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

All impairment losses are recognised in the Income Statement.

# Notes to the Financial Statements

## 1 Revenue

<i>For the year ended 31 March</i>	2015	2015	2014	2014
	£m	%	£m	%
<b>Traffic revenue</b>				
Fares collected	2,338.4	89.3%	2,219.7	89.6%
Revenue in respect of free travel for the elderly and disabled	71.3	2.7%	66.4	2.7%
	<u>2,409.7</u>	<u>92.0%</u>	<u>2,286.1</u>	<u>92.3%</u>
<b>Other revenue</b>				
Commercial advertising and rents receivable	189.4	7.2%	173.5	7.0%
Other revenue	21.3	0.8%	16.6	0.7%
	<u>210.7</u>	<u>8.0%</u>	<u>190.1</u>	<u>7.7%</u>
<b>Total revenue</b>	<u>2,620.4</u>	<u>100.0%</u>	<u>2,476.2</u>	<u>100.0%</u>

## 2 Operating loss

<i>For the year ended 31 March</i>		2015	2014
	Note	£m	£m
<b>Operating loss is stated after charging/(crediting):</b>			
<b>Capital items</b>			
Depreciation of property, plant and equipment – leased	8	36.0	40.3
Depreciation of property, plant and equipment – owned	8	595.0	583.6
Release of deferred capital grants to the Income Statement	19	(479.6)	(462.0)
<b>Other operating costs</b>			
Employee costs	4	1,181.0	1,137.2
Inventory expensed		1.7	1.3
Payments under operating leases		1.2	10.5

### Auditors' remuneration

The Company had no audit fees for the years ending 31 March 2015 or 31 March 2014

# Notes to the Financial Statements

## 3 Other gains and losses

*For the year ended 31 March*

	Note	2015 £m	2014 £m
Change in fair value of investment property	9	199.2	177.1
Net (loss)/gain on disposal of investment property		(0.1)	13.3
Net loss on disposal of property, plant and equipment		(3.1)	(22.3)
		<u>196.0</u>	<u>168.1</u>

## 4 Employee costs

*For the year ended 31 March*

	2015 Number	2014 Number
Average number of employees (including directors) in the year	<u>17,188</u>	<u>16,447</u>
	£m	£m
Wages and salaries	894.5	865.0
Social security	82.1	77.5
Defined contribution pension costs	204.4	194.7
	<u>1,181.0</u>	<u>1,137.2</u>

# Notes to the Financial Statements

## 5 Directors' emoluments

For the year ended 31 March

	2015 Number	2014 Number
Number of directors who received remuneration from the Company during the year	3	3
The Company made contributions to a defined contribution scheme on behalf of the following number of directors	1	1
Number of directors who were members of a defined benefit pension scheme	<u>2</u>	<u>3</u>

The directors received the following remuneration

For the year ended 31 March

	2015 £	2014 £
Salaries, fees and benefits in kind	774,757	736,225
Defined contribution pension costs	<u>12,181</u>	<u>11,426</u>
	<u>786,938</u>	<u>747,651</u>

Directors' emoluments and benefits were borne by other Group companies for 5 directors (2013/14 6 directors)

The highest paid director received the following remuneration

	2015 £	2014 £
Salaries, fees and benefits in kind	336,262	352,671
Accrued benefit under defined benefit pension scheme	<u>24,240</u>	<u>95,011</u>

## 6 Financial expenses

For the year ended 31 March

	2015 £m	2014 £m
Interest on loans from fellow Group undertakings	194.9	169.8
Interest on finance lease liabilities	32.3	35.2
Contingent rental on PFI arrangements	8.3	8.3
Interest capitalised into the cost of property, plant and equipment	<u>(23.6)</u>	<u>(18.5)</u>
	<u>211.9</u>	<u>194.8</u>

# Notes to the Financial Statements

## 7 Taxation

### Reconciliation of tax expense

For the year ended 31 March

	2015	2014
	£m	£m
Loss before tax	(25.4)	(92.0)
Loss before tax multiplied by standard rate of Corporation Tax in the UK of 21% (2013/14 23%)	(5.3)	(21.2)
Effects of:		
Non-taxable and non deductible items	0.9	0.1
Amount charged to the current tax computation for which no deferred tax was recognised	(16.8)	(6.3)
Tax losses carried forward for which no deferred tax was recognised	16.2	19.0
Group relief surrendered/(claimed)	5.0	8.4
Income tax expense for the year	-	-

### Unrecognised deferred tax

Deferred tax assets have not been recognised in respect of the following items

	31 March 2015	31 March 2014
	£m	£m
Deductible temporary differences	81.7	38.0
Tax losses	1,032.3	1,017.3
	1,114.0	1,055.3

The items above do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Company can utilise the benefits.

# Notes to the Financial Statements

## Recognised deferred tax

Deferred tax assets have been recognised to the extent of the deferred tax liabilities

Movements were in respect of the following items

	Opening balance £m	Movement in profit or loss £m	Closing balance £m
<i>For the year ended 31 March 2015</i>			
<b>Deferred tax assets</b>			
Deferred government grants	2,002.9	76.2	2,079.1
Property, plant and equipment – accelerated capital allowances	180.7	1.1	181.8
<b>Deferred tax liabilities</b>			
Property, plant and equipment – potential capital gain	(2,071.6)	(38.8)	(2,110.4)
Assets held for sale – potential capital gain	-	(75.1)	(75.1)
Investment property – potential capital gain	(112.0)	36.6	(75.4)
<b>Net deferred tax asset/(liability)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>For the year ended 31 March 2014</i>			
<b>Deferred tax assets</b>			
Deferred government grants	2,110.8	(107.9)	2,002.9
Property, plant and equipment – accelerated capital allowances	211.2	(30.5)	180.7
<b>Deferred tax liabilities</b>			
Property, plant and equipment – potential capital gain	(2,233.3)	161.7	(2,071.6)
Investment property – potential capital gain	(88.7)	(23.3)	(112.0)
<b>Net deferred tax asset/(liability)</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Corporation Tax rate was reduced from 24% to 23% on 1 April 2013, and from 23% to 21% on 1 April 2014. On 2 July 2013 a further Corporation Tax rate reduction to 20% was enacted effective from 1 April 2015. Deferred tax balances at 31 March 2015 have been therefore calculated at a rate of 20%.

# Notes to the Financial Statements

## 8 Property, plant and equipment

a) Property, plant and equipment at 31 March 2015 comprised the following elements

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2014		20,005.8	4,205.3	600.5	2,713.8	27,525.4
Additions		-	-	-	1,321.8	1,321.8
Transfers (to)/from other asset classes		1,014.4	376.2	14.8	(1,405.4)	-
Change in fair value		72.2	-	-	-	72.2
Disposals		(286.1)	(36.5)	(21.4)	-	(344.0)
<b>At 31 March 2015</b>		<b>20,806.3</b>	<b>4,545.0</b>	<b>593.9</b>	<b>2,630.2</b>	<b>28,575.4</b>
<b>Depreciation</b>						
At 1 April 2014		7,921.1	1,877.9	416.4	-	10,215.4
Charge for the year	2	502.5	104.2	24.3	-	631.0
Change in fair value		(0.9)	-	-	-	(0.9)
Disposals		(268.6)	(36.5)	(21.3)	-	(326.4)
<b>At 31 March 2015</b>		<b>8,154.1</b>	<b>1,945.6</b>	<b>419.4</b>	<b>-</b>	<b>10,519.1</b>
<b>Net book value at 31 March 2015</b>		<b>12,652.2</b>	<b>2,599.4</b>	<b>174.5</b>	<b>2,630.2</b>	<b>18,056.3</b>
Net book value at 1 April 2014		12,084.7	2,327.4	184.1	2,713.8	17,310.0

b) Property, plant and equipment at 31 March 2014 comprised the following elements

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2013		18,964.4	3,999.7	562.4	3,069.6	26,596.1
Additions		-	-	-	1,220.3	1,220.3
Transfers (to)/from other asset classes		1,051.2	368.1	53.9	(1,473.2)	-
Change in fair value		17.5	-	-	-	17.5
Disposals		(27.3)	(162.5)	(15.8)	(102.9)	(308.5)
<b>At 31 March 2014</b>		<b>20,005.8</b>	<b>4,205.3</b>	<b>600.5</b>	<b>2,713.8</b>	<b>27,525.4</b>
<b>Depreciation</b>						
At 1 April 2013		7,479.1	1,921.5	401.2	-	9,801.8
Charge for the year	2	478.0	114.9	31.0	-	623.9
Change in fair value		(19.2)	-	-	-	(19.2)
Disposals		(16.8)	(158.5)	(15.8)	-	(191.1)
<b>At 31 March 2014</b>		<b>7,921.1</b>	<b>1,877.9</b>	<b>416.4</b>	<b>-</b>	<b>10,215.4</b>

## Notes to the Financial Statements

c) The net book value above includes the followings amounts in respect of leased assets

	Infrastructure and other property £m	Rolling stock £m	Total £m
<b>Net book value</b>			
At 31 March 2015	344.3	236.0	580.3
At 31 March 2014	370.5	245.8	616.3

d) Included in infrastructure and other property are office properties held at depreciated fair value as follows

	At valuation 2015 £m	At historical cost 2015 £m	At valuation 2014 £m	At historical cost 2014 £m
<b>Valuation/cost</b>				
Fair value at 1 April	114.6	25.5	97.0	25.4
Additions	-	-	0.1	0.1
Change in fair value	72.2	-	17.5	-
Fair value at 31 March	186.8	25.5	114.6	25.5
<b>Accumulated depreciation</b>				
Accumulated depreciation at 1 April	-	5.0	18.2	4.7
Charge for the year	1.3	0.2	1.0	0.3
Change in fair value	(0.9)	-	(19.2)	-
Accumulated depreciation at 31 March	0.4	5.2	-	5.0
Net book value at 31 March	186.4	20.3	114.6	20.5
Net book value at 1 April	114.6	20.5	78.8	20.7



# Notes to the Financial Statements

## 9 Investment property

	Note	2015 £m	2014 £m
<b>Valuation</b>			
Fair value at 1 April		564.5	392.5
Additions		27.3	-
Change in fair value	3	199.2	177.1
Disposals		(4.3)	(5.1)
Transfers (to)/from assets held for sale		(375.7)	-
Fair value at 31 March		<u>411.0</u>	<u>564.5</u>

The fair value of the Company's investment properties at 31 March 2015 has been arrived at on the basis of a valuation carried out at that date by DTZ a property valuation company not connected with the Company, and by chartered surveyors working for TfL. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties.

Properties are valued in accordance with the Valuation Standards (sixth edition) published by the Royal Institution of Chartered Surveyors. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

The Company's investment properties are let on a tenant repairing basis. The Company's maintenance obligations are limited to common areas and vacant property units.

## 10 Inventories

	2015 £m	2014 £m
Raw materials and consumables	<u>-</u>	<u>0.8</u>

There is no material difference between the carrying value of inventories and their net realisable value.

Inventories consist primarily of fuel, uniforms and materials required for the operation and maintenance of infrastructure.

# Notes to the Financial Statements

## 11 Assets classified as held for sale

	2015	2014
	£m	£m
Balance outstanding at start of year	-	-
Assets newly classified as held for sale		
Investment properties	375.7	-
Balance outstanding at end of year	375.7	-

On 10 February 2015, the Company entered into an Escrow Arrangement with members of the Capital & Counties Properties PLC (Capco) group with a view to granting a 999 year lease over land at Earl's Court into a joint venture company, Earls Court Partnership Limited (ECP). ECP is a limited company, registered in England, that is owned 37% by a fellow subsidiary of the TfL Group and 63% by a subsidiary of the Capco group. Subsequent to the year end, on 2 April 2015, a lease agreement was signed and the property was transferred. As at 31 March 2015 the Company's investment in the Earl's Court land has been reclassified from investment property into assets held for sale and is held at its sale valuation. This valuation was carried out at 31 March by Jones Lang LaSalle Limited, a property valuation company not connected with the Company.

# Notes to the Financial Statements

## 12 Trade and other receivables

	2015 £m	2014 £m
<b>Current</b>		
Trade receivables	17.2	4.9
Amounts due from fellow Group undertakings	4.1	11.2
Other tax and social security	14.0	18.6
Grants receivable	4.5	6.8
Amounts relating to asset sales	4.3	14.0
Prepayments and accrued income	19.4	18.2
Other receivables	8.5	11.8
	<u>72.0</u>	<u>85.5</u>
<b>Non-current</b>		
Amounts relating to asset sales	-	1.0
	<u>-</u>	<u>1.0</u>

## 13 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank	0.8	0.2
Cash in hand and in transit	15.7	18.3
	<u>16.5</u>	<u>18.5</u>

# Notes to the Financial Statements

## 14 Trade and other payables

	2015	2014
	£m	£m
<b>Current</b>		
Trade payables	7.1	14.1
Accruals and other payables	48.3	57.7
Project accruals	177.8	119.6
Amounts due to fellow Group undertakings	337.5	339.2
Deferred income	2.8	38.4
Salaries and wages	68.4	63.9
Other tax and social security creditors	24.1	22.8
	<u>666.0</u>	<u>655.7</u>
<b>Non-current</b>		
Retentions on contracts	38.8	19.6
Deferred income	1.1	2.0
Accruals and other payables	5.3	-
	<u>45.2</u>	<u>21.6</u>

## 15 Borrowings

	2015	2014
	£m	£m
<b>Non-current</b>		
Amounts due to fellow Group undertakings	<u>5,290.9</u>	<u>4,985.9</u>

### Amounts due to fellow Group undertakings

All borrowings due to fellow Group undertakings are repayable on demand with a two year notice period

No notice has been given on these loans as at the date of signing of these accounts

The weighted average interest rates on borrowings outstanding at the year end were as follows

	2015	2014
Weighted average interest rate	4.02%	4.46%

# Notes to the Financial Statements

## 16 Finance lease liabilities

	2015 £m	2014 £m
<b>Current</b>		
Finance lease payables	54.3	48.9
<b>Non-current</b>		
Finance lease payables	339.2	393.6

Finance lease liabilities are payable as follows

	Minimum lease payments £m	Interest £m	Principal £m
<b>At 31 March 2015</b>			
Amounts falling due in less than one year	83.2	(28.9)	54.3
Amounts falling due between 1 and 2 years	85.4	(25.2)	60.2
Amounts falling due between 2 and 5 years	154.1	(56.4)	97.7
Amounts falling due in more than 5 years	257.5	(76.2)	181.3
<b>Total at 31 March 2015</b>	<b>580.2</b>	<b>(186.7)</b>	<b>393.5</b>
<b>At 31 March 2014</b>			
Amounts falling due in less than one year	81.2	(32.3)	48.9
Amounts falling due between 1 and 2 years	83.2	(28.9)	54.3
Amounts falling due between 2 and 5 years	196.8	(65.1)	131.7
Amounts falling due in more than 5 years	300.3	(92.7)	207.6
<b>Total at 31 March 2014</b>	<b>661.5</b>	<b>(219.0)</b>	<b>442.5</b>

### Terminal 5

The Company is party to an agreement with Heathrow Airport Limited ("HAL") to construct, maintain and operate an extension of the Piccadilly line to Terminal 5 at Heathrow Airport.

The agreement entitles the Company to the exclusive right to use the rail infrastructure to provide passenger rail services for an initial period of 30 years with an option to extend for a further 999 years. In accordance with IFRIC 4, as the agreement conveys the right to use the rail infrastructure, the asset should be accounted for as if it were a leased asset. In accordance with IAS 17 Leases ("IAS 17") the asset is accounted for as a finance lease and an asset and corresponding finance lease creditor should be recorded on the statement of financial position. The value of the assets and finance lease creditor is calculated as the lower of the present value of minimum lease payments and the fair value of the assets.

Under the terms of the agreement, the payments are entirely contingent on the number of passengers passing through Heathrow underground station. IAS 17 states that the calculation of the present value of minimum lease payments should exclude contingent payments. Consequently, the asset and finance lease creditor recorded on the Statement of Financial Position have no value.

# Notes to the Financial Statements

## 17 Service concession agreements

### Private Finance Initiative contracts accounted for under IFRIC 12 Service concession agreements ("IFRIC 12")

The Company is party to the following Private Finance Initiative ("PFI") arrangements where the arrangements have been accounted for in accordance with IFRIC 12

#### Connect contract

The Connect contract is for the provision of network wide, integrated radio and transmission communication services to London Underground Limited. The contract started on 22 November 1999 and will end on 22 November 2019.

The contract required the design and installation of a new integrated digital radio system using a high speed data transmission system which achieved system live on 28 December 2008. The contract also includes the ongoing management and maintenance of the system during the contract period.

The Company retains ownership of the assets constructed on this contract.

The contract requires the Company to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.

Under IFRS the unitary charge is apportioned between the repayment of the liability, financing costs and charges for services. The service charge is recognised as an expense in net operating costs and the finance costs are charged to financial expenses in the Income Statement.

#### British Transport Police (London Underground)

The BTP contract is to provide improved operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long term policing strategy for the Company. The contract also includes ongoing management and maintenance during the contract period. The contract started on 26 March 1999 and is due to end on 26 March 2021.

The Company will always retain ownership of the assets constructed on this contract.

The contract requires the Company to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract. The Company has a voluntary break option subject to at least 12 months written notice.

# Notes to the Financial Statements

## 18 Provisions

	2015 £m	2014 £m
<b>Current</b>		
Provisions	<u>53.8</u>	<u>39.1</u>
<b>Non-current</b>		
Provisions	<u>0.6</u>	<u>0.4</u>

	At 1 April 2014 £m	Utilised in the year £m	Charge for the year £m	Reversed during the year £m	At 31 March 2015 £m
<b>Movement on provisions</b>					
Contractual provisions	3.9	-	0.2	-	4.1
Environmental harm provision	1.4	-	-	-	1.4
Severance provision	33.3	(1.3)	16.3	(0.5)	47.8
Other provisions	0.9	(0.1)	0.4	(0.1)	1.1
	<u>39.5</u>	<u>(1.4)</u>	<u>16.9</u>	<u>(0.6)</u>	<u>54.4</u>

	At 1 April 2013 £m	Utilised in the year £m	Charge for the year £m	Reversed during the year £m	At 31 March 2014 £m
<b>Movement on provisions</b>					
Contractual provisions	-	-	3.9	-	3.9
Environmental harm provision	1.4	-	-	-	1.4
Severance provision	0.7	(0.2)	33.1	(0.3)	33.3
Other provisions	0.3	(0.1)	0.8	(0.1)	0.9
	<u>2.4</u>	<u>(0.3)</u>	<u>37.8</u>	<u>(0.4)</u>	<u>39.5</u>

# Notes to the Financial Statements

## Contractual provisions

The Company has provisions for expected contractual claims that arise in respect of disputes arising in the ordinary course of business. The provisions recorded are based on Management's best estimate at the balance sheet date of the likely loss to be incurred through settlement. Reflecting the inherent uncertainty with many legal proceedings and claim settlements, the timing and amount of the outflows could differ from the amount provided. Based on current estimates, Management expect that these amounts, which are based on known fact and take account of past experience for similar items, will be settled within the next one to five years. Where material, the provision held is discounted to its present value.

## Environmental harm provision

The Company has a constructive obligation to deal with environmental hazards. Provision is made where the Company is likely to incur a cost and a reliable estimate can be made.

## Severance provision

The severance provision represents payments to employees leaving the Company by mutual agreement as a result of operational changes and a review of support services. Based on current estimates, Management expects that these amounts will be settled within the next year.

## Other provisions

Other provisions relate to the reorganisation of the Company and the net cost of restoring accidentally damaged assets. Based on current estimates, Management expect that these amounts will be settled within the next year.

## 19 Deferred grants and other contributions

		2015	2014
	Note	£m	£m
Deferred grants and other contributions at start of year		10,198.5	9,422.5
Capital grant received during the year		1,084.3	1,324.6
Third party contributions and other capital grants		8.0	7.5
<b>Released to the income statement</b>			
To meet the depreciation charge	2	(479.6)	(462.0)
On disposal of property, plant and equipment		(14.0)	(94.1)
<b>Deferred grants and other contributions at end of year</b>		<b>10,797.2</b>	<b>10,198.5</b>



# Notes to the Financial Statements

## 20 Pensions

The Company offers retirement plans to its employees

### Public Sector Section of the TfL Pension Fund

During the year, the majority of the Company's staff were members of the Public Sector Section of the TfL Pension Fund, which is a final salary scheme established under trust. Benefits are based on employees' length of service and final pensionable pay. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of Transport for London. Under the rules of the Fund, its 18 trustee directors are nominated in equal numbers by Transport for London and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's Actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2012 by the Actuary, a partner of consulting actuaries Towers Watson, using the projected unit method.

A revised Schedule of Contributions was agreed between the Trustee and the employers following the 2012 formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employer's contributions for the period from 1 April 2013 until 31 March 2020 will continue to be 31.0%, with an additional lump sum of £37.8m, increased in line with RPI, payable by 31 March 2018.

It is not possible to identify the Company's share of the underlying assets and defined benefit obligation of the Public Sector Section of the TfL Pension Fund. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. Thus, in accordance with IAS 19, the Company accounts for contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Company's contributions to the Fund of £194.0 million (2013/14 £184.9 million) have been charged to the Income Statement.

A valuation of the Public Sector Section of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2015. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the sections' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The liabilities for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2012. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2011 projections with a long term improvement rate of 1.0 per cent per annum.

The IAS 19 deficit on the Public Sector Section of the TfL Pension Fund at 31 March 2015 was £2,737.5 million (31 March 2014 £2,328.1 million). As stated above, it is not possible to identify the Company's particular share of the deficit. Further details of the Public Sector Section position can be found in the Statement of Accounts of Transport for London.

IAS 19 specifies how key assumptions should be derived and applied. These assumptions are often different to the assumptions adopted by the pension scheme actuary and trustees in determining the funding position of pension schemes.

## Notes to the Financial Statements

The IAS 19 valuation is broadly based on the Section's assets being valued at market value at year end, using quoted market prices for the valuation of equities and bonds. The defined benefit obligation is discounted at the rate of return on high quality corporate bonds of equivalent term to the defined benefit obligation.

The fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present values of the Fund's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were as shown below.

The figures include the assets and defined benefit obligation of the entire Public Sector Section of the TfL Pension Fund, and include members who are employed by, and whose contributions are made by Transport for London and its subsidiaries. This is because, as stated above, it is not possible to identify the Company's particular share. Further details of the Public Sector Section's position can be found in the Statement of Accounts of Transport for London.

### *Actuarial assumptions at 31 March*

	2015	2014
	%	%
Inflation	3.00%	3.35%
Rate of increase in salaries	3.00%	3.85%
Rate of increase in pensions in payment and deferred pensions	2.98%	3.30%
Discount rate	3.35%	4.40%

### *Fair value of Section assets and liabilities at 31 March*

	Value at 31 March 2015	Value at 31 March 2014
	£m	£m
Equities	6,758.5	5,056.9
Bonds	1,140.4	1,931.5
Cash, property and other assets	25.8	20.2
Total market value of assets	7,924.7	7,008.6
Actuarial value of Section liabilities	(10,662.2)	(9,336.7)
Closing Section net obligation	(2,737.5)	(2,328.1)

### **Other schemes**

Contributions of £10.4 million (2013/14 £9.8 million) have been charged to the Income Statement towards various smaller funds.

# Notes to the Financial Statements

## 21 Share capital

	2015	2014
	£m	£m
<b>Share capital issued and fully paid</b>		
430,000,000 ordinary shares of £1 each	<u>430.0</u>	<u>430.0</u>

## 22 Financial instruments

### Financial risk management

The Company's financial risk management operations are ultimately carried out by the Board of Directors

The Company's financial instruments comprise trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and finance lease liabilities. The Company finances operations from these financial instruments. The Company does not undertake speculative treasury transactions.

The Company is exposed to a number of financial risks in the normal course of its business operations, the key of which are laid out in the paragraphs below.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations. Credit risk arises from deposits with banks and financial institutions and from the Company's customers and suppliers.

The Company follows the TfL Finance Manual guidelines with respect to assessing the credit worthiness of potential customers. These guidelines include processes such as obtaining approval for credit limits over a set amount, performing credit checks and obtaining additional security when required.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk is low as TfL provides financial support to the Company.

In accordance with the Local Government Act 2003 TfL sets an affordable borrowing limit. As long as the affordable borrowing limit is not exceeded TfL is able to borrow from the Public Works Loan Board and raise debt on capital markets. There is no significant risk that TfL would be unable to raise finance to meet the TfL Group financial commitments.

### Market risk

The Company is exposed to market risk in respect of interest rate risk only. The Company is not exposed to any material price or currency risk.

# Notes to the Financial Statements

## Interest rate risk

The Company does not have any exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed interest loans from TfL and Transport for London Finance Limited and finance lease liabilities with a fixed interest rate

The Company is exposed to interest rate risk on cash balances. This risk is managed by TfL, the Company's ultimate parent

## Sensitivity analysis

### *Fair value sensitivity analysis for fixed interest instruments*

Changes in the market interest rates of financial instruments with fixed interest rates only affect income if these are measured at their fair value. All the Company's financial instruments with fixed rates of interest are accounted for at amortised cost and are not subject to interest rate risk as defined in IFRS 7 Financial Instruments. Disclosures

## Contractual maturity of financial liabilities

Borrowings from TfL and Transport for London Finance Limited are repayable on demand with a two year notice period. Interest on borrowings is paid annually. The contractual maturity of finance lease liabilities is as set out in note 16. All other financial instruments are due within one year, with the exception of certain trade and other payables which are due between 12 and 24 months

## Fair value of financial instruments

The fair value of the Company's finance lease liabilities and other financial instruments is not materially different to their carrying value

## Capital management

The capital structure of the Company consists entirely of shareholders' equity from the Company's ultimate parent, TfL and its fellow subsidiary, Transport for London Finance Limited. The Company has no external borrowings and no externally imposed capital requirements. It is not anticipated that the Company will require external borrowings for the foreseeable future as it is provided with grants and borrowings from its ultimate parent, TfL, to fund operations and capital projects

The Company does not have a credit rating but TfL, the Company's ultimate parent which provides financial support to the Company, has a credit rating of AA with Fitch, AA+ with Standard & Poor's and Aa2 with Moody's

# Notes to the Financial Statements

## 23 Operating lease commitments

### Operating lease commitments - The Company as lessee in third party contracts

The Company is committed to the following future minimum lease payments under non-cancellable operating leases with third parties. All leases have been entered into on commercial terms.

	Land and property £m	Rail access £m	Total £m
<b>At 31 March 2015</b>			
Amounts due in less than one year	12.0	4.2	16.2
Amounts due in years 1 to 5	44.8	6.9	51.7
Amounts due in more than 5 years	184.8	16.9	201.7
	<u>241.6</u>	<u>28.0</u>	<u>269.6</u>
<b>At 31 March 2014</b>			
Amounts due in less than one year	12.2	10.1	22.3
Amounts due in years 1 to 5	46.3	11.0	57.3
Amounts due in more than 5 years	159.3	7.5	166.8
	<u>217.8</u>	<u>28.6</u>	<u>246.4</u>

### Operating lease commitments - The Company as lessee in related party contracts

The Company is committed to the following future minimum lease payments under non-cancellable operating leases with fellow undertakings within the Transport for London Group. All leases have been entered into on commercial terms.

	Motor vehicles £m	Rail access £m	Total £m
<b>At 31 March 2015</b>			
Amounts due in less than one year	0.6	0.5	1.1
Amounts due in years 1 to 5	0.5	0.5	1.0
	<u>1.1</u>	<u>1.0</u>	<u>2.1</u>
<b>At 31 March 2014</b>			
Amounts due in less than one year	1.0	0.5	1.5
Amounts due in years 1 to 5	1.1	1.0	2.1
	<u>2.1</u>	<u>1.5</u>	<u>3.6</u>

## Notes to the Financial Statements

### Operating lease commitments - The Company as lessor in third party contracts

The Company has contracted with third party customers for the following future minimum lease receipts  
All leases have been entered into on commercial terms

	Land and property £m	Rail access £m	Total £m
<b>At 31 March 2015</b>			
Amounts due in less than one year	35.1	8.5	43.6
Amounts due in years 1 to 5	94.1	15.8	109.9
Amounts due in more than 5 years	428.0	7.4	435.4
	<u>557.2</u>	<u>31.7</u>	<u>588.9</u>
<b>At 31 March 2014</b>			
Amounts due in less than one year	35.8	9.0	44.8
Amounts due in years 1 to 5	96.4	9.4	105.8
Amounts due in more than 5 years	479.9	1.9	481.8
	<u>612.1</u>	<u>20.3</u>	<u>632.4</u>

### Operating lease commitments - The Company as lessor in related party contracts

The Company has contracted with fellow undertakings within the Transport for London Group for the following future minimum lease receipts. All leases have been entered into on commercial terms

	Rail access £m
<b>At 31 March 2015</b>	
Amounts due in less than one year	4.2
Amounts due in years 1 to 5	6.9
Amounts due in more than 5 years	16.9
	<u>28.0</u>
<b>At 31 March 2014</b>	
Amounts due in less than one year	8.6
Amounts due in years 1 to 5	11.8
Amounts due in more than 5 years	23.8
	<u>44.2</u>

## Notes to the Financial Statements

### 24 Capital and other financial commitments

a) At 31 March 2015, the Company had capital commitments of £835.2m which are contracted for but not provided for in the Financial Statements (2014 £552.6m)

b) At 31 March 2015 the Company had no other financial commitments which are contracted for but not provided for in the Financial Statements (2014 £nil)

### 25 Contingent liabilities

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial performance of the Company. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made.

The impact of these contingent liabilities on the Company's financial performance, liquidity or financial position is not considered to be material.

# Notes to the Financial Statements

## 26 Related party transactions

During the year none of the Company's directors, key management personnel or parties related to them, have undertaken any material transactions with the Company (2013/14 none) Details of directors' emoluments can be found in note 5

The Company is a wholly owned subsidiary of TfL TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 ("GLA Act 1999") It is a functional body of the Greater London Authority ("GLA") and reports to the Mayor of London TfL is classified as a government entity in accordance with IAS 24 *Related Party Disclosures* ("IAS 24") and the Company is therefore also classified as a government entity in accordance with IAS 24

The GLA and its other functional bodies, and all other subsidiaries of TfL, are considered to be related parties of the Company

The Company has traded with the following related parties that are classified as government entities

- Grants and loans received from TfL are included in notes 15 and 19
- Interest accrued on loans from TfL and Transport for London Finance Limited as disclosed in note 6,
- Included in deferred grants are unamortised amounts totalling £22.0m (2014 £26.0m) received from Crossrail Limited for the construction of property, plant and equipment
- Included in operating costs and property, plant and equipment are payments to LUL Nominee BCV Limited, LUL Nominee SSL Limited and to Tube Lines Limited for the upgrade and maintenance of the railway

For the year ended 31 March

	2015	2014
	£m	£m
LUL Nominee BCV Limited	320.7	304.8
LUL Nominee SSL Limited	881.7	906.3
Tube Lines Limited	551.5	560.6

The Company has completed the following further transactions that are collectively significant transactions with related parties

- Payment of management fee to TfL and TTL
- Payments to London Bus Services Limited for rail replacement bus services,
- Income from Rail for London Limited for use of infrastructure
- Income from Crossrail Limited for provision of construction services

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related



# Notes to the Financial Statements

## 27 Ultimate parent undertaking

The Company is a wholly owned subsidiary of TTL, a company controlled by TfL which is the ultimate parent undertaking

The largest group in which the results of the Company are consolidated is that headed by TfL, a statutory corporation  
The smallest group in which they are consolidated is that headed by TTL, a company incorporated in England and Wales

The Board of London Underground Limited has been given assurances of financial support by TfL

Copies of the consolidated accounts for TfL are available from Windsor House, 42-50 Victoria Street, London, SW1H 0TL

## 28 Events occurring after the reporting date

As described in note 11, on 10 February 2015, the Company entered into an Escrow Arrangement with members of the Capital & Counties Properties PLC (Capco) group with a view to granting a 999 year lease over land at Earl's Court into a joint venture company, Earls Court Partnership Limited (ECP) ECP is a limited company, registered in England, that is owned 37% by a subsidiary of the TfL Group and 63% by a subsidiary of the Capco group

Subsequent to the year end, on 2 April 2015, a lease agreement was signed and the property was transferred for consideration of £375.7m

The sale of the property constitutes a non-adjusting post balance sheet event, and, as such, has not been reflected in these accounts. As at 31 March 2015 the Company's investment in the Earl's Court land has been shown in assets held for sale and is held at its sale valuation

There have been no other events occurring after the reporting date that would have a material impact on these Financial Statements