

# Transport Trading Limited

## Annual Report and Financial Statements Year ended 31 March 2017

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Windsor House  
42-50 Victoria Street  
London SW1H 0TL

Registered in England and Wales  
03914810



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# Directors' Report

## Introduction

The directors present their annual report on the affairs of Transport Trading Limited ("TTL" or "the Company") and its subsidiaries ("the Group") together with the audited financial statements for the year ended 31 March 2017.

The Group has prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

Certain information, including future developments and financial risks, is shown in the Strategic Report.

## Principal activity

The principal activity of the Group is the provision of passenger transport services within London.

## Directors

The directors who served during the year were:

M. Brown

H. Carter

L. Daniels

I. Nunn

M. Wild                                      Appointed                      01 September 2016

None of the directors had any beneficial interest in the shares of Transport Trading Limited or its subsidiaries.

The Group maintains directors' and officers' liability insurance.

## Employee involvement and communication

Transport Trading Limited recognises the role of its employees in enabling the Group to achieve its business objectives. This is reflected in the Board's commitment to equal opportunities and effective employee communications.

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

A strong emphasis is placed on the provision of news through a variety of media, including intranets (both a TfL Group-wide intranet and local business units' intranet) and poster campaigns. Employees have opportunities to voice their opinions and ask questions through intranet sites and surveys. Face to face briefings and team meetings are actively encouraged and are held in all business units across the Group.

## Equality and inclusion

The Group 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 Group 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 Group is committed to comply with our legal responsibilities under the Equality Act 2010 to make reasonable adjustments to a person's working conditions wherever possible. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate. Employee numbers are disclosed in the notes to the accounts.

## Directors' Report (continued)

### *Health and safety*

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

### *Political donations*

No political donations were made during the year (2015/16 £nil).

### *Dividends*

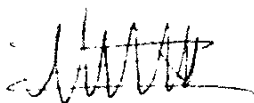
It is not proposed to declare a dividend for the year (2015/16 £nil).

### *Corporate governance*

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

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board on 03 July 2017 and signed on behalf of the Board by



H. Carter

Director

# Strategic Report

## Activities and future developments

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

## Strategic report

The year ended 31 March 2017 was another year of solid performance from the Group. Once again demand increased, especially on the DLR, and reliability and customer satisfaction scores remained high across the Group's network.

Work continued on major projects to maintain, improve and extend services across London. Projects included Crossrail, tube infrastructure and signalling upgrades. During the year, improvements delivered included:

- Commissioning of the Victoria line upgrade to allow a new 36 trains per hour timetable, which is London's most intense modern day service ever, to be introduced in Quarter 1 of 2017/18;
- The first major element of the new Victoria station, the northern ticket hall and new entrance, opened to customers in January 2017;
- Step-free access was provided at Tottenham Court Road station on 6 February 2017, completing the modernisation of this station after seven years' work. This will allow it to service the 200,000 passengers expected to use it daily when the Elizabeth line opens in 2018;
- Lambeth North station was reopened on 13 February 2017, following the planned replacement of two lifts and the installation of new ticket gates and upgraded lighting;
- The Crossrail project neared 85 per cent complete. Platforms were 97 per cent complete and track had reached 83 per cent complete.

A full Narrative Report and Financial Review report for the TfL Group is included in the Annual Report of Transport for London. This will be available on its website ([www.tfl.gov.uk](http://www.tfl.gov.uk)) in due course.

## Underground operations

### *London Underground*

Demand for London Underground's ("LU") services continues to grow, with passenger journeys in 2016/17 reaching a new annual high of 1,378 million, an increase of 2 per cent over the previous year. Friday 9 December was the busiest day on the Underground, when journeys exceeded five million for the first time.

In August, Night Tube, the overnight service for customers, launched on two lines and by December was running on five.

The roll out of the new, air-conditioned, walk-through S-Stock trains on the Circle, District, Hammersmith & City and Metropolitan lines has been completed, and the full fleet is now in service. This represents the largest train fleet in the country with more than 1,400 carriages.

## Strategic Report (continued)

### Underground operations (continued)

*Upgrade work on the Victoria line has been completed which will allow the introduction of a 36 trains per hour timetable. The new timetable will make it one of the most intensive metro services in Europe, and it will be London's most intense modern day service.*

On the Northern line extension, the huge reinforced crossover box at the Battersea Power Station site is complete and the first of two tunnel boring machines was launched, Helen, from Battersea towards Kennington Park. The second, Amy, will launch towards Kennington Green in May. About 300,000 tonnes of spoil, equivalent to 33,000 truck journeys, will be excavated from both tunnels and moved via river barges to a land reclamation site.

After seven years of work the new, modernised Tottenham Court Road was fully opened with the new glass, north plaza entrance opening to the public before Christmas. This will allow it to serve the 200,000 customers expected to use it daily when the Elizabeth line opens in 2018. Step-free access was provided in February, making it the 71st step-free station on the network.

The first major element of the new Victoria station, the northern ticket hall leading directly from street level to the Victoria line, opened to customers in January.

Lambeth North station opened in February following the planned replacement of the two lifts. The station closure also allowed us to carry out significant ambience works including new ticket gates and upgraded lighting.

The new Piccadilly line signalling control system, which we developed in-house, is now operating on the eastern section of the line. This reduces the possibility of signal failure and allows us to better monitor and control the line.

In the summer a major track renewal programme was completed prior to the launch of night tube, and new track was delivered on the Heathrow branch of the Piccadilly line.

## Strategic Report (continued)

### Surface Transport

The Group's Surface Transport operations include:

- Rail for London, which is responsible for the operation of London Overground, operation of TfL Rail and infrastructure maintenance for the East London Line;
- Docklands Light Railway, which is responsible for the operation of the light railway network;
- Tramtrack Croydon, which is responsible for operation of trams in the south of London;
- London Buses, which manages bus services in London. It plans routes, specifies service levels and monitors service quality. The bus services are operated by private companies, which work under contract;
- The Cycle Hire Scheme which provides bicycles for hire by the general public;
- Dial-a-Ride, which provides door-to-door transport for Londoners with disabilities;
- Victoria Coach Station, which is the coach travel 'hub' of central London and serves both the UK and continental Europe;
- London River Services, which owns and operates nine passenger piers on the Thames, licenses boat services using those piers and manages the operation of the Woolwich Ferry.

### *Rail for London*

Rail for London ("RFL") is responsible for the operation of the London Overground (LO), operation of TfL Rail and infrastructure maintenance for the East London Line. LO is an orbital railway consisting of the North London, West London, Barking to Gospel Oak and Euston to Watford Junction lines (the North London Railway), as well as the East London Line and South London Line from Queen's Road Peckham through to Clapham Junction. Additionally, the LO network includes services between Enfield Town/Chingford/Cheshunt via Seven Sisters to Liverpool Street and Romford to Upminster.

On the 13 November 2016 London Overground changed operator from London Overground Rail Operations Limited ("LOROL") to Arriva Rail London Limited ("ARLL"). The new concession is to run for the next seven and a half years with the option to extend for a further two.

In the year LO carried 188.8 million people, an increase of 2.4 per cent over previous year (2015/16 184.4 million), and customer satisfaction scores remained strong at 86 per cent, up 2 per cent on last year.

LO's operational performance, as measured by the public performance measure (PPM) was 94.5 per cent at the end of the year using the moving annual average. This was significantly higher than the national average for train operators of 87.7 per cent, and secured LO joint third place in the national PPM league.

Design work has commenced on the Barking Riverside extension project in order to serve the development site at Barking Riverside. An extension of the Gospel Oak to Barking line, from its current terminus at Barking to a new station in the heart of Barking Riverside would be 4km in length, including 1.5km of new track.

Platform extension works to accommodate four-car electric trains which are scheduled to enter into service in late 2017/18, installation of additional gate lines and a package of works to improve customer experience along the Gospel Oak to Barking route are substantially complete. These works were undertaken during Network Rail's blockage of the Gospel Oak to Barking line for overhead electrification works, which started in June 2016 and ended in February 2017.

TfL Rail carried 48 million people in 2016/17, the first full year of operation, and customer satisfaction remained at 83 per cent. Operational performance as measured by the public performance measure (PPM) was 94.7 per cent at the end of the year placing them in second place in the national PPM league (an improvement from fifth place in the previous year).

## Strategic Report (continued)

### Surface Transport (continued)

#### *Rail for London (continued)*

The London Trams division is responsible for the management of the Tram system, for which all costs are recharged to Tramtrack Croydon Limited.

#### *Docklands Light Railway*

The year saw Docklands Light Railway ("DLR") operational performance finish with an annual departure score of 99.02 per cent, which is slightly below last year's performance. The high customer satisfaction survey (CSS) score of 89 was maintained from the last two years, showing consistent levels of good satisfaction continuing, even though passenger demand has been increasing annually.

The annual ridership was just over 122.3 million passengers. This is 4.6 per cent higher than in the previous year and the highest in DLR's history.

Full year demand on the Emirates Air Line ("EAL") was 1.48 million passenger journeys, showing year on year reduction due mainly to the timing of the Easter holiday period, falling outside 2016/17. Full year availability was 98.5 per cent, which was 4.1 per cent higher than last year due to far fewer instances of high wind over the course of the year. The full year CSS score was 93, in line with last year.

#### *Tramtrack Croydon*

In the year Trams carried 29.5 million passengers, 6.5 per cent greater than last year. Customer satisfaction scores at 90 per cent continue to be strong and are in line with last year.

Following the tragic derailment of 9 November, we continue to work to ensure that we offer those affected any support they need. We carried out a thorough safety assessment and took the advice of an independent panel of tram experts as part of a rigorous safety assurance process before resuming services. This included introducing additional speed restrictions and associated signage near Sandilands and three other locations on the tram network as a precautionary measure. We will continue to assist the Rail Accident Investigation Branch ("RAIB"), British Transport Police ("BTP") and Office of Rail Regulation ("ORR") with their ongoing investigations into this tragic incident.

#### *London Buses*

London's bus network faced a decline of almost 50 million journeys this year as it contended with one of the busiest eras of road works and a slowing down of highway speeds in many parts of the capital, particularly central areas.

Buses still carried more than 2.2 billion passenger journeys on the network as a result of the network's high frequency, the new Bus Hopper ticket offering two journeys for the price of one within an hour and introduction of many reliability measures to avoid delays to bus passengers on their way to destinations. Income was down on the previous year by £43 million but most of these measures helped avoid more income being lost from disruption and also kept customer satisfaction at record levels.



## Strategic Report (continued)

### Surface Transport (continued)

#### *London Buses (continued)*

The network continued to be tailored to demand to reflect changing travel habits and opportunities for inter-connected travel as population and economic activity expands. More capacity was added to the part-segregated and high-frequency East London transit routes by re-routing the EL2 to Becontree and converting route 387 into the EL3. There were also new links to hospitals and growth areas with the new 483 route running between Harrow and Ealing Hospital and the E8 extended from Brentford to Hounslow. To keep the bus network moving at a time of traffic growth, bus priority schemes were introduced to fast track vehicles along Brentfield Road, Neasden, and Northend Road, in the London Borough of Bexley. There are now 19 new night bus routes serving many suburban underground stations following the introduction of the Night Tube.

To assist with medium-term plans to pedestrianise Oxford Street, routes 7 and 10 have been restructured to reduce the volume of buses along this busy retail corridor and assist with air quality.

Buses remain the mainstay of public transport for commuters and are helping to drive London's night-time economy forward with one of every two journeys in the early hours taking people to work. They are also delivering rapid air quality changes in London with around 20 per cent of the fleet now made up of buses fitted with the ultra-low-emission Euro VI engine. This reduces tailpipe oxides of nitrogen and particulate matter by up to 95 and 80 per cent respectively and as the proportion of vehicles increase will bring about more fundamental reductions in emissions between now and 2020/21. Adoption of this proven technology in specific areas such as highway corridors has also enabled us to launch the world's first Low Emission Bus Zone in Putney High Street just before the end of the financial year in March and commit to 11 more in other parts of the capital. With an eye to the future, we have also increased the electric bus fleet to 71 vehicles with the conversion of routes 507 and 521 – which are now zero-tailpipe emission – in some of the busiest links between mainline stations.

To support our bus drivers in their crucial role of carrying 55 per cent of public transport passengers across the capital each day, often in challenging conditions, we are putting all 24,500 through our Hello London experience training programme. Just under half have attended this to date and 94 per cent rate its quality as excellent or very good. We have also launched the Bus Safety Programme to look at how we can make bus journeys as safe as possible. We have almost completed analysis of police investigations into fatal collisions to understand the causes and will be using the research outcomes to develop a prioritised list of vehicle design and technology counter measures that could prevent or mitigate the impact of collisions. This will lead to the creation of a bus safety specification from 2018 and make us a world leader in bus safety innovation.

## Strategic Report (continued)

### Surface Transport (continued)

#### *Cycle Hire*

2016/17 saw the Cycle Hire scheme achieve a record breaking 10.5 million hires in the financial year. The year saw a number of records tumble in terms of best month and best weekend numbers. The mobile app which allows customers to obtain release codes direct to their phone continues to prove popular with over a million hires having been carried out since its inception. 2017/18 will see the disaggregation of the service under new contractual arrangements. Serco will continue to supply and maintain the fleet of cycles, back office services will be brought in house, with cleaning and Contact Centre activities moved to existing TfL suppliers. The year will also see the gradual introduction of a new British produced cycle into the scheme, the design has taken into account feedback from both customers and bike maintenance engineers.

#### *Dial-a-Ride*

Dial-a-Ride services forms an integral part of the Mayor's Transport Strategy by providing a door to door transport service for members of the public who are unable to access mainstream public transport due to mobility impairment. During the year to 31 March 2017, Dial-a-Ride scheduled 89.3 per cent (2015/16 89.9 per cent) of all trip requests received which was slightly lower than target of 91.0 per cent (2015/16 91.0 per cent). After on the day/eve cancellations of scheduled trips by passengers, the service delivered 1,175,497 trips which was 5.6 per cent less than in 2015/16 (1,245,141).

Customer satisfaction remained high at 91 per cent (2015/16 92 per cent) despite the lower than target trip requests scheduled. Overall demand for the Dial-a-Ride service reduced by 2.6 per cent compared to the previous year. As in previous years, this partly reflected constraints on customers' requirements for travel arising from the wider economic situation and the reduction in public and voluntary provision for specialised activities aimed at older and disabled people.

During the year Dial-a-Ride began the phased introduction of Mobile Data Terminals across its fleet to replace paper driver manifests, enabling scheduling changes to be made in real time. Whilst the benefits of this new technology will take some time to impact on service performance, the prospect for the future is for improved efficiency and improved customer experience. Dial-a-Ride also achieved City and Guilds accreditation for its driver training programme in March 2017, providing an enhanced quality of assistance for its customers.

#### *Victoria Coach Station*

Victoria Coach Station ("VCS") provided facilities for circa 14.5 million passengers and 476,000 coach departures and arrivals serving the United Kingdom and mainland continental Europe. This compared to circa 14.5 million passengers and 466,000 coach departures and arrivals in 2015/16.

The company marked the 85<sup>th</sup> anniversary of the coach station in March with a weekend of events taking place within the station, celebrating its heritage.

Further works are in progress to both improve current retail facilities, and to provide greater choice to our customers. Additional work will commence to replace the existing Grade II listed glass canopy over the main station terminal in Buckingham Palace Road.

VCS continued to perform well in customer satisfaction surveys, achieving its highest recorded score in quarter four of 2016/17, maintaining its commitment to providing the best possible customer service.

# Strategic Report (continued)

## Surface Transport (continued)

### *London River Services*

During the year, a total of 10.6 million passengers (10.3 million in 2015/16) used London River Services' pier facilities, Woolwich Ferry and licensed river tour and river bus services. This shows an increase in passenger numbers during the year of over 2.9 per cent.

River bus passengers passed 4.0 million for the first time in 2016/17, which represents a growth of 6.9 per cent on 2015/16.

The Woolwich Ferry carried 1.0 million vehicles (0.88 million in 2015/16) and 1.86 million passengers inclusive of vehicle drivers (1.73 million in 2015/16).

As part of the Thames Tideway project a new, relocated pier was opened at Blackfriars. The new pier being larger than the one it replaced, featuring a modern design and allowing for two vessel berths in place of the original one.

### *Other activities*

The Group's other activities include:

- The Crossrail project to construct a rail tunnel under central London in order to provide a new passenger service linking Maidenhead and Heathrow in the west to Shenfield and Abbey Wood in the east, covering Canary Wharf and Stratford;
- London's Transport Museum which provides education and entertainment on the history of transportation in London.

### *Crossrail*

By the end of the year, the Project was approaching 85 per cent complete. Platforms are 97 per cent complete and track has reached 83 per cent complete. Power and tunnel ventilation is being installed, along with signalling and communication systems, and platform screen doors in the new Elizabeth line central stations.

Architectural finishes are being applied, and escalator and lift installation has commenced with the impressive pre-cast concrete ceilings at Liverpool Street and Farringdon stations now complete. Work has continued on integration including the introduction of the Crossrail Integration Facility, along with signalling, testing, commissioning and handover plans to ensure that the complex interfaces and integration risks can be managed across the entire length of the route.

Ilford depot received the first Class 345 train in Quarter 4 of financial year 2016/17 ready for the commencement of Stage 1 operational services between Shenfield and Liverpool Street (mainline) planned in May 2017. The directors continue to be confident that the project will be delivered successfully and fully completed in 2019.

### *London Transport Museum*

London Transport Museum is a charitable business that explores and interprets the close relationship between the capital and its transport heritage.

## Strategic Report (continued)

### Treasury activities

As at 31 March 2017, the interest on a cumulative total of £1,997.8 million of borrowings in issue had been hedged through a combination of gilt locks and interest rate swaps.

The fair value at the year end of the outstanding interest rate derivatives taken out to hedge the interest rate on borrowings was a net liability of £55.3 million. Further cumulative cash payments of £118.1 million made on settlement of gilt locks in prior years and which were deferred within equity, are being released to the Income Statement as an interest rate hedge over the term of borrowings issued by Transport for London. Hedging in the Group is achieved through the drawdown of intercompany loans by Transport for London Finance Limited from Transport for London and the onward lending of the monies to London Underground Limited, a fellow subsidiary undertaking of the Transport Trading Limited Group.

The Group also holds an amortising interest rate swaps in order to fix the floating interest rate risk on operating lease payments for rolling stock under a lease taken out by TfL. The fair value of the derivative at 31 March 2017 was a net liability of £19.1 million (2016 £23.0 million).

The Group also entered into a number of foreign exchange swaps and forwards to hedge the currency risk on foreign currency investments entered into by TfL. At 31 March 2017 the Group held forward foreign exchange contracts to sell euros to a net value of £370.6 million (2016 £754.4 million). Although fully effective as hedges at the TfL Group level, as the hedged investments are in a different legal entity to the derivatives, these contracts were not in formally designated hedging relationships for accounting purposes. Hedge accounting has not therefore been applied. A fair value gain on these contracts totalling £22.6 million (2016 £41.4 million loss) has been recognised directly in the Income Statement within financial income.

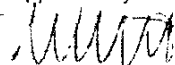
### Risk management

The Group has a risk management process and arrangements that enable it systematically to identify, assess, manage and monitor business risks. The risk management process aims to complement and support the underlying mainstream management of the organisation.

The risk management framework provides a consistent platform to compare and contrast risks from differing sources and types of risks. Impact is assessed in financial and non-financial terms (e.g. time delay, customer service and reputation impacts). Each risk is allocated a risk owner who is responsible for the correct interpretation, mitigation and reporting of the risk.

The companies within the Group hold regular Risk Management Meetings. The remit of these meetings is to oversee the delivery and development of internal control and risk management processes and culture within the organisation. The meetings review strategic level risks and other internal control reports.

Approved by the Board on 03 July 2017 and signed on behalf of the Board by



H. Carter

Director

# 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 EU ("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 Group and Company and of the profit or loss of the Group 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 Group or Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and to prevent and detect fraud and other irregularities.

# Independent Auditor's Report

## To the members of Transport Trading Limited

We have audited the financial statements of Transport Trading Limited for the year ended 31 March 2017 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statements of Changes in Equity, the Group Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity the Group and Company Statement of Cash Flows, the Accounting Policies and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

*This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.*

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2017 and of the Group's gain for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

# Independent Auditor's Report

## To the members of Transport Trading Limited (continued)

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- based on the work undertaken in the course of the audit
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Karl Havers (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

16 August 2017

## Group Income Statement

Year ended 31 March		2017	2016
	Note	£m	£m
Revenue	1	5,033.1	4,917.4
Net operating costs		(5,515.8)	(5,630.8)
Operating loss	2	(482.7)	(713.4)
Grant income	3	854.7	807.5
Other gains and losses	4	34.2	103.3
Total profit from operations		406.2	197.4
Financial income	7	22.8	0.3
Financial expenses	8	(280.6)	(317.1)
Group share of profit after tax of associated undertakings	14	(104.8)	25.9
Profit/(loss) before taxation		43.6	(93.5)
Income tax credit	9	6.5	2.2
Profit/(loss) for the year attributable to owners of the Company		50.1	(91.3)

## Group Statement of Comprehensive Income

Year ended 31 March		2017	2016
	Note	£m	£m
Gain/(loss) for the year		50.1	(91.3)
Other comprehensive income and expenditure:			
Items that will not subsequently be reclassified to profit or loss			
Actuarial (loss)/gain on defined benefit pension schemes	30	(30.0)	5.1
		(30.0)	5.1
Items that may be subsequently reclassified to profit or loss			
Movement in the fair value of derivative financial instruments		29.0	17.4
Derivative fair value loss recycled to income and expenditure		7.9	7.6
Revaluation of property, plant and equipment	11	(3.8)	107.9
		33.1	132.9
Total comprehensive income and expenditure for the year attributable to owners of the Company		53.2	46.7



# Group Statement of Financial Position

		31 March 2017	31 March 2016
	Note	£m	£m
<b>Non-current assets</b>			
Intangible assets	10	40.7	60.3
Property, plant and equipment	11	33,009.0	30,651.5
Investment property	12	547.2	504.6
Equity accounted investment in associated undertakings	14	368.2	473.0
Derivative financial instruments	24	18.2	7.1
Finance lease receivables	17	3.5	-
Trade and other receivables	18	22.8	688.0
		<b>34,009.6</b>	<b>32,384.5</b>
<b>Current assets</b>			
Inventories	15	70.9	68.5
Assets classified as held for sale	16	13.5	-
Finance lease receivables	17	0.9	-
Trade and other receivables	18	1,759.6	1,136.5
Derivative financial instruments	24	12.3	5.1
Cash and cash equivalents	19	89.6	104.5
		<b>1,946.8</b>	<b>1,314.6</b>
<b>Current liabilities</b>			
Trade and other payables	20	(2,312.1)	(2,274.0)
Finance lease liabilities	22	(65.3)	(83.2)
Derivative financial instruments	24	(3.6)	(21.3)
Provisions	25	(80.9)	(118.8)
		<b>(2,461.9)</b>	<b>(2,497.3)</b>
<b>Non-current liabilities</b>			
Trade and other payables	20	(40.2)	(60.0)
Borrowings	21	(9,369.3)	(8,688.8)
Finance lease liabilities	22	(346.0)	(411.3)
Derivative financial instruments	24	(79.2)	(94.9)
Provisions	25	(5.1)	(3.8)
Deferred grant	28	(13,546.6)	(13,220.1)
Retirement benefit obligation	30	(32.0)	-
		<b>(23,418.4)</b>	<b>(22,478.9)</b>
<b>Net assets</b>		<b>10,076.1</b>	<b>8,722.9</b>
<b>Equity</b>			
Called up share capital	31	8,560.0	7,260.0
Revaluation reserve		294.2	310.7
Hedging reserve		(139.1)	(176.0)
Merger reserve		466.1	466.1
Retained reserves		894.9	862.1
<b>Total equity attributable to owners of the Company</b>		<b>10,076.1</b>	<b>8,722.9</b>

The notes on pages 22 to 93 form part of these financial statements.

These financial statements were approved by the Board on 03 July 2017 and signed on its behalf by:

M. Brown  
Director  
Company Registration Number 3914810



## Group Statement of Changes in Equity

	Note	Share capital	Revaluation reserve	Hedging reserve	Merger reserve	Retained reserves	Total
		£m	£m	£m	£m	£m	£m
At 1 April 2015		5,430.0	212.9	(201.0)	466.1	938.2	6,846.2
Loss for the year		-	-	-	-	(91.3)	(91.3)
Actuarial gain on defined benefit pension scheme	30	-	-	-	-	5.1	5.1
Movement in the fair value of derivative financial instruments		-	-	17.4	-	-	17.4
Movement in the fair value of derivative financial instruments reclassified to profit or loss		-	-	7.6	-	-	7.6
Net surplus on revaluation of property, plant and equipment		-	107.9	-	-	-	107.9
<b>Total comprehensive income/(expense)</b>		-	107.9	25.0	-	(86.2)	46.7
Issue of share capital	31	1,830.0	-	-	-	-	1,830.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(10.1)	-	-	10.1	-
<b>Balance at 31 March 2016</b>		<b>7,260.0</b>	<b>310.7</b>	<b>(176.0)</b>	<b>466.1</b>	<b>862.1</b>	<b>8,722.9</b>
Profit for the year		-	-	-	-	50.1	50.1
Actuarial loss on defined benefit pension scheme	30	-	-	-	-	(30.0)	(30.0)
Movement in the fair value of derivative financial instruments		-	-	29.0	-	-	29.0
Movement in the fair value of derivative financial instruments reclassified to profit or loss		-	-	7.9	-	-	7.9
Net surplus on revaluation of property, plant and equipment		-	(3.8)	-	-	-	(3.8)
<b>Total comprehensive income/(expense)</b>		-	(3.8)	36.9	-	20.1	53.2
Issue of share capital	31	1,300.0	-	-	-	-	1,300.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(12.7)	-	-	12.7	-
<b>Balance at 31 March 2017</b>		<b>8,560.0</b>	<b>294.2</b>	<b>(139.1)</b>	<b>466.1</b>	<b>894.9</b>	<b>10,076.1</b>

## Group Statement of Cash Flows

Year ended 31 March

	Note	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Gain/(loss) for the year		50.1	(91.3)
Adjustments for:			
Depreciation	11	885.8	871.1
Amortisation of intangible assets	10	28.3	34.2
Increase in value of investment property	4	(28.9)	(49.8)
Gain/(loss) on sale of property, plant and equipment	4	1.4	(48.1)
Gain on sale of investment property	4	(6.7)	(5.4)
Financial income	7	(22.8)	(0.3)
Financial expense	8	280.6	317.1
Amortisation of deferred capital grant to meet the depreciation charge	2	(680.9)	(625.1)
Reversal of share of loss/(profits) from associates		104.8	(25.9)
Reversal of defined benefit pension service costs/(income)	30	3.3	(10.3)
Reversal of taxation credit		(6.5)	(2.2)
Cash flow from operating activities before movements in working capital		608.5	364.0
Increase in inventories		(2.4)	(16.3)
(Increase) / decrease in trade and other receivables		(14.2)	48.8
(Decrease) / increase in trade and other payables		(16.9)	532.4
(Decrease) / increase in provisions		(36.6)	17.8
Net cash generated from operations		538.4	946.7
Employer contributions to pension scheme	30	(1.7)	(17.2)
Taxation paid		6.5	2.2
<b>Net cash generated from operating activities</b>		<b>543.2</b>	<b>931.7</b>
<b>Cash flows from investing activities</b>			
Interest received		0.1	0.3
Proceeds from disposal of property, plant and equipment		37.2	3.1
Proceeds from disposal of investment properties		16.5	387.9
Acquisition of intangible assets		(7.2)	(8.7)
Acquisition of property, plant and equipment		(3,254.9)	(3,322.0)
Interim funding to third parties in relation to Crossrail		17.2	(453.4)
Loan notes acquired		-	(402.7)
Finance leases granted during the year		(4.4)	-
Investment in share capital of associates		-	(44.4)
Capital grants received		1,012.3	903.2
<b>Net cash utilised by investing activities</b>		<b>(2,183.2)</b>	<b>(2,936.7)</b>

## Group Statement of Cash Flows (continued)

Year ended 31 March

	2017	2016
	£m	£m
Cash flows from financing activities		
Issue of share capital	1,300.0	1,830.0
Increase in loans from ultimate parent	680.5	590.0
Capital element of finance leases repaid	(83.2)	(76.0)
Cash paid on settlement of derivatives	-	0.1
Interest paid	(272.2)	(267.6)
Net cash flow generated from financing activities	1,625.1	2,076.5
Net cash movement in the year	(14.9)	71.5
Net cash and cash equivalents at the start of the year	104.5	33.0
Net cash and cash equivalents at the end of the year	89.6	104.5

# Company Statement of Financial Position

		31 March 2017	31 March 2016
	Note	£m	£m
<b>Non-current assets</b>			
Intangible assets	10	23.9	38.6
Property, plant and equipment	11	243.1	213.4
Investment property	12	3.2	2.0
Investment in subsidiary undertakings	13	9,095.0	7,795.0
Finance lease receivables	17	3.5	-
Trade and other receivables	18	1.3	1.3
		<u>9,370.0</u>	<u>8,050.3</u>
<b>Current assets</b>			
Inventories	15	-	0.3
Finance lease receivables	17	0.9	-
Trade and other receivables	18	355.6	331.9
Cash and cash equivalents	19	38.7	65.9
		<u>395.2</u>	<u>398.1</u>
<b>Current liabilities</b>			
Trade and other payables	20	(625.9)	(602.9)
Provisions	25	(3.1)	(0.5)
		<u>(629.0)</u>	<u>(603.4)</u>
<b>Non-current liabilities</b>			
Trade and other payables	20	(16.7)	(16.5)
Borrowings	21	(30.4)	(30.4)
Deferred grant	28	(104.0)	(112.4)
		<u>(151.1)</u>	<u>(159.3)</u>
<b>Net assets</b>		<u>8,985.1</u>	<u>7,685.7</u>
<b>Reserves</b>			
Share capital	31	8,560.0	7,260.0
Revaluation reserve		56.6	67.5
Merger reserve		466.1	466.1
Retained reserves		(97.6)	(107.9)
<b>Total equity attributable to owners of the Company</b>		<u>8,985.1</u>	<u>7,685.7</u>

TTL Company is exempt under section 408 of the Companies Act 2006 from producing an income statement.

The notes on pages 22 to 93 form part of these financial statements.

These financial statements were approved by the Board on 03 July 2017 and signed on its behalf by:

M. Brown

Director

Company Registration Number 3914810

## Company Statement of Changes in Equity

	Note	Share capital	Revaluation reserve	Merger reserve	Retained reserves	Total
		£m	£m	£m	£m	£m
At 1 April 2015		5,430.0	46.8	466.1	(107.9)	5,835.0
Loss for the year		-	-	-	(8.2)	(8.2)
Net surplus on revaluation of property, plant and equipment		-	28.9	-	-	28.9
<b>Total comprehensive income / (expense)</b>		-	28.9	-	(8.2)	20.7
Issue of share capital	31	1,830.0	-	-	-	1,830.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(8.2)	-	8.2	-
<b>Balance at 31 March 2016</b>		<b>7,260.0</b>	<b>67.5</b>	<b>466.1</b>	<b>(107.9)</b>	<b>7,685.7</b>
Net surplus on revaluation of property, plant and equipment		-	(0.6)	-	-	(0.6)
<b>Total comprehensive income/(expense)</b>		-	(0.6)	-	-	(0.6)
Issue of share capital	31	1,300.0	-	-	-	1,300.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(10.3)	-	10.3	-
<b>Balance at 31 March 2017</b>		<b>8,560.0</b>	<b>56.6</b>	<b>466.1</b>	<b>(97.6)</b>	<b>8,985.1</b>

# Company Statement of Cash Flows

Year ended 31 March

	Note	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Loss for the year		-	(8.2)
Adjustments for:			
Depreciation	11	35.6	34.1
Amortisation of intangible assets	10	21.3	26.7
Increase in value of investment property	12	(1.2)	(0.2)
Financial income		(0.1)	(0.2)
Financial expense		0.1	0.1
Amortisation of deferred capital grant to meet the depreciation charge	28	(21.2)	(26.4)
Cash flow from operating activities before movements in working capital		34.5	25.9
Increase / (decrease) in inventories		0.3	(0.3)
(Increase)/ decrease in trade and other receivables		(30.0)	19.4
Increase in trade and other payables		10.9	26.5
Increase / (Decrease) in provisions		2.7	(0.4)
<b>Net cash generated from operating activities</b>		<b>18.4</b>	<b>71.1</b>
<b>Cash flows from investing activities</b>			
Interest received		-	0.2
Acquisition of intangible assets		(5.1)	(7.0)
Acquisition of property, plant and equipment		(53.2)	(22.8)
Subscription for new shares in subsidiary		(1,300.0)	(1,830.0)
Capital grants received		12.8	22.6
<b>Net cash utilised by investing activities</b>		<b>(1,345.5)</b>	<b>(1,837.0)</b>
<b>Cash flows from financing activities</b>			
Issue of share capital		1,300.0	1,830.0
Interest paid		(0.1)	(0.1)
<b>Net cash flow generated from financing activities</b>		<b>1,299.9</b>	<b>1,829.9</b>
<b>Net cash movement in the year</b>		<b>(27.2)</b>	<b>64.0</b>
<b>Net cash and cash equivalents at the start of the year</b>		<b>65.9</b>	<b>1.9</b>
<b>Net cash and cash equivalents at the end of the year</b>		<b>38.7</b>	<b>65.9</b>

## Accounting Policies

### a) Reporting entity

Transport Trading Limited ("TTL" or the "Company") is a company domiciled in the United Kingdom. The Company's registration number is 3914810 and its registered office is Windsor House, 42-50 Victoria Street, London, SW1H 0TL.

The consolidated financial statements as at 31 March 2017 include the financial statements of the Company and its subsidiaries (together referred to as the "Group").

### 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 sterling which is the functional currency of the Group, rounded to the nearest million (£m) and in accordance with IFRSs as adopted in the EU.

#### **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 and financial instruments.

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 Group and Company's financial performance.

### d) Uses of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group and 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:

#### **Post-retirement benefits**

The pension costs and defined benefit plan obligations of the Group's defined benefit plans are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the defined benefit obligation.

#### **Leases**

In assessing whether a lease is an operating lease or a finance lease, judgement needs to 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 Group or Company.



## Accounting Policies (continued)

### d) Uses of estimates and judgements (continued)

#### ***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 Group or Company.

#### ***Classification of investment properties***

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 Group 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 Group.

#### ***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 Group or 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 needs to be exercised in estimating the length of times the assets will be operational.

#### ***Derivative financial instruments***

The Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. In making its assessment and judgements, the Group assesses the effectiveness of the derivatives and changes in their fair values. Note 24 and the accounting policies note on financial instruments provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

## Accounting Policies (continued)

### 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 new amendments have been applied for the first time in these Financial Statements:

- 'Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception' (mandatory for years beginning on or after 1 January 2016). These amendments clarify that the exemption from preparing financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value;
- 'Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations' (mandatory for years commencing on or after 1 January 2016). The 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 1 Disclosure Initiative' (mandatory for years on or after 1 January 2016). The amendments clarify the concept of materiality in practice as the wording of some of the requirements in IAS 1 has in some cases been read to prevent the use of judgement;
- 'Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation' (mandatory for years on or after 1 January 2016). The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. 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 16 and IAS 14 Agriculture: Bearer Plants' (mandatory for years on or after 1 January 2016);
- 'Amendments to IAS 27 Equity Method in Separate Financial Statements' (mandatory for years beginning on or after 1 January 2016). The amendments focus on separate financial statements and allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates in such statements;
- 'Annual Improvements to IFRSs 2012-2014 cycle' (mandatory for years beginning on or after 1 January 2016). The standards affected and the subjects of the amendments are:
  - IFRS 5 Non-current Assets Held for sale and Discontinued Operations - the changes introduce guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa);
  - IFRS 7 Financial Instruments: Disclosures - the amendments provide guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets;
  - IAS 19 Employee Benefits - the amendments clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid; and
  - IAS 34 Interim Financial Reporting - clarifies how information required by IAS 34 that is presented elsewhere within the interim financial report should be referenced within the financial statements section.
- 'IFRS 14 Regulatory Deferral Accounts' (mandatory for years commencing on or after 1 January 2016). This specifies the accounting for regulatory deferral account balances for entities that recognised regulatory deferral account balances under their previous GAAP. This does not apply to the TfL Group;

## Accounting Policies (continued)

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 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 2018). 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;
- 'IFRS 16 Leases' (mandatory for years beginning 1 January 2019). This standard replaces the current guidance in IAS 17 on leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting remaining substantially unchanged from the IAS 17 approach;
- 'Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions' (mandatory for years commencing on or after 1 January 2018). The amendments aim to eliminate diversity in practice in the classification and measurement of particular share-based payment transactions. This standard is not expected to be relevant to the Company;
- 'Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (mandatory for years beginning on or after a date yet to be determined). The amendments require gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture to be recognised to the extent of the unrelated investors' interest in the associate or joint venture. Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements;
- 'Amendments to IAS 7 Disclosure Initiative' (mandatory for years on or after 1 January 2017). The amendments require entities to provide disclosures that enable users of the accounts to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; and
- 'Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses' (mandatory for years on or after 1 January 2017). The amendments clarify that (i) unrealised losses on debt instruments measured at

## Accounting Policies (continued)

fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. (ii) *The carrying amount of an asset does not limit the estimation of probable future taxable profits.* (iii) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. (iv) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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.*

The Group is dependent on funds provided to it by Transport for London, its ultimate parent, in order to ensure working capital requirements are satisfied. Transport for London 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 Group.

The directors consider that this should enable the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Group 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.

## Accounting Policies (continued)

### h) Revenue

Revenue is generated from the provision of travel, the letting of commercial advertising space and the rental of commercial properties.

Revenue is measured after the deduction of value added tax (where applicable).

#### *Fare revenue*

Revenue from annual or periodic tickets and travel cards is recognised in the Statement of Comprehensive Income on a straight line basis over the period of validity of the ticket or travel card. Revenue received in advance and not recognised in the Statement of Comprehensive Income is recorded in the Statement of Financial Position and held within current liabilities receipts in advance for travel cards, bus passes and Oyster cards. 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 Council and county Authorities in respect of free and reduced fare travel for the elderly and disabled is recognised as revenue 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 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 on the Statement of Financial Position and released to the Income Statement over the estimated useful economic life of the asset to which the grant relates.

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*

The defined benefit plans, of which the majority of staff are members, provide benefits based on final pensionable pay. The assets of schemes are held separately from those of the Group.

On retirement, members of the schemes are paid their pensions from a fund which is kept separate from the Group. The Group makes cash contributions to that fund in advance of members' retirement.

Pension scheme assets are measured using current market bid values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

## Accounting Policies (continued)

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total comprehensive income, actuarial gains and losses. Generally, amounts are charged to operating expenditure on the basis of the current service cost of the present employees that are members of the Schemes.

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

For certain defined benefit schemes it is not possible for the Company or Group 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 (revised 2011) Employee benefits ("IAS 19R"), these schemes are accounted for as defined contribution schemes and contributions are charged to the Income Statement as incurred.

### **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 Group as lessee)**

#### **Leased assets**

Leases under which the Group 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 Group'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 Group 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 Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group 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 Group 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 Group's incremental borrowing rate.

## Accounting Policies (continued)

The Group has applied the transitional provisions in IFRIC 4 as permitted under IFRS 1 First time adoption of International Financial Reporting Standards ("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.

### **l) Leases (the Group 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 and expected return on pension assets. 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 expected cost of pension scheme liabilities. 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 and IAS 23 Borrowing costs ("IAS 23"), the Group 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 income 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. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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 Group 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 (continued)

### **o) Foreign currencies**

Transactions in currencies other than sterling are recognised at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

### **p) Intangible assets**

#### **Goodwill**

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment at each Statement of Financial Position date. Goodwill is allocated to income-generating units for the purpose of impairment testing.

#### **Other intangible assets**

Software costs are measured at cost less accumulated amortisation and accumulated impairment losses. Assets under construction are measured at cost less accumulated impairment losses.

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, unless such lives are indefinite.

The useful lives and amortisation methods for software costs are as follows:

Software costs	Straight-line	3-5 years
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### **q) Property, plant and equipment**

#### **Recognition and measurement**

Infrastructure consists of tunnels, viaducts, bridges, stations, track, signalling, bus stations and stands, 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 in the course of 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 Group 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement methodology assumes the valuation is based on the highest and best use of the asset. Properties are measured using the income approach by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market derived discount rate) to establish the present value of the net income stream. Office properties are therefore categorised as level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements. Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year.



## Accounting Policies (continued)

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 Group, 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.

### **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 Group 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.

## Accounting Policies (continued)

### r) 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.

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

### s) Private Finance Initiative ("PFI") arrangements

The Group has entered into PFI arrangements with the private sector in relation to the construction, maintenance and operation of parts of London Underground and Docklands Light Railway infrastructure. In the absence of alternative guidance, these 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 Group 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 Group 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 Group 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 j) above.

## Accounting Policies (continued)

### t) 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 at fair value by external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement methodology assumes the valuation is based on the highest and best use of the asset. Properties are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. Properties are therefore categorised as level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements. 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.

### u) Investment in subsidiaries

The Company's investment in subsidiaries is accounted for at cost and is recognised net of impairment losses.

### v) Investment in associated undertakings

An associate is an entity over which the Group has significant influence, but not control. The results and assets and liabilities of associates are incorporated in these consolidated accounts using the equity method of accounting from the date on which the investee becomes an associate. Under the equity method, the investment is initially recognised on the Statement of Financial Position at cost, and is thereafter adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

### w) Assets classified as Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

### x) 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.

## Accounting Policies (continued)

### y) 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 Group 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.

### z) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group 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.

### aa) 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 Group 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, 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 Group 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.

## Accounting Policies (continued)

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturity 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 on the settlement date 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.

### *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.

### *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.

### *Derivative financial instruments*

The Group enters into derivative instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Group does not hold or issue derivative instruments for speculative purposes. The use of derivatives is governed by Transport for London, the Company's ultimate parent, through policies that are approved by the TfL Finance and Policy Committee. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the Income Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Income Statement depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk or firm commitments (cashflow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

## Accounting Policies (continued)

### *Hedge accounting*

The Group designates certain hedging instruments, which include derivatives, as either fair value hedges or cash flow hedges.

In order to qualify for hedge accounting, at inception of the transaction the Group formally designates and documents the hedging relationship, which includes the Group's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. In addition, an instrument is only designated as a hedge when it is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented and where effectiveness is capable of reliable measurement.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Derivatives qualify for hedge accounting if changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item on a prospective basis and on a retrospective basis where actual results are within a range of 80 per cent to 125 per cent. Where derivatives or portions of hedges do not qualify for hedge accounting, they are recorded at fair value through the Income Statement.

### *Cash flow hedges*

Derivative instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. Derivative instruments qualifying for treatment as cash flow hedges are principally interest rate swaps, gilt locks and foreign currency forward exchange contracts.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts deferred in reserves are recycled in profit or loss in the periods when the hedged items (the hedge asset or liability) are recognised in the Income Statement.

Hedge accounting is discontinued when the Group revokes the hedging instrument relationship, or the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge account. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the Income Statement.

### **ab) Fair Value Measurement**

IFRS 13 Fair Value measurement 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.

## Accounting Policies (continued)

- *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.

In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13.

### ac) Reserves

#### Share capital

The balance classified as share capital includes total net proceeds (nominal value, share premium and any merger reserve in lieu of premium, where merger relief is applied) on issue of the Group's share capital, comprising £1 ordinary shares.

#### Revaluation reserve

The revaluation reserve contains the accumulated gains made arising from increases in the value of property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost; or
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are transferred to retained earnings.

#### Hedging reserve

The hedging reserve holds the gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during which the hedged forecast transaction affects profit or loss.

#### Merger reserve

The merger reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LU), to TfL in 2003. It represents the share capital of LU and was taken as a credit to the merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

#### Retained reserve

All other accumulated net gains and losses and transactions less any amounts distributed to shareholders not recognised elsewhere.

## Notes to the Financial Statements

### I Group revenue

<i>Year ended 31 March</i>	<i>2017</i>	<i>% of</i>	<i>2016</i>	<i>% of</i>
	<i>£m</i>	<i>total</i>	<i>£m</i>	<i>total</i>
Fares	4,365.7	86.7	4,258.4	86.6
Revenue in respect of free travel for the elderly and the disabled	328.2	6.5	328.3	6.7
Charges to London boroughs	1.1	-	2.2	-
Charges to transport operators	11.6	0.2	10.8	0.2
Commercial advertising receipts	136.8	2.7	114.9	2.3
Rents receivable	69.8	1.4	68.6	1.4
Museum and other retail income	9.4	0.2	8.6	0.2
Contributions from third parties to operating costs	18.0	0.4	10.1	0.2
Ticket and photocard commission income	25.6	0.5	34.3	0.7
ATM and car parking income	17.2	0.3	15.9	0.3
Training and specialist services	4.7	0.1	9.0	0.2
Cycle hire scheme	11.3	0.2	16.2	0.3
Other	33.7	0.8	40.1	0.9
	<b>5,033.1</b>	<b>100.0</b>	<b>4,917.4</b>	<b>100.0</b>

Other revenue comprises numerous other travel services, none of which are sufficiently material to warrant separation in the analysis above.



## Notes to the Financial Statements (continued)

### 2 Group operating loss

Year ended 31 March

	Note	2017 £m	2016 £m
<b>The operating loss is stated after charging/(crediting):</b>			
<b>Capital items</b>			
Amortisation of intangible assets	10	28.3	34.2
Depreciation of property, plant and equipment – owned	11	843.4	828.2
Depreciation of property, plant and equipment – leased	11	42.4	42.9
Release of grant to meet the depreciation charge on the historical cost of depreciated fixed assets	28	(680.9)	(625.1)
<b>Other operating costs</b>			
Employee costs	5	1,492.5	1,469.1
Payments under operating leases		80.1	73.9
Inventory expensed during the year		80.1	67.0
<b>Auditor's remuneration</b>			
Fees for the audit of these financial statements		0.8	0.6
Fees for the audit of subsidiary financial statements		-	0.1
Fees for non-audit services: assurance related		0.3	-
		<u>1.1</u>	<u>0.7</u>

## Notes to the Financial Statements (continued)

### 3 Group grant income

Year ended 31 March	2017	2016
	£m	£m
Grant from Transport for London to fund operations	854.7	807.5

### 4 Group other gains and losses

Year ended 31 March	2017	2016
	£m	£m
Change in fair value of investment properties	28.9	49.8
Net gain on disposal of investment properties	6.7	5.4
Net (loss)/gain on disposal of property, plant and equipment	(1.4)	48.1
	34.2	103.3

### 5 Group employee costs

Year ended 31 March	2017	2016
The average number of persons employed in the year were:	Number	Number
Bus operations	1,045	1,049
London Underground	16,436	17,056
Rail operations	300	243
Crossrail	596	656
Tube Lines	1,820	1,912
Group services	912	885
Victoria Coach Station	84	87
Other activities	128	112
Total	21,321	22,000

Their aggregate remuneration comprised:	Note	£m	£m
Wages and salaries		1,105.1	1,132.6
Social security costs		127.4	107.9
Pension costs	30	260.0	228.6
	2	1,492.5	1,469.1

## Notes to the Financial Statements (continued)

### 6 Directors' emoluments

Year ended 31 March

	2017 Number	2016 Number
Number of directors who were remunerated by the Group during the year:	-	-

The directors received no emoluments or benefits from the Company.

Directors' emoluments and benefits were borne by Transport for London for five directors (2015/16 six).

Total remuneration paid to directors of Transport Trading Limited by Transport for London was £1,391,954 and by Surface Transport was £343,145. The apportionment of this attributable as Directors of Transport Trading Limited cannot be individually identified.

### 7 Group financial income

Year ended 31 March

	Note	2017 £m	2016 £m
Interest income received in regard to finance lease debtors		0.1	-
Net fair value movement on derivative financial instruments not subject to hedge accounting		22.6	-
Other		0.1	0.3
		<u>22.8</u>	<u>0.3</u>

### 8 Group financial expenses

Year ended 31 March

	Note	2017 £m	2016 £m
Interest payable on external loans and derivative financial instruments		31.1	30.1
Interest payable to Transport for London		315.5	304.1
Interest on finance lease liabilities		34.0	38.8
Contingent rentals on PFI liabilities		8.3	8.3
Net fair value movement on derivative financial instruments not subject to hedge accounting		-	41.4
Net interest on defined benefit obligation	30	0.3	0.6
		<u>389.2</u>	<u>423.3</u>
Less amounts capitalised into qualifying assets	11	(108.6)	(106.2)
		<u>280.6</u>	<u>317.1</u>

The interest rates charged on loans from Transport for London range between 1.88 per cent and 4.4 per cent (2015/16 1.88 per cent and 4.4 per cent).

## Notes to the Financial Statements (continued)

### 9 Taxation

The Company and its subsidiaries are assessable individually to taxation in accordance with current tax legislation. All companies, with the exception of Crossrail Limited, are able to claim group relief.

#### a) Corporation tax – Group

The Group tax credit for the year, based on the rate of corporation tax of 20 per cent (2015/16 20 per cent) comprised:

	Group	Group
Year ended 31 March	2017	2016
	£m	£m
Current tax		
Adjustments in respect of prior years	(6.5)	(2.2)
<b>Total income tax credit for the year</b>	<b>(6.5)</b>	<b>(2.2)</b>

#### Reconciliation of tax credit

	Group	Group
Year ended 31 March	2017	2016
	£m	£m
Gain/(Loss) before tax	43.6	(93.5)
Gain/(Loss) before tax multiplied by standard rate of corporation tax in the UK of 20% (2015/16 20%)	8.7	(18.7)
Effects of:		
Non-taxable and non-deductible items	23.3	(1.1)
Amount credited to current tax for which no deferred tax was recognised	1.9	25.0
Utilisation of tax losses brought forward	(33.7)	(9.2)
Tax losses carried forward for which no deferred tax was recognised	-	4.0
Tax exempt revenues	(0.2)	-
Adjustments in respect of prior years	(6.5)	(2.2)
<b>Total tax credit for the year</b>	<b>(6.5)</b>	<b>(2.2)</b>

#### b) Unrecognised deferred tax assets – Group

The Group has a potential net deferred tax asset of £1,433.1m (2016 £1,500.2m) in respect of the following items:

	Group	Group
Year ended 31 March	2017	2016
	£m	£m
Deductible temporary differences	572.0	541.6
Tax losses	871.1	958.6
	<b>1,443.1</b>	<b>1,500.2</b>

The tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that there will be future taxable profit available against which the benefits can be utilised.

## Notes to the Financial Statements (continued)

### 9 Taxation (continued)

#### c) Movements in recognised deferred tax assets and liabilities during the year – Group

Deferred tax assets have been recognised to the extent of the deferred tax liabilities at the balance sheet date. Their movements during the years were in respect of the following items:

	Balance at 1 April	Movement in year	Balance at 31 March
	£m	£m	£m
<b>For the year ended 31 March 2017</b>			
<b>Deferred tax assets</b>			
Deferred government grant	1,842.3	(107.4)	1,734.9
Derivative financial instruments	35.3	(12.1)	23.2
Property, plant and equipment – accelerated capital allowances	270.7	(4.6)	266.1
	<u>2,148.3</u>	<u>(124.1)</u>	<u>2,024.2</u>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	(2,070.5)	126.7	(1,943.8)
Investment properties – potential capital gain	(77.8)	(0.2)	(78.0)
Assets held for sale – potential capital gain	-	(2.4)	(2.4)
	<u>(2,148.3)</u>	<u>124.1</u>	<u>(2,024.2)</u>
<b>Net deferred tax asset/(liability)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>For the year ended 31 March 2016</b>			
<b>Deferred tax assets</b>			
Deferred government grant	2,080.0	(237.7)	1,842.3
Derivative financial instruments	36.0	(0.7)	35.3
Property, plant and equipment – accelerated capital allowances	354.2	(83.5)	270.7
	<u>2,470.2</u>	<u>(321.9)</u>	<u>2,148.3</u>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	(2,318.0)	247.5	(2,070.5)
Investment properties – potential capital gain	(77.0)	(0.8)	(77.8)
Assets held for sale – potential capital gain	(75.1)	75.1	-
Other	(0.1)	0.1	-
	<u>(2,470.2)</u>	<u>321.9</u>	<u>(2,148.3)</u>
<b>Net deferred tax asset/(liability)</b>	<u>-</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements (continued)

### 9 Taxation (continued)

The key movements in the period were due to the following:

- In general the level of all deferred tax assets and liabilities has decreased due to the reduction in the tax rate used for calculation.
- The deferred tax liability arising on investment properties, including those held as available for sale, has increased due to the revaluation uplift recognised in the year.
- The property, plant and equipment deferred tax asset and liability have decreased in the period due to assets acquired in the year, movements in the market value of assets held and capital allowances claimed.
- Included within the deferred tax balances for property, plant and equipment and investment properties is the deferred tax on revaluations of £3.8m recognised in other comprehensive income.
- The deferred tax asset arising in respect of derivative financial instruments has decreased due to movement in the fair value of derivatives.

#### d) Unrecognised deferred tax assets - Company

The Company has a potential deferred tax asset of £1.8m (2016 £13.2m). No deferred tax asset has been recognised as it is not considered probable that there will be future taxable profit available against which the unused tax losses and unused tax credits can be utilised. The deductible temporary differences do not expire under current tax legislation.

The potential deferred tax asset can be attributed to the following:

	2017	2016
	£m	£m
Deductible temporary differences	(4.5)	(1.1)
Tax losses	6.3	14.3
Deferred tax asset	1.8	13.2

The Corporation Tax rate was reduced from 21 per cent to 20 per cent on 1 April 2015. On 18 November 2015, further legislation was enacted setting the Corporation Tax rate at 19 per cent for the years starting 1 April 2017, 2018 and 2019. In September 2016, the main rate of Corporation Tax was further reduced to 17 per cent from 1 April 2020. As the Group's deferred tax balances are not expected to be settled until after April 2020 deferred tax balances at 31 March 2017 have therefore been calculated at the enacted rate of 17 per cent.

## Notes to the Financial Statements (continued)

### 10 Intangible assets

#### a) Group intangible assets

Cost or valuation	Note	Software costs £m	Goodwill £m	Intangible assets under construction £m	Total £m
At 1 April 2015		145.3	349.2	20.1	514.6
Additions		6.3	-	2.5	8.8
Transfers between asset classes		21.2	-	(21.2)	-
Transfer from property, plant and equipment	11	1.1	-	1.5	2.6
At 31 March 2016		173.9	349.2	2.9	526.0
Additions		5.4	-	1.8	7.2
Transfers between asset classes		3.4	-	(3.4)	-
Transfer from property, plant and equipment	11	0.1	-	1.5	1.6
Disposals		(1.0)	-	-	(1.0)
At 31 March 2017		181.8	349.2	2.8	533.8
<b>Amortisation and impairment</b>					
At 1 April 2015		82.3	349.2	-	431.5
Charge for the year	2	34.2	-	-	34.2
At 31 March 2016		116.5	349.2	-	465.7
Charge for the year	2	28.3	-	-	28.3
Disposals		(0.9)	-	-	(0.9)
At 31 March 2017		143.9	349.2	-	493.1
Net book value at 31 March 2017		37.9	-	2.8	40.7
Net book value at 31 March 2016		57.4	-	2.9	60.3

Assets under construction comprise software assets under development.

## Notes to the Financial Statements (continued)

### 10 Intangible assets

#### b) Company intangible assets

Cost or valuation	Note	Software costs £m	Intangible assets under construction £m	Total £m
At 1 April 2015		94.8	3.7	98.5
Additions		4.8	2.2	7.0
Transfers between asset classes		4.5	(4.5)	-
Transfer from property, plant and equipment	11	-	1.5	1.5
At 31 March 2016		104.1	2.9	107.0
Additions		4.2	0.9	5.1
Transfers between asset classes		3.1	(3.1)	-
Transfer from property, plant and equipment	11	-	1.5	1.5
At 31 March 2017		111.4	2.2	113.6
<b>Amortisation and impairment</b>				
At 1 April 2015		41.7	-	41.7
Charge for the year		26.7	-	26.7
At 31 March 2016		68.4	-	68.4
Charge for the year		21.3	-	21.3
At 31 March 2017		89.7	-	89.7
Net book value at 31 March 2017		21.7	2.2	23.9
Net book value at 31 March 2016		35.7	2.9	38.6



## Notes to the Financial Statements (continued)

### 11 Property, plant and equipment

a) Group property, plant and equipment at 31 March 2017 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2016		25,483.1	5,210.6	1,534.8	10,996.4	43,224.9
Additions		54.4	4.9	89.1	3,128.1	3,276.5
Transfers between asset classes		1,239.3	32.2	41.6	(1,313.1)	-
Transfers to investment properties	12	(13.5)	-	-	-	(13.5)
Transfer to intangible assets	10	-	-	(0.1)	(1.5)	(1.6)
Disposals		(94.3)	(3.9)	(2.6)	-	(100.8)
Revaluation		(9.5)	-	-	-	(9.5)
<b>At 31 March 2017</b>		<b>26,659.5</b>	<b>5,243.8</b>	<b>1,662.8</b>	<b>12,809.9</b>	<b>46,376.0</b>
<b>Depreciation</b>						
At 1 April 2016		9,687.4	1,963.3	922.7	-	12,573.4
Charge for the year	2	566.1	133.4	186.3	-	885.8
Transfers between asset classes		22.0	-	(22.0)	-	-
Disposals		(83.1)	(1.0)	(2.4)	-	(86.5)
Revaluation		(5.7)	-	-	-	(5.7)
<b>At 31 March 2017</b>		<b>10,186.7</b>	<b>2,095.7</b>	<b>1,084.6</b>	<b>-</b>	<b>13,367.0</b>
<b>Net book value at 31 March 2017</b>		<b>16,472.8</b>	<b>3,148.1</b>	<b>578.2</b>	<b>12,809.9</b>	<b>33,009.0</b>
<b>Net book value at 31 March 2016</b>		<b>15,795.7</b>	<b>3,247.3</b>	<b>612.1</b>	<b>10,996.4</b>	<b>30,651.5</b>

## Notes to the Financial Statements (continued)

### 11 Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2016 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2015		24,632.6	4,865.7	1,386.8	9,398.7	40,283.8
Additions		59.9	0.8	118.3	3,031.6	3,210.6
Transfers between asset classes		771.9	582.1	47.1	(1,401.1)	-
Transfers to investment properties		(2.3)	-	-	(30.2)	(32.5)
Transfers to intangible assets	10	-	-	-	(2.6)	(2.6)
Disposals		(74.7)	(238.0)	(17.4)	-	(330.1)
Revaluation		95.7	-	-	-	95.7
At 31 March 2016		25,483.1	5,210.6	1,534.8	10,996.4	43,224.9
<b>Depreciation</b>						
At 1 April 2015		9,093.7	2,060.6	866.6	-	12,020.9
Charge for the year	2	669.8	127.8	73.5	-	871.1
Disposals		(63.9)	(225.1)	(17.4)	-	(306.4)
Revaluation		(12.2)	-	-	-	(12.2)
At 31 March 2016		9,687.4	1,963.3	922.7	-	12,573.4

#### c) Capitalisation of borrowing costs – Group

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. The Group opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). The total borrowing costs capitalised during the year were £108.6m (2016 £106.2m). The cumulative borrowing costs capitalised are £411.9m (2016 £303.3m).

#### d) Capital commitments – Group

At 31 March 2016, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £2,725.5m (2016 £3,939.3m).

## Notes to the Financial Statements (continued)

### 11 Property, plant and equipment (continued)

#### e) Leased assets – Group

The net book value above includes the following amounts in respect of PFI and other leased assets:

	Infrastructure and office buildings £m	Rolling stock £m	Total £m
<b>Gross cost</b>			
PFI assets	756.2	45.2	801.4
Other leased assets	-	407.7	407.7
	<b>756.2</b>	<b>452.9</b>	<b>1,209.1</b>
<b>Depreciation</b>			
PFI assets	317.5	39.2	356.7
Other leased assets	-	157.0	157.0
	<b>317.5</b>	<b>196.2</b>	<b>513.7</b>
<b>Net book value at 31 March 2017</b>	<b>438.7</b>	<b>256.7</b>	<b>695.4</b>
Net book value at 31 March 2016	467.0	270.9	737.9

#### f) Group office buildings

The fair value of office buildings at 31 March 2017 has been arrived at on the basis of a valuation carried out at that date by Cushman & Wakefield, a property valuation company not connected with the Group, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy 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. In estimating fair value, the highest and best use of the properties is their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2015/16 none).

Properties are valued in accordance with the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) published by the Royal Institution of Chartered Surveyors.

Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year.

The value of these buildings at 31 March 2017 was £189.3m (2016 £342.8m) and the historic cost was £23.6m (2016 £33.6m).

A related revaluation loss for the year of £3.8m (2015/16 £107.9m) has been recognised within other comprehensive income and expenditure.

## Notes to the Financial Statements (continued)

### 11 Property, plant and equipment (continued)

g) Company property, plant and equipment at 31 March 2017 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2016		206.7	251.0	33.3	491.0
Additions		1.2	8.2	58.0	67.4
Transfers between asset classes		3.1	5.7	(8.8)	-
Transfer to intangible assets	10	-	-	(1.5)	(1.5)
Revaluation		(5.3)	-	-	(5.3)
<b>At 31 March 2017</b>		<b>205.7</b>	<b>264.9</b>	<b>81.0</b>	<b>551.6</b>
<b>Depreciation</b>					
At 1 April 2016		74.4	203.2	-	277.6
Charge for the year		18.3	17.3	-	35.6
Revaluation		(4.7)	-	-	(4.7)
<b>At 31 March 2017</b>		<b>88.0</b>	<b>220.5</b>	<b>-</b>	<b>308.5</b>
<b>Net book value at 31 March 2017</b>		<b>117.7</b>	<b>44.4</b>	<b>81.0</b>	<b>243.1</b>
<b>Net book value at 31 March 2016</b>		<b>132.3</b>	<b>47.8</b>	<b>33.3</b>	<b>213.4</b>

## Notes to the Financial Statements (continued)

### 11 Property, plant and equipment (continued)

h) Company property, plant and equipment at 31 March 2016 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2015		185.2	246.4	12.8	444.4
Additions		-	1.0	27.5	28.5
Transfers between asset classes		1.9	3.6	(5.5)	-
Transfer to intangible assets	10	-	-	(1.5)	(1.5)
Revaluation		19.6	-	-	19.6
At 31 March 2016		206.7	251.0	33.3	491.0
<b>Depreciation</b>					
At 1 April 2015		65.3	187.5	-	252.8
Charge for the year		18.4	15.7	-	34.1
Revaluation		(9.3)	-	-	(9.3)
At 31 March 2016		74.4	203.2	-	277.6

#### i) Capitalisation of borrowing costs – Company

Direct borrowing costs are included in the cost of qualifying assets to the extent that the asset is funded by borrowings. Total borrowing costs capitalised during the year were £nil (2016 £nil). The cumulative borrowing costs capitalised are also £nil (2016 £nil).

#### j) Capital commitments – Company

At 31 March 2017, the Company had capital commitments which are contracted for but not provided for in the financial statements amounting to £38.6m (2016 £6.7m).

#### k) Leased assets – Company

The Company did not have any PFI or other leased assets as at 31 March 2017 and 2016.

#### l) Office buildings – Company

The fair value of office buildings at 31 March 2017 has been arrived at on the basis of a valuation carried out at that date by Cushman & Wakefield, a property valuation company not connected with the Company, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy 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. In estimating fair value, the highest and best use of the properties is their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2015/16 none). Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year.

The value of these buildings at 31 March 2017 was £69.9m (2016 £81.3m) and the historic cost was £13.2m (2016 £13.7m).

## Notes to the Financial Statements (continued)

### 12 Investment properties

	Note	Group £m
Valuation		
At 1 April 2015		421.5
Additions		5.1
Transfer to property, plant and equipment		32.5
Disposals		(4.3)
Revaluation	4	49.8
At 31 March 2016		504.6
Additions		16.0
Transfer from property, plant and equipment	11	13.5
Transfer to assets held for sale	16	(13.5)
Disposals		(2.3)
Revaluation	4	28.9
At 31 March 2017		<u>547.2</u>

The fair value of the Group's investment properties at 31 March 2017 has been arrived at on the basis of a valuation carried out at that date by Cushman & Wakefield, a property valuation company not connected with the Group.

Values are calculated under level 3 of the fair value hierarchy using a discount 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. In estimating fair value, the highest and best use of the properties is their current use.

Properties are valued in accordance with the Valuation Standards 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 Group's investment properties are let on a tenant repairing basis. The Group's maintenance obligations are limited to common areas and vacant property units.

	Company £m
Valuation	
At 1 April 2015	1.8
Revaluation	<u>0.2</u>
At 31 March 2016	2.0
Revaluation	<u>1.2</u>
At 31 March 2017	<u>3.2</u>

The Company's investment property relates to Kingsbury Parade.

## Notes to the Financial Statements (continued)

### 13 Investment in subsidiary undertakings

	Company 2017 £m	Company 2016 £m
At 1 April	7,795.0	5,965.0
Additions	1,300.0	1,830.0
At 31 March	<u>9,095.0</u>	<u>7,795.0</u>

During the year, the Group invested £1,300.0m (2015/16 £1,830.0m) in Crossrail share capital.

## Notes to the Financial Statements (continued)

### 13 Investment in subsidiary undertakings (continued)

The Company's subsidiaries are;

Subsidiaries	Principal activity	Percentage holding	Registered number
London Underground Limited*	Passenger transport by underground train	100%	01900907
LUL Nominee BCV Limited*	Maintenance of underground lines	100%	06221959
LUL Nominee SSL Limited*	Maintenance of underground lines	100%	06242508
Tube Lines Limited*	Maintenance of underground lines	100%	03923425
Tube Lines Pension Scheme Trustees Limited	Pension Fund Trustee	100%	05024749
Rail for London Limited*	Passenger transport by rail	100%	05965930
Rail for London (Infrastructure) Limited*	Maintenance of Crossrail infrastructure	100%	09366341
Docklands Light Railway Limited (DLR)*	Passenger transport by rail	100%	02052677
City Airport Rail Enterprises Limited*	Construction and maintenance of DLR lines	100%	04411523
Woolwich Arsenal Rail Enterprises Limited*	Construction and maintenance of DLR lines	100%	05372373
Tramtrack Croydon Limited*	Passenger transport by tram	100%	03092613
London Bus Services Limited*	Passenger transport by bus	100%	03914787
London Buses Limited*	Dial-a-Ride	100%	01900906
London Dial-a-Ride Limited	Dormant company	100%	02602192
Victoria Coach Station Limited*	Coach station	100%	00205610
London River Services Limited*	Pier operator	100%	03485723
Crossrail Limited	Construction of Crossrail infrastructure	100%	04212657
Crossrail 2 Limited*	Dormant company	100%	09580635
Transport for London Finance Limited *	Manages financial risk of the Group	100%	06745516
London Transport Museum Limited	Charitable company	100%	06495761
London Transport Museum (Trading) Limited	Trading company	100%	06527755
TTL Properties Limited*	Holding company	100%	08961151
TTL Earls Court Properties Limited*	Holding company	100%	08951012

The financial statements of all the above companies are lodged at Companies House.

\* All outstanding liabilities of these undertakings as at 31 March 2017 have been provided with a parent company guarantee under s.479C of the Companies Act 2006. Their individual financial statements for the year ended 31 March 2017 were therefore entitled to exemption from audit under s.479A of the Companies Act 2006.



## Notes to the Financial Statements (continued)

### 14 Investment in associated undertakings

The Group holds a 37 per cent holding in the ownership and voting rights of Earls Court Partnership Limited (ECP), a property development company, incorporated in England and Wales. Through its voting rights and representation on the Board of Directors of ECP, the Group has significant influence but not control over the relevant activities of ECP. The Group's investment is therefore accounted for using the equity method in these consolidated accounts.

In early 2015, ECP commenced trading and, on 2 April 2015, the Group granted a 999 year lease over land at Earls Court into ECP. During 2015/16 the Group invested share capital and non-interest bearing loans totalling £447.1m into ECP. The loan notes are non-interest bearing and have no fixed repayment date. They have therefore been treated in these financial statements as an investment in the equity of ECP. No further amounts have been invested in 2016/17.

The financial year end of Earls Court Partnership Limited is 31 December. For the purposes of applying the equity method of accounting, the financial statements of Earls Court Partnership Limited for the year ended 31 December 2016 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March 2017.

Summarised financial information in respect of the Group's investment in ECP is set out below:

#### Balance sheet of Earls Court Partnership Limited at the 100% level

	Group 2017 £m	Group 2016 £m
Short-term assets	5.9	27.8
Long-term assets	1,035.0	1,285.7
Short-term liabilities	(6.7)	(6.1)
Long-term liabilities	(39.1)	(29.1)
Total net assets	995.1	1,278.3

#### Reconciliation of net assets to amounts included in the consolidated Group accounts

	Group 2017 £m	Group 2016 £m
Net assets at 100%	995.1	1,278.3
Percentage held by the TfL Group	37%	37%
Carrying amount of the Group's equity interest in Earls Court Partnership Limited	368.2	473.0

## Notes to the Financial Statements (continued)

### 14. Investment in associates (continued)

#### Group share of comprehensive income and expenditure of Earls Court Partnership Limited

	Group 2017 £m	Group 2016 £m
Group share of profit or loss from continuing operations	(104.8)	25.9
<i>Group share of other comprehensive income</i>	-	-
<b>Total Group share of comprehensive income and expenditure for the year</b>	<b>(104.8)</b>	<b>25.9</b>

## Notes to the Financial Statements (continued)

### 15 Inventories

	Group	Group
	2017	2016
	£m	£m
Raw materials and consumables	69.4	67.3
Goods held for resale	1.5	1.2
	<u>70.9</u>	<u>68.5</u>

There is no material difference between the Statement of Financial Position value of inventories and their net realisable value.

	Company	Company
	2017	2016
	£m	£m
Raw materials and consumables	-	0.3

There is no material difference between the Statement of Financial Position value of inventories and their net realisable value.

### 16 Assets classified as held for sale

		Group	Group
		2017	2016
	Note	£m	£m
Balance outstanding at start of year		-	375.7
Assets newly classified as held for sale:			
Investment properties	12	13.5	-
Assets declassified as held for sale:			
Disposals:			
Investment properties		-	(375.7)
Balance outstanding at end of year		<u>13.5</u>	<u>-</u>

The Company did not have any assets classified as held for sale.

As at 31 March 2017, certain office properties and surplus land were being actively marketed for sale. Disposals are expected to complete within the next 12 months.

## Notes to the Financial Statements (continued)

### 17 Finance lease receivables

#### Group and Company finance lease receivables

The Company leases certain items of plant and equipment related to its media activities to a third party under a finance lease arrangement.

Finance lease receivables on the balance sheet are calculated as the present value of minimum lease payments outstanding. Interest is accrued at a rate of 6.29 per cent per annum.

	2017	2016
	£m	£m
Principal outstanding		
Current	0.9	-
Non-current	3.5	-
	<u>4.4</u>	<u>-</u>

## Notes to the Financial Statements (continued)

### 18 Trade and other receivables

	Group 2017 £m	Group 2016 £m
<b>Current</b>		
Trade receivables	88.1	107.2
Amounts due from ultimate parent	162.0	100.2
Other tax and social security	72.5	85.8
Grant debtors	4.8	4.2
Amounts due relating to sale of non-current assets	-	7.4
Other receivables	1,316.6	686.8
Prepayments	97.5	90.9
Capital debtors	5.2	37.7
Accrued income	12.9	16.3
	<b>1,759.6</b>	<b>1,136.5</b>
<b>Non-current</b>		
Other receivables	8.7	660.7
Prepayments	14.1	27.3
	<b>22.8</b>	<b>688.0</b>

Other short and long-term receivables include funds totalling £1,268.2m (2016 £1,285.4m) advanced to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. £17.2m was repaid during 2016/17 (£453.4m advanced in 2015/16). The receivable is non-interest bearing and has been discounted to its fair value of £1,264.8m (2016 £1,277.5m) using a discount rate of 0.633 per cent (2016 0.633 per cent). It is repayable in six equal instalments with the final instalment falling due on 30 September 2017.

	Company 2017 £m	Company 2016 £m
<b>Current</b>		
Trade receivables	58.0	60.4
Capital debtor	-	2.0
Amounts due from fellow group undertakings	273.5	240.8
Other tax and social security	1.9	9.3
Other receivables	5.7	7.8
Prepayments	15.8	10.5
Accrued income	0.7	1.1
	<b>355.6</b>	<b>331.9</b>
<b>Non-current</b>		
Prepayments	1.3	1.3

## Notes to the Financial Statements (continued)

### 19 Cash and cash equivalents

	Group 2017 £m	Group 2016 £m
Cash at bank	66.5	81.5
Cash in hand and in transit	23.1	23.0
	<u>89.6</u>	<u>104.5</u>
	Company 2017 £m	Company 2016 £m
Cash at bank	35.4	65.5
Cash in hand and in transit	3.3	0.4
	<u>38.7</u>	<u>65.9</u>

## Notes to the Financial Statements (continued)

### 20 Trade and other payables

	Group	Group
	2017	2016
	£m	£m
<b>Current</b>		
Trade payables	128.7	125.2
Capital works	578.7	550.0
Retentions on capital contracts	6.2	7.9
Amounts due to ultimate parent	694.9	618.7
Receipts in advance for travelcards, bus passes and Oyster cards	426.1	411.4
Wages and salaries	80.7	109.4
Interest accruals	4.8	4.5
Other deferred income	43.7	41.9
Other taxation and social security	41.1	53.1
Capital grants received in advance	5.8	11.5
Accruals and other payables	301.4	340.4
	<b>2,312.1</b>	<b>2,274.0</b>
<b>Non-current</b>		
Retentions on capital contracts	13.2	35.1
Trade payables	7.9	8.4
Other deferred income	11.2	8.5
Accruals and other payables	7.9	8.0
	<b>40.2</b>	<b>60.0</b>
	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>
	<b>£m</b>	<b>£m</b>
<b>Current</b>		
Trade payables	16.1	27.7
Capital works	21.3	9.1
Amounts due to fellow Group undertakings	93.5	93.5
Receipts in advance for travelcards, bus passes and Oyster cards	405.0	404.7
Wages and salaries	3.6	2.4
Other deferred income	21.8	20.8
Other taxation and social security	0.3	0.1
Capital grants received in advance	0.4	0.4
Accruals and other payables	63.9	44.2
	<b>625.9</b>	<b>602.9</b>
<b>Non-current</b>		
Trade payables	7.8	8.2
Accruals and deferred income	8.9	8.3
	<b>16.7</b>	<b>16.5</b>

## Notes to the Financial Statements (continued)

### 21 Borrowings and overdraft

	Group 2017 £m	Group 2016 £m
<b>Non-current</b>		
Amounts due to ultimate parent	<u>9,369.3</u>	<u>8,688.8</u>

See note 29 (Funding and Financial risk management) for further information about the maturity and interest rate profiles of the Group's borrowings.

	Company 2017 £m	Company 2016 £m
<b>Non-current</b>		
Amounts due to ultimate parent	<u>30.4</u>	<u>30.4</u>



## Notes to the Financial Statements (continued)

### 22 Finance lease liabilities

#### a) Group finance lease liabilities

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
<b>At 31 March 2017</b>			
Within one year	93.9	(28.6)	65.3
Between one and two years	83.5	(24.5)	59.0
Between two and five years	191.1	(51.8)	139.3
Later than five years	207.6	(59.9)	147.7
	<u>576.1</u>	<u>(164.8)</u>	<u>411.3</u>
<b>At 31 March 2016</b>			
Within one year	117.2	(34.0)	83.2
Between one and two years	94.0	(28.6)	65.4
Between two and five years	242.2	(61.5)	180.7
Later than five years	239.0	(73.8)	165.2
	<u>692.4</u>	<u>(197.9)</u>	<u>494.5</u>
		<b>2017</b>	<b>2016</b>
<b>Principal outstanding</b>		<b>£m</b>	<b>£m</b>
Current		65.3	83.2
Non-current		346.0	411.3
		<u>411.3</u>	<u>494.5</u>

## Notes to the Financial Statements (continued)

### 22 Finance lease liabilities (continued)

The Group holds a proportion of its property, plant and equipment under finance lease arrangements as outlined in note 11.

Finance lease liabilities on the balance sheet are calculated as the present value of minimum lease payments outstanding.

#### Terminal 5

The Group is party to an agreement with Heathrow Airport Limited to construct, maintain and operate an extension of the Piccadilly line to Terminal 5 at Heathrow Airport. The agreement entitles the Group 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 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.

#### b) Company finance lease liabilities

The Company did not have any finance lease liabilities at 31 March 2017 and 2016.

### 23 Private finance initiative contracts

#### Private Finance Initiative contracts accounted for under IFRIC 12: *Service concession arrangements*

The Group is party to the following Private Finance Initiative ("PFI") arrangements where the Group controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and are accounted for in accordance with IFRIC 12 *Service concession arrangements* ('IFRIC 12').

The Group therefore recognises PFI assets as items of plant, property and equipment together with a liability to pay for them. The fair values of services received under the contract are recorded as operating expenses.

In accordance with IFRIC 12, the unitary charge is apportioned between the repayment of the liability, financing costs and charges for services. The charge for services is recognised as an expense in net operating costs and the finance costs are charged to financial expenses in the Statement of Comprehensive Income.

## Notes to the Financial Statements (continued)

### 23 Private finance initiative contracts (continued)

Contract	Contract dates	Description
London Underground Limited ("LUL") Connect	1999 to 2019	<p>Design, installation, management and maintenance of integrated digital radio system.</p> <p>The contract requires LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
British Transport Police (London Underground)	1999 to 2021 with a voluntary break option on provision of 12 months written notice	<p>Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LU.</p> <p>The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
Docklands Light Railway Limited ('DLR') Greenwich	1996 to 2021	<p>Design, construction and ongoing maintenance of the Greenwich extension to the Docklands Light Railway.</p> <p>The contract requires DLR to make payments, which are charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.</p>

## Notes to the Financial Statements (continued)

### 24 Derivative financial instruments

Cash flow hedges	Group 2017	Group 2017	Group 2016	Group 2016
	Fair value £m	Notional amount £m	Fair value £m	Notional amount £m
Non-current assets				
Forward starting interest rate swaps	5.7	96.0	-	-
Foreign currency forward contracts	12.5	92.1	7.1	129.6
	<u>18.2</u>	<u>188.1</u>	<u>7.1</u>	<u>129.6</u>
Current assets				
Foreign currency forward contracts	12.3	234.5	5.1	137.2
Current liabilities				
Interest rate swaps	2.9	250.0	-	-
Foreign currency forward contracts	0.7	201.6	21.3	769.1
	<u>3.6</u>	<u>451.6</u>	<u>21.3</u>	<u>769.1</u>
Non-current liabilities				
Interest rate swaps	77.2	581.5	94.9	830.7
Foreign currency forward contracts	2.0	93.5	-	-
	<u>79.2</u>	<u>675.0</u>	<u>94.9</u>	<u>830.7</u>

The Company has not entered into any derivative financial instrument contracts.

## Notes to the Financial Statements (continued)

### 25 Provisions

#### a) Group provisions

	At 1 April 2016 £m	Utilised in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2017 £m
Compensation and contractual	53.5	(36.9)	21.2	(0.5)	37.3
Environmental harm	1.4	-	-	-	1.4
Other	67.7	(41.9)	24.2	(2.7)	47.3
	122.6	(78.8)	45.4	(3.2)	86.0

	At 1 April 2015 £m	Utilised in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2016 £m
Compensation and contractual	50.3	(16.5)	25.7	(6.0)	53.5
Environmental harm	1.4	-	-	-	1.4
Other	53.1	(9.1)	24.1	(0.4)	67.7
	104.8	(25.6)	49.8	(6.4)	122.6

	2017 £m	2016 £m
Current	80.9	118.8
Non-current	5.1	3.8
	86.0	122.6

#### Compensation and contractual

The Group has provisions for expected compensation and 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 statement of financial position 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 expects that these amounts, which are based on known facts 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

Environmental harm relates to potential costs associated with damage to the environment as a result of actions taken in the past. Management expects this provision to be settled within the next year.

#### Other

Other provisions include voluntary severance costs arising from reorganisations and other smaller claims. Management expects these provisions to be settled within the next year.

## Notes to the Financial Statements (continued)

### 25 Provisions

#### b) Company provisions

	At 1 April 2016	Utilised in the year	Charge for the year	Releases in the year	At 31 March 2017
	£m	£m	£m	£m	£m
Compensation and contractual	0.5	(0.1)	2.7	-	3.1

	At 1 April 2015	Utilised in the year	Charge for the year	Releases in the year	At 31 March 2016
	£m	£m	£m	£m	£m
Compensation and contractual	0.9	-	0.2	(0.6)	0.5

	2017 £m	2016 £m
Current	3.1	0.5

#### Compensation

The Company has provisions for expected compensation and 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 expects that these amounts, which are based on known facts and take account of past experience for similar items, will be settled within the next year. Where material the provision held is discounted to its present value.

### 26 Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the Group's financial performance. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the financial statements, 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 Company has also provided a guarantee under section 479C of the Companies Act 2006 in respect of all liabilities outstanding at 31 March 2017 of the majority of its subsidiary undertakings, in order that those subsidiaries may take advantage of the exemption from audit of their individual financial statements. Those subsidiaries for which a guarantee has been provided are as listed in note 13.

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

## Notes to the Financial Statements (continued)

### 27 Financial commitments

#### a) Operating leases – The Group as lessee

The Group operating lease agreements primarily relate to office space, motor vehicles and rail access. All leases have been entered into on commercial terms.

The Group is committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings	Rail access	Motor vehicles	Rolling stock	Total
	£m	£m	£m	£m	£m
<b>At 31 March 2017</b>					
Within one year	32.8	13.0	3.2	26.6	75.6
Between one and two years	22.9	11.8	2.2	40.6	77.5
Between two and five years	42.4	26.2	2.1	114.9	185.6
Later than five years	215.6	21.0	-	373.2	609.8
	<b>313.7</b>	<b>72.0</b>	<b>7.5</b>	<b>555.3</b>	<b>948.5</b>
<b>At 31 March 2016</b>					
Within one year	36.3	12.5	2.7	23.8	75.3
Between one and two years	29.9	12.1	1.8	23.8	67.6
Between two and five years	47.7	31.7	2.1	71.5	153.0
Later than five years	226.6	14.8	-	171.5	412.9
	<b>340.5</b>	<b>71.1</b>	<b>6.6</b>	<b>290.6</b>	<b>708.8</b>

#### b) Operating leases – The Group as lessor

The Group leases out commercial, retail and office property, rail access and land that it holds as a result of its infrastructure holdings.

At the Statement of Financial Position date, the Group had contracted with customers for the following future minimum lease payments:

	Land and buildings	Rail access	Motor vehicles	Total
	£m	£m	£m	£m
<b>At 31 March 2017</b>				
Within one year	51.7	9.5	0.1	61.3
Between one and two years	45.6	5.1	0.1	50.8
Between two and five years	99.9	16.0	-	115.9
Later than five years	732.9	6.3	-	739.2
	<b>930.1</b>	<b>36.9</b>	<b>0.2</b>	<b>967.2</b>
<b>At 31 March 2016</b>				
Within one year	43.2	8.5	0.2	51.9
Between one and two years	37.9	4.2	0.1	42.2
Between two and five years	85.7	13.1	-	98.8
Later than five years	447.0	9.6	-	456.6
	<b>613.8</b>	<b>35.4</b>	<b>0.3</b>	<b>649.5</b>

## Notes to the Financial Statements (continued)

### 27 Financial commitments (continued)

#### c) Operating leases – The Company as lessee

The Company has lease agreements primarily related to office space. All leases have been entered into on commercial terms.

	Land and buildings £m
<b>At 31 March 2017</b>	
<i>Within one year</i>	3.1
<i>Between one and two years</i>	2.8
<i>Between two and five years</i>	3.9
<i>Later than five years</i>	16.7
	<u>26.5</u>
<b>At 31 March 2016</b>	
<i>Within one year</i>	3.5
<i>Between one and two years</i>	2.7
<i>Between two and five years</i>	5.2
<i>Later than five years</i>	17.6
	<u>29.0</u>

#### d) Operating leases – The Company as lessor with third parties

The Company leases out commercial, retail and office property, and land that it holds as a result of its infrastructure holdings.

At the Statement of Financial Position date, the Company had contracted with customers for the following future minimum lease payments:

	Land and buildings £m
<b>At 31 March 2017</b>	
<i>Within one year</i>	1.0
<i>Between one and two years</i>	1.0
<i>Between two and five years</i>	2.0
<i>Later than five years</i>	0.3
	<u>4.3</u>
<b>At 31 March 2016</b>	
<i>Within one year</i>	1.0
<i>Between one and two years</i>	1.0
<i>Between two and five years</i>	2.0
<i>Later than five years</i>	1.0
	<u>5.0</u>



## Notes to the Financial Statements (continued)

### 27 Financial commitments (continued)

#### e) Operating leases – The Company as lessor with related parties

The Company leases out commercial, retail and office property, and land that it holds as a result of its infrastructure holdings.

At the Statement of Financial Position date, the Company had contracted with customers for the following future minimum lease payments:

	Land and buildings £m
At 31 March 2017	
Within one year	1.6
Between one and two years	1.6
Between two and five years	4.0
Later than five years	52.7
	<hr/> 59.9
At 31 March 2016	
Within one year	1.2
Between one and two years	1.2
Between two and five years	3.7
Later than five years	53.2
	<hr/> 59.3

The inter-company lease relates to Victoria Coach Station.

## Notes to the Financial Statements (continued)

### 28 Deferred grant

	Group	Group
	2017	2016
Note	£m	£m
At 1 April	13,220.1	13,022.6
Transport grant	994.0	848.5
Third party contributions and other grants to fund property, plant and equipment	23.6	42.9
Released to the Statement of Comprehensive Income		
- to meet the depreciation charge	2 (680.9)	(625.1)
- on disposal of property, plant and equipment	(11.2)	(68.8)
At 31 March	<u>13,545.6</u>	<u>13,220.1</u>

	Company	Company
	2017	2016
	£m	£m
At 1 April	112.4	116.6
Transport grant	12.3	21.7
Third party contributions and other grants to fund property, plant and equipment	0.5	0.5
Released to the Statement of Comprehensive Income account:		
- to meet the depreciation charge	(21.2)	(26.4)
At 31 March	<u>104.0</u>	<u>112.4</u>

There are no unfulfilled conditions or other contingencies attached to the grants from Transport for London.

Grants from other government entities will sometimes require proof of the expenditure that TTL has incurred as a condition of receiving the grant.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management

#### Introduction

The Group's comprehensive risk management process is the responsibility of a committee, the Finance and Policy Committee ("the Committee"), of the Board of Transport for London, the Company's ultimate parent. The Committee has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

The Group's financial instruments comprise derivatives, borrowings, finance leases, cash and cash equivalents and various items such as trade receivables and payables that arise directly from operations. The Group finances operations from these financial instruments. The Group does not undertake speculative treasury transactions.

#### Financial Risks and Risk Management

The Group is exposed to a number of financial risks in the normal course of its business operations, the key ones being:

- Credit risk
- Liquidity risk
- Market risk

Each of these risks is managed in accordance with the TfL Group's Treasury Management Strategy.

#### Credit risk

Credit risk is managed on a Group-wide basis. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations. The following categories comprise the main credit exposures of the Group.

#### *Trade and other receivables*

The majority of the Group's trade receivables are individuals who owe amounts relating to the use of transport infrastructure. The Group earns the majority of revenue through prepaid fares, and the receivables relate to penalty charges. The Group makes all reasonable attempts to recover penalty charges before providing against them. Other receivables include amounts due under contractual arrangements with suppliers, and include prepayments for work to be performed. These counterparties are assessed individually for their creditworthiness at the time of entering into contract and termination provisions are included to mitigate the Group's risk.

#### *Investments*

All cash balances are invested in accordance with TfL's Treasury Management Strategy that was developed with regard to the Treasury Management Code and the Department for Communities and Local Government Guidance, which requires a prudent approach to the investment of surplus funds with priority given to security and liquidity.

Counterparty limits are set according to the assessed risk of each counterparty and exposures are monitored against these limits on a regular basis. Deposit limits per institution on the Approved Investment List, and the maximum term of deposits, are linked to the credit rating of the institution. TfL will not trade with an institution with a credit rating of less than A- with all three major credit rating agencies.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Credit risk (continued)

##### *Derivative financial instruments*

The Group and Company spread their exposure over a number of counterparties, and have strict policies on how much exposure can be assigned to each counterparty.

The credit risk with regard to derivative financial instruments is limited because there are arrangements in place that limit each bank to a threshold, which if breached, allows the Group to require the bank to post collateral in cash or eligible securities. The Group only envisages using these rights in the event that the financial strength of the institution has deteriorated from when the limits were approved.

##### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's exposure to liquidity risk is low as Transport for London provides financial support to the Group. In accordance with the Local Government Act 2003 Transport for London sets an affordable borrowing limit. As long as the affordable borrowing limit is not exceeded, Transport for London is able to borrow from the Public Works Loan Board, raise debt on the capital markets through both its established Medium Term Note programme and Commercial Paper programme, and subject to meeting the relevant criteria, borrow at competitive interest rates from the European Investment Bank. There is therefore no significant risk that Transport for London would be unable to raise finance to meet the Transport Trading Limited group financial commitments.

The contractual maturities of the Group and Company's financial liabilities are listed later in this note.

##### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income, expenditure or the value of its holdings of financial instruments. The Group, through its wholly owned subsidiary, Transport for London Finance Limited, uses derivatives (hedging instruments) to reduce exposure to interest rate and foreign exchange rate movements (the hedged risks) on highly probable future transactions. The Group does not use derivative financial instruments for speculative purposes.

On inception, all interest rate derivatives are designated in highly effective hedge relationships and hedge accounting is applied. If a derivative should no longer satisfy the hedging criteria in accordance with adopted IAS 39 *Financial Instruments: Recognition and measurement* ('IAS 39'), hedge accounting ceases and the derivative is fair valued immediately through the Income Statement.

The use of derivative instruments can itself give rise to credit and market risk. Market risk is the possibility that future changes in interest rates may make a derivative more or less valuable. Since the Group uses derivatives for risk management, market risk relating to derivative instruments is principally offset by changes in the cash flows of the transactions being hedged.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Market Risk (continued)

For the years ended 31 March 2017 and 2016, all interest rate derivatives were assessed as highly effective. Accordingly, the movement in the fair value of these derivatives was recognised in other comprehensive income and expense.

#### Foreign exchange risk

For 2016/17, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to pass the exchange risk to the vendor where there was value in doing so. For specific transactions where the risk was retained by the Group, exchange rate exposures were managed through the use of forward foreign exchange contracts. Hedge accounting is applied to these derivative instruments.

At 31 March 2017, the Group held forward foreign derivative contracts in Euros, US Dollars, Swedish Krona, Swiss Francs, Chinese Yuan Renminbi and Canadian Dollars to hedge planned foreign currency capital expenditure payments with a net nominal value of £251.2m (2016 £180.6m). At 31 March 2017, these contracts had a combined net fair value of £19.5m (2016 £11.0). It is expected that the hedged purchases will take place in the period to 1 September 2021. The maturity of all these contracts is disclosed later in this note. All hedging relationships have been assessed as 100 per cent effective.

As at 31 March 2017, the Group also held forward foreign exchange swaps to hedge €430.0m (2016 €978.0m) future Euro receipts in relation to Euro investments held by the Company's parent, Transport for London. These contracts were not in formally designated hedging relationships for accounting purposes, as TfL is outside the Transport Trading Limited Group, and hence hedge accounting has not been applied. A fair value net gain movement on these contracts totalling £22.6m (2016 £41.4m loss) has therefore been recognised directly in the Income Statement within financial income. These derivative instruments mature in the period to June 2017.

Where funds were received in specific currencies in which the Group expected to have future exposures, the Investment Strategy made allowances to place these funds on deposit. This gave the Group the flexibility to offer certain payments in specific foreign currencies where required.

As at 31 March 2017 the Group holds Euro forward foreign exchange contracts with a combined nominal net sale value of £276.1m (2016 £736.4m) and a net fair value asset of £3.3m (2016 a liability of £18.5m).

A 10 per cent increase/(decrease) in GBP against the Euro would increase/(decrease) the fair value of these derivative instruments by £24.8m/(£30.3m) (2016 increase/(decrease) by £68.6m/(£83.9m)).

As at 31 March 2017, the Group held forward foreign exchange contracts with a combined net nominal value of £0.7m (2016 £1.0m) and a fair value of £0.2m (2016 £0.1m), to purchase US dollars. A 10 per cent increase/(decrease) in GBP against the US dollar would (decrease)/increase the fair value of these derivative investments by (£0.1m)/£0.1m.

As at 31 March 2017, the Group held forward foreign exchange contracts with a combined net notional value of £116.4m (2016 £161.5m) and a fair value of £19.3m (2016 £9.3m) to purchase Canadian dollars. A 10 per cent increase/(decrease) in GBP against the Canadian dollar would (decrease)/increase the fair value of these derivative investments by (£12.3m)/£15.1m.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Market risk (continued)

##### *Sensitivity analysis on foreign exchange risk*

As at 31 March 2017, the Group held forward foreign exchange contracts with a combined net notional value of £23.6m (2016 £nil) and a fair value of £0.7m (2016 £nil) to purchase Swedish Krona. A 10 per cent increase/(decrease) in GBP against the Swedish Krona would (decrease)/increase the fair value of these derivative investments by (£2.1m)/£2.5m

As at 31 March 2017, the Group held forward foreign exchange contracts with a combined net notional value of £3.2m (2016 £nil) and a fair value of £0.1m (2016 £nil) to purchase Swiss Francs. A 10 per cent increase/(decrease) in GBP against the Swiss Franc would (decrease)/increase the fair value of these derivative investments by (£0.3m)/£0.3m

As at 31 March 2017, the Group also held forward foreign exchange contracts with a combined net notional value of £7.1m (2016 £nil) and a fair value of £nil (2016 £nil) to purchase Chinese Renminbi. A 10 per cent increase/(decrease) in GBP against the Chinese Renminbi would (decrease)/increase the fair value of these derivative investments by (£0.7m)/£0.8m

The Group has no other material exposure to foreign exchange rate movements.

#### *Interest risk*

The Group is mainly exposed to interest rate risk on its actual and planned future borrowings from TfL.

As at 31 March 2017, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 20 interest rate swaps at a notional value of £927.5m (2016 18 interest rate swaps at a total notional value of £830.7m). The net fair value of these contracts at 31 March 2017 was a liability of £74.4m (2016 £94.9m). As the hedging was assessed as fully effective these unrealised losses have been recognised in the hedging reserve. Amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period to December 2042.

The maturity of the forward fixing contracts is disclosed later in this note.

##### *Sensitivity analysis on interest risk*

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

All of the Group's non-derivative financial instruments with fixed rates of interest are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the balance sheet or net income figures in respect of these items.

##### **Fair value sensitivity analysis for derivative instruments**

As at 31 March 2017, the Group holds interest rate derivative contracts with a combined notional value of £927.5m (2016 £830.7m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £48.2m/(£44.0m) (2016 £38.8m/(£37.0m)).

#### *Inflation risk*

The Group has a number of exposures to inflation including staff pay awards and fares revenue. The Group has not entered into any derivative instrument to manage its exposure to inflation risk. At present, the risk is partially offset with index linked revenues and index linked costs creating a natural hedge within the Group.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Maturity profile of derivatives

The Group's derivative financial instruments have the following maturities:

	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m	2016 Average exchange rate	2016 Fair value £m	2016 Notional amount £m
<b>Foreign currency forward contracts</b>						
<i>Buy euro</i>						
Less than one year	0.807	1.8	25.9	0.770	1.7	56.0
Between one and two years	0.878	(0.3)	20.1	0.738	1.1	12.4
Between two and five years	0.896	(0.5)	39.5	0.759	-	0.1
After five years	0.923	(0.4)	11.9	-	-	-
<i>Sell euro</i>						
Less than one year	0.862	2.7	373.4	0.772	(21.3)	804.9
<b>Total euro</b>	<b>0.857</b>	<b>3.3</b>	<b>470.8</b>	<b>0.772</b>	<b>(18.5)</b>	<b>873.4</b>
<i>Buy US Dollars</i>						
Less than one year	0.640	0.1	0.3	0.640	-	0.4
Between one and two years	0.638	0.1	0.3	0.640	0.1	0.3
Between two and five years	-	-	-	0.638	-	0.3
<b>Total US Dollars</b>	<b>0.639</b>	<b>0.2</b>	<b>0.6</b>	<b>0.639</b>	<b>0.1</b>	<b>1.0</b>
<i>Buy Canadian Dollars</i>						
Less than one year	0.500	7.0	35.5	0.498	3.4	45.1
Between one and two years	0.503	3.6	19.9	0.500	2.4	35.5
Between two and five years	0.513	8.6	60.9	0.510	3.1	68.4
After five years	-	-	-	0.513	0.4	12.5
<b>Total Canadian Dollars</b>	<b>0.504</b>	<b>19.2</b>	<b>116.3</b>	<b>0.504</b>	<b>9.3</b>	<b>161.5</b>

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Maturity profile of derivatives

The Group's derivative financial instruments have the following maturities:

	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m	2016 Average exchange rate	2016 Fair value £m	2016 Notional amount £m
<b>Foreign currency forward contracts</b>						
<i>Buy Swedish Krona</i>						
Less than one year	0.092	-	0.4	-	-	-
Between one and two years	0.093	(0.1)	2.1	-	-	-
Between two and five years	0.094	(0.4)	15.2	-	-	-
After five years	0.094	(0.2)	5.9	-	-	-
<b>Total Swedish Krona</b>	<b>0.094</b>	<b>(0.7)</b>	<b>23.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Buy Swiss Francs</i>						
Less than one year	0.824	-	-	-	-	-
Between one and two years	0.839	-	0.4	-	-	-
Between two and five years	0.867	(0.1)	2.3	-	-	-
After five years	0.899	-	0.5	-	-	-
<b>Total Swiss Francs</b>	<b>0.867</b>	<b>(0.1)</b>	<b>3.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Buy Chinese Yuan Renminbi</i>						
Less than one year	0.115	-	0.5	-	-	-
Between one and two years	0.109	-	6.2	-	-	-
Between two and five years	0.103	-	0.4	-	-	-
<b>Total Chinese Yuan Renminbi</b>	<b>0.109</b>	<b>-</b>	<b>7.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand total</b>	<b>n/a</b>	<b>21.9</b>	<b>621.6</b>	<b>n/a</b>	<b>(9.1)</b>	<b>1,035.9</b>
	2017 Average interest rate (%)	2017 Fair value £m	2017 Notional amount £m	2016 Average interest rate (%)	2016 Fair value £m	2016 Notional amount £m
<b>Interest rate hedges</b>						
Less than one year	3.273	(2.9)	250.0	3.273	(9.2)	250.0
Between one and two years	3.566	(3.9)	100.0	-	-	-
Between two and five years	3.815	(24.0)	250.0	3.718	(24.4)	275.0
After five years	3.036	(43.6)	327.4	3.832	(61.3)	305.7
	<b>3.626</b>	<b>(74.4)</b>	<b>927.4</b>	<b>3.626</b>	<b>(94.9)</b>	<b>830.7</b>

The Company does not hold any derivative financial instrument contracts.



## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Contractual maturity of derivatives

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
<b>Group – 2017</b>					
<b>Derivatives settled gross</b>					
Foreign exchange forward contracts:					
Amounts receivable	444.9	52.5	126.0	17.7	641.1
Amounts payable	(433.4)	(49.1)	(118.4)	(18.2)	(619.1)
<b>Derivatives settled net</b>					
Interest rate swaps	(24.1)	(16.9)	(31.2)	(26.6)	(98.8)
	(12.6)	(13.5)	(23.6)	(27.1)	(76.8)
<b>Group – 2016</b>					
<b>Derivatives settled gross</b>					
Foreign exchange forward contracts:					
Amounts receivable	911.4	51.8	71.9	13.0	1,048.1
Amounts payable	(927.6)	(48.3)	(68.8)	(12.5)	(1,057.2)
<b>Derivatives settled net</b>					
Interest rate swaps	(25.1)	(20.3)	(29.4)	(17.6)	(92.4)
	(41.3)	(16.8)	(26.3)	(17.1)	(101.5)

The total asset or liability due to the Group as recognised in the Statement of Financial Position is the fair value of the derivatives as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2017, the fair value of the interest rate derivatives was a net liability of £74.4m (2016 £94.9m). The fair value of forward foreign exchange derivatives was a net asset of £19.4m (2016 a liability of £9.1m).

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Contractual maturity of financial liabilities

The following table details the Group and the Company's remaining contractual maturity for their non derivative financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or Company can be required to pay, and therefore differs from the carrying value and the fair value. The table includes both interest and principal cash flows.

	Less than one year	Between one and two years	Between two and five years	More than five years	Total
	£m	£m	£m	£m	£m
<b>Group - 2017</b>					
Trade and other payables	1,836.3	29.0	-	-	1,865.3
Borrowings	-	2,655.9	4,265.2	2,448.2	9,369.3
Finance lease liabilities	93.9	83.5	191.1	207.6	576.1
	<u>1,930.2</u>	<u>2,768.4</u>	<u>4,456.3</u>	<u>2,655.8</u>	<u>11,810.7</u>
<b>Group - 2016</b>					
Trade and other payables	1,809.2	51.5	-	-	1,860.7
Borrowings	-	1,975.4	4,265.2	2,448.2	8,688.8
Finance lease liabilities	117.2	94.0	242.2	239.0	692.4
	<u>1,926.4</u>	<u>2,120.9</u>	<u>4,507.4</u>	<u>2,687.2</u>	<u>11,241.9</u>
<b>Company - 2017</b>					
Trade and other payables	198.8	7.8	-	-	206.6
Borrowings	-	30.4	-	-	30.4
	<u>198.8</u>	<u>38.2</u>	<u>-</u>	<u>-</u>	<u>237.0</u>
<b>Company - 2016</b>					
Trade and other payables	177.0	8.2	-	-	185.2
Borrowings	-	30.4	-	-	30.4
	<u>177.0</u>	<u>38.6</u>	<u>-</u>	<u>-</u>	<u>215.6</u>

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

#### Fair values

In accordance with IAS 39, the fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount.
- Short term investments – approximates to the carrying amount because of the short maturity of these instruments.
- Long-term investments – by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 7.
- Loans to associated undertakings – determined by calculating the discounted value of the future cash flows (redemption and interest) using appropriate interest rates, based on observable market data, in effect at the balance sheet date at level 2 of the fair value hierarchy.
- Trade and other receivables – approximates to the carrying amount.
- Derivative financial instruments – In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 7.
  - Forward exchange contracts – based on market data and exchange rates at the balance sheet date.
  - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows.
- Trade and other payables – approximates to the carrying amount.
- Long-term borrowings – based on market data in the case of fixed rate borrowings; and approximates to the carrying amount in the case of short-term commercial paper.
- Finance lease liabilities – approximates to the carrying amount.
- Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

## Notes to the Financial Statements (continued)

### 29 Funding and financial risk management (continued)

Group	2017	2017	2016	2016
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	89.6	89.6	104.5	104.5
Trade and other receivables	1,670.7	1,670.7	1,706.3	1,706.3
Derivative financial instruments	19.4	19.4	12.2	12.2
<b>Total financial assets</b>	<b>1,779.7</b>	<b>1,779.7</b>	<b>1,823.0</b>	<b>1,823.0</b>
Trade and other payables	1,865.3	1,865.3	1,860.7	1,860.7
Borrowings and overdrafts	9,369.3	9,369.3	8,688.8	8,688.8
Finance lease liabilities	411.3	411.3	494.5	494.5
Derivative financial instruments	82.8	82.8	116.2	116.2
<b>Total financial liabilities</b>	<b>11,728.7</b>	<b>11,728.7</b>	<b>11,160.2</b>	<b>11,160.2</b>
<b>Net financial liabilities</b>	<b>(9,949.0)</b>	<b>(9,949.0)</b>	<b>(9,337.2)</b>	<b>(9,337.2)</b>

Company	2017	2017	2016	2016
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	38.7	38.7	65.9	65.9
Trade and other receivables	339.8	339.8	321.4	321.4
<b>Total financial assets</b>	<b>378.5</b>	<b>378.5</b>	<b>387.3</b>	<b>387.3</b>
Trade and other payables	214.7	214.7	192.9	192.9
Borrowings	30.4	30.4	30.4	30.4
<b>Total financial liabilities</b>	<b>245.1</b>	<b>245.1</b>	<b>223.3</b>	<b>223.3</b>
<b>Net financial assets</b>	<b>133.4</b>	<b>133.4</b>	<b>164.0</b>	<b>164.0</b>

The fair value of the Company's assets did not differ materially from the carrying value at 31 March 2017 or 2016.

# Notes to the Financial Statements (continued)

## 30 Pensions

### a) Background

The Group offers retirement plans to its employees.

The majority of the Group's staff are members of the two sections of the TfL Pension Fund, namely the Public Sector Section and the Tube Lines Section. The majority of the Group's remaining staff belong to the Railway Pension Scheme, and the Tube Lines defined contribution scheme.

### b) Defined benefit schemes

#### TfL Pension Fund

The TfL Pension Fund 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 available valuation of the Fund was carried out as at 31 March 2015 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 formal funding valuation of the TfL Pension Fund.

Employer's contributions for the period from 1 April 2016 until 31 March 2022 will continue to be 31.0 per cent with an additional lump sum due by 31 March 2018. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2022.

On 30 March 2016, the Groups obligations in respect of the Tube Lines Section transferred from Tube Lines Limited, a subsidiary of the TTL Group, to the TfL Corporation as the Tube Lines Section of the TfL Pension Fund was merged into the Public Sector Section. This is shown as a settlement loss in the analysis amounts charged to net cost of services.

#### Railways Pension Scheme

Crossrail Limited ("CRL") contributes to the Omnibus Section of the Railways Pension Scheme ("RPS"). The RPS is a defined benefit arrangement for rail industry employees. The Omnibus Section is made up of 37 participating employers, each (apart from CRL) having fewer than 51 active members in the scheme.

The Omnibus Section of the RPS is a multi-employer scheme and is valued as a whole. As a result of this, CRL is unable to identify its share of the underlying assets and defined benefit obligation. It is therefore accounted for as a defined contribution scheme under IAS 19.

The last actuarial valuation of the Omnibus Section of the scheme was carried out at 31 December 2013. The actuarial report showed that there was a deficit of assets over liabilities of £5.4m for the total Omnibus Section.

The findings of the 2013 valuation report were translated into the current contribution level of 31 per cent up to 30 June 2015, and 26.9 per cent effective from 1 July 2015. The pension charge for the year was £7.0m (2015/16 £5.4m).

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

#### Other schemes

The Group also contributes to a number of defined contribution schemes, including the Tube Lines defined contribution scheme.

#### c) Accounting

A valuation of the Public Sector and Tube Lines Sections of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2017. 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 obligations 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 defined benefit obligations for the two sections of the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2015. 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 2015 projections with a long term improvement rate of 1.25 percent per annum.

The Group's parent, Transport for London, and the Company's fellow subsidiaries participate in the Public Sector Section and it is not possible to identify the Company's or the Group's share of the underlying assets and defined benefit obligations. Thus, in accordance with the standard, the Group treats contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Group's contributions to the Section of £227.9m (2015/16 £229.7m) have been charged to the Income Statement.

The Tube Lines Section of the TfL Pension Fund transferred from Tube Lines Limited to the TfL Public Sector Section on 30 March 2016.

The IAS 19 deficit on the Public Sector Section of the TfL Pension Fund at 31 March 2017 was £5,193.9m (2016 £3,091.9m). As stated above, it is not possible to identify the Group's particular share of the deficit. Further details can be found in the Statement of Accounts of Transport for London. Further details are disclosed in the tables below.

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

Analysis of movements in the Crossrail Section of the Railways Pension Fund as included in the Statement of Financial Position for the Group are as follows:

#### Reconciliation of the Section's liabilities

	£m
At 1 April 2016	-
Current service cost	3.3
Interest cost	1.1
Employee contributions	0.3
Obligations recognised at 31 October 2016	91.8
Net remeasurement losses – financial	1.1
Net remeasurement losses – experience	-
Net remeasurement losses – demographic	-
Actual benefit payments	(0.7)
Settlements	-
At 31 March 2017	<u>96.9</u>

#### Reconciliation of fair value of the Section's assets

	£m
At 1 April 2016	-
Interest income on scheme assets	0.7
Assets recognised at 31 October 2016	61.5
Return on assets excluding interest income	1.4
Actual employer contributions	1.7
Employee contributions	0.3
Actual benefit payments	(0.7)
Scheme expenses	-
Settlements	-
At 31 March 2017	<u>64.9</u>
<b>Net deficit</b>	<u><b>32.0</b></u>

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

#### Reconciliation of the Section's liabilities

	£m
At 1 April 2015	-
Current service cost	-
Interest cost	-
Employee contributions	-
Net remeasurement gains - opening balance	-
Net remeasurement gains - financial	-
Net remeasurement gains - experience	-
Net remeasurement losses - demographic	-
Actual benefit payments	-
Settlements	-
At 31 March 2016	-

#### Reconciliation of fair value of the Section's assets

	£m
At 1 April 2015	-
Interest income on scheme assets	-
Return on assets excluding interest income	-
Actual employer contributions	-
Employee contributions	-
Actual benefit payments	-
Scheme expenses	-
Settlements	-
At 31 March 2016	-
Net deficit	-



## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

Analysis of movements in the Tube Lines Section of the TfL Pension Fund as included in the Statement of Financial Position for the Group are as follows:

#### Reconciliation of the Section's liabilities

	£m
At 1 April 2016	-
Current service cost	-
Interest cost	-
Employee contributions	-
Net remeasurement gains - opening balance	-
Net remeasurement gains - financial	-
Net remeasurement gains - experience	-
Net remeasurement losses - demographic	-
Actual benefit payments	-
Settlements	-
At 31 March 2017	-

#### Reconciliation of fair value of the Section's assets

	£m
At 1 April 2016	-
Interest income on scheme assets	-
Return on assets excluding interest income	-
Actual employer contributions	-
Employee contributions	-
Actual benefit payments	-
Scheme expenses	-
Settlements	-
At 31 March 2017	-
Net deficit	-

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

#### Reconciliation of the Section's liabilities

	£m
At 1 April 2015	308.3
Current service cost	13.4
Interest cost	8.8
Employee contributions	2.0
Net remeasurement gains – financial	(16.0)
Net remeasurement gains – experience	(2.0)
Net remeasurement losses – demographic	-
Actual benefit payments	(24.2)
Settlements	(290.3)
At 31 March 2016	-

#### Reconciliation of fair value of the Section's assets

	£m
At 1 April 2015	276.3
Interest income on scheme assets	8.2
Return on assets excluding interest income	(12.9)
Actual employer contributions	17.2
Employee contributions	2.0
Actual benefit payments	(24.2)
Scheme expenses	(0.6)
Settlements	(266.0)
At 31 March 2016	-

#### Other schemes

Contributions of £19.2m (2015/16 £9.8m) have been charged to the Statement of Comprehensive Income, of which contributed towards various smaller Funds including the Railways Pension Scheme.

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

#### d) Summary of pension totals for the year

		Group 2017	Restated Group 2016
	Note	£m	£m
Total pension service cost for the year			
TfL Pension Fund (Public Sector Section)		227.9	229.7
TfL Pension Fund (Tube Lines Section) - Cost		-	13.4
TfL Pension Fund (Tube Lines Section) - Settlement		-	(24.3)
Other schemes		32.1	9.8
Total pension service cost for the year	5	260.0	228.6
Scheme administrative expenses for the TfL Pension Funds		0.3	0.6
Amount included in cost of operations		260.3	229.2

		Group 2017	Group 2016
		£m	£m
Net interest on defined benefit obligations			
Crossrail Section of the Railways Pension Fund		0.3	-
TfL Pension Fund (Tube Lines Section)		-	0.6
Amounts charged to financial expenditure	8	0.3	0.6

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

	Group 2017	Group 2016
	£m	£m
Total actuarial gains and losses recognised		
Actuarial gain on TfL Pension Fund (Tube Lines Section)	-	5.1
Actuarial loss on Crossrail Section of the Railways Pension Fund	(30.0)	-

The fair values of the assets of the Crossrail Section of the Railways Pension Fund were as follows:

	Value at 31 March 2017	Value at 31 March 2016
	£m	£m
Equities	46.1	-
Bonds	18.4	-
Cash, property and other assets	0.4	-
Total market value of assets	64.9	-

The fair values of the assets of the Tube Lines Section were as follows:

	Value at 31 March 2017	Value at 31 March 2016
	£m	£m
Equities	-	232.1
Bonds	-	44.2
Total market value of assets	-	276.3

The main actuarial assumptions used for the Crossrail Section of the Railways Pension Fund were:

	At 31 March 2017	At 31 March 2016
	%	%
RPI inflation	3.40	n/a
Rate of increase in salaries	3.40	n/a
Discount rate	2.65	n/a

## Notes to the Financial Statements (continued)

### 30 Pensions (continued)

The main actuarial assumptions used for the Tube Lines Section were:

	At 31 March 2017	At 31 March 2016
	%	%
RPI inflation	n/a	n/a
Rate of increase in salaries	n/a	n/a
Discount rate	n/a	n/a

#### e) Sensitivities

The Group's retirement benefit plans typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. Sensitivity analyses for the most significant actuarial assumptions made in relation to these risks are as set out below in regard to the Crossrail Section of the Railways Pension Fund. The analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate were 0.1% higher/(lower), the defined benefit obligation would decrease by £2.4m (increase by £2.3m).
- If the expected salary growth were increased/(decreased) by 0.1%, the defined benefit obligation would increase by £0.4m (decrease by £0.4m).
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £2.4m/(decrease by £2.4m).
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £2.3m/(decrease by £2.4m).

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

## Notes to the Financial Statements (continued)

### 31 Called up share capital

Company and Group	2017	2016
	£m	£m
As at 1 April	7,260.0	5,430.0
Issued during the year	1,300.0	1,830.0
As at 31 March	<u>8,560.0</u>	<u>7,260.0</u>
	Number	Number
Authorised £1 shares	8,560m	7,260m
Issued and fully paid up £1 shares	<u>8,560m</u>	<u>7,260m</u>

During 2016/17 TTL issued 1,300m fully paid £1 ordinary shares (2015/16 1,830m fully paid £1 ordinary shares). These were settled for consideration of £1,820 million of cash.

### 32 Related party transactions

During the year none of TTL's directors, key management personnel or parties related to them, have undertaken any material transactions with the Company or its subsidiaries (2015/16 none).

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. 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 transactions* ("IAS 24") and the Company and its subsidiaries are therefore also classified as government entities 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. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Material transactions however between the Company and its subsidiaries and other related parties are outlined below:

The Group and Company traded with the following related parties that are classified as government entities under IAS 24:

- interest accrued by the Group on loans from Transport for London is disclosed in note 8;
- Receipt of funding from Transport for London in the form of grants (notes 3 and 28), loans (note 21) or share capital (notes 13 and 31);
- Interest accrued on loans from Tube Lines (Finance) Plc to Transport for London is disclosed in note 7;
- Payment of management fees to TfL for various services and provision of equipment by TfL to the TTL Group.
- Payment of management fees totalling £216.0m by TTL's subsidiaries to TTL for various services and provision of equipment.
- TfL makes payments to the British Transport Police for the provision of policing services on the Underground and Overground railways.

## Notes to the Financial Statements (continued)

### 33 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Transport for London whose Board members are appointed by the Mayor of London. Copies of Transport for London's accounts will be available in due course from Windsor House, 42-50 Victoria Street, London SW1H 0TL.

### 34 Events occurring after the reporting date

There have been no events occurring after the reporting date that would have a material impact on these financial statements.