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Transport Trading Limited

Annual Report and Financial Statements Year ended 31 March 2018

Registered Office
55 Broadway
London SW1H 0BD

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 2018.

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:

It is with deep regret that the directors report that I. Nunn passed away on 24 July 2017.

M. Brown

H. Carter

L. Daniels resigned 20 December 2017

I. Nunn resigned 24 July 2017

G. Powell appointed 20 December 2017

M. Wild

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 (2016/17 £nil).

Dividends

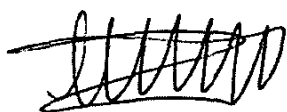
It is not proposed to declare a dividend for the year (2016/17 £nil).

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 02 July 2018 and signed on behalf of the Board by



H. Carter

Director

31 July 2018

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

2017/18 saw strong performance despite challenging external headwinds. On the London Underground and on TfL Rail, we have seen passenger journeys reduce reflecting the overall trend experienced across the transport network in London and the South East.

The significant investment programme across the network has continued to deliver safety, reliability and capacity improvements as we maintain, improve and extend services across London. Major projects included Crossrail, infrastructure and signalling and station upgrades on the London Underground, congestion relief projects and a Roads Modernisation Plan. During the year, a number of delivery milestones were achieved:

- The completion of the Bond Street station upgrade, one of the busiest stations in London to allow an increased capacity of 30 per cent.
- On the Northern line extension 3.2km tunnel bores from Battersea Power Station to Kennington via Nine Elms were completed in November as well as the permanent link between the new extension and the existing Northern line.
- In October multiple test trains ran on the new signalling system between Hammersmith and Latimer Road for the first time in London. This will lead to customers seeing improved reliability and information on the Hammersmith and City line.
- New pedestrian tunnels linking Cardinal Place and the District and Circle lines in Victoria station were opened in May allowing a more direct route for customers and improving the flow through the station. Escalator refurbishments at Angel, Chancery Lane, Westminster, Holborn and North Greenwich were completed on schedule and within budget.
- The Crossrail project is now over 90 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) in due course.

Underground operations

London Underground

Passenger income has fallen by £36m compared with last year. The company carried 1,357 million passengers over the year, an underlying decrease of 1% over last year. Overall demand is down for rail travel in London and the South East including Network Rail.

Underlying fare income per journey has improved compared to last year. This is partly due to the impact of the National Rail average fares increase in January 2018 which increases a proportion of TfL's tickets e.g. travelcards. Also, increased use of contactless increases yield. The highest ever usage of contactless payment was on Friday 15 December with 1.3m journeys.

Operating costs have fallen by £16.8m. Effective cost control has more than offset inflationary pressures and one off costs associated with the ongoing modernisation programme.

Strategic Report (continued)

Underground operations (continued)

Capital expenditure is marginally higher than last year. There has been extensive planned investment on the modernisation of the Circle, District, Hammersmith & City and Metropolitan Lines as well as increased investment in making stations step free. In addition there is increased expenditure on the Central Line Improvement Programme and refurbishment of the Jubilee line.

We unveiled the completed upgrade of Bond Street station, one of the busiest stations in central London. We increased capacity by 30 per cent following the opening of the new entrance and ticket hall on the north side of Oxford Street in November.

On the Northern line extension we achieved a major milestone in November, completing the two 3.2km tunnel bores from Battersea Power Station to Kennington via Nine Elms. We also successfully completed the permanent link between the new extension and the existing Northern line.

We achieved a significant step forward in October when multiple test trains ran on the new signalling system between Hammersmith and Latimer Road for the first time in London. In 2018, customers will see improvements to reliability and customer information on sections of the Hammersmith & City line.

At Victoria, new pedestrian tunnels linking Cardinal Place and the District and Circle line platforms opened in May. These tunnels provide a more direct route for customers, improving the flow through the station and reducing interchange times. And after being closed for five years, the Victory Arch in the Network Rail station re-opened to customers on 25 January, together with a new entrance on Wilton Road and an enlarged south ticket hall.

We completed escalator refurbishments at Angel, Chancery Lane, Westminster, Holborn and North Greenwich on schedule and within budget. At Chancery Lane, we also replaced the central staircase, which marks the completion of a complex project that started in November 2016.

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

The Company is responsible for the operation of London Overground ("LO") TfL Rail (the forerunner of the Elizabeth Line due to open in 2018/19) and London Trams, plus the 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 Queens 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.

Strategic Report (continued)

The Company's revenue increased by £10.6m to £333.9m in 2017/18. Operating costs have decreased by £8.7m to £387.8m which is a 2% decrease on the prior year resulting in an increase in the net cost of services of £19.3m.

In the year LO carried 190.1 million people, an increase of 0.7 per cent over the previous year, and customer satisfaction scores remained strong at 84 per cent, unchanged from last year.

LO's operational performance, as measured by the public performance measure (PPM) was 94.4 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 87.8 per cent and secured LO third place in the national PPM league.

LO have completed their transformation of all 24 stations for the services departing from Liverpool Street to Enfield Town, Cheshunt and Chingford. Also, the Gospel Oak to Barking line electrification works are almost complete. Once complete the works will enable the introduction of new state-of-the-art electric trains, providing customers with increased capacity and feature walk-through carriages, air conditioning, live network information screens and improved reliability. The new cleaner electric trains will also improve air quality for people living and working along the route.

TfL Rail carried 45 million people in 2017/18 (a decrease of five per cent versus the previous year), and customer satisfaction remained at 83 per cent. Operational performance as measured by the PPM was 93.4 per cent at the end of the year placing them in fourth place in the national PPM league.

In January 2018 it was announced Cleshar Contract Services Limited would take over maintenance work on LO's East London Line from 1 April 2018. The new contract was awarded on the basis that employees previously employed by Carillion would transfer to Cleshar Contract Services Limited with their terms and conditions protected.

London Trams is responsible for the management of the tram system in Croydon, for which the costs are recharged to Tramtrack Croydon Limited. In the year, Trams carried 29.1 million passengers, one per cent lower than last year. Customer satisfaction scores at 91 continue to be strong and are one point higher than last year.

Docklands Light Railway

Passenger income increased by 1% to £181.9m for the year as a result of an increase in yield per journey. Operating costs have decreased by £0.8m to £145.2m.

In 2017/18 DLR customer satisfaction survey (CSS) score was 88. This is marginally lower than the previous year, however indicated a consistent level of satisfaction on station and train cleanliness. DLR operation performance - departure score was 98.39% this was lower than the franchise agreement threshold.

In financial year 2017/18 passenger ridership was 119.58 million which is 3.8% worse than budget and compared with 2016/17 total annual journeys has indicated a 2.2% drop in journeys.

There were 16 weekend closures between Bow Church and Stratford for Crossrail engineering works. This was additional to the annual maintenance closures on the DLR network. Custom House station was closed from February 2017 to December 2017 for Crossrail works.

Tramtrack Croydon

Revenue decreased by £2m to £24.5m while operating costs increased by £4.9m compared to 2016/17.

In the year, Trams carried 29.1 million passengers, one per cent lower than last year. Customer satisfaction scores at 91 continue to be strong and are 1 point higher than last year.

Following the tragic derailment of 9 November 2016, we continue to work to ensure that we offer those affected any support they need. In addition to addressing immediate actions arising from our thorough safety assessment and advice from independent tram experts, we now also work to satisfy the recommendations issued by Rail Accident Investigation Branch (RAIB) after conclusion of their investigation into the incident. Measures taken to date include

Strategic Report (continued)

the introduction of a network wide speed reduction, the deployment of additional network wide step down speed signage and the introduction of a Driver Protection Device to promote tram driver vigilance at all times. We continue to investigate and deliver a wide range of further enhanced safety measures, whilst assisting the RAIB, British Transport Police (BTP) and Office of Rail Regulation (ORR) with their ongoing investigations into this tragic incident.

London Buses Services

London's bus network faced a decline of circa 17 million journeys this year, mostly arising from the timing of Easter and adverse weather. Adjusting for these events, underlying passenger journeys showed a growth of 0.8 per cent.

Buses carried more than 2.2 billion passenger journeys on the network as a result of the network's high frequency, year-on-year improvement in bus speeds, the Mayor's public transport fares freeze and the Hopper fare offering unlimited bus and tram journeys for the price of one within an hour. Income was down on the previous year by £26 million but most of these measures helped avoid more income being lost and also kept customer satisfaction at record levels.

We are preparing the network for long-term growth by simplifying it and enabling it to operate more reliably in the central part of the capital. We are also optimizing the network to reflect tube improvements and new rail infrastructure including the Elizabeth Line coming on line. Given that new rail infrastructure will lead to a transfer of trips to rail, it makes sense in the medium term to move resources to outer London where the share of trips by sustainable modes is much lower. We continue to target capacity enhancements to where they are needed most, such as increasing the frequency on route H14 to Northwick Park Hospital, and on routes R11 from Queen Mary's Hospital to Green Street Green and the R3 from Princess Royal University Hospital to Orpington mainline station.

Bus services are now more reliable than they have ever been and bus speeds, which were suffering significant decline, have now stabilised and are improving, reversing a long-term trend. This was aided in 2017/18 by 173 bus priority schemes being delivered, alongside our reviews of traffic signal sequences and other measures to keep buses moving. This is estimated to have delivered our over-arching target of 169 minutes saved. Schemes include the Plumstead Road Bus and Cycle Improvements, which provided a new 500metre westbound bus lane from Plumstead Station towards Woolwich, and included segregated cycle lanes and improved pedestrian facilities, saving every passenger on 11 bus routes 25 seconds per trip.

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 38 per cent of the fleet now made up of buses meeting the ultra-low emission Euro VI engine standard. 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 immediate and lasting 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 second Low Emission Bus Zone in the Brixton to Streatham zone, having delivered the first in 2016/17 in the Putney High Street zone, and commit to 10 more in other parts of the capital by 2020. With an eye to the future, we have also increased the electric bus fleet with zero-tailpipe emission to 96 vehicles from 71 vehicles in 2016/17 with the introduction of 12 single deck buses to route 153 which travels between Finsbury Park and Moorgate.

To support our bus drivers in their crucial role of carrying 56 per cent of public transport passengers across the capital each day, often in challenging conditions, we have put 23,100 drivers through our Hello London customer experience training programme with 94 per cent of attendees rating its quality as excellent or very good. This has helped us sustain customer satisfaction scores of 86 or better.

This year we have increased work streams in Bus Safety Programme from six to 10. These include measures to reduce customer injuries such as the 'Hold On' safety announcement played on buses across the fleet throughout January and fatigue management – a subject discussed in detail at the inaugural Bus Safety Summit in November. We will be commissioning independent academic research into how fatigue might affect bus drivers in London. We are also working more closely with the Met Police to educate drivers about close passing of cyclists and have launched a

Strategic Report (continued)

Safety Innovation Fund to enable bus operators to bid for money to conduct innovative safety trials and share the results for consideration as network wide initiatives. The development of the Bus Safety Standard continues, with results of the first set of trials expected to be available in summer 2018. We have started the procurement process to develop new safety training for all 25,000 bus drivers following the success of Hello London. This is due for delivery in 2019.

Cycle Hire

2017/18 saw the Cycle Hire scheme achieve 10.2 million hires in the financial year resulting in revenues of £18.6m which is an increase of £0.1m compared to 2016/17. The year saw 5 of the 12 months achieve record hires for those particular months. The mobile app, which allows customers to obtain release codes direct to their phone, continues to prove popular with over 2.8 million hires having been carried out since its inception. 2017/18 saw the disaggregation of the service under new contractual arrangements with Serco continuing to supply and maintain the fleet of cycles and back office services brought in house with cleaning and Contact Centre activities moved to existing TfL suppliers. 2017/18 also saw the introduction of a new British produced cycle into the scheme and an expansion into Brixton.

Dial-a-Ride

During the year to 31 March 2018, Dial-a-Ride scheduled 88.1% (2016/17 89.3%) of all trip requests received which was lower than the target of 91% (2016/17 91.0%). After on the day cancellations of scheduled trips by passengers, the service delivered 1,023,920 trips which was 12.9% less than in 2016/17 (2016/17 1,175,497). Revenue remained relatively flat however at £35.6m.

Customer satisfaction remained high at 92.0% (2016/17 91.0%) despite the lower than target per cent of trip requests scheduled. Overall demand for the Dial-a-Ride service reduced by 7.8% 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 a future strategic direction for Dial-a-Ride began to be developed by TfL, as part of its Assisted Transport roadmap and vision, aiming towards creating a more integrated and flexible customer offering across all the assisted transport services in London. TfL's strategic proposals were included in the 2018 Mayor's Transport Strategy.

Victoria Coach Station

The company provided facilities for circa 14 million customers (2016/17 14.5 million) and 472,000 arrivals and departures (2016/17 476,000). This resulted in a slight decrease in revenues of £0.2m.

During the year the coach station successfully delivered the roof canopy project. A complete replacement of the 1932 grade 2 listed glass canopy of the roof in the main station terminal was completed with minimal disruption to coach operations.

Further improvements were made to retail facilities with two new food and beverage offerings opening at the coach station and are now successfully trading. Pret a Manger and Greggs have seen great success and as part of the fit out for the new units, the infrastructure of the terminal in the vicinity has been brightened and modernised.

London River Services

During the year a total of 10.0 million passengers (10.6 million in 2016/17) used London River Services pier facilities, Woolwich Ferry and licensed river tour and river bus services. This shows a decline in passenger numbers during the year of over 5%.

Strategic Report (continued)

River bus passengers remained broadly flat but again surpassing 4 million.

The Woolwich ferry carried 1 million Passenger Carrying Units and 1.83 million passengers, inclusive of vehicle drivers (1.86 million in 2016/17).

Greenwich Pier was dry docked for maintenance in the latter part of 2017/18, carrying out life extension works for the infrastructure.

Overall, revenues decreased by £0.1m to £10.6m in 2017/18 while operating costs decreased by £0.7m to £12.1m.

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 Crossrail project was over 90% complete including completion of both track concrete and track installation. The new Elizabeth line central stations are 93% complete with installation of platform screen door panels, escalators and lifts nearing completion. At Paddington station, installation of the impressive glass cloud canopy marked the first of the completed art works for the Elizabeth line.

Stage 1 operational services between Shenfield and Liverpool Street (mainline) was achieved when the first Class 345 train, operating as TfL Rail, entered passenger service departing from Liverpool Street station for Shenfield. Ongoing electrification works have allowed dynamic testing to commence in the central section, with the Class 345 train travelling under its own power between Abbey Wood and Connaught Tunnel.

Principal testing, integration testing of rail systems, and the functional set up of the Route Control Centre to support signalling testing have all now commenced to prepare for Stage 2 operational services between Paddington and Heathrow (mainline), and the Stage 3 central section opening. 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.

Treasury activities

The fair value at the year end of outstanding interest rate derivatives taken out to hedge the interest rate on borrowings was a net liability of £31.5m (2017 £55.3m). Further cumulative net cash payments of £118.1m made on settlement of gilt locks in prior years are deferred within equity and are being released to the Income Statement as an interest rate hedge over the term of borrowings issued by TfL. £8.2m (2016/17 £7.8m) was released to financial expenses in 2017/18, leaving a remaining balance of £76.0m related to gilt locks deferred in the hedging reserves as at 31 March 2018. Hedging in the Company is achieved through the drawdown of intercompany loans by the Company from TfL and the onward lending of the monies to London Underground Limited, a fellow subsidiary undertaking of the TfL Group.

The Company also holds an amortising interest rate swap in order to fix the floating interest rate risk on operating lease payments for rolling stock under a lease taken out by Rail for London Limited ("RfL"), a fellow subsidiary of Transport for London. During the year two additional interest rate swaps in respect of the rolling stock were taken

Strategic Report (continued)

out. The fair value of these derivatives at 31 March 2018 was a net liability of £12.6m (2017 £19.1m). The economic impact of the swaps has been transferred to RfL through use of intercompany derivatives.

During the year, the Company was party to a number of forward foreign exchange contract programmes hedging planned future foreign currency expenditure, on plant and equipment, by fellow subsidiaries of TfL. At 31 March 2018, the Company held forward foreign derivative contracts in Euros, US Dollars, Canadian Dollars, Swedish Krona, Swiss Francs and Chinese Renminbi to hedge planned foreign currency capital expenditure payments with a nominal value of £219.5m (2017 £251.1m). At 31 March 2018, these contracts had a combined net fair value of £4.7m (2017 £19.5m). Hedge accounting was applied to these derivatives, and all hedging relationships have been assessed as 100 per cent effective.

In addition, the Company 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 2018, the Company held forward foreign exchange contracts to sell euros to a value of £499.1m (2017 £370.6). 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 £0.9m (2016/17 gain of £22.6m) has been recognised directly in the Income Statement within financial income.

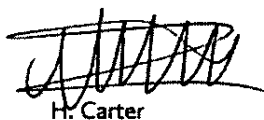
Risk management

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 02 July 2018 and signed on behalf of the Board by



H. Carter

Director

31 July 2018

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

Opinion

We have audited the financial statements of Transport Trading Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise Group Income Statement, Group Statement of Comprehensive Income, the Group and Parent company Statement of Financial Position, Group and Parent company Statement of Cash Flows, and the Group and Parent Statement of Changes in Equity, Accounting Policies and the related notes 1 to 35, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit 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 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

Opinions on other matters 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

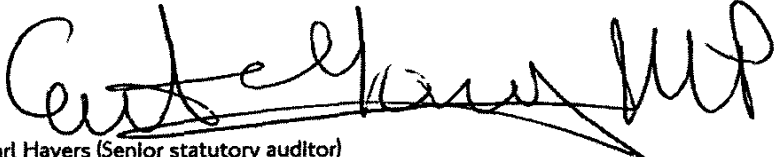
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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 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.



Karl Havers (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London 2 August 2018

Group Income Statement

Year ended 31 March

	Note	2018 £m	2017 £m
Revenue	1	5,001.3	5,033.1
Net operating costs		(5,481.8)	(5,515.8)
Operating loss	2	(480.5)	(482.7)
Grant income	3	839.4	854.7
Other gains and losses	4	43.8	34.2
Total profit from operations		402.7	406.2
Financial income	7	1.8	22.8
Financial expenses	8	(303.2)	(280.6)
Group share of loss after tax of associated undertakings	14	(62.7)	(104.8)
Profit before taxation		38.6	43.6
Income tax credit	9	3.5	6.5
Profit for the year attributable to owners of the Company		42.1	50.1

Group Statement of Comprehensive Income

Year ended 31 March

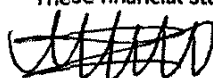
	Note	2018 £m	2017 £m
Gain for the year		42.1	50.1
Other comprehensive income and expenditure:			
Items that will not subsequently be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit pension schemes	30	9.0	(30.0)
		9.0	(30.0)
Items that may be subsequently reclassified to profit or loss			
Movement in the fair value of derivative financial instruments		15.5	29.0
Derivative fair value loss recycled to income and expenditure		8.2	7.9
Revaluation of property, plant and equipment	11	20.3	(3.8)
		44.0	33.1
Total comprehensive income and expenditure for the year attributable to owners of the Company		95.1	53.2

Group Statement of Financial Position

		31 March 2018	31 March 2017
	Note	£m	£m
Non-current assets			
Intangible assets	10	39.0	40.7
Property, plant and equipment	11	35,332.5	33,009.0
Investment property	12	526.3	547.2
Equity accounted investment in associated undertakings	14	319.0	368.2
Derivative financial instruments	24	11.7	18.2
Finance lease receivables	17	17.4	3.5
Trade and other receivables	18	23.2	22.8
		36,269.1	34,009.6
Current assets			
Inventories	15	64.2	70.9
Assets classified as held for sale	16	83.2	13.5
Finance lease receivables	17	8.2	0.9
Trade and other receivables	18	406.7	1,759.6
Derivative financial instruments	24	5.9	12.3
Cash and cash equivalents	19	113.7	89.6
		681.9	1,946.8
Current liabilities			
Trade and other payables	20	(2,470.8)	(2,312.1)
Borrowings	21	(0.1)	-
Finance lease liabilities	22	(59.1)	(65.3)
Derivative financial instruments	24	(1.5)	(3.6)
Provisions	25	(209.7)	(80.9)
		(2,741.2)	(2,461.9)
Non-current liabilities			
Trade and other payables	20	(48.8)	(40.2)
Borrowings	21	(9,988.0)	(9,369.3)
Finance lease liabilities	22	(286.8)	(346.0)
Derivative financial instruments	24	(52.0)	(79.2)
Provisions	25	(48.7)	(5.1)
Deferred grant	28	(13,388.2)	(13,546.6)
Retirement benefit obligation	30	(26.1)	(32.0)
		(23,838.6)	(23,418.4)
Net assets		10,371.2	10,076.1
Equity			
Called up share capital	31	8,760.0	8,560.0
Revaluation reserve		302.7	294.2
Hedging reserve		(115.4)	(139.1)
Merger reserve		466.1	466.1
Retained reserves		957.8	894.9
Total equity attributable to owners of the Company		10,371.2	10,076.1

The notes on pages 21 to 92 form part of these financial statements.

These financial statements were approved by the Board on 02 July 2018 and signed on its behalf by:



H. Carter
Director 31 July 2018
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 2016		7,260.0	310.7	(176.0)	466.1	862.1	8,722.9
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)
Total comprehensive income/(expense)		-	(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	-
Balance at 31 March 2017		8,560.0	294.2	(139.1)	466.1	894.9	10,076.1
Profit for the year		-	-	-	-	42.1	42.1
Actuarial gain on defined benefit pension scheme	30	-	-	-	-	9.0	9.0
Movement in the fair value of derivative financial instruments		-	-	15.5	-	-	15.5
Movement in the fair value of derivative financial instruments reclassified to profit or loss		-	-	8.2	-	-	8.2
Net surplus on revaluation of property, plant and equipment		-	20.3	-	-	-	20.3
Total comprehensive income/(expense)		-	20.3	23.7	-	51.1	95.1
Issue of share capital	31	200.0	-	-	-	-	200.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(11.8)	-	-	11.8	-
Balance at 31 March 2018		8,760.0	302.7	(115.4)	466.1	957.8	10,371.2

Group Statement of Cash Flows

Year ended 31 March

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Gain for the year		42.1	50.1
Adjustments for:			
Depreciation	11	914.9	885.8
Amortisation of Intangible assets	10	25.5	28.3
Increase in value of investment property	4	(41.1)	(28.9)
(Loss) / gain on sale of property, plant and equipment	4	(43.8)	1.4
Gain on sale of investment property	4	(3.2)	(6.7)
Financial income	7	(1.8)	(22.8)
Financial expense	8	303.2	280.6
Amortisation of deferred capital grant to meet the depreciation charge	2	(710.3)	(680.9)
Reversal of share of loss from associates		62.7	104.8
Reversal of defined benefit pension service costs	30	5.6	3.3
Reversal of taxation credit		(3.5)	(6.5)
Cash flow from operating activities before movements in working capital		550.3	608.5
Decrease / (increase) in inventories		6.7	(2.4)
Decrease / (increase) in trade and other receivables		77.7	(14.2)
Increase / (decrease) in trade and other payables		3.9	(16.9)
Increase / (decrease) in provisions		172.3	(36.6)
Net cash generated from operations		810.9	538.4
Employer contributions to pension scheme	30	(3.3)	(1.7)
Taxation paid		3.6	6.5
Net cash generated from operating activities		811.2	543.2
Cash flows from investing activities			
Interest received		0.7	0.1
Proceeds from disposal of property, plant and equipment		74.3	37.2
Proceeds from disposal of investment properties		7.6	16.5
Acquisition of Intangible assets		(8.2)	(7.2)
Acquisition of property, plant and equipment		(3,131.1)	(3,254.9)
Interim funding to third parties in relation to Crossrail		1,268.2	17.2
Loan notes acquired		(1.4)	-
Finance leases granted during the year		(21.2)	(4.4)
Investment in share capital of associates		(12.1)	-
Payments to acquire subsidiaries		(1.4)	-
Shareholder loan repaid on acquisition of Development Securities (Southwark) Limited		(12.6)	-
Capital grants received		592.6	1,012.3
Net cash utilised by investing activities		(1,244.6)	(2,183.2)

Group Statement of Cash Flows (continued)

Year ended 31 March

	2018	2017
	£m	£m
Cash flows from financing activities		
Issue of share capital	200.0	1,300.0
Increase in loans from ultimate parent	618.7	680.5
Capital element of finance leases repaid	(65.4)	(83.2)
Interest paid	(295.9)	(272.2)
Net cash flow generated from financing activities	457.4	1,625.1
Net cash movement in the year	24.0	(14.9)
Net cash and cash equivalents at the start of the year	89.6	104.5
Net cash and cash equivalents at the end of the year	113.6	89.6

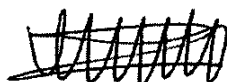
Company Statement of Financial Position

		31 March 2018	31 March 2017
	Note	£m	£m
Non-current assets			
Intangible assets	10	23.1	23.9
Property, plant and equipment	11	257.9	243.1
Investment property	12	3.3	3.2
Investment in subsidiary undertakings	13	9,295.0	9,095.0
Finance lease receivables	17	17.4	3.5
Trade and other receivables	18	0.8	1.3
		<u>9,597.5</u>	<u>9,370.0</u>
Current assets			
Finance lease receivables	17	8.2	0.9
Trade and other receivables	18	335.1	355.6
Cash and cash equivalents	19	49.5	38.7
		<u>392.8</u>	<u>395.2</u>
Current liabilities			
Trade and other payables	20	(613.7)	(625.9)
Provisions	25	(9.4)	(3.1)
		<u>(623.1)</u>	<u>(629.0)</u>
Non-current liabilities			
Trade and other payables	20	(21.4)	(16.7)
Borrowings	21	(30.4)	(30.4)
Deferred grant	28	(119.2)	(104.0)
		<u>(171.0)</u>	<u>(151.1)</u>
Net assets		<u>9,196.2</u>	<u>8,985.1</u>
Reserves			
Share capital	31	8,760.0	8,560.0
Revaluation reserve		56.0	56.6
Merger reserve		466.1	466.1
Retained reserves		(85.9)	(97.6)
Total equity attributable to owners of the Company		<u>9,196.2</u>	<u>8,985.1</u>

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

The notes on pages 21 to 92 form part of these financial statements.

These financial statements were approved by the Board on 02 July 2018 and signed on its behalf by:



H. Carter

Director 31 July 2018

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 2016		7,260.0	67.5	466.1	(107.9)	7,685.7
Net surplus on revaluation of property, plant and equipment		-	(0.6)	-	-	(0.6)
Total comprehensive income / (expense)		-	(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	-
Balance at 31 March 2017		8,560.0	56.6	466.1	(97.6)	8,985.1
Net surplus on revaluation of property, plant and equipment		-	11.1	-	-	11.1
Total comprehensive income/(expense)		-	11.1	-	-	11.1
Issue of share capital	31	200.0	-	-	-	200.0
Release of revaluation reserve in respect of non-historic cost depreciation		-	(11.7)	-	11.7	-
Balance at 31 March 2018		8,760.0	56.0	466.1	(85.9)	9,196.2

Company Statement of Cash Flows

Year ended 31 March

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Loss for the year		-	-
Adjustments for:			
Depreciation	11	38.6	35.6
Amortisation of intangible assets	10	19.5	21.3
Increase in value of investment property	12	(0.1)	(1.2)
Financial income		(0.8)	(0.1)
Financial expense		0.1	0.1
Amortisation of deferred capital grant to meet the depreciation charge	28	(18.6)	(21.2)
Cash flow from operating activities before movements in working capital		38.7	34.5
Decrease in inventories		-	0.3
Decrease / (increase) in trade and other receivables		21.2	(30.0)
(Decrease) / Increase in trade and other payables		(0.9)	10.9
Increase in provisions		6.2	2.7
Net cash generated from operating activities		65.2	18.4
Cash flows from investing activities			
Interest received		0.1	-
Acquisition of intangible assets		(7.7)	(5.1)
Acquisition of property, plant and equipment		(59.5)	(53.2)
Finance lease cash receipts		(20.6)	-
Subscription for new shares in subsidiary		(200.0)	(1,300.0)
Capital grants received		33.3	12.8
Net cash utilised by investing activities		(254.4)	(1,345.5)
Cash flows from financing activities			
Issue of share capital		200.0	1,300.0
Interest paid		(0.1)	(0.1)
Net cash flow generated from financing activities		199.9	1,299.9
Net cash movement in the year		10.8	(27.2)
Net cash and cash equivalents at the start of the year		38.7	65.9
Net cash and cash equivalents at the end of the year		49.5	38.7

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 55 Broadway, London, SW1H 0BD.

The consolidated financial statements as at 31 March 2018 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.

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.

Accounting Policies (continued)

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.

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 IAS 7 Disclosure Initiative' (mandatory for years beginning on or after 1 January 2017). The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
- '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 a debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows. (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

Accounting Policies (continued)

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.

- 'Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle' (mandatory for years beginning on or after 1 January 2017). IFRS 12 Disclosure of Interests in Other Entities states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

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) (mandatory for years beginning on or after 1 January 2018). 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;
- '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 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;

Accounting Policies (continued)

- 'Amendments to IAS 40 Transfers of Investment Property' (mandatory for years commencing on or after 1 January 2018). The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.
- 'IFRIC 22 Foreign Currency Transactions and Advance Consideration' (mandatory for years commencing on or after 1 January 2018). IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
- 'IFRIC 23 Uncertainty over tax treatments (not yet endorsed by the EU; effective for periods beginning on or after 1 January 2019). The interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. 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.

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.

Accounting Policies (continued)

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.

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.

Accounting Policies (continued)

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.

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.

Accounting Policies (continued)

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.

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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Accounting Policies (continued)

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.

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.

Accounting Policies (continued)

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 120 years	Bridges and viaducts	up to 120 years
Track	up to 100 years	Road pavement	up to 40 years
Road foundations	up to 50 years	Signalling	15 to 40 years
Stations	up to 120 years	Other property	20 to 120 years
Rolling stock	30 to 50 years	Lifts and escalators	25 to 40 years
Plant and equipment	3 to 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.

During the current year, a review of the estimated useful lives of assets within London Underground Ltd resulted in revised useful lives of certain asset classes. This is reflected above as an increase in the useful lives of civil works assets within Tunnels and embankments and Bridges and viaducts from 100 years to 120 years. Further details provided in Note 11.

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.

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)

Accounting Policies (continued)

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.

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.

u) Investment in subsidiaries

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

Accounting Policies (continued)

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.

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

Accounting Policies (continued)

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.

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.

Accounting Policies (continued)

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.

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.

Accounting Policies (continued)

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.

- **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.

Accounting Policies (continued)

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

1 Group revenue

Year ended 31 March

	2018	% of	2017	% of
	£m	total	£m	total
Fares	4,319.4	86.5	4,365.7	86.7
Revenue in respect of free travel for the elderly and the disabled	325.0	6.5	328.2	6.5
Charges to London boroughs	1.0	-	1.1	-
Charges to transport operators	11.8	0.2	11.6	0.2
Commercial advertising receipts	145.9	2.9	136.8	2.7
Rents receivable	72.2	1.4	69.8	1.4
Museum and other retail income	8.9	0.2	9.4	0.2
Contributions from third parties to operating costs	14.7	0.3	18.0	0.4
Ticket and photocard commission income	24.9	0.5	25.6	0.5
ATM and car parking income	18.1	0.4	17.2	0.3
Training and specialist services	2.1	-	4.7	0.1
Cycle hire scheme	11.1	0.2	11.3	0.2
Other	46.2	0.9	33.7	0.8
	5,001.3	100.0	5,033.1	100.0

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	2018 £m	2017 £m
The operating loss is stated after charging/(crediting):			
Capital items			
Amortisation of intangible assets	10	25.5	28.3
Depreciation of property, plant and equipment – owned	11	835.0	843.4
Depreciation of property, plant and equipment – leased	11	79.9	42.4
Release of grant to meet the depreciation charge on the historical cost of depreciated fixed assets	28	(710.3)	(680.9)
Other operating costs			
Employee costs	5	1,567.5	1,492.5
Payments under operating leases		79.2	80.1
Inventory expensed during the year		79.5	80.1
Auditor's remuneration			
Fees for the audit of these financial statements		0.8	0.8
Fees for the audit of subsidiary financial statements		-	-
Fees for non-audit services: assurance related		0.2	0.3
		<u>1.0</u>	<u>1.1</u>

Notes to the Financial Statements (continued)

3 Group grant income

Year ended 31 March	2018	2017
	£m	£m
Grant from Transport for London to fund operations	839.4	854.7

4 Group other gains and losses

Year ended 31 March	2018	2017
	£m	£m
Change in fair value of investment properties	41.1	28.9
Net gain on disposal of investment properties	3.2	6.7
Net loss on disposal of property, plant and equipment	(0.5)	(1.4)
	<u>43.8</u>	<u>34.2</u>

5 Group employee costs

Year ended 31 March	2018	2017
The average number of persons employed in the year were:	Number	Number
Bus operations	909	1,045
London Underground	17,545	16,436
Rail operations	380	300
Crossrail	499	596
Tube Lines	1,084	1,820
Group services	699	912
Victoria Coach Station	83	84
Other activities	132	128
Total	<u>21,331</u>	<u>21,321</u>

Their aggregate remuneration comprised:

	Note	£m	£m
Wages and salaries		1,169.6	1,105.1
Social security costs		128.6	127.4
Pension costs	30	<u>269.3</u>	<u>260.0</u>
	2	<u>1,567.5</u>	<u>1,492.5</u>

Notes to the Financial Statements (continued)

6 Directors' emoluments

Year ended 31 March

	2018	2017
	Number	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 six directors (2016/17 five).

Total remuneration paid to directors of Transport Trading Limited by Transport for London was £1,211,122 (2016/17 £1,391,954) and by Surface Transport was £962,890 (2016/17 £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

	2018	2017
	£m	£m
Interest income received in regard to finance lease debtors	0.6	0.1
Net fair value movement on derivative financial instruments not subject to hedge accounting	0.9	22.6
Other	0.3	0.1
	<u>1.8</u>	<u>22.8</u>

8 Group financial expenses

Year ended 31 March

	2018	2017
	£m	£m
Interest payable on external loans and derivative financial instruments	27.8	31.1
Interest payable to Transport for London	332.8	315.5
Interest on finance lease liabilities	28.6	34.0
Contingent rentals on PFI liabilities	7.5	8.3
Net interest on defined benefit obligation	0.8	0.3
	<u>397.5</u>	<u>389.2</u>
Less amounts capitalised into qualifying assets	(94.3)	(108.6)
	<u>303.2</u>	<u>280.6</u>

The interest rates charged on loans from Transport for London range between 1.87 per cent and 4.4 per cent (2016/17 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 19 per cent (2016/17 20 per cent) comprised:

	Group 2018 £m	Group 2017 £m
Year ended 31 March		
Current tax		
Adjustments in respect of prior years	(3.5)	(6.5)
Total income tax credit for the year	(3.5)	(6.5)

Reconciliation of tax credit

	Group 2018 £m	Group 2017 £m
Year ended 31 March		
Profit before tax	38.6	43.6
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2016/17 20%)	7.3	8.7
Effects of:		
Non-taxable and non-deductible items	14.7	23.3
Amount credited to current tax for which no deferred tax was recognised	(16.1)	1.9
Utilisation of tax losses brought forward	(5.7)	(33.7)
Tax exempt revenues	(0.1)	(0.2)
Adjustments in respect of prior years	(3.6)	(6.5)
Total tax credit for the year	(3.5)	(6.5)

b) Unrecognised deferred tax assets - Group

The Group has a potential net deferred tax asset of £1,467.3m (2017 £1,433.1m) in respect of the following items:

	Group 2018 £m	Group 2017 £m
Year ended 31 March		
Deductible temporary differences	1,467.3	572.0
Tax losses	-	871.1
	1,467.3	1,443.1

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 sufficient future taxable profits 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
For the year ended 31 March 2018			
Deferred tax assets			
Deferred government grant	1,734.9	(926.2)	808.7
Derivative financial instruments	23.2	(4.2)	19.0
Property, plant and equipment - accelerated capital allowances	266.1	4.6	270.7
Losses	-	888.0	888.0
	<u>2,024.2</u>	<u>(37.8)</u>	<u>1,986.4</u>
Deferred tax liabilities			
Property, plant and equipment	(1,943.8)	56.5	(1,887.3)
Investment properties - potential capital gain	(78.0)	(6.8)	(84.8)
Assets held for sale - potential capital gain	(2.4)	(11.9)	(14.3)
	<u>(2,024.2)</u>	<u>37.8</u>	<u>(1,986.4)</u>
Net deferred tax asset/(liability)	<u>-</u>	<u>-</u>	<u>-</u>
For the year ended 31 March 2017			
Deferred tax assets			
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>
Deferred tax liabilities			
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>
Net deferred tax asset/(liability)	<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:

- 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 £20.3m 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.
- A deferred tax asset has been recognised in respect of tax losses which are expected to be offset against future taxable profits.

d) Unrecognised deferred tax assets - Company

The Company has a potential deferred tax asset of £nil (2017 £1.8m). 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:

	2018	2017
	£m	£m
Deductible temporary differences	-	(4.5)
Tax losses	-	6.3
Deferred tax asset	-	1.8

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 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
Additions		7.4	-	0.8	8.2
Acquisitions		-	2.6	-	2.6
Transfer from property, plant and equipment	11	13.0	-	-	13.0
Disposals		(37.0)	-	-	(37.0)
At 31 March 2018		165.2	351.8	3.6	520.6
Amortisation and impairment					
At 1 April 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
Charge for the year	2	25.5	-	-	25.5
Disposals		(37.0)	-	-	(37.0)
At 31 March 2018		132.4	349.2	-	481.6
Net book value at 31 March 2018		32.8	2.6	3.6	39.0
Net book value at 31 March 2017		37.9	-	2.8	40.7

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 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
Additions		7.2	0.6	7.8
Transfer from property, plant and equipment	11	11.0	-	11.0
Disposals		(24.3)	-	(24.3)
At 31 March 2018		105.3	2.8	108.1
Amortisation and impairment				
At 1 April 2016		68.4	-	68.4
Charge for the year		21.3	-	21.3
At 31 March 2017		89.7	-	89.7
Charge for the year		19.6	-	19.6
Disposals		(24.3)	-	(24.3)
At 31 March 2018		85.0	-	85.0
Net book value at 31 March 2018		20.3	2.8	23.1
Net book value at 31 March 2017		21.7	2.2	23.9

Notes to the Financial Statements (continued)

11 Property, plant and equipment

a) Group property, plant and equipment at 31 March 2018 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2017		26,659.5	5,243.8	1,662.8	12,809.9	46,376.0
Additions		48.1	105.7	29.7	3,123.5	3,307.0
Transfers between asset classes		890.5	146.1	36.1	(1,072.7)	-
Transfers to investment properties	12	(1.0)	-	-	-	(1.0)
Transfer to intangible assets	10	(10.5)	-	-	(2.5)	(13.0)
Disposals		(101.3)	-	(14.9)	-	(116.2)
Revaluation		6.2	-	-	-	6.2
At 31 March 2018		27,491.5	5,495.6	1,713.7	14,858.2	49,559.0
Depreciation						
At 1 April 2017		10,186.7	2,095.7	1,084.6	-	13,367.0
Charge for the year	2	681.2	138.1	95.6	-	914.9
Transfers between asset classes		(0.7)	-	-	-	(0.7)
Disposals		(26.0)	-	(14.6)	-	(40.6)
Revaluation		(14.1)	-	-	-	(14.1)
At 31 March 2018		10,827.1	2,233.8	1,165.6	-	14,226.5
Net book value at 31 March 2018		16,664.4	3,261.8	548.1	14,858.2	35,332.5
Net book value at 31 March 2017		16,472.8	3,148.1	578.2	12,809.9	33,009.0

Notes to the Financial Statements (continued)

11 Property, plant and equipment (continued)

b) 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
Cost or valuation						
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		(13.5)	-	-	-	(13.5)
Transfers to intangible assets	10	-	-	(0.1)	(1.5)	(1.6)
Disposals		(94.3)	(3.9)	(2.6)	-	(100.8)
Revaluation		(9.5)	-	-	-	(9.5)
At 31 March 2017		26,659.5	5,243.8	1,662.8	12,809.9	46,376.0
Depreciation						
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)
At 31 March 2017		10,186.7	2,095.7	1,084.6	-	13,367.0

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 £94.3m (2017 £108.6m). The cumulative borrowing costs capitalised are £506.2m (2017 £411.9m).

d) Capital commitments – Group

At 31 March 2018, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £1,969.1m (2017 £2,725.5m).

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	Rolling stock	Total
	£m	£m	£m
Gross cost			
PFI assets	767.5	45.2	812.7
Other leased assets	-	407.7	407.7
	767.5	452.9	1,220.4
Depreciation			
PFI assets	383.3	41.4	424.7
Other leased assets	-	168.9	168.9
	383.3	210.3	593.6
Net book value at 31 March 2018	384.2	242.6	626.8
Net book value at 31 March 2017	438.7	256.7	695.4

During the year a review of the London Underground Limited asset register was performed with the objective of rationalising the current asset pools and reassessing their useful lives. As a result of this exercise, the estimated useful lives of certain assets were revised to better reflect the economic reality of the lifespan over which these assets will be used. This has been accounted for prospectively as a change in estimate, resulting in a increase in depreciation in the current year of £4.2m.

f) Group office buildings

The fair value of office buildings at 31 March 2018 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 (2016/17 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 2018 was £318.3m (2017 £189.3m) and the historic cost was £32.2m (2017 £23.6m). A related revaluation gain for the year of £20.3m (2016/17 a loss of £3.8m) 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 2018 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2017		205.7	264.9	81.0	551.6
Additions		13.1	18.5	21.6	53.2
Transfers between asset classes		22.3	13.0	(35.3)	-
Transfer to intangible assets	10	(8.7)	-	(2.3)	(11.0)
Disposals		-	(6.4)	-	(6.4)
Revaluation		(0.2)	-	-	(0.2)
At 31 March 2018		232.2	290.0	65.0	587.2
Depreciation					
At 1 April 2017		88.0	220.5	-	308.5
Charge for the year		20.6	18.0	-	38.6
Disposals		-	(6.4)	-	(6.4)
Revaluation		(11.4)	-	-	(11.4)
At 31 March 2018		97.2	232.1	-	329.3
Net book value at 31 March 2018		135.0	57.9	65.0	257.9
Net book value at 31 March 2017		117.7	44.4	81.0	243.1

Notes to the Financial Statements (continued)

11 Property, plant and equipment (continued)

h) 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
Cost or valuation					
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)
At 31 March 2017		205.7	264.9	81.0	551.6
Depreciation					
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)
At 31 March 2017		88.0	220.5	-	308.5

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 (2017 £nil). The cumulative borrowing costs capitalised are also £nil (2017 £nil).

j) Capital commitments - Company

At 31 March 2018, the Company had capital commitments which are contracted for but not provided for in the financial statements amounting to £13.2m (2017 £38.6m).

k) Leased assets - Company

The Company did not have any PFI or other leased assets as at 31 March 2018 and 2017.

l) Office buildings - Company

The fair value of office buildings at 31 March 2018 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 (2016/17 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 2018 was £68.8m (2017 £69.9m) and the historic cost was £12.8m (2017 £13.2m).

Notes to the Financial Statements (continued)

12 Investment properties

	Note	Group £m
Valuation		
At 1 April 2016		504.6
Additions		16.0
Transfer from property, plant and equipment		13.5
Transfer to assets held for sale		(13.5)
Disposals		(2.3)
Revaluation	4	<u>28.9</u>
At 31 March 2017		547.2
Additions		0.4
Acquired through business combinations		11.5
Transfer from property, plant and equipment	11	0.2
Transfer to assets held for sale	16	(72.9)
Disposals		(0.5)
Revaluation	4	<u>40.4</u>
At 31 March 2018		<u>526.3</u>

The fair value of the Group's investment properties at 31 March 2018 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 2016	2.0
Revaluation	<u>1.2</u>
At 31 March 2017	3.2
Revaluation	<u>0.1</u>
At 31 March 2018	<u>3.3</u>

The Company's investment property relates to Kingsbury Parade.

Notes to the Financial Statements (continued)

13 Investment in subsidiary undertakings

	Company 2018 £m	Company 2017 £m
At 1 April	9,095.0	7,795.0
Additions	200.0	1,300.0
At 31 March	<u>9,295.0</u>	<u>9,095.0</u>

During the year, the Group invested £200.0m (2016/17 £1,300.0m) 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
TTL Southwark Properties Limited	Holding company	100%	08212651
TTL Kidbrooke Properties Limited*	Holding company	100%	10768138
TTL Landmark Court Properties Limited*	Holding company	100%	11121741
TTL Blackhorse Road Properties Limited*	Holding company	100%	11121664

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

* All outstanding liabilities of these undertakings as at 31 March 2018 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 2018 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

a) Earls Court Partnership Limited

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 Earl's 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. During 2017/18 the Group invested an additional £1.37m in loan notes of ECP.

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 2017 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March 2018. Of the total £1.37m loan notes acquired during the year, £1.1m were issued after the entity's year end and have therefore been adjusted in the investment balance below.

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 2018 £m	Group 2017 £m
Short-term assets	5.7	5.9
Long-term assets	890.5	1,035.0
Short-term liabilities	(8.4)	(6.7)
Long-term liabilities	(61.4)	(39.1)
Total net assets	826.4	995.1

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

	Group 2018 £m	Group 2017 £m
Net assets at 100%	826.4	995.1
Percentage held by the TfL Group	37%	37%
Acquisition of loan notes after 31 December 2017	1.1	-
Carrying amount of the Group's equity interest in Earls Court Partnership Limited	306.9	368.2

Notes to the Financial Statements (continued)

14. Investment in associates (continued)

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

	Group 2018 £m	Group 2017 £m
Group share of loss from continuing operations	(62.7)	(104.8)
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	(62.7)	(104.8)

b) Kidbrooke Partnership LLP

During the year the Group acquired a 49 per cent holding in the members' interest of Kidbrooke Partnership LLP (KP LLP), a property development partnership, for a cash consideration of £12.1m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Kidbrooke Properties Limited. Through its voting rights and representation on the Board of Members, the Group has significant influence but not control over the relevant activities of KP LLP. The Group's investment is therefore accounted for using the equity method in these consolidated accounts.

In late January 2018, KP LLP commenced trading and the Group granted a 299 year lease over the land lying to the South East of Kidbrooke Park Road to KP LLP for a consideration of £17.0m. The financial year end of KP LLP is 31 March.

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

Balance sheet of Kidbrooke Partnership LLP at the 100% level

	Group 2018 £m
Short-term assets	24.8
Long-term assets	-
Short-term liabilities	-
Long-term liabilities	-
Total net assets	24.8

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

	Group 2018 £m
Net assets at 100%	24.8
Percentage held by the TfL Group	49%
Carrying amount of the Group's equity interest in Kidbrooke Properties LLP	12.1

There were no post-acquisition transactions in KP LLP and therefore no impact on Group consolidated profits relating to the associate.

Notes to the Financial Statements (continued)

15 Inventories

	Group	Group
	2018	2017
	£m	£m
Raw materials and consumables	63.3	69.4
Goods held for resale	0.9	1.5
	<u>64.2</u>	<u>70.9</u>

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

	Company	Company
	2018	2017
	£m	£m
Raw materials and consumables	-	-

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
		2018	2017
	Note	£m	£m
Balance outstanding at start of year		13.5	-
Assets newly classified as held for sale:			
Investment properties	12	72.9	13.5
Revaluation gains		0.7	-
Assets declassified as held for sale:			
Disposals:			
Investment properties		(3.9)	-
Balance outstanding at end of year		<u>83.2</u>	<u>13.5</u>

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

As at 31 March 2018, certain development sites 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.

	2018	2017
	£m	£m
Principal outstanding		
Current	8.2	0.9
Non-current	17.4	3.5
	<u>25.6</u>	<u>4.4</u>

Notes to the Financial Statements (continued)

18 Trade and other receivables

	Group 2018 £m	Group 2017 £m
Current		
Trade receivables	79.2	88.1
Amounts due from ultimate parent	71.9	162.0
Other tax and social security	80.2	72.5
Grant debtors	3.3	4.8
Other receivables	49.3	1,316.6
Prepayments	91.1	97.5
Capital debtors	-	5.2
Accrued income	31.7	12.9
	406.7	1,759.6
Non-current		
Other receivables	10.0	8.7
Prepayments	13.2	14.1
	23.2	22.8

Other receivables for 2016/17 included funds totalling £1,268.2m advanced to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. The financing was fully repaid in the year (£17.2m repaid in 2016/17). For 2016/17, this receivable was non-interest bearing and was discounted to its fair value of £1,264.8m using a discount rate of 0.633 per cent.

	Company 2018 £m	Company 2017 £m
Current		
Trade receivables	55.1	58.0
Amounts due from fellow group undertakings	254.3	273.5
Other tax and social security	6.1	1.9
Other receivables	6.8	5.7
Prepayments	8.8	15.8
Accrued income	4.0	0.7
	335.1	355.6
Non-current		
Prepayments	0.8	1.3

Notes to the Financial Statements (continued)

19 Cash and cash equivalents

	Group 2018 £m	Group 2017 £m
Cash at bank	87.0	66.5
Cash in hand and in transit	26.7	23.1
	<u>113.7</u>	<u>89.6</u>

	Company 2018 £m	Company 2017 £m
Cash at bank	49.0	35.4
Cash in hand and in transit	0.5	3.3
	<u>49.5</u>	<u>38.7</u>

Notes to the Financial Statements (continued)

20 Trade and other payables

	Group	Group
	2018	2017
	£m	£m
Current		
Trade payables	85.7	128.7
Capital works	747.1	578.7
Retentions on capital contracts	4.8	6.2
Amounts due to ultimate parent	750.5	694.9
Receipts in advance for travelcards, bus passes and Oyster cards	402.2	426.1
Wages and salaries	74.2	80.7
Interest accruals	3.0	4.8
Other deferred income	44.1	43.7
Other taxation and social security	42.1	41.1
Capital grants received in advance	-	5.8
Accruals and other payables	317.1	301.4
	2,470.8	2,312.1
Non-current		
Retentions on capital contracts	17.2	13.2
Trade payables	0.2	7.9
Other deferred income	23.8	11.2
Accruals and other payables	7.6	7.9
	48.8	40.2
	Company	Company
	2018	2017
	£m	£m
Current		
Trade payables	17.8	16.1
Capital works	14.9	21.3
Amounts due to fellow Group undertakings	93.5	93.5
Receipts in advance for travelcards, bus passes and Oyster cards	395.7	405.0
Wages and salaries	2.5	3.6
Other deferred income	23.3	21.8
Other taxation and social security	0.3	0.3
Capital grants received in advance	-	0.4
Accruals and other payables	65.7	63.9
	613.7	625.9
Non-current		
Trade payables	-	7.8
Accruals and deferred income	21.4	8.9
	21.4	16.7

Notes to the Financial Statements (continued)

21 Borrowings and overdraft

	Group 2018 £m	Group 2017 £m
Current		
Bank overdraft	0.1	-
Non-current		
Amounts due to ultimate parent	9,988.0	9,369.3

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

	Company 2018 £m	Company 2017 £m
Non-current		
Amounts due to ultimate parent	30.4	30.4

We have a number of loan facilities with the European Investment Bank (EIB) and Export Development Canada (EDC), which contribute to the financing of a range of our projects. These facilities support contracts and projects including the Crossrail rolling stock and depot contract, Victoria and Bank station upgrades, cycling infrastructure and track replacements.

During the year, we signed a new £250 million 10 year corporate loan facility with EDC to finance part of the procurement of Automatic Train Control signalling for the District, Metropolitan, Circle and Hammersmith & City lines.

A total of £950 million was drawn under our EIB and EDC facilities at fixed interest rates during the year. A further £250m was fixed for drawdown in 2018/19 and a total of £200 million remains available for drawdown in future years. These borrowings are expected to form part of our incremental borrowing agreed with Government and have not been recognised as a liability in these financial statements in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

In addition to these loan facilities we continue to manage borrowings from a number of other sources, including the Public Works Loans Board (PWLB) and the capital markets. We use our active £2bn Commercial Paper programme throughout the year to manage our liquidity requirements.

Notes to the Financial Statements (continued)

Changes in liabilities arising from financing activities

	Group 2018 £m	Group 2017 £m
Balance at 1 April 2017		
Current	65.3	83.2
Non-current	9,715.3	9,100.1
	9,780.6	9,183.3
Additions	618.7	680.5
Repayment of finance leases	(65.3)	(83.2)
As at 31 March 2018	10,334.0	9,780.6
Current	59.1	65.3
Non-current	10,274.9	9,715.3
	10,334.0	9,780.6

	Company 2018 £m	Company 2017 £m
Balance at 1 April 2017		
Non-current	30.4	30.4
	30.4	30.4
As at 31 March 2018	30.4	30.4
Non-current	30.4	30.4
	30.4	30.4

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
At 31 March 2018			
Within one year	83.6	(24.5)	59.1
Between one and two years	79.7	(20.5)	59.2
Between two and five years	106.7	(44.4)	62.3
Later than five years	211.2	(45.9)	165.3
	481.2	(135.3)	345.9
At 31 March 2017			
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
	576.1	(164.8)	411.3
		2018	2017
Principal outstanding		£m	£m
Current		59.1	65.3
Non-current		286.8	346.0
		345.9	411.3

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 2018 and 2017.

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 2018	Group 2018	Group 2017	Group 2017
	Fair value £m	Notional amount £m	Fair value £m	Notional amount £m
Non-current assets				
Forward starting interest rate swaps	7.0	96.0	5.7	96.0
Foreign currency forward contracts	4.7	126.2	12.5	92.1
	<u>11.7</u>	<u>222.2</u>	<u>18.2</u>	<u>188.1</u>
Current assets				
Foreign currency forward contracts	<u>5.9</u>	<u>510.4</u>	<u>12.3</u>	<u>234.5</u>
Current liabilities				
Interest rate swaps	0.7	100.0	2.9	250.0
Foreign currency forward contracts	0.8	94.9	0.7	201.6
	<u>1.5</u>	<u>194.9</u>	<u>3.6</u>	<u>451.6</u>
Non-current liabilities				
Interest rate swaps	50.4	482.9	77.2	581.5
Foreign currency forward contracts	1.6	30.9	2.0	93.5
	<u>52.0</u>	<u>513.8</u>	<u>79.2</u>	<u>675.0</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 2017	Utilised in the year	Charge for the year	Releases in the year	At 31 March 2018
	£m	£m	£m	£m	£m
Compensation and contractual	37.3	(3.9)	145.8	(8.8)	170.4
Environmental harm	1.4	-	-	-	1.4
Other	47.3	(8.8)	53.7	(5.6)	86.6
	86.0	(12.7)	199.5	(14.4)	258.4

	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	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

	2018 £m	2017 £m
Current	209.7	80.9
Non-current	48.7	5.1
	258.4	86.0

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 environmental 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 2017 £m	Utilised in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2018 £m
Compensation and contractual	3.1	-	6.7	(0.4)	9.4
	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	0.5	(0.1)	2.7	-	3.1
				2018 £m	2017 £m
Current				9.4	3.1

Compensation and contractual

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 2018 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
At 31 March 2018					
Within one year	33.1	12.5	3.3	26.9	75.8
Between one and two years	25.4	11.5	2.1	42.5	81.5
Between two and five years	66.2	22.1	3.1	119.9	211.3
Later than five years	398.1	24.7	-	342.4	765.2
	522.8	70.8	8.5	531.7	1,133.8
At 31 March 2017					
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
	313.7	72.0	7.5	555.3	948.5

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
At 31 March 2018				
Within one year	59.2	9.8	-	69.0
Between one and two years	52.7	10.0	-	62.7
Between two and five years	118.7	22.8	-	141.5
Later than five years	682.4	8.9	-	691.3
	913.0	51.5	-	964.5
At 31 March 2017				
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
	930.1	36.9	0.2	967.2

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
At 31 March 2018	
Within one year	11.3
Between one and two years	10.8
Between two and five years	28.5
Later than five years	208.1
	<u>258.7</u>
At 31 March 2017	
Within one year	3.1
Between one and two years	2.8
Between two and five years	3.9
Later than five years	16.7
	<u>26.5</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
At 31 March 2018	
Within one year	0.6
Between one and two years	0.5
Between two and five years	1.6
Later than five years	0.8
	<u>3.5</u>
At 31 March 2017	
Within one year	1.0
Between one and two years	1.0
Between two and five years	2.0
Later than five years	0.3
	<u>4.3</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
At 31 March 2018	£m
Within one year	1.6
Between one and two years	1.5
Between two and five years	3.7
Later than five years	51.4
	58.3
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
	59.9

The inter-company lease relates to Victoria Coach Station.

Notes to the Financial Statements (continued)

28 Deferred grant

		Group 2018	Group 2017
	Note	£m	£m
At 1 April		13,545.6	13,220.1
Transport grant		560.1	994.0
Third party contributions and other grants to fund property, plant and equipment		37.8	23.6
Released to the Statement of Comprehensive Income			
- to meet the depreciation charge	2	(710.3)	(680.9)
- on disposal of property, plant and equipment		(45.0)	(11.2)
At 31 March		<u>13,388.2</u>	<u>13,545.6</u>

		Company 2018	Company 2017
		£m	£m
At 1 April		104.0	112.4
Transport grant		9.6	12.3
Third party contributions and other grants to fund property, plant and equipment		24.2	0.5
Released to the Statement of Comprehensive Income account:			
- to meet the depreciation charge		(18.6)	(21.2)
At 31 March		<u>119.2</u>	<u>104.0</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 operates within the risk management process outlined by the Treasury Management Policy, which requires the Board of Transport for London, the Company's ultimate parent, to approve a Treasury Management Strategy on at least an annual basis, prior to the commencement of each financial year.

The Group monitors the risk profile of its borrowing and derivative programmes against approved benchmarks and provides regular reports to the Chief Finance Officer. Semi-annual reports on overall performance against the approved strategy are considered by the Finance Committee (a committee of the TfL Board).

The Group's principal financial instruments comprise borrowings, derivatives, finance lease liabilities and cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments that arise directly from the Group's operations include trade receivables and payables.

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 TfL'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 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.

Cash and Cash Equivalents

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. Limits include those set per institution, a maximum tenor, and are linked to the credit rating of the institution.

Notes to the Financial Statements (continued)

29 Funding and financial risk management (continued)

Credit risk (continued)

Derivative financial Instruments

The Group spreads its exposure over a number of counterparties, and has 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 the exposure with 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, borrow from commercial banks or utilise its overdraft facility and, and subject to meeting the relevant criteria, borrow at competitive interest rates from the European Investment Bank and Export Development Canada. 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 inflation 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 2018 and 2017, 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 2017/18, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to retain the risk where there was a value in doing so, where the exposure was highly probable and the risk profile highly certain. These exchange rate exposures were managed through the use of forward foreign exchange contracts. Hedge accounting is applied to these derivative instruments. For exposures not meeting these criteria, the exchange risk was passed on to the vendor.

At 31 March 2018, 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 nominal value of £219.5m (2017 £251.1m). At 31 March 2018, these contracts had a combined net fair value of £4.7m (2017 £19.5). It is expected that the hedged purchases will take place in the period to 29 September 2023. 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 2018, the Group also held forward foreign exchange swaps to hedge €514.0m (2017 €430.0m) 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 £0.9m (2017 £22.6m gain) has therefore been recognised directly in the Income Statement within financial income. These derivative instruments mature in the period to August 2018.

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.

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 2018, the Group held forward euro foreign exchange contracts with a combined total net nominal sale value of £372.5m (2017 £276.1m) and a net fair value asset of £4.7m (2017 an asset of £3.3m). A 10% increase/(decrease) in GBP against the euro would increase/(decrease) the fair value of these derivative instruments by £38.1m/£(36.1)m (2017 £28.1m/£(27.0)m).

As at 31 March 2018, the Group holds forward foreign exchange contracts with a combined net notional value of £0.3m (2017 £0.7m) and a fair value of £0.0m (2017 £0.2m) to purchase US dollars. A 10% Increase/(decrease) in GBP against the US dollar would (decrease)/increase the fair value of these derivative instruments by £(0.0)m/£0.1m (2017 £0.1m/£0.3m).

As at 31 March 2018, the Group also holds forward foreign exchange contracts with a combined net notional value of £84.2m (2017 £116.4m) and a fair value of £5.1m (2017 £19.4m) to purchase Canadian dollars. A 10% increase/(decrease) in GBP against the Canadian dollar would (decrease)/increase the fair value of these derivative instruments by £(3.0)m/£14.9m (2017 £7.0m/£34.4m).

As at 31 March 2018, the Group also holds forward foreign exchange contracts with a combined net notional value of £28.7m (2017 £23.6m) and a fair value of £(1.5)m (2017 £(0.7)m) to purchase Swedish Krona. A 10% increase/(decrease) in GBP against the Swedish Krona would (decrease)/increase the fair value of these derivative instruments by £(3.9)m/£1.5m (2017 £(2.8)m/£1.8m).

As at 31 March 2018, the Group also holds forward foreign exchange contracts with a combined net notional value of £3.2m (2017 £3.2m) and a fair value of £(0.3)m (2017 £(0.1)m) to purchase Swiss Francs. A 10% increase/(decrease) in GBP against the Swiss Franc would (decrease)/increase the fair value of these derivative instruments by £(0.6)m/£0.0m (2017 £(0.4)m/£0.3m).

As at 31 March 2018, the Group also holds forward foreign exchange contracts with a combined net notional value of £6.9m (2017 £7.1m) and a fair value of £0.1 (2017 £nil) to purchase Chinese Renminbi. A 10% Increase/(decrease) in GBP against the Chinese Renminbi would (decrease)/increase the fair value of these derivative instruments by £(0.5)m/£1.0m (2017 £(0.6)m/£0.8m). The Company has no other material exposure to foreign exchange rate movements.

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 2018, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 15 interest rate swaps at a notional value of £678.9m (2017 20 interest rate swaps at a total notional value of £927.5m). The net fair value of these contracts at 31 March 2018 was a liability of £44.1m (2017 £74.4m). 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.

Notes to the Financial Statements (continued)

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 2018, the Group holds interest rate derivative contracts with a combined notional value of £678.9m (2017 £927.5m) 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 £39.5m/(£35.8m) (2017 £48.2m/(£44.0m)).

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:

	2018 Average exchange rate	2018 Fair value £m	2018 Notional amount £m	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m
Foreign currency forward contracts						
<i>Buy euro</i>						
Less than one year	0.878	0.3	66.8	0.807	1.7	25.9
Between one and two years	0.881	0.2	10.8	0.878	(0.3)	20.1
Between two and five years	0.900	0.8	43.2	0.896	(0.5)	39.5
After five years	0.928	-	5.8	0.923	(0.3)	11.9
<i>Sell euro</i>						
Less than one year	0.886	3.4	499.1	0.862	2.7	373.4
Total euro	0.884	4.7	625.7	0.864	3.3	470.8
<i>Buy US Dollars</i>						
Less than one year	0.638	-	0.3	0.640	0.1	0.4
Between one and two years	-	-	-	0.638	0.1	0.3
Between two and five years	-	-	-	-	-	-
Total US Dollars	0.638	-	0.3	0.639	0.2	0.7
<i>Buy Canadian Dollars</i>						
Less than one year	0.513	1.7	23.1	0.500	7.0	35.5
Between one and two years	0.515	1.7	25.7	0.503	3.7	19.9
Between two and five years	0.511	1.7	35.4	0.513	8.7	60.9
After five years	-	-	-	-	-	-
Total Canadian Dollars	0.513	5.1	84.2	0.507	19.4	116.3

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:

	2018 Average exchange rate	2018 Fair value £m	2018 Notional amount £m	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m
Foreign currency forward contracts						
<i>Buy Swedish Krona</i>						
Less than one year	0.092	(0.2)	2.6	0.092	-	0.4
Between one and two years	0.093	(0.2)	3.6	0.093	(0.1)	2.1
Between two and five years	0.093	(1.0)	20.0	0.094	(0.4)	15.2
After five years	0.093	(0.1)	2.5	0.094	(0.2)	5.9
Total Swedish Krona	0.093	(1.5)	28.7	0.094	(0.7)	23.6
<i>Buy Swiss Francs</i>						
Less than one year	0.839	-	0.4	0.824	-	0.1
Between one and two years	0.851	(0.1)	0.5	0.839	-	0.4
Between two and five years	0.873	(0.2)	2.0	0.867	(0.1)	2.3
After five years	0.905	-	0.3	0.899	-	0.4
Total Swiss Francs	0.868	(0.3)	3.2	0.867	(0.1)	3.2
<i>Buy Chinese Yuan Renminbi</i>						
Less than one year	0.113	0.1	6.7	0.115	-	0.5
Between one and two years	0.106	0.2	6.5	0.109	-	6.2
Between two and five years	0.101	-	0.4	0.103	-	0.4
<i>Sell Chinese Yuan Renminbi</i>						
Less than one year	0.109	(0.2)	6.3	-	-	-
Between one and two years	0.103	-	0.4	-	-	-
Total Chinese Yuan Renminbi	0.106	0.1	20.3	0.109	-	7.1
Grand total	n/a	8.1	762.4	n/a	22.1	621.7
	2018 Average interest rate (%)	2018 Fair value £m	2018 Notional amount £m	2017 Average interest rate (%)	2017 Fair value £m	2017 Notional amount £m
Interest rate hedges						
Less than one year	3.566	(0.8)	100.0	3.273	(2.9)	250.0
Between one and two years	3.849	(5.4)	150.0	3.566	(3.9)	100.0
Between two and five years	4.024	(21.4)	200.0	3.815	(24.0)	250.0
After five years	2.492	(16.5)	228.9	3.036	(43.6)	327.4
	3.401	(44.1)	678.9	3.367	(74.4)	927.4

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
Group – 2018					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	507.0	48.3	102.4	8.5	666.2
Amounts payable	(501.8)	(46.6)	(101.0)	(8.6)	(658.0)
Derivatives settled net					
Interest rate swaps	(15.5)	(10.2)	(18.9)	(3.6)	(48.2)
	(10.3)	(8.5)	(17.5)	(3.7)	(40.0)
Group – 2017					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	445.0	52.5	126.0	17.7	641.2
Amounts payable	(433.5)	(49.1)	(118.4)	(18.2)	(619.2)
Derivatives settled net					
Interest rate swaps	(24.1)	(16.9)	(31.2)	(26.6)	(98.8)
	(12.6)	(13.5)	(23.6)	(27.1)	(76.8)

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 2018, the fair value of the interest rate derivatives was a net liability of £44.1m (2017 £74.4m). The fair value of forward foreign exchange derivatives was a net asset of £8.1m (2017 a net asset of £22.1m).

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
Group - 2018					
Trade and other payables	2,024.4	25.0	-	-	2,049.4
Borrowings	-	2,655.9	4,265.2	3,066.9	9,988.0
Finance lease liabilities	83.6	79.7	106.7	211.2	481.2
	<u>2,108.0</u>	<u>2,760.6</u>	<u>4,371.9</u>	<u>3,278.1</u>	<u>12,518.6</u>
Group - 2017					
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>
Company - 2018					
Trade and other payables	194.7	7.6	-	-	202.3
Borrowings	-	30.4	-	-	30.4
	<u>194.7</u>	<u>38.0</u>	<u>-</u>	<u>-</u>	<u>232.7</u>
Company - 2017					
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>

Notes to the Financial Statements (continued)

29 Funding and financial risk management (continued)

Fair values

In accordance with IFRS 13, the fair values of the financial assets and liabilities are calculated as the amount 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 following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount.
- 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 – approximates to the carrying amount.
- 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	2018	2018	2017	2017
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	113.7	113.7	89.6	89.6
Trade and other receivables	325.6	325.6	1,670.7	1,670.7
Derivative financial instruments	17.6	17.6	30.5	30.5
Total financial assets	456.9	456.9	1,790.8	1,790.8
Trade and other payables	2,049.4	2,049.4	1,865.3	1,865.3
Borrowings and overdrafts	9,988.1	9,988.1	9,369.3	9,369.3
Finance lease liabilities	345.9	345.9	411.3	411.3
Derivative financial instruments	53.5	53.5	82.8	82.8
Total financial liabilities	12,436.9	12,436.9	11,728.7	11,728.7
Net financial liabilities	(11,980.0)	(11,980.0)	(9,937.9)	(9,937.9)

Company	2018	2018	2017	2017
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	49.5	49.5	38.7	38.7
Trade and other receivables	326.3	326.3	339.8	339.8
Total financial assets	375.8	375.8	378.5	378.5
Trade and other payables	202.3	202.3	214.7	214.7
Borrowings	30.4	30.4	30.4	30.4
Total financial liabilities	232.7	232.7	245.1	245.1
Net financial assets	143.1	143.1	133.4	133.4

The fair value of the Company's assets did not differ materially from the carrying value at 31 March 2018 or 2017.

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 Public Sector Section of the TfL Pension Fund ("TfL Pension Fund"). The majority of the Group's remaining staff are members of the Railway Pension Scheme and the Tube Lines defined contribution scheme.

b) Defined benefit schemes

Public Sector Section of the 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, an additional lump sum payment of £47.6m was made during the year ended 31 March 2018. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2022.

Railways Pension Scheme

Crossrail Shared Cost Section of the Railways Pension Scheme ("Crossrail Section") Until 31 October 2016 Crossrail Limited ("CRL") contributed 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 was unable to identify its share of the underlying assets and defined benefit obligation. It was therefore accounted for as a defined contribution scheme under IAS 19. The pension charge from 1 April 2016 to 31 October 2016 that was recognised as a defined contribution charge in respect of this scheme was £7.0 million.

On 31 October 2016 Crossrail Limited transferred its participation in the Railways Pension Scheme from the Omnibus Section of the Railways Pension Scheme to a newly established Crossrail Section of the Railways Pension Scheme. From this date the Crossrail Section has been accounted for in these financial statements as a defined benefit pension scheme under IAS 19.

A full actuarial valuation of the Crossrail Section was carried out at 31 December 2016. A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2018. The Group's share of the underlying assets and defined benefit obligation resulted in a deficit of £26.1m (2017 £32.0m). The discounted Crossrail Section liabilities have a duration of approximately 25 years. The pension charge for the year was £6.4m (2016/17 £7.0m).

Other schemes

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

Notes to the Financial Statements (continued)

c) Accounting

A valuation of the TfL Public Sector Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2018. 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 TfL Pension Fund has 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 2017 projections with a long term improvement rate of 1.25 percent per annum. The discounted scheme liabilities have an average duration of 18 years.

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 £245.1m (2016/17 £227.9m) have been charged to the Income Statement.

The IAS 19 deficit on the Public Sector Section of the TfL Pension Fund at 31 March 2018 was £4,535.2m (2017 £5,193.9m). 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 2017	96.9
Current service cost	5.6
Interest cost	2.6
Employee contributions	0.5
Obligations recognised at 31 October 2016	-
Net remeasurement losses - financial	(3.8)
Net remeasurement losses - experience	(3.5)
Net remeasurement losses - demographic	(1.4)
Actual benefit payments	(1.3)
Settlements	-
At 31 March 2018	<u>95.6</u>

Reconciliation of fair value of the Section's assets

	£m
At 1 April 2017	64.9
Interest income on scheme assets	1.8
Return on assets excluding interest income	0.3
Actual employer contributions	3.3
Employee contributions	0.5
Actual benefit payments	(1.3)
Scheme expenses	-
Settlements	-
At 31 March 2018	<u>69.5</u>
Net deficit	<u>26.1</u>

Total contributions of £2.4m are expected to be made to the Crossrail Section of the Railways Pension Fund in the year ending 31 March 2019.

Notes to the Financial Statements (continued)

30 Pensions (continued)

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 gains - financial	1.1
Net remeasurement gains - experience	-
Net remeasurement losses - demographic	(0.7)
Actual benefit payments	-
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>
Net deficit	<u>32.0</u>

Notes to the Financial Statements (continued)

30 Pensions (continued)

d) Summary of pension totals for the year

		Group 2018	Group 2017
	Note	£m	£m
Total pension service cost for the year			
TfL Pension Fund (Public Sector Section)		245.1	227.9
Other schemes		23.4	32.1
Total pension service cost for the year	5	268.5	260.0
Scheme administrative expenses for the TfL Pension Funds		0.8	0.3
Amount included in cost of operations		269.3	260.3

		Group 2018	Group 2017
		£m	£m
Net interest on defined benefit obligations			
Crossrail Section of the Railways Pension Fund		0.8	0.3
Amounts charged to financial expenditure	8	0.8	0.3

Notes to the Financial Statements (continued)

30 Pensions (continued)

	Group 2018	Group 2017
	£m	£m
Total actuarial gains and losses recognised		
Actuarial gain/(loss) on Crossrail Section of the Railways Pension Fund	9.0	(30.0)

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

	Value at 31 March 2018	Value at 31 March 2017
	£m	£m
Equities	54.9	46.1
Bonds	14.2	18.4
Cash, property and other assets	0.4	0.4
Total market value of assets	69.5	64.9

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

	At 31 March 2018	At 31 March 2017
	%	%
RPI Inflation	3.05	3.40
Rate of Increase in salaries	3.05	3.40
Discount rate	2.45	2.65

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 £2.2m (increase by £2.2m).
- If the expected salary growth were increased/(decreased) by 0.1%, the defined benefit obligation would increase by £0.5m (decrease by £0.5m).

Notes to the Financial Statements (continued)

- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £2.6m/(decrease by £2.6m).
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £2.2m/(decrease by £2.2m).

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	2018	2017
	£m	£m
As at 1 April	8,560.0	7,260.0
Issued during the year	200.0	1,300.0
As at 31 March	8,760.0	8,560.0

	Number	Number
Authorised £1 shares	8,760m	8,560m
Issued and fully paid up £1 shares	8,760m	8,560m

During 2017/18 TTL issued 200m fully paid £1 ordinary shares (2016/17 1,300m fully paid £1 ordinary shares). These were settled for consideration of £200 million of cash.

32 Acquisitions

Development Securities (Southwark) Limited

On 21 March 2018, the acquisition of Development Securities (Southwark) Limited ("DSSL") was completed, with 100 per cent of the shares acquired for a cash consideration of £1.4m.

DSSL owns land interests adjacent to Southwark Station including four residential flats in Styles House, one residential unit in the "Chalet" building fronting The Cut and Algarve House (rebranded as the "Platform" building). The TfL group purchased DSSL for the purpose of further developing this land together with land surrounding Southwark Station that is already owned by TfL. The development is subject to conclusion of a land swap agreement with London Borough of Southwark in order to create a uniform plot for a viable development site.

As part of the sale and purchase agreement, the Group was required to repay loans amounting to £12.6m which were advanced by the seller to DSSL.

In accordance with IFRS 3, adjustments are made to identifiable assets and liabilities on acquisition to reflect their fair value. As a result, the property in DSSL is reflected at a Group level at £11.5m, resulting in a downwards fair value adjustment of £0.5m. All other assets and liabilities were found to be reflective of their fair values. As part of the exercise, management have reviewed DSSL's activities and concluded that there are no intangible assets to be recognised in the fair valued acquisition balance sheet.

The fair value of the net liabilities acquired was £1.2m, which resulted in goodwill of £2.6m. This premium is reflective of the potential to unlock the additional value as a result of the land swap agreement.

Notes to the Financial Statements (continued)

32. Acquisitions (continued)

The assets and liabilities acquired are set out below:

	20 March 2018 Book value £m	20 March 2018 Fair value adjustments £m	20 March 2018 Fair value total £m
Investment property	12.0	(0.5)	11.5
Trade and other receivables	-		-
Trade and other payables	(12.7)		(12.7)
Net liabilities acquired	(0.7)	(0.5)	(1.2)
Cash			(1.4)
Total consideration			(1.4)
Goodwill			2.6
Reconciliation to Group Statement of Cash Flows			£m
Cash consideration paid for acquisition for DSSL			(1.4)
Total payments to acquire subsidiaries per Group Statement of Cash Flows			(1.4)

Subsequent to the acquisition, the entity has been renamed TTL Southwark Properties Limited.

In accordance with the purchase agreement, the shareholder loan was repaid immediately after acquisition. There were no other post-acquisition transactions impacting the Group's consolidated profits.

33 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 (2016/17 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:

Notes to the Financial Statements (continued)

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 £177.8m 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.

34 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, which consolidates this company's results, accounts will be available in due course from 55 Broadway, London SW1H 0BD.

35 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.

On 24 July 2018, it was announced in a Ministerial Statement that additional funding will be provided to Crossrail Limited and Network Rail in respect of the Crossrail project in the next two years. Additional funding of £300 million is being made available to Crossrail Limited for its remaining programme of works in the central section, specifically the complex systems installation and testing, prior to the opening of the railway for reliable passenger service. The additional funding is being provided by the Department for Transport and TfL, with each party providing £150m.

This additional funding requirement of £150m by TfL will be incorporated into the 2018 Business Plan due to be published in December this year, and will not have any impact on the ability of the TTL Group and its subsidiaries to continue as a going concern. This is considered a non-adjusting post balance sheet event as there is no impact on the 31 March 2018 financial statements, including the carrying values of current projects.