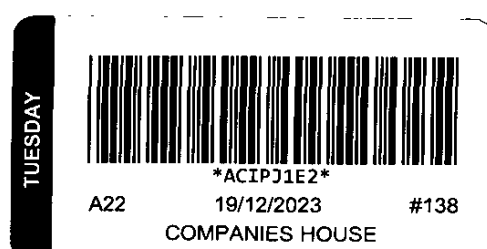


Docklands Light Railway Limited

Annual Report and Financial Statements Year ended 31 March 2023

Registered Office
5 Endeavour Square
Stratford
London
E20 1JN

Registered in England and Wales
Number 02052677



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Directors' Report

Introduction

The directors present their annual report on the affairs of Docklands Light Railway Limited (the "Company" or "DLR") together with the Financial Statements for the year ended 31 March 2023. The Company is a subsidiary undertaking of Transport Trading Limited ("TTL") and is part of the group headed by Transport for London ("TfL"), the "TfL Group".

Principal Activity

The principal activity of the Company is the provision of rail and cable car passenger transport services in East and South East London.

Directors

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

T. Ashton	Appointed 18 May 2022
P. Doig	Resigned 15 December 2022
G. Hobbs	
L. Matson	
G. Powell	Resigned 18 May 2022
R. Sachdeva	Appointed 19 December 2022

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

The Company maintains directors' and officers' liability insurance.

Employee Involvement and Communications

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

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

Directors' Report

Employee Practice

The Company has a people strategy in place that aims to create a culture and environment for everyone to contribute and flourish, collaboratively as one team. The Company values the diversity which exists in our city and aspires to this being reflected in our workforce. This is reflected not only in its recruitment and selection processes, but also throughout the employment cycle of every member of staff. The Company is committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements and promotion and performance appraisal. The Company is committed to comply with its 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 Company continues and to provide specialised training where this is appropriate. Employee numbers are disclosed in the notes to the accounts.

Health, Safety, Security and Environment

The Company is committed to continuous improvement in Safety, Health & Environment (SHE) performance. In addition to SHE management as part of the normal business activity, SHE objectives are identified and regularly reviewed to form short and longer term plans as a basis for improving health, safety, security and environment for customers, employees and suppliers. Compliance with the SHE Management System is subject to checks by the Office of Rail and Road and to internal planned audits and reviews, so that a consistent and effective approach to safety management is applied across all areas of the business. Safety objectives are set annually within a safety improvement plan and progress against them is monitored at the Health and Safety Committee and then subsequently at period end review meetings, attended by directors and safety managers. Performance of the Company is also reviewed at the TfL Safety, Sustainability and Human Resources Panel.

Streamlined Energy and Carbon Reporting helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy and carbon usage reporting.

The TfL Accounts for the year ending 31 March 2023 include the required disclosures as per these regulations for the TfL Group. The relevant disclosures for the Company are made below.

The below table discloses the energy use and corresponding CO₂ emissions.

<i>For the year ended 31 March</i>	2023	2023	2022	2022
	Energy use	CO₂ emissions	Energy use	CO₂ emissions
	MWh	tonnes	MWh	tonnes
Electricity	52,890	10,228	60,566	12,860
Gas	-	-	-	-
<i>For the year ended 31 March</i>	2023	2023	2022	2022
	Consumption	CO₂ emissions	Consumption	CO₂ emissions
	litres	tonnes	litres	tonnes

Directors' Report

Fuel – petrol	-	-	-	-
Fuel – diesel	-	-	-	-

Intensity metric	2023	2023	2022	2022
	Amounts	Units	Amounts	Units
Operated train km	5,671,161.0	1.8kCO ₂ e/ perated train km	5,187,196.0	2.48kCO ₂ e/ Operated train km

On an annual basis, the safety, health, and environmental policy and performance reports, containing details of TfL's action plans in relation to furthering the green agenda are published on the TfL website.

Charitable Donations and Political Contributions

No donations were made to charities during the year (2021/22 £nil). No political contributions were made during the year (2021/22 £nil).

Dividends

No interim dividends were paid during the year (2021/22 £nil) and the directors do not recommend the payment of a final dividend (2021/22 £nil).

Corporate Governance

Docklands Light Railway Limited is a wholly owned subsidiary of TTL, which in turn is controlled by TfL, which appoints all the directors of the Company. The Board of Docklands Light Railway Limited, through its management structure, implements the corporate aims and controls laid down by TfL. Particulars in respect of corporate governance can be found in the TfL Annual Report and Statement of Accounts.

Directors' Report

Additional disclosures

The Company has chosen, in accordance with Section 414c (11) of the Companies Act 2006, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Directors' Report.

Other information that is relevant to the Directors' Report can be located in the Strategic Report as follows:

Future developments page 5

Principal risks and risk management page 7

Auditor

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

Signed on behalf of the Board by:



L. Matson

Director

28 June 2023

Strategic Report

Activities and Future Developments

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

Directors' statement, section 172 of the Companies Act (2006)

As the board of directors of Docklands Light Railway Limited both collectively and individually we fulfilled our duties, as detailed in section 172 of the Companies Act (2006), to a high standard throughout this reporting period.

Acting fairly between our stakeholders

TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act 1999). It is a functional body of the GLA and reports to the Mayor of London. We are focused on promoting the success of the business and benefitting all our stakeholders. As a Local Authority, our activities and engagement are concentrated on delivering the Mayor's Transport Strategy and the needs of our passengers, our people, the general public, our supply chains and service providers.

Key priorities in the Mayor's Transport Strategy are: creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. (See the Delivering Mayor's Strategy section of TfL's Accounts for the year ending 31 March 2023).

The TTL Group, which comprises Transport Trading Limited (a subsidiary of TfL) and its subsidiaries, reports into TfL. Key policies and governance for all TTL Group companies are set by the TfL Board.

High standards of business conduct

Our governance and decision-making arrangements ensure we manage the business responsibly and effectively and to high standards of business conduct (see TfL's Governance Framework in TfL's Accounts for the year end 31 March 2023). This includes operating within the requirements of relevant legislation (including Local Authority legislation), as well as understanding our responsibilities to spend public funds efficiently and manage risks effectively. TfL conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There is also an annual Board Effectiveness Review.

The opinion for the year ending 31 March 2023 concluded that TfL's governance framework was adequate for TfL's business needs and operated in an effective manner. The opinion highlighted work that was in progress to address previously disclosed weaknesses in several audits of governance and financial controls relating to procurement and contract management. These issues are being addressed by the Procurement and Supply Chain team.

We have established a committee structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured the TfL Board has the right range and depth of knowledge, skills and experiences to run the business effectively. We refreshed our Board membership, in line with best practice, so it remained relevant and up to date (the list of our members is set out in TfL's Accounts for the year end 31 March 2023). At the date of this report 47 per cent of our Board members are women. We understand the benefits of diversity and are continually seeking to improve this across our Board and executive teams.

We also have a series of policies and guidance setting out expected standards of behaviour and conduct. Our policies include the TfL Code of Conduct, Anti-fraud and corruption policy, Slavery and Human Trafficking Statement and the Whistleblowing policy.

Strategic Report

In an organisation as large as TfL, we partly fulfil our duties by delegating day-to-day decisions to company employees within our governance framework.

Likely consequences of decisions in the long term

We develop our strategy in consultation with our stakeholders, to improve the services we provide to our passengers, suppliers, customers and communities, and our people. Our Vision and Values – a bold, long-term vision for the next era for TfL – that sets out our ambitions for a sustainable, green future and a more inclusive, dynamic, democratic place to work – all for the good of London. We have developed a set of five strategies that chart our next steps towards becoming London's strong, green heartbeat. These strategies are:

- (i) Our colleagues – Be a great place to work for everyone to thrive
- (ii) Our customers – Give people more reasons to choose sustainable travel
- (iii) Our finances – Grow our income and control our costs
- (iv) Our green future – Actively tackle the climate and ecological emergency
- (v) Safety and security – Get everyone home safe and healthy, every day

Interests of the Group's employees

We strive to create a workplace that is safe, secure and contributes to an engaged workforce.

Our Vision and Values is a culmination of what our people said our future should look like and how they said we should work together to achieve it. This includes our organisational values – caring, open and adaptable.

Our colleague strategy sets out how we will deliver our ambition to be a great place to work for everyone to thrive. We have introduced a new approach to managing talent and career progression, supporting everyone to have regular conversations about their role and their development.

Whilst the majority of our colleagues are in roles which require them to be at an operational or project location, for our office-based colleagues we are operating a hybrid-working approach, which offers flexibility and is valued by them.

Those who are hybrid working have been expected to be in the office on average two occasions per week, which will increase to three in the near future, for the purpose of what we call the three Cs: Collaboration, Culture and Coaching.

The wellbeing of our employees remains a priority and we continue to offer a range of services and resources to support physical and mental health.

Ensuring we hear the voice of our employees remains important to us. While our Trade Union relationships – with local, functional and company-level meetings take place across different parts of the organisation – play a significant role in achieving this, our staff network groups provide employees the chance to share ideas and support each other in developing our equality agenda in all areas of employment.

Impact of operations on the community and the environment

Streamlined Energy and Carbon Reporting (SECR) helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy and carbon usage reporting.

The TfL Accounts for the year ending 31 March 2023 include the required disclosures as per these regulations for the TfL Group. The TfL Group accounts include considerations in respect of physical and transitional risks in relation to climate change as described within the Task Force on Climate-related Financial Disclosures (TCFD). The relevant disclosures for the Company are made within the Directors' Report of this Annual Report and Financial Statements.

Strategic Report

In 2017, the Taskforce on Climate-related Financial Disclosures (TCFD) released climate-related financial disclosure recommendations designed to help organisations assess and manage climate-related risks and opportunities. The disclosure recommendations are structured around four thematic areas which provide a framework for us to understand and take action on our climate risks and opportunities. These thematic areas represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. Ultimately, widespread adoption of the recommendations is aimed at enabling financial risks and opportunities, related to climate change, to become a natural part of organisations' risk management and strategic planning processes.

On an annual basis, the safety, health, and environmental policy and performance reports, containing details of TfL's action plans in relation to furthering the green agenda are published on the TfL website.

Fostering business relationships with suppliers, customers and others

During the year we developed initiatives to make us more dependable and easier to work with by working smarter with our supply chain partners and involving them earlier in the planning phase to help us improve efficiency. The Procurement and Commercial team has seen significant changes in its management, who are leading a programme of transformation activity that will also strengthen commercial and procurement controls.

Financial and Business Review

The loss for the year was £0.2m (2021/22 loss was £1.9m) mainly due to an increase of £24.4m on passenger income. In the year passenger ridership was 92.3 m which, compared with 2021/22 (77.1m), is an increase of 20 per cent. This increase was supported by a new timetable, launched in September 2021, improving frequencies across much of the network.

DLR Customer Satisfaction score for 2022/23 was 78 which remained consistent to the previous financial year. Due to the Coronavirus pandemic DLR continued surveying online along with the other TfL modes. Station customer satisfaction scores were broadly consistent throughout the year. Train scores for crowding and availability of seats and comfort all improved – likely helped by the improved timetable in September 22 and the reintroduction of on-board staff moving around the train having had them stationed at the front during covid. DLR operation performance departure score was 98.3 per cent which is 0.1 per cent higher than the franchise agreement threshold. Removing impact from LUL industrial action, the departure score would have been 98.5 per cent.

There were 22 weekend closures affecting parts of the DLR in 22/23. This can be broken down as the following:

- 18 full weekend closures
- 2 partial weekend closures (1 day)
- 2 bank holiday weekends (3 day closures on both)

These closures were for capital renewals, maintenance and as part of our programme to replace our older trains with 54 brand new trains. We continue to minimise closures by working closely with all parties to align dates and combining closures where possible, noting that this coming year has record activity across the DLR and therefore closures will be needed.

Principal Risks and Risk Management

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

Strategic Report

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

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

Funding Risk

TfL is one of the only major cities in Europe not to receive a regular Government grant to cover day-to-day operations, with fares having made up over 70 per cent of our operating budget, pre-pandemic. Our efficiency programme meant that we had been on a path to break even on the cost of operations, maintenance, financing costs and core renewals, having taken almost £1bn out of our net operating costs over the four years prior to the pandemic.

Despite this, even before the pandemic, we still required external support for new capital investment. TfL has lacked certainty on capital funding since around 2018 and before the short-term extraordinary funding settlements during the pandemic, TfL was subject to single-year rollovers and unclear capital funding arrangements.

The pandemic devastated our finances and exposed the inadequacy of our current funding model. TfL's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue mean that it is particularly susceptible to recessions, changed travel patterns and other travel demand shocks.

To keep the city moving throughout the pandemic while supporting the Government's guidance on social distancing, we had to secure emergency financial support from the Government.

For the period 1 April 2020 to 31 March 2023, the Secretary of State for Transport has provided £5,094m of extraordinary funding grant through five distinct funding agreements. On top of this grant funding, a further £600m of additional borrowing from the Public Works Loan Board (PWLB) was agreed in 2020/21.

TfL has been rebuilding its finances and has been on a trajectory of declining Government support. It is now on course to achieve operating financial sustainability in 2023/24.

The latest TfL Budget, published in March 2023, shows TfL delivering an operating surplus in 2023/24 of £79m, having received Government base funding of £798m in 2022/23. Whilst the actual level of passenger demand will determine whether Department of Transport (DfT) revenue top up grant is required to deliver the operating surplus, all DfT base funding in 2023/24 is applied to capital investment. Therefore, TfL is able to demonstrate it is financially sustainable from April 2023 onwards in line with the requirements of the funding settlements.

However, the current Government funding settlement expires on 31 March 2024 and there is no certainty on future capital funding support from Government. In its funding settlement letters, the Government has consistently recognised that TfL – similar to transport authorities around the world – cannot solely finance investment in major capital projects and renewals from its own operating incomes.

Based on these statements, the 2023 TfL Business Plan assumes that further Government capital funding is provided from April 2024 onwards to contribute towards rolling stock and signaling programmes. In 2024/25, TfL is able to fund around three-quarters of its total £2bn capital investment, but a Government funding contribution of £475m is assumed. Without certainty on this funding from Government, TfL will have to descope and defer planned capital investment in its 2024 Business Plan, due to be published in December 2023.

Without a clear picture of future resources, TfL cannot plan for the future of its network and optimise the benefits it can bring nationally. This short-term approach and lack of certainty undermines the ability of the supply chain to

Strategic Report

invest, limiting job creation, skills development and ability to command more efficient prices for work – for TfL and other transport operators in the UK and beyond.

Liquidity Risk

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's exposure to liquidity risk is low as the Company's ultimate parent, TfL provides financial support to the Company.

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

Signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'L. Matson', with a horizontal line extending to the right.

L. Matson

Director

28 June 2023

Statement of Directors' Responsibilities

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

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

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

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

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

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

Income Statement

For the year ended 31 March

		2023	2022
	Note	£m	£m
Revenue	1	142.1	117.7
Net operating costs		<u>(164.7)</u>	<u>(155.1)</u>
Operating loss	2	(22.6)	(37.4)
Grant income	3	55.2	68.1
Other gains and losses	4	<u>(0.7)</u>	<u>0.9</u>
Total profit from operations		31.9	31.6
Financial expenses	7	<u>(31.9)</u>	<u>(31.6)</u>
Result before taxation		-	-
Income tax expense	8	<u>(0.2)</u>	<u>(1.9)</u>
Loss for the year attributable to the owners of the Company		<u>(0.2)</u>	<u>(1.9)</u>

Statement of Comprehensive Income

For the year ended 31 March

	2023	2022
	£m	£m
Loss for the year	(0.2)	(1.9)
Other comprehensive income and expenditure	-	-
Items that will not be subsequently reclassified to profit or loss		
Revaluation of property, plant and equipment	<u>-</u>	<u>1.6</u>
Total comprehensive income and expenditure for the year attributable to owners of the Company	<u>(0.2)</u>	<u>(0.3)</u>

Statement of Financial Position

		31 March 2023 £m	31 March 2022 £m
	Note		
Non-current assets			
Property, plant and equipment	9	1,619.9	1,501.3
Right-of-use assets	10	24.5	26.7
Investment property	11	14.1	15.0
Long term trade and other receivables	13	9.1	9.1
		<u>1,667.6</u>	<u>1,552.1</u>
Current assets			
Assets classified as held for sale	12	-	0.3
Trade and other receivables	13	42.3	90.0
Cash and cash equivalents	14	0.9	1.4
		<u>43.2</u>	<u>91.7</u>
Current liabilities			
Trade and other payables	15	(85.8)	(76.6)
Right-of-use lease liabilities	10	(2.4)	(2.3)
Provisions	17	-	(0.2)
		<u>(88.2)</u>	<u>(79.1)</u>
Non-current liabilities			
Trade and other payables	15	(0.4)	(0.2)
Borrowings	16	(749.0)	(749.0)
Right-of-use lease liabilities	10	(36.5)	(38.9)
Deferred grants and other contributions	18	(746.0)	(685.7)
		<u>(1,531.9)</u>	<u>(1,473.8)</u>
Net assets		<u>90.7</u>	<u>90.9</u>
Equity			
Share capital	20	-	-
Retained earnings		<u>90.7</u>	<u>90.9</u>
Total equity attributable to the owners of the Company		<u>90.7</u>	<u>90.9</u>

Statement of Financial Position

The directors:

- (a) confirm that the Company was entitled to exemption under section 479A of the Companies Act 2006 relating to subsidiary companies from the requirement to have its Financial Statements for the financial year ended 31 March 2023 audited;
- (b) confirm that members have not required the Company to obtain an audit of its Financial Statements for that financial year in accordance with section 476 of the Companies Act 2006; and
- (c) acknowledge their responsibilities for:
 - (i) ensuring that the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and
 - (ii) preparing Financial Statements which give a true and fair view of the state of affairs of the Company as at the end of its financial year and of its surplus or deficit for the financial year in accordance with the requirements of sections 393 and 394 of the Companies Act 2006, and which otherwise comply with the requirements of that Act relating to Financial Statements, so far as applicable to the Company.

The notes on pages 16 to 48 form part of these Financial Statements. These Financial Statements were approved by the Board on 28 June 2023 and signed on its behalf by:



L. Matson

Director

Company Registration Number 02052677

Statement of Changes in Equity

	Called up share capital £m	Retained earnings £m	Total £m
At 1 April 2021	140.0	(48.8)	91.2
Loss for the year	-	(1.9)	(1.9)
Other comprehensive income and expenditure:			
Net gain on revaluation of property, plant and equipment	-	1.6	1.6
Share capital reduction	(140.0)	140.0	-
At 31 March 2022	-	90.9	90.9
Loss for the year	-	(0.2)	(0.2)
Other comprehensive income and expenditure			
At 31 March 2023	-	90.7	90.7

Statement of Cash Flows

For the year ended 31 March

		2023	2022
	Note	£m	£m
Cash generated from operating activities			
Loss for the year		(0.2)	(1.9)
<i>Adjustments for</i>			
Depreciation of property, plant and equipment	9	50.4	52.5
Depreciation of right-of-use assets	10	2.2	2.0
Loss on disposal of property, plant and equipment	4	-	-
Change in fair value of investment properties	4	0.6	(1.0)
Reversal of unrealised losses on foreign exchange			
Reversal of fair value movement on derivatives			
Financial expenses	7	31.9	31.6
Reversal of tax expense	8	0.2	1.9
Release of deferred grant to the Income Statement	18	(33.7)	(25.9)
Cash flow from operating activities before movements in working capital		51.4	59.2
Decrease/(increase) in trade and other receivables		47.8	(58.9)
Increase in trade and other payables		4.4	27.2
Decrease in provisions		(0.3)	(1.7)
Cash generated from operations		103.3	25.8
Taxation paid		(0.2)	(1.9)
Net cash generated from operating activities		103.1	23.9
 Cash flows from investing activities			
Proceeds from disposal of investment properties		0.6	-
Acquisition of property, plant and equipment		(164.1)	(121.2)
Capital grants received		94.0	131.7
Net cash (utilised by)/generated from investing activities		(69.5)	10.5
 Cash flows from financing activities			
Payments relating to lease and PFI arrangements		(2.2)	(2.0)
Interest paid		(31.9)	(31.6)
Net cash utilised by financing activities		(34.1)	(33.6)
 (Decrease)/increase in net cash during the year		(0.5)	0.8
Net cash and cash equivalents at the start of the year		1.4	0.6
Net cash and cash equivalents at the end of the year		0.9	1.4

Accounting Policies

a) Reporting entity

Docklands Light Railway Limited (the "Company") is a Company domiciled in the United Kingdom. The Company's registration number is 02052677. The address of the Company's registered office is 5 Endeavour Square, Stratford, London, E20 1JN. The Company is a subsidiary of Transport Trading Limited ("TTL") which is in turn a subsidiary of Transport for London ("TfL").

b) Statement of accounting policies

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

c) Basis of preparation

Statement of Compliance

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

Basis of measurement

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

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

d) Use of estimates and judgements

The preparation of financial statements in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group'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. In assessing the Group's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk on these. Aside from useful economic lives of assets, climate risks have not been deemed to have any impact on the Group's significant judgements or estimates. It is not considered likely that any reasonably possible changes in key assumptions in the next 12 months would have a material impact on the carrying amounts of Balance Sheet items not already held on the Balance Sheet at fair value.

Use of judgement

Determining whether an arrangement contains a lease

In determining whether an arrangement contains a lease, as required by IFRS 16 Leases, there is significant judgement in determining whether the arrangement conveys the right to control the use of an identified asset and in determining the lease term particularly in respect of whether the Group is reasonably certain to exercise extension options or renewal options.

For arrangements where TfL is a lessor there is significant judgement involved in respect of whether the arrangement is a finance or an operating lease.

Classification of investment properties

The Code requires that properties be classified as investment properties where they are held solely for the purpose of capital appreciation or to earn rentals. The Company own or lease a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. Judgement needs to be exercised in determining whether these properties can be separately identified and classified as investment properties in accordance with the requirements of the Code. As investment properties are valued at fair value with movements in the fair value being recorded in the Comprehensive Income and Expenditure Statement this could have a significant effect on the financial performance of the Company.

Accounting Policies

Leases as a lessor

From the lessor's perspective 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 retained by the Company or are transferred to the lessee. Given that assets leased under a finance lease are derecognised from the Balance Sheet, and assets leased out under operating leases are not, this can have a significant effect on the reported financial position of the Company.

Availability of future capital funding

In assessing whether any impairment of the carrying value of assets under construction on the Statement of Financial Position date is required, management exercises judgement as to the level of funding that may be available to fund future expenditure on these projects through to completion. If insufficient future funding is anticipated, management reviews the carrying value of existing assets under construction for possible impairment.

Use of estimates

Useful economic life of property, plant and equipment

In determining the useful economic life of property, plant and equipment management estimate the length of time that the assets will be operational. In assessing the appropriateness of useful economic lives, the impact of the Group's Climate Change Adaptation Plan has been considered, it was concluded there was no material impact or impairment to the Group's assets.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value (open market value), as estimated 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 Comprehensive Income and Expenditure Statement for the period in which they arise.

Leases

When the interest rate implicit in the lease cannot be readily determined, TfL's incremental borrowing rate (IBR) at the lease commencement date is used to calculate the present value of the lease payments. This is the interest rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. When no observable inputs are available, the Group estimates the IBR, making assumptions to reflect the terms and conditions of the lease and certain entity-specific estimates. These assumptions include the consideration of a number of components including the risk-free rate, the lease term, the credit spread and adjustments related to the specific nature of the underlying asset.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment.

Provisions

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

Expected credit loss allowance

Accounting Policies

The expected credit loss allowance recognised in respect of financial assets is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. As at 31 March 2023, management were required to make estimates regarding future losses based on the impact of ongoing economic factors on credit risk. Given the unprecedented nature of a number of the economic factors, a greater than usual level of judgement was involved in reaching this estimate.

Releases on deferred grant balances

Deferred capital grants are allocated annually to fund a pool of capital expenditure. Deferred capital grants are released to income over the weighted average estimated useful economic lives of the assets in that pool. There is a large degree of estimation involved in these calculations.

Defined benefit plans

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality.

Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates.

Further details about pension obligations are provided in note 19.

Taxes

Deferred tax assets are recognised for unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has tax losses carried forward with a tax value of £1.0m (2022 £1.0m). These losses do not expire and may be used to offset future taxable income of the Company. If the Company was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £195.4m (2022 £191.5m).

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

The Code stipulates that the requirements of IFRS and other pronouncements by the International Accounting Standards Board (as adopted by the UK) be applied unless specifically adapted or otherwise stated by the Code. The following new standards and amendments have therefore been applied for the first time in these financial statements:

Property, Plant and Equipment: Proceeds Before Intended Use

Accounting Policies

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments to IAS 16 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

Onerous Contracts – Costs of Fulfilling a Contract

The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specifies that only directly related costs need to be included when assessing whether a contract is onerous or loss-making. The directly related costs include both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

The amendments to IAS 37 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendment adds an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments to IFRS 3 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

Amendments from the 2018-2020 annual improvements cycle consisting of:

- (i) **Subsidiary as a first-time adopter of International Financial Reporting Standards (IFRS 1).** The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendments to IFRS 1 did not have any impact on TfL's financial statements for the year ending 31 March 2023.

- (ii) **Fees in the '10 per cent' test for derecognition of financial liabilities under IFRS 9.** The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

f) New standards and interpretations not yet adopted

The following revisions to IFRS are expected to be applicable in future periods, subject to endorsement where relevant. These have been issued by the UK, but have not been applied in these financial statements:

- IFRS 17 Insurance Contracts (mandatory for years commencing on or after 1 January 2023)
- IFRS 17 will replace IFRS 4 and provides an accounting model for insurance contracts that is more useful and consistent for insurers than existing standards. This standard is not expected to have a significant impact for the TfL Group.

Accounting Policies

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023)
- The amendments clarify the requirements for classifying liabilities as current or non-current.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method)
- The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFS 3.
- Amendment to IAS 8 on Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023) - The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.
- Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (effective for annual periods beginning on or after 1 January 2023) - The entity is now required to disclose its 'material' accounting policy information.
- Amendment to IAS 12 on Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023) - The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).
- Amendments to IAS 1 on classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2024) – further guidance is included to specify that a liability should be recorded as non-current if the entity has the right to defer settlement for at least 12 months after the reporting date.
- Amendments to IAS 1 on non-current liabilities with covenants (effective for annual periods beginning on or after 1 January 2024). The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- Amendments to IFRS 16 on lease liabilities in a sale and leaseback transaction (effective for annual periods beginning on or after 1 January 2024). The amendments focus on providing additional guidance as to how a seller-lessee should measure the right-of-use asset arising from a leaseback with variable lease payments. The amendments clarify that the seller-lessee must only record a gain or loss relating to the rights transferred to the buyer-lessor.
- The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable, other than those indicated in the paragraphs above, will have a significant impact on the financial statements.

g) Going concern

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

- The Company is dependent on funds provided to it by TfL, its ultimate parent, in order to ensure working capital requirements are satisfied. TfL has committed to providing the Company with sufficient financial means to meet all its liabilities when they fall due for payment. TfL's going concern assessment period up to 31 March 2024 (i.e. the remainder of the 2022/23 and 2023/24 financial years), indicates that it will continue to make such funds available to the Company up and until at least the same date, and represents the going concern assessment period for the Company. In addition, as set out in section 479A of the Companies Act 2006, the Company's immediate parent, TTL, has issued a guarantee over all outstanding liabilities to which the Company is subject as at 31 March 2023; and

Accounting Policies

- The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.

On 30 August 2022, the TfL Board approved a long term 20-month funding settlement with the DfT, which is significantly longer than any of the previously settlements during the pandemic. This funding settlement provides £1.2bn of Government funding along with the guaranteeing of passenger revenue over the period to 31 March 2024, but is subject to a number of conditions.

The key features and conditions, as well as the revised plan and proposed mitigations are set out in TfL's Annual Report and Statement of Accounts and on the TfL website (www.tfl.gov.uk).

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

h) Revenue recognition

Fares revenue

Revenue from annual or periodic tickets and Travelcards is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the period of validity of the ticket or Travelcard as TfL has a stand ready obligation to provide unlimited travel over the period of validity of the ticket or Travelcard. Oyster pay as you go revenue is recognised on usage and one-day Travelcards and single tickets are recognised on the day of purchase.

Revenue received in advance is not recognised in the Comprehensive Income and Expenditure Statement and is recorded on the Balance Sheet within current liabilities as contract liabilities. Contract liabilities represent receipts in advance for Travelcards, bus passes and Oyster cards.

Revenue in respect of free and reduced fare travel for older customers and disabled customers

Revenue from the London Borough Councils in respect of free travel for older and disabled customers is recognised on a straight-line basis over the financial year to which the settlement relates, as TfL has a stand ready obligation to provide unlimited travel over the financial year to which the settlement relates.

Commercial advertising

TfL grants a concession partner control over certain advertising assets to facilitate the generation of advertising income across its estate and receives income from such arrangements. This is considered a lease arrangement for accounting purposes.

Where the arrangement is viewed as an operating lease under IFRS 16, revenue is recognised on a straight-line basis over the term of the contract.

Where the arrangement is viewed as a finance lease (where the lease transfers substantially all the risks and rewards of ownership of the underlying asset to the third party) a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest income.

The Company, through its concessionaire partner, also sells advertising space to customers and receives income from such arrangements under a revenue share agreement with its concessionaire. Revenue share income is dependent upon the revenue generated by the concessionaire and is therefore contingent in nature. Such revenue is recognised in the period when it is earned. The Company receives performance monitoring credits when certain performance standards are not met. The performance monitoring credits are recognised as revenue when they are earned.

The Group receives performance monitoring credits when certain performance standards are not met. The performance monitoring credits are recognised as revenue when they are earned.

Accounting Policies

Rental income

Rental income from operating leases of properties, ATMs and car parks is recognised on a straight-line basis over the term of the lease. Rent-free periods, incentives, or fixed annual increases in the lease payments are spread on a straight line basis over the lease term. Any inflation linked annual increases in rentals are treated as contingent rents and are recognised as income when they occur. Rental income based on tenant turnover is considered to be variable income and is therefore recognised as income in the period in which it is earned.

For finance leases, where the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the customer, a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest.

i) Grants and other funding

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

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

j) Employee benefits

Defined benefit pension plans

The majority of the Group's employees are members of the Group's defined benefit plans, which 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 the funds in advance of members' retirement.

Every three years the Group's schemes are subject to a full actuarial funding valuation using the projected unit method. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the Balance Sheet date. Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations 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 defined benefit obligation.

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. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is reflected immediately in the Balance Sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation or asset. Defined benefit costs are categorised between; (a) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), (b) net interest expense or income, and (c) remeasurement. The Group presents the first two components in profit or loss within the surplus on the provision of services before tax. Curtailment gains and losses are accounted for as past service costs.

Multi-employer exemption

For certain defined benefit schemes, the Corporation and/or the Group is unable to identify its share of the underlying assets and defined benefit obligations of the scheme on a consistent and reasonable basis. As permitted by the multi-employer exemption in the Code, these schemes are accounted for as defined contribution schemes. Contributions are therefore charged to the Comprehensive Income and Expenditure Statement as incurred.

Accounting Policies

Group schemes under common control

The Corporation and certain of its subsidiaries are members of a Group defined benefit plan wherein risks are shared between the entities under common control. There is no contractual arrangement in place to apportion the net defined benefit cost across the member entities. Accordingly, in line with the provisions of IAS 19, the total net defined benefit obligation is recognised in the individual financial statements of the sponsoring employer, the Corporation.

Unfunded pension schemes

Ex gratia payments are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees. Supplementary payments are made to the pensions of certain employees who retired prior to the index linking of pensions. The Group also augments the pensions of certain employees who retire early under voluntary severance arrangements. In addition, certain employees also accrue benefits under an unfunded pension arrangement. These unfunded pension liabilities are provided for in the Balance Sheet.

Defined contribution plans

Some employees are members of defined contribution plans. 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 Comprehensive Income and Expenditure Statement in the periods during which services are rendered by employees.

Other employee benefits

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

k) Leases (the Company as lessee)

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.

The lease liabilities arising from a lease are initially measured on a present value basis comprising the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option, and
- lease payments to be made under reasonably certain extension options

The lease payments are discounted using the TfL Group's incremental borrowing rate, being the rate the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The interest rate implicit in the lease is only used when that rate is readily determinable. All the Company's former operating leases have been discounted using the TfL Group's incremental borrowing rate. TfL Group's incremental borrowing rate is used for the Company as all Company borrowings are passed down from the company's ultimate parent, TfL, which is the body that raises financing from external parties on behalf of its operating subsidiaries.

TfL's incremental borrowing rate for each tenor consists of Public Works Loan Board (PWLB) as this is the current source of borrowing.

Accounting Policies

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, then the lease liability is re-measured using the changed cash flows and changed discount rate. Further, a corresponding adjustment is also made to the right-of-use asset

Lease payments are allocated between the repayment of principal and a finance cost. The finance cost is charged to the Income and Expenditure Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If it is reasonably certain that the Company will exercise a purchase option, then the right of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and with low-value assets are recognised on a straight-line basis as an expense in the Income and Expenditure Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

IFRS 16 allows us to apply the practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. Our Accounting Policy is to apply this expedient to other equipment as a class of underlying asset. If the total non-lease components over the contract duration is less than five per cent of the total contract value or £500,000 whichever is lower, then the non-lease and lease components can be treated as a single lease.

The Group has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. It has Management have undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in the financial statements in respect of these leases.

l) Leases (the Company as lessor)

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. Rent free periods, incentives, or fixed annual increases in the lease payments are spread on a straight-line basis over the lease term. Any inflation linked annual increases in rentals are treated as contingent rents and are recognised as income when they occur. Rental income based on turnover is considered variable and therefore is recognised in the period in which it is earned. The respective leased assets are included in the Balance Sheet within property, plant and equipment based on their nature. Any lease modifications are treated as new leases from the date of modification.

Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease.

Lease income in respect of property leases has been adversely impacted by the coronavirus pandemic. Bespoke support has been provided to tenants on a case-by-case basis and includes the grant of rent-free periods and other arrangements reflecting the position of each customer. The accounting treatment for the tenant support, which results in some divergence between net rental income on a reported basis and cash flow basis, is as follows:

- Rent-free periods are generally considered to constitute a lease modification under IFRS 16, with the lease incentive deferred over the remaining lease term. The lease incentive balance will be assessed for impairment

Accounting Policies

at each reporting date. If the pandemic continues and if the level of tenant failures is higher than expected, the impairment of tenant incentives and bad debt expense is also expected to increase

- Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease
- On lease commencement the carrying value of the asset is derecognised, the net investment in the lease is recognised as a finance lease receivable and any selling profit or loss is recognised in the Comprehensive Income and Expenditure Statement.

m) Financial income and expenses

Financing and investment income comprises interest income on funds invested, interest received in relation to finance leases, and premia received on the early settlement of borrowings. Interest income is recognised in the Comprehensive Income and Expenditure Statement as it accrues, using the effective interest rate method.

Financing and investment costs comprise the interest expense on borrowings and lease liabilities and the net financing cost on defined benefit pension obligations. Also included are premia paid on the early settlement of borrowings and interest rate derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Comprehensive Income and Expenditure Statement using the effective interest rate method (see also Accounting Policy z) Borrowing costs).

Also included within financing and investment income or expenditure are fair value gains or losses recognised in relation to the revaluation of investment properties, and any profits or losses recognised on disposal of investment properties.

n) Taxation

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted 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 authority and the Group has the right of offset.

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) Intangible fixed assets

Software costs are measured at cost less accumulated depreciation and accumulated impairment losses.

Accounting Policies

Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they are recognised separately.

Amortisation is charged to the Comprehensive Income and Expenditure 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 Up to 10 years
- p) Property, plant and equipment

Recognition and measurement

Infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling, bus stations and stands; properties attached to infrastructure which are not separable from infrastructure; and properties attached to infrastructure that are used to facilitate the service provision but are limited in use by operational constraints. Some of these properties generate revenues which are considered to be incidental to the Group's activities.

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses. Assets under construction are measured at cost less any recognised impairment loss.

Owner-occupied office buildings are valued at existing use value by external, professionally qualified surveyors in accordance with RICS Guidelines. Existing use value is the estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at the measurement date. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs.

Valuations are performed annually. Movements in the value of the property are taken to the Revaluation Reserve, with the exception of permanent diminutions in value which are recognised in profit or loss.

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

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 the asset. Proceeds generated from an asset prior to its intended use are not deducted from the cost of the asset and are instead charged to the Comprehensive Income and Expenditure Statement as generated.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. When components are replaced, the costs of the overhaul are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

Where there are similar assets with identical useful lives e.g. cabling, these assets are accounted for as pooled items of property, plant and equipment and are depreciated over their useful lives. When pooled items are fully depreciated the gross acquisition value and accumulated depreciation are derecognised.

Accounting Policies

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

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less the expected residual value at the end of its useful economic life.

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

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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 120 years
- Road pavement up to 40 years
- Road foundations up to 50 years
- Signalling up to 40 years
- Stations up to 120 years
- Other property up to 120 years
- Rolling stock up to 50 years
- Lifts and escalators up to 40 years
- Plant and equipment up to 75 years
- Computer equipment up to 15 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate, the effect of such adjustment being prospectively recognised as a change of estimate. In assessing the appropriateness of useful economic lives, the impact of the Group's Climate Change Adaptation Plan has been considered, it was concluded there was no material impact or impairment to the Group's assets.

Gains and losses on disposal

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

q) Borrowing costs

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. The Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 **Borrowing Costs** (IAS 23).

All other finance and borrowing costs are recognised in the Comprehensive Income and Expenditure Statement in the period in which they are incurred.

r) Assets held for sale

Long-term assets (and disposal groups comprising a group of assets and potentially some liabilities that an entity intends to dispose of in a single transaction) are classified as held for sale if; their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

Accounting Policies

On initial classification as held for sale, long-term assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on long-term assets (including those in disposal groups) classified as held for sale.

s) Investment property

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

Investment property is measured initially at cost, including transaction costs, and subsequently measured at fair value with any change therein recognised in profit or loss within financing and investment income or expenditure. During 2020/21, 2021/22 and 2022/23, as part of an exercise undertaken by management to create a consolidated commercial property portfolio, new lease structures created allowed the recognition of newly separable investment property assets which were recorded within investment property at fair value at the date of creation of the lease structure. Due to the fact that these assets were created through the separation of new lease structures from larger items of transport infrastructure (included within property, plant and equipment) and the revaluation uplift recorded on initial recognition does not fairly represent the increase in value in the period of the underlying assets, these valuation gains were recognised directly within other comprehensive income. Movement in the fair values of existing investment properties continued to be recognised within financing income or expenditure.

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.

Investment properties are valued annually at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The methodology assumes the valuation is based on the highest and best use of the asset. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. 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.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. Any such gains and losses recognised by the Corporation are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and transferred to the Capital Adjustment Account.

t) Inventories

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

Inventories are stated at cost less a provision for excess and obsolete inventories. 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.

u) Impairment

Non-financial assets

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Other intangible assets, property, plant and equipment and investments in subsidiaries, joint ventures and associates are tested for impairment whenever there is any objective evidence or

Accounting Policies

indication that these assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. In assessing whether impairment indicators exist Management have considered climate change risks and the impact of any commitments under the Group's Climate Change Adaptation Plan.

Impairment occurs when an asset's carrying value exceeds its recoverable amount. An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell.

Where an impairment loss is reversed subsequently, the reversal is credited to the Impairment line of the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

In accordance with the Code, when an asset is not held primarily for the purpose of generating cash flows but for service provision, value in use is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. This is the case for the majority of the Group's assets.

v) Provisions

Provisions are recognised on the Balance Sheet when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the Balance Sheet date and are discounted to present value where the effect is material.

w) Financial instruments

Financial instruments within the scope of IFRS 9 Financial Instruments (IFRS 9) are classified as:

- financial assets measured at amortised cost
- financial assets measured at fair value through other Comprehensive Income and Expenditure ('FVTOCI')
- financial assets measured at fair value through the Income Statement ('FVTPL')
- financial liabilities measured at amortised cost
- financial liabilities at fair value through the Income Statement ('FVTPL')

The Company determines the classification of its financial instruments at initial recognition. Financial assets may be reclassified only when the Company changes its business model for managing financial assets, at which point all affected financial assets would be reclassified. Financial liabilities are not reclassified subsequent to initial recognition.

When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transaction 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 whether they are financial assets or financial liabilities and whether specified criteria are met.

Financial assets are measured at amortised cost if:

- it is the objective of the Company to hold the asset in order to collect contractual cash flows; and
- the contractual terms give rise to cash flows, which are solely repayments of a principle value and interest thereon

After initial recognition, these 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 asset is derecognised or a loss allowance is applied, as well as through the amortisation process.

Financial assets are measured at FVTOCI if:

- assets are non-derivative and held within a business model whose objective is to realise their value through either the collection of contractual cash flows or selling of the financial assets; and

Accounting Policies

- the contractual terms of the financial asset give rise to periodic cash flows that are the payment of principal and interest.

After initial recognition, interest is taken to the Income Statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in other Comprehensive Income and Expenditure (and taken to the Financial Instruments Revaluation Reserve), except for impairment gains or losses, until the investment is derecognised, or reclassified at which time the cumulative fair value gain or loss previously reported in reserves is included in the Income Statement. For equity instruments, unlike debt instruments, there is no transfer of accumulated amount in the Income Statement.

Financial assets are measured at FVTPL if they are:

- derivatives
- not held as amortised cost or at FVTOCI
- financial assets that were elected to be designated as measured at FVTPL

After initial recognition, assets are carried in the balance sheet at fair value with gains or losses recognised in the Income Statement.

Financial liabilities are measured at amortised cost if they are non-derivative with limited exceptions.

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are measured at FVTPL if they are:

- derivatives
- other liabilities held for trading
- financial liabilities that were elected to be designated as measured at FVTPL

Cash and cash equivalents

Cash and cash equivalents comprise cash balances that are readily convertible to cash without significant penalty and with an outstanding maturity, at the date of acquisition, of less than or equal to three months. Cash and cash equivalents are classified as financial assets at amortised cost.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

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 point of initial recognition. Fair values calculated using the market rate of interest at the reporting date are also determined for disclosure purposes.

Trade and other payables

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

Interest bearing loans and borrowings

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

Obligations under leases and PFI arrangements

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

Other financing liabilities

Other financing liabilities are classified as financial liabilities measured at amortised cost.

Accounting Policies

x) Fair value measurement

IFRS 13 Fair Value Measurement requires that financial instruments and other assets and liabilities 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 Company 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 values 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.

y) Climate change

In preparing the Group's financial statements, consideration has been given to the impact of both physical and transition climate change risks as described within the Task Force on Climate-related Financial Disclosures (TCFD) section of the Narrative Report, and how these impact the financial statements. Whilst Management do not believe that the climate change risks will have a material impact on the Group's financial statements, further narrative disclosure has been included within each of the applicable accounting policies:

- Going Concern
- Significant accounting judgements, estimates and assumptions
- Property, plant and equipment
- Impairment of non-financial assets

Policies and market changes in response to climate change are continually developing and therefore the financial statements cannot capture all possible outcomes as these are not yet known. The degree of uncertainty of these changes may also mean they cannot be considered in the determination of asset and liability valuations and the timing of future cashflows.

Notes to the Financial Statements

1 Revenue

<i>For the year ended 31 March</i>	2023	2023	2022	2022
	£m	%	£m	%
Traffic revenue				
Fares collected	134.1	94.4	107.4	91.3
Revenue in respect of free travel for the elderly and disabled	3.3	2.3	4.7	4.0
	<u>137.4</u>	<u>96.7</u>	<u>112.1</u>	<u>95.3</u>
Other revenue				
Rents receivable	0.8	0.6	0.6	0.5
Commercial advertising	2.6	1.8	4.5	3.8
Commission income	-	-	0.1	0.1
Other revenue	1.3	0.9	0.4	0.3
	<u>4.7</u>	<u>3.3</u>	<u>5.6</u>	<u>4.7</u>
Total revenue	<u>142.1</u>	<u>100.0</u>	<u>117.7</u>	<u>100.0</u>

2 Operating loss

<i>For the year ended 31 March</i>		2023	2022
	Note	£m	£m
<i>Operating result is stated after charging/(crediting):</i>			
Capital items			
Depreciation of property, plant and equipment	9	50.4	52.5
Amortisation of right-of-use assets	10	2.2	2.0
Release of deferred capital grants to the Income Statement	18	<u>(33.7)</u>	<u>(25.9)</u>
Other operating costs			
Employee costs	5	<u>1.0</u>	<u>0.9</u>

Auditors' remuneration

The Company had no audit fees for the years ending 31 March 2023 or 31 March 2022.

3 Grant income

<i>For the year ended 31 March</i>	2023	2022
	£m	£m
Revenue grant income receivable		
Grant from TfL to fund operations	<u>55.2</u>	<u>68.1</u>

4 Other gains and losses

Notes to the Financial Statements

For the year ended 31 March

	Note	2023 £m	2022 £m
Change in fair value of investment property	11	<u>(0.7)</u>	<u>0.9</u>

5 Employee costs

For the year ended 31 March

	2023 Number	2022 Number
Average number of employees (including directors) in the year	<u>11</u>	<u>10</u>
	£m	£m
Wages and salaries	0.7	0.6
Social security	0.1	0.1
Defined contribution pension costs	<u>0.2</u>	<u>0.2</u>
	<u>1.0</u>	<u>0.9</u>

6 Directors' emoluments

The emoluments and pension contributions of all directors were borne by other Group undertakings. No director received emoluments in respect of their services as director of the Company (2020/21 none).

7 Financial expenses

For the year ended 31 March

	2023 £m	2022 £m
Interest on loans from fellow Group undertakings	30.8	31.0
Interest on right-of-use lease liabilities	1.3	1.3
Interest capitalised into the cost of property, plant and equipment	<u>(0.2)</u>	<u>(0.7)</u>
	<u>31.9</u>	<u>31.6</u>

8 Taxation

For the year ended 31 March

	2023 £m	2022 £m
Adjustments in respect of prior years	(1.2)	-
Current year UK Corporation Tax	<u>1.4</u>	<u>1.9</u>
Total income tax charge for the year	<u>0.2</u>	<u>1.9</u>

Reconciliation of tax

For the year ended 31 March

2023 £m	2022 £m
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Notes to the Financial Statements

Result before tax	-	-
Result before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2021/22 19%)	-	-
Effects of:		
Non-taxable and non-deductible items	0.1	0.1
Prior period adjustment	(1.2)	-
Amount charged to the current tax computation for which no deferred tax was recognised	1.3	2.8
Tax losses carried forward for which no deferred tax was recognised		(1.0)
Income tax expense for the year	0.2	1.9

Unrecognised deferred tax

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

	31 March 2023	31 March 2022
	£m	£m
Deductible temporary differences	194.4	190.5
Tax losses	1.0	1.0
	195.4	191.5

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

Recognised deferred tax

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

Movements were in respect of the following items:

	Opening balance	Movement in profit or loss	Closing balance
	£m	£m	£m
<i>For the year ended 31 March 2023</i>			
Deferred tax assets			
Deferred government grants	3.8	(0.3)	3.5
Deferred tax liabilities			
Investment property - potential capital gain	(3.8)	0.3	(3.5)
Net deferred tax asset/(liability)	-	-	-
<i>For the year ended 31 March 2022</i>			
Deferred tax assets			
Deferred government grants	2.4	1.4	3.8
Deferred tax liabilities			
Investment property - potential capital gain	(2.4)	(1.4)	(3.8)

Notes to the Financial Statements

Net deferred tax asset/(liability)

	-	-	-

UK Corporation Tax is calculated at a rate of 19 per cent (2021/2022 19 per cent). An increase in the tax rate to 25 per cent, with effect from 1 April 2023, was substantively enacted in May 2021 and confirmed in October 2022. Deferred tax balances at 31 March 2023 have therefore been calculated at a rate of 25 per cent.

9 Property, plant and equipment

a) Property, plant and equipment at 31 March 2023 comprised the following elements:

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation						
At 1 April 2022		1,861.3	209.6	146.0	240.4	2,457.3
Additions		22.5	1.1	(0.1)	145.5	169.0
At 31 March 2023		1,883.8	210.7	145.9	385.9	2,626.3
Depreciation						
At 1 April 2022		695.7	134.4	125.9	-	956.0
Charge for the year	2	39.3	8.4	2.7	-	50.4
At 31 March 2023		735.0	142.8	128.6	-	1,006.4
Net book value at 31 March 2023		1,148.8	67.9	17.3	385.9	1,619.9
Net book value at 31 March 2022		1,165.6	75.2	20.1	240.4	1,501.3

b) Property, plant and equipment at 31 March 2022 comprised the following elements:

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation						
At 1 April 2021		1,838.4	208.3	145.6	145.5	2,337.8
Additions		5.7	1.2	0.1	117.6	124.6
Transfers (to)/from other asset classes		22.1	0.1	0.3	(22.6)	(0.1)
Disposals		(1.5)	-	-	-	(1.5)
Write offs		(3.4)	-	-	(0.1)	(3.5)
At 31 March 2022		1,861.3	209.6	146.0	240.4	2,457.3

Notes to the Financial Statements

Depreciation

At 1 April 2021		656.5	126.2	122.3	-	905.0
Charge for the year	2	40.7	8.2	3.6	-	52.5
Disposals		(1.5)	-	-	-	(1.5)
At 31 March 2022		<u>695.7</u>	<u>134.4</u>	<u>125.9</u>	<u>-</u>	<u>956.0</u>
Net book value at 31 March 2022		<u>1,165.6</u>	<u>75.2</u>	<u>20.1</u>	<u>240.4</u>	<u>1,501.3</u>
Net book value at 1 April 2021		1,181.9	82.1	23.3	145.5	1,432.8

10 Right-of-use assets and lease liabilities

a) Statement of Financial Position at 31 March 2023 shows the following amounts relating to leases:

	Note	Rolling stock £m
Cost		
At 1 April 2022		<u>53.4</u>
At 31 March 2023		<u>53.4</u>
Depreciation		
At 1 April 2022		26.7
Charge for the year	2	<u>2.2</u>
At 31 March 2023		<u>28.9</u>
Net book value at 31 March 2023		<u>24.5</u>
Net book value at 31 March 2022		<u>26.7</u>

b) Statement of Financial Position at 31 March 2022 showed the following amounts relating to leases:

	Rolling stock £m
Cost	
At 1 April 2021	51.0
Valuation adjustment	<u>2.4</u>
At 31 March 2022	<u>53.4</u>
Depreciation	
At 1 April 2021	24.7
Charge for the year	2 <u>2.0</u>
At 31 March 2022	<u>26.7</u>

Notes to the Financial Statements

Net book value at 31 March 2022

26.7

Net book value at 1 April 2021

26.3

c) Statement of Financial Position lease liabilities

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

	2023	2022
	£m	£m
At 31 March		
Principal outstanding		
Current	2.4	2.3
Non-Current	<u>36.5</u>	<u>38.9</u>
	<u>38.9</u>	<u>41.2</u>
	2023	2022
	£m	£m
Contractual undiscounted payments due in		
Not later than one year	3.6	3.6
Later than one year but not later than two years	3.7	3.6
Later than two years but not later than five years	11.9	11.5
Later than five years	<u>27.6</u>	<u>31.7</u>
Total	46.8	50.4
Less:		
Present value discount	<u>(7.9)</u>	<u>(9.2)</u>
Present value of minimum lease payments	<u>38.9</u>	<u>41.2</u>

d) Amounts recognised in the Income Statement

The Income and Expenditure Statement shows the following amounts relating to leases:

	2023	2022
	£m	£m
Depreciation charge on right-of-use assets	2.2	2.0
Interest expense (included in finance costs)	1.3	1.3
Expense relating to short-term leases (included in net operating costs)	<u>-</u>	<u>-</u>

e) Total cash outflow for leases

The total cash outflow for leases in 2021/22 was £3.6m (2020/21 £3.4m).

f) The Company's leasing activities and how these are accounted for

As a lessee, the Company leases various infrastructure and office buildings, rolling stock, motor vehicles and other equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The accounting of the above leases is described within Accounting Policies section (k) and (l).

Notes to the Financial Statements

g) Future cash flows to which the lessee is potentially exposed that are/are not reflected in the measurement of lease liabilities

Variable lease payments:

Most of our infrastructure and office buildings have variable lease payments linked to a consumer price index. Our rolling stock contracts have variable lease payments interest linked to a floating rate. When there is a change in cash flows because of the change in consumer price index or change in floating rate, then we re-measure the lease liability to reflect those revised lease payments and make corresponding adjustment to the right-of-use asset.

Extension options and termination options:

Some of our lease contracts have extension and termination options. These options and related payments are only included when the Company is reasonably certain that it will exercise these options. At the date of this Annual Report, there are no facts and circumstances that create an economic incentive for the Company to extend or terminate the lease.

Leases not yet commenced to which the Company as a lessee is committed:

There are no leases not yet commenced to which the Company as a lessee is committed.

11 Investment properties

	Note	2023 £m	2022 £m
Valuation			
Fair value at 1 April		15.0	12.5
Transfers (to)/from other group undertakings		(0.6)	-
Change in fair value	4	(0.3)	2.5
Fair value at 31 March		<u>14.1</u>	<u>15.0</u>

The fair value of the Company's investment properties at 31 March 2023 has been arrived at on the basis of a valuation carried out at that date by CBRE, a property valuation company not connected with the Company, and by chartered surveyors working for the Company. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Values are therefore calculated under level 3 of the fair value hierarchy. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2021/22 none).

Properties are valued annually in accordance with the Red Book, RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors.

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

12 Assets classified as held for sale

Notes to the Financial Statements

	2023	2022
	£m	£m
Balance outstanding at start of year	0.3	0.3
Revaluation	(0.3)	-
Balance outstanding at end of year	-	0.3

13 Trade and other receivables

	2023	2022
	£m	£m
Current		
Trade receivables	0.4	1.4
Amounts due from fellow Group undertakings	5.9	5.8
Other tax and social security	8.9	11.4
Prepayments	26.5	70.5
Accrued income	0.1	0.2
Other receivables	0.5	0.7
	42.3	90.0
Non-current		
Prepayments and accrued income	9.1	9.1
	9.1	9.1

14 Cash and cash equivalents

	2023	2022
	£m	£m
Cash at bank	1.0	1.4
	1.0	1.4

15 Trade and other payables

	2023	2022
	£m	£m
Current		
Trade payables	42.8	36.4
Accruals and other payables	7.5	9.1
Project accruals	25.2	20.5
Retentions on contracts	0.2	0.1
Amounts due to fellow Group undertakings	9.9	9.9

Notes to the Financial Statements

Deferred income	0.2	0.6
	<u>85.8</u>	<u>76.6</u>
Non-current		
Retentions on contracts	0.4	0.2
	<u>0.4</u>	<u>0.2</u>

16 Borrowings

	2023	2022
	£m	£m
Non-current		
Amounts due to fellow Group undertakings	<u>749.0</u>	<u>749.0</u>

Amounts due to fellow Group undertakings

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

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

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

	2023	2022
Weighted average interest rate	4.11%	4.11%

Change in liabilities arising from financing activities

	2023	2022
	£m	£m
Balance at 1 April 2022		
Current	2.3	2.0
Non-current	<u>787.9</u>	<u>787.8</u>
	790.2	789.8
Revaluation of right-of-use lease liabilities	-	2.4
Repayment of PFI liabilities	(2.2)	-
Net increase in/(repayment of) right-of-use lease liabilities	<u>-</u>	<u>(2.0)</u>
As at 31 March 2023	<u>787.9</u>	<u>790.2</u>
Current	2.4	2.3
Non-current	<u>785.5</u>	<u>787.9</u>
	<u>787.9</u>	<u>790.2</u>

17 Provisions

	2023	2022
	£m	£m
Current		
Provisions	<u>-</u>	<u>0.2</u>
Non-current		

Notes to the Financial Statements

	At 1 April 2022	Utilised in the year	Charge for the year	Reversed during the year	At 31 March 2023
	£m	£m	£m	£m	£m
Movement on provisions					
Contractual provisions	0.2	-	-	(0.2)	-
	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>(0.2)</u>	<u>-</u>

	At 1 April 2021	Utilised in the year	Charge for the year	Reversed during the year	At 31 March 2022
	£m	£m	£m	£m	£m
Contractual provisions	2.0	(1.8)	-	-	0.2
	<u>2.0</u>	<u>(1.8)</u>	<u>-</u>	<u>-</u>	<u>0.2</u>

Contractual provisions

Contractual provisions relate to property and rolling stock costs. These provisions are expected to be settled within one year.

18 Deferred grants and other contributions

	2023 £m	2022 £m
Deferred grants and other contributions at start of year	685.7	583.3
Capital grant received during the year	94.0	131.8
Third party contributions and other capital grants	-	-
Released to the income statement:		
To meet the depreciation charge	2 (33.7)	(25.9)
On disposal of property, plant and equipment	-	(3.5)
Deferred grants and other contributions at end of year	<u>746.0</u>	<u>685.7</u>

19 Pensions

The Company offers retirement plans to its employees.

Public Sector Section of the TfL Pension Fund

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL 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 2023 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using

Notes to the Financial Statements

the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

It is not possible to identify the Company's share of the underlying assets and defined benefit obligation of the Public Sector Section of the TfL Pension Fund. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. Thus, in accordance with IAS 19, the Company accounts for contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Company's contributions to the Fund of £0.2m (2021/22 £0.2m) have been charged to the Income Statement

A valuation of the Public Sector Section of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2023. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the sections' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2023. 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 2021 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 or 2021 mortality experience, given the exceptional impact of the coronavirus pandemic on these years.

The IAS 19 surplus on the Public Sector Section of the TfL Pension Fund at 31 March 2023 was £1,630.0m (31 March 2022 £2,997.2m deficit). As stated above, it is not possible to identify the Company's particular share of the deficit. Further details of the Public Sector Section position can be found in the Statement of Accounts of Transport for London.

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

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

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

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

Actuarial assumptions at 31 March

	2023	2022
Inflation - RPI	3.20%	3.50%
Inflation - CPI	2.80%	3.10%
Rate of increase in salaries	2.95%	3.25%
Rate of increase in pensions in payment and deferred pensions	3.15%	3.43%

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Discount rate	4.75%	2.60%
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Fair value of Section assets and liabilities at 31 March

	2023	2022
	£m	£m
Equities	12,669.5	10,883.6
Bonds	1,329.2	3,198.8
Cash, property and other assets	1.3	166.4
Total market value of assets	14,000.0	14,248.8
Actuarial value of Section liabilities	(12,370.0)	(17,245.8)
Closing Section net assets	1,630.0	(2,997.0)

Docklands Light Railway Pension Scheme (the "DLR Scheme")

Docklands Light Railway Limited ("DLR") is the Principal Employer of the Docklands Light Railway Pension Scheme (the "DLR Scheme"), which is a defined benefit scheme in the UK that provides both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. The DLR Scheme is closed to new members.

A full valuation of the DLR Scheme was carried out as at 1 April 2018 (the "2018 valuation"). Results have been provided and have been adjusted for the purpose of these disclosures by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

Actuarial assumptions at 31 March

	2023	2022
	%	%
Inflation - RPI	3.20%	3.55%
Inflation - CPI	2.90%	3.25%
Rate of increase in salaries	3.70%	4.05%
Discount rate	4.75%	2.60%

The expected future lifetime of a male pensioner aged 65 is 21.0 years. For a future pensioner retiring in 20 years, this increases to 22.4 years.

Keolis Amey Docklands Limited (KAD) was awarded the franchise to operate the DLR from 7 December 2014 and is a Participating Employer in the DLR Scheme. The contributions payable by KAD to the DLR Scheme are set out in the franchise agreement between DLR and KAD dated 17 July 2014. These are to pay 35.7 per cent per annum of Pensionable Salaries into the Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5 per cent per annum.

DLR, as the Principal Employer of the DLR Scheme, is responsible for meeting any further costs towards the cost of accruing benefits and removing the deficit, over and above the contributions payable by KAD, if necessary. Following the completion of the 2021 valuation, it was agreed that DLR would pay 22.6 per cent per annum of Pensionable Salaries towards future benefit accrual from 1 April 2020 to 31 March 2022, amounting to £3.3m in respect of 2020/21, which was paid on 30 July 2021 and £3.1m, which was paid on 28 July 2022: plus in respect of subsequent Scheme Years, commencing 1 April 2022:

Notes to the Financial Statements

- 21.7% per annum of Pensionable Salaries in respect of the cost of accrual for active members payable within 4 months of the end of the relevant Scheme Year;

- £957,000 per annum in respect of administration expenses and the cost of death in service benefits for active members payable on or before each 10 April, from 10 April 2023 onwards;

- £800,000 per annum payable on or before each 10 April from 2023 to 2025 inclusive (£800,000 per annum in respect of 2021 and 2022 were paid on 30 April 2021 and 12 April 2022 respectively).

In addition, it was agreed that DLR would pay additional contributions if actual Pensionable Salary growth exceeds RPI inflation + 0.5% per annum (up to a maximum of RPI inflation + 1.5% per annum).

Over the year beginning 1 April 2023 the contributions payable to the DLR Scheme are expected to be around £5.1m from KAD and £4.8m from DLR, based on the schedule of contributions currently in force. This makes no allowance for additional contributions that may arise if Pensionable Salary growth exceeds RPI inflation + 0.5% per annum or any changes as a result of a new schedule of contributions.

A valuation of the DLR Scheme has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2023. The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the DLR Scheme's defined benefit obligation is based on future cash flow projections. Neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The discounted DLR Scheme liabilities have a duration of approximately 18 years.

IAS 19 valuation

The assets in the DLR Scheme at year end were:

	2023	2022
	£m	£m
Growth assets*	155.2	206.5
Liability Driven Investment Fund	66.2	79.3
Cash	0.7	2.2
Insured pensioners	1.3	1.8
Fair value of scheme assets	223.4	289.8

* These were invested broadly as follows:

- As at 31 March 2023: 35% equities, 17% property, 1% insurance-linked securities and 47% multi-asset funds (including hedge funds, absolute return bonds and multi-asset credit).

- As at 31 March 2022: 40% equities, 12% property, 5% insurance-linked securities and 43% multi-asset funds (including hedge funds, absolute return bonds and multi-asset credit).

	2023	2022
	£m	£m
Present value of funded obligations	(192.9)	(293.7)
Fair value of scheme assets	223.4	289.8
Net defined benefit asset / (obligation)	30.5	(3.9)

Notes to the Financial Statements

The scheme's funding arrangements outlined above mean that DLR is currently unable to identify its share of this obligation on a consistent and reasonable basis. The Group has therefore taken the exemption permitted under IAS 19 for multi-employer schemes and treats contributions to the DLR Scheme as if they were contributions to a defined contribution plan. No defined benefit obligation has been recognised in the Balance Sheet in respect of this scheme.

Contributions totalling £3.1m were paid by DLR in 2022/23. These costs are not reflected within staff costs for the TfL Group but are instead reflected elsewhere within the operating expenditure of the Group, as the costs relate to the staff costs of DLR's concessionaire.

20 Share capital

	2023	2022
	£m	£m
Share capital issued and fully paid		
1 ordinary share of £1 each	-	-

21 Financial instruments

Financial risk management

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

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

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

Credit risk

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

Notes to the Financial Statements

The Company does not have any exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed interest loans from TfL and PFI and other lease liabilities with a fixed interest rate.

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

Sensitivity analysis

Fair value sensitivity analysis for fixed interest instruments

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

Contractual maturity of financial liabilities

Borrowings from TfL are repayable on demand with a two year notice period. Interest on borrowings from TfL is paid annually. The contractual maturity of lease liabilities is as set out in note 11 and PFI liabilities in note 18. With the exception of £0.2m of trade creditors falling due in more than 12 months, all other financial instruments are due within one year.

Fair value of financial instruments

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

Capital management

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

The Company does not have a credit rating but TfL, the Company's ultimate parent which provides financial support to the Company, has a credit rating of AA- with Fitch, A+ with S&P Global ratings and Baa1 with Moody's.

22 Financial commitments

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

The Company has contracted with third party customers for the following future minimum lease receipts.

All leases have been entered into on commercial terms.

	Land and property £m
At 31 March 2023	
Amounts due in less than one year	0.9
Amounts due in years one to five	2.0
Amounts due in more than five years	0.7
	<hr/>
	3.6
<hr/>	
At 31 March 2022	
Amounts due in less than one year	0.5

Notes to the Financial Statements

Amounts due in years one to five	1.5
Amounts due in more than five years	0.8
	<hr/>
	2.8
	<hr/>

23 Capital and other financial commitments

a) At 31 March 2023, the Company had capital commitments of £257.1m which are contracted for but not provided for in the Financial Statements (2022 £221.4m).

b) At 31 March 2023, the Company had no other financial commitments which are contracted for but not provided for in the Financial Statements (2022 £nil).

24 Contingent liabilities

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

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

25 Related party transactions

During the year none of the Company's directors, key management personnel or parties related to them, have undertaken any material transactions with the Company (2021/22 none). Details of directors' emoluments can be found in note 6.

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

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

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

- Receipt of funding from TfL in the form of grants (see note 20);
- Interest accrued on loans from TfL as disclosed in note 7.
- Loans drawn down from TfL as disclosed in note 18.

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

- Recharge for various services and provision of equipment by TTL and TfL.
- Transfer of investment property to TTL Properties Ltd (see note 12).

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

Notes to the Financial Statements

26 Ultimate parent undertaking

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

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

The Board of Docklands Light Railway Limited has been given assurances of financial support by TfL.

Copies of the consolidated accounts for TfL are available from 5 Endeavour Square, London, E20 1JN.