Transport for London Finance Limited

Annual Report and Financial Statements
Year ended 31 March 2021

Registered Office
5 Endeavour Square
Stratford
London
E20 1JN

Registered in England and Wales
Number 06745516

Contents

Directors' Report

Introduction

The directors present their annual report on the affairs of Transport for London Finance Limited (the "Company") together with the Financial Statements for the year ended 31 March 2021. 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 to administer TfL's derivative strategy.

Directors

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

A. King

H. Carter

S. Kilonback

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.

Employees

The Company has no employees. Employee services are provided to the Company by a fellow subsidiary undertaking of the TfL Group.

Charitable Donations and Political Contributions

No donations were made to charities during the year (2019/20 £nil). No political contributions were made during the year (2019/20 £nil).

Dividends

No interim dividends were paid during the year (2019/20 £nil) and the directors do not recommend the payment of a final dividend (2019/20 £nil).

Corporate Governance

Transport for London Finance 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 Transport for London Finance Limited, through its management structure, implements the corporate aims and controls laid down by TfL. Particulars in respect of corporate governance can be found in TfL's Key Elements of TfL's Governance Framework report included 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 3
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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:

H. Carter

Company Secretary

Strategic Report

Activities and Future Developments

As stated in the Directors' Report, the principal activity of the Company is to administer TfL's derivative strategy. 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 Transport for London Finance 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 public body, 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.

The TTL Group, which comprises TTL (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 the TfL's Governance Framework in TfL's Accounts for the year end 31 March 2021). 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 2021 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.

The coronavirus pandemic has had a significant impact on TfL's operational activities and its finances. A Governance Improvement Plan was developed for 2020/21 that reflects this and a review has been conducted with the Department for Transport on TfL's sustainability and financial model. Cost control initiatives continued throughout the year as we worked towards our target of turning a deficit on the net cost of operations at the TfL Group level into a surplus.

Strategic Report

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 set out in TfL's Accounts for the year end 31 March 2021). At the date of this report just over 53 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.

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.

Coronavirus

Our priority during the coronavirus pandemic was to follow government recommendations for action and keep services running.

In support of the Government's efforts to stop the spread of coronavirus and mitigate the financial impact of the lockdowns, examples of measures implemented include:

- TfL brought all construction project sites to a temporary Safe Stop during the initial phases of the first lockdown unless they needed to continue for operational safety reasons or essential maintenance of the transport network
- Enhanced cleaning and use of hospital grade anti-viral cleaning fluids and ultra-violet light sanitising to kill viruses and bacteria across our network services
- Enforcement of the mandatory wearing of face coverings on all public transport modes
- Actively managing demand across the network and promoting travel during quiet times to ensure that those who needed to travel could continue to do so safely
- Rent reliefs, including the grant of a three-month rent holiday during the initial phase of lockdown, to all small and medium enterprises across the property estate (representing 86 per cent of TfL's tenants) to enable them to continue trading

We fully supported the Government's nationwide message to 'stay at home' during the lockdowns. As a result, we saw demand reduce by over 90 per cent on the Tube and around 85 per cent on Buses in the first lockdown in March 2020. We have continued delivering essential transport services supporting the pandemic response.

We oversaw and monitored the response of our executive leadership team to the crisis and ensured that appropriate governance and decision-making frameworks were put in place. We ensured that key decisions were taken in a timely manner to safeguard our people, our passengers, and the public, and to support the country by ensuring essential services continued to run, particularly for key workers.

We maintained regular and open communications with our people, our passengers, train operating companies, key stakeholders, and supply chain to support good decision-making.

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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. We have taken the three themes of the Mayor's Transport Strategy, being Healthy Streets and Healthy People; A Good Public Transport Experience; and New Homes and Jobs; and have developed a set of five key priorities that are the focus of our efforts up until March 2022. These priorities are:

(i) *Future funding – to secure a long-term, sustainable financial deal for TfL*

(ii) Transformative projects – to complete the Northern line extension, finish Crossrail and open the Elizabeth line

(iii) Pandemic recovery – to safely support and drive forward London's post-pandemic recovery and win back our customers

(iv) Clear vision – to create a people-centric vision and a more diverse and inclusive organisation, informed by and for our colleagues

(v) Green future – to improve London's air quality and accelerate decarbonisation

Interests of the Group's employees

The safety of our people and customers remains paramount. Working alongside our suppliers and Trade Union partners, we have measures put in place to protect staff and customers ranging from installing protective screens for bus drivers, to implementing a rigorous new cleaning regime.

Our important work and partnerships with the transport Unions has continued and been strengthened this past year. We have worked hard to build up a comprehensive set of collective bargaining arrangements which provide for constructive discussions with Trade Union representatives and officials at all levels of the TfL organisation.

We ensure that local, functional and company-level meetings take place, usually on a quarterly basis, across the various employers within the TfL Group. Additionally, there are separate Safety, Health and Environment meetings and other staff network groups focused on specific issues, such as the Black, Asian and Minority Ethnic Network, the Women's Network and the Staff Network Group for Disability.

During the coronavirus pandemic we have worked hard to respond collectively and adapt our normal ways of working. We have increased the frequency of meetings and introduced a weekly TfL-wide Trade Union summit to ensure that important issues can be raised and dealt with more quickly. We sought advice from unions on how we can best work together to protect our bus drivers and the public who still needed to use the bus network to make essential journeys.

We have had a focus throughout the year on wellbeing support for our employees. Our internal intranet platform hosts a wide range of easy-to access resources, whilst our Occupational Health and Wellbeing team continues to provide easy access to support for employees, despite the challenges of the pandemic. In addition, we have partnered with Able Futures to offer nine months free confidential mental health support to those employees whose mental health is directly impacting their ability to work.

We have continued our annual staff survey and run other listening programmes, and business briefings.

Strategic Report

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 2021 includes the required disclosures as per these regulations for the TfL Group. The Company itself has had no carbon emissions, neither has it consumed any electricity, gas, petrol or diesel during the year (2019/20 none).

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

As previously stated, working with our suppliers and Trade Union partners, we have taken actions to put in place measures to protect staff and customers during the pandemic, ranging from installing protective screens for bus drivers, to implementing a rigorous new cleaning regime.

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

Financial and business review

At the year end the fair value of outstanding interest rate derivatives taken out to hedge the interest rate on borrowings was a net liability of £9.9m (2019/20 £16.9m). Further cumulative net cash payments of £118.1m made on settlement of gilt locks in prior years are deferred within equity and are being released to the Income Statement as an interest rate hedge over the term of borrowings issued by TfL. £9.3m (2019/20 £9.0m) was released to financial expenses in 2020/21, leaving a remaining balance of £49.2m related to gilt locks deferred in the hedging reserves as at 31 March 2021. Hedging in the Company is achieved through the drawdown of intercompany loans by the Company from TfL and the onward lending of the monies to London Underground Limited, a fellow subsidiary undertaking of the TfL Group.

The Company also holds three interest rate swaps in order to fix the floating interest rate risk on operating lease payments for rolling stock under a lease taken out by Rail for London Limited ("RfL"), a fellow subsidiary of Transport for London. The fair value of these derivatives at 31 March 2021 was a net liability of £20.8m (2019/20 £34.2m). The economic impact of the swaps has been transferred to RfL through use of intercompany derivatives.

During the year, the Company was party to a number of forward foreign exchange contracts hedging planned future foreign currency expenditure, on plant and equipment, by fellow subsidiaries of TfL. At 31 March 2021, the Company held forward foreign derivative contracts in Euros, Canadian Dollars, Swedish Krona, Swiss Francs and Chinese Renminbi to hedge planned foreign currency capital expenditure payments. At 31 March 2021 these forward contracts had a net nominal value of £371.5m (2019/20 £443.1m) and a combined net fair value of £(25.7)m (2019/20 £(10.2)m). Hedge accounting was applied to these derivatives, and all hedging relationships have been assessed as effective. During the year hedge accounting discontinued for Swiss Francs derivative contracts as the payments they originally hedged are no longer probable to occur. The fair value loss of £(0.3)m for these derivatives was recognised in the Income Statement within financial expense.

In addition, the Company entered into a number of foreign exchange swaps and forwards to hedge the currency risk on foreign currency investments entered into by TfL. At 31 March 2021, the Company held forward foreign exchange contracts to sell euros to a net value of £183.2m (2019/20 £614.2m). Although fully effective as hedges at the TfL

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Group level, as the hedged investments are in a different legal entity to the derivatives, these contracts were not in formally designated hedging relationships for accounting purposes. Hedge accounting has not therefore been applied. A fair value gain on these contracts totalling £27.2m (2019/20 loss of £26.2m) has been recognised directly in the Income Statement within financial income.

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 Transport for London Finance 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.

The principal risks to which the Company is exposed include reputation 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

The unprecedented global pandemic of coronavirus has significantly impacted the Company's ability to execute its activities.

In response to coronavirus, the Company and the wider TfL Group have fully supported the Government's nationwide message to 'stay at home'. As a result, the Group saw demand reduce by over 90 per cent on the Tube and above 85 per cent on Buses in March/April 2020 with significant reductions in demand expected to continue throughout 2021. This has had a profound impact on our finances as passenger revenues have contributed more than 70 per cent of total TfL Group revenue income in recent years. Other income streams, including advertising and property rentals have also been significantly adversely impacted by the changes to Londoners' travel patterns, and by TfL's implementation of other measures in response to the pandemic.

The Group has continued delivering essential transport services supporting the crisis response and is well positioned to partner with the Government in driving economic recovery and growth. Nevertheless, the pandemic has acted to decimate our finances and has exposed the inadequacy of the Group's 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.

During 2020/21 the Group was able to utilise the Job Retention Scheme as a source of additional funding. It also secured a series of Extraordinary Funding and Financing Agreements from the Secretary of State which gives it secure access to funding in the form of a mixture of Government grant and borrowing from the Public Works Loan Board until 11 December 2021. These agreements contain an acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until 2022/23, with longer term external funding being required to support TfL's capital investment programme.

Absorption of the financial impacts of the unprecedented coronavirus directly restricts the level and availability of funding to the Group for spend on capital investment and certain projects have been and are likely to continue to be delayed as a result. Over the short to medium term we will continue with those projects critical to operational safety, those related to Governmental priorities (such as those that promote cycling or walking) or which are already committed and nearing completion. Other pipeline projects may be abandoned, as coupled with reduced availability of funding, planned infrastructure projects may be de-prioritised or no longer considered optimal.

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. The Company's treasury management activities are managed by TfL.

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

Interest rate risk

Interest rate risk is managed through the use of intercompany loans and derivatives, set with maturity and interest rate profiles that effectively transfer the Company's interest rate risk on its external derivatives and borrowings from TfL to fellow subsidiary undertakings of the TfL Group.

Credit risk

Credit risk is managed on a group-wide basis by TfL. As the majority of the Company's counterparties in respect of its non derivative financial instruments are fellow undertakings of the TfL Group, credit risk for the Company's non derivative financial instruments is not considered material. Credit risk does arise in relation to derivatives with banks and financial institutions. TfL's Treasury Management Strategy (the "Strategy") for 2020/21, which was approved by TfL's Board, lists exposure limits by counterparty credit rating.

Foreign exchange risk

Foreign exchange risk is managed on a group wide basis by TfL. The Company enters into forward exchange contracts to hedge future foreign currency payments on behalf of its fellow subsidiaries. It also enters into forward foreign exchange contracts to hedge exposure to exchange rate fluctuations on future foreign currency receipts in relation to foreign currency investments held by the Company's ultimate parent, TfL. The gains and losses in respect of the Company's exposure to foreign currency fluctuations are effectively transferred to its parent and fellow subsidiary undertakings.

Brexit

Terms for the new trading relationship between the UK and European Union were confirmed in December 2020 and took effect at the end of that month. The implementation of the new trading relationship ensured greater assurance on the cost impact and availability of goods and materials. However, TfL has experienced some supply chain disruptions, impacting cost and project delivery including border delays on goods from the EU, import and customs arrangements and quota and tariff charges on imported materials. We continue to proactively monitor and manage risks throughout our supply chains. In addition, we continue to support our non-UK European Union citizen staff by engaging through our Human Resources team and internal communications as well as providing guidance on applying for Settled Status.

On the revenue side, we are exposed to macroeconomic conditions through impacts of changed trading terms on the UK and London economies feeding through to ridership on our services. However, the scale of such impacts is minimal in comparison to the ongoing effects of the coronavirus pandemic. We will continue to monitor economic forecasts as

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the impacts of both the trading relationship and the recovery from the pandemic become clearer and use these in our forecasting of future revenue.

Signed on behalf of the Board by:

H. Carter

Company Secretary

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	Note	**2021** £000	2020 £000
Financial income	4	**83,690**	57,198
Financial expenses	5	**(57,000)**	(83,450)
Foreign exchange gains/(losses)		**807**	(282)
Profit/(loss) before taxation	1	**27,497**	(26,534)
Income tax (expense)/credit	6	**(5,224)**	530
Profit/(loss) for the year attributable to the owners of the Company		**22,273**	(26,004)

Statement of Comprehensive Income

For the year ended 31 March	**2021** £000	2020 £000
Profit/(loss) for the year	**22,273**	(26,004)
Other comprehensive income and expenditure		
Items that may be subsequently reclassified to profit or loss:		
Net change in fair value of cash flow hedges	**(8,133)**	(11,407)
Net change in fair value of cash flow hedges reclassified to profit or loss	**9,794**	9,201
Deferred tax on the movement in the fair value of cash flow hedges	**(131)**	2,168
Total comprehensive income and expenditure for the year attributable to owners of the Company	**23,803**	(26,042)

Statement of Financial Position

	Note	31 March 2021 £000	31 March 2020 £000
Non-current assets			
Derivative financial instruments	11	21,114	35,662
Deferred tax asset	6	16,715	16,846
Long term loans receivable	7	1,372,777	1,397,777
		1,410,606	1,450,285
Current assets			
Derivative financial instruments	11	6,486	3,385
Cash and cash equivalents	8	2	17,018
		6,488	20,403
Current liabilities			
Trade and other payables	9	(56,655)	(78,925)
Derivative financial instruments	11	(11,946)	(26,257)
		(68,601)	(105,182)
Non-current liabilities			
Borrowings	10	(1,372,777)	(1,397,777)
Derivative financial instruments	11	(47,258)	(63,074)
		(1,420,035)	(1,460,851)
Net liabilities		(71,542)	(95,345)
Equity			
Share capital	12	-	-
Retained deficit		(286)	(22,559)
Hedging reserve		(67,385)	(68,438)
Cost of hedging reserve		(3,871)	(4,348)
Total deficit attributable to the owners of the Company		(71,542)	(95,345)

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 2021 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 accounting policies and notes on pages 16 to 37 form part of these Financial Statements. These Financial Statements were approved by the Board on 5 July 2021 and signed on its behalf by:

H. Carter
Director
Company Registration Number 06745516

Statement of Changes in Equity

	Called up share capital	Cost of hedging reserve	Hedging reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
At 1 April 2019	-	(701)	(72,047)	3,445	(69,303)
Loss for the year	-	-	-	(26,004)	(26,004)
Other comprehensive income and expenditure:					
Net change in fair value of cash flow hedges	-	(3,891)	(7,516)	-	(11,407)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	244	8,957	-	9,201
Deferred tax on the movement in the fair value of derivatives	-	-	2,168	-	2,168
At 31 March 2020	-	(4,348)	(68,438)	(22,559)	(95,345)
Profit for the year	-	-	-	22,273	22,273
Other comprehensive income and expenditure:					
Net change in fair value of cash flow hedges	-	-	(8,133)	-	(8,133)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	477	9,317	-	9,794
Deferred tax on the movement in the fair value of derivatives	-	-	(131)	-	(131)
At 31 March 2021	-	(3,871)	(67,385)	(286)	(71,542)

Statement of Cash Flows

For the year ended 31 March	Note	2021 £000	2020 £000
Cash generated from operating activities			
Profit/(loss) for the year		22,273	(26,004)
Adjustments for			
Financial income	4	(83,690)	(57,198)
Financial expenses	5	57,000	83,450
Reversal of tax expense/(credit)	6	5,224	(530)
Cash flow from operating activities before movements in working capital		807	(282)
Decrease in trade and other payables		(22,650)	(5,529)
Cash utilised by operations		(21,843)	(5,811)
Taxation paid		(5,224)	-
Net cash utilised by operating activities		(27,067)	(5,811)
Cash flows from investing activities			
Repayment of loans to fellow group undertakings		25,000	150,000
Interest received on derivatives		4,337	3,067
Interest received		52,085	54,131
Net cash generated from investing activities		81,422	207,198
Cash flows from financing activities			
Repayment of loans from fellow group undertakings		(25,000)	(150,000)
Receipt on settlement of derivative financial instruments		229	763
Interest paid on derivatives		(11,653)	(12,041)
Interest paid		(34,947)	(36,564)
Net cash utilised by financing activities		(71,371)	(197,842)
(Decrease)/increase in net cash during the year		(17,016)	3,545
Net cash and cash equivalents at the start of the year		17,018	13,473
Net cash and cash equivalents at the end of the year		2	17,018

Accounting Policies

a) Reporting entity

Transport for London Finance Limited (the "Company") is a Company domiciled in the United Kingdom. The Company's registration number is 06745516. The address of the Company's registered office is 5 Endeavour Square, 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 financial instrument.

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

d) Uses of estimates and judgements

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

Derivative financial instruments

The Company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. In making its assessment and judgements, the Company assesses the effectiveness of the derivatives and changes in their fair values. Note 13 and the accounting policies note on financial instruments provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

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 £5.0m (2020 £5.0m). 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 £5.0m (2020 £5.0m).

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

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

Accounting Policies

Amendments to IFRS 3 Definition of a business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments have no impact on these Financial Statements, but may impact future periods should the Company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments were early adopted in the Financial Statements of the Company for the year ended 31 March 2020.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the Financial Statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments has no impact on these Financial Statements, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments have no impact on these Financial Statements.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment has no impact on these Financial Statements, nor is there expected to be any future impact to the Company.

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 EU, but have not been applied in these Financial Statements:

Accounting Policies

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 applicable to the Company.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021)

The phase 2 amendment addresses financial reporting implications when an existing interest rate benchmark is replaced with an alternative and highlights the following:

- Facilitates a practical expedient when accounting for changes in the basis for determining the contractual cash flows (and resultant carrying value) of financial assets and liabilities measured at amortised cost or fair value through comprehensive income, to allow the effective interest rate to be adjusted
- Relief from discontinuing hedge relationships because of changes to hedge documentation required by the Reform
- Temporary relief from having to meet the separately identifiable requirement when an alternative Risk Free Rate, such as SONIA is designated as a risk component of a hedge relationship as a replacement for the existing interest rate benchmark (LIBOR)
- IFRS 16 lessees are required to remeasure their lease liabilities in similar fashion to any other change in estimate, rather than as a lease modification.

Our initial assessment of Interest Rate Benchmark Reform is that the new basis for determining the contractual cash flows would be 'economically equivalent' to the previous basis.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual periods beginning on or after 1 January 2022)

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 amendment must be applied retrospectively only to assets made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. This standard is not applicable to the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective for annual periods beginning on or after 1 January 2022)

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 must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Classification of Liabilities as Current or Noncurrent - 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.

Accounting Policies

Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022)

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 must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards.

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 IFRS 3.

The Company 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 indicated that for at least 12 months from the date of approval of these Financial Statements, it will continue to make such funds available to the Company. In addition, as set out in section 479A of the Companies Act 2006, the Company's immediate parent, TTL, has issued a guarantee over all outstanding liabilities to which the Company is subject as at 31 March 2021; and
- 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.

As set out in the Strategic Report, the coronavirus pandemic has had a significant impact on the finances of the wider TfL Group. TfL has agreed support in the form of extraordinary funding grant from the Department of Transport (DfT) to fund its operations until 11 December 2021, and has received acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until 2022/23, with longer term external funding being required to support TfL's capital investment programme. Based on this undertaking, the directors believe that it remains appropriate to prepare the Financial Statements on a going concern basis.

h) Grants and other funding

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

Accounting Policies

i) Financial income and expenses

Financing and investment income consists of interest income on funds invested, premia received on the novation of derivative contracts, gains in the movement of the fair value of unhedged derivative financial instruments and net interest receivable under interest rate derivative contracts. Interest income is recognised as it accrues in the Income Statement, using the effective interest rate method.

Financing costs comprise losses in the movement of the fair value of unhedged derivative financial instruments and the interest expense on borrowings and derivative financial instruments accrued using the effective interest rate method.

j) Income tax

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

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

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

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

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

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

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

k) Provisions

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

l) 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')

Accounting Policies

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 Group 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
- 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.

Accounting Policies

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.

Loans to related parties

Loans to related parties are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans are classified as amortised cost.

Derivative financial instruments

The Company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. The Company does not hold or issue derivative instruments for speculative purposes. The use of derivatives is governed by the Group's Policy relating to the use of derivative investments, approved by the TfL Board annually.

Derivative assets and derivative liabilities are classified as FVTPL. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives are either hedges of the fair value of recognised assets or liabilities, or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of the foreign currency risk of firm commitments (cash flow hedges).

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

Hedge accounting

In order to qualify for hedge accounting, at inception of the transaction the hedging relationship is formally designated and documented, which includes the risk management strategy and objective for undertaking the hedge, identification of the hedging instrument, the hedged item, the ratio between the amount of hedged item and the amount of hedging instrument, the nature of the risk being hedged and how it is assessed that the hedging instrument's hedge is highly effective, including analysis of potential sources of hedge ineffectiveness.

At the inception of the hedge relationship and prospectively on an ongoing basis, three criteria are assessed in determining the hedge is effective and qualified for hedge accounting, namely:

- an economic relationship exists such that the fair value or cash flows attributable to the hedged risk will be offset by the fair value of the hedged instrument
- credit risk does not dominate changes in the value of the hedging instrument or hedged item

Accounting Policies

- the hedge ratio used for hedge accounting purposes is the same as that used for risk management purposes and is to be maintained as initially set throughout the hedge relationship

Where derivatives or portions of hedges do not qualify for hedge accounting, they are recorded at fair value and any change in value is immediately recognised in the Income Statement.

Cash flow hedges

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

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

Amounts deferred in reserves are recycled to profit or loss in the periods in which the hedged items (the hedged asset or liability) are recognised in the Income Statement. When the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in reserves are transferred from reserves and are included in the initial measurement of the cost of the related asset or liability. For transaction-related hedged items, this will occur once the hedged transaction has taken place. For time-period related hedged items, the amount that is accumulated in reserves is amortised on a systematic and rational basis as a reclassification adjustment.

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

Impairment of financial assets

At each reporting date, the Company assesses whether the credit risk on a significant financial asset measured at amortised cost or FVTOCI has increased significantly since initial recognition and subsequently measures an expected credit loss allowance for that financial instrument.

The expected loss allowance is a measurement based on the probability of default over the lifetime of the contract for trade receivables, lease receivables or contract assets in scope of IFRS 15. For other financial assets, the allowance is based on the probability of default occurring in 12 months providing credit risk is assessed as low.

The expected credit loss 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. Where financial assets are determined to have shared risk characteristics they are assessed collectively, otherwise, they are reviewed on an individual basis.

Expected credit loss allowances are recognised in the Income Statement.

m) 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

Accounting Policies

occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

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

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

Notes to the Financial Statements

1 Profit/(loss) before taxation

Auditors' remuneration

The Company had no audit fees for the years ending 31 March 2021 or 31 March 2020.

2 Employee costs

The Company did not employ staff during the year ended 31 March 2021 or the year ended 31 March 2020.

3 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 (2019/20 none).

4 Financial income

For the year ended 31 March	Note	2021 £000	2020 £000
Interest receivable on loan notes to fellow Group undertakings		52,085	54,131
Interest receivable on derivative financial instruments with fellow Group undertakings		4,337	3,067
Fair value gain on unhedged derivative financial instruments	13	27,268	-
		83,690	57,198

5 Financial expenses

For the year ended 31 March	Note	2021 £000	2020 £000
Interest on loans from fellow Group undertakings		34,947	36,564
Interest payable on derivative financial instruments		21,753	20,643
Fair value loss on unhedged derivative financial instruments	13	300	26,243
		57,000	83,450

Notes to the Financial Statements

6 Taxation

For the year ended 31 March	2021	2020
	£000	£000
Current year UK Corporation Tax	5,224	-
Deferred tax written off in the period	-	(530)
Total income tax charge/(credit) for the year	5,224	(530)

Reconciliation of tax expense

For the year ended 31 March	2021	2020
	£000	£000
Profit/(loss) before tax	27,497	(26,534)
Profit/(loss) before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2019/20 19%)	5,224	(5,041)
Effects of:		
Prior period adjustment	-	(530)
Tax losses carried forward for which no deferred tax was recognised	-	5,041
Income tax expense/(credit) for the year	5,224	(530)

Unrecognised deferred tax

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

	31 March 2021	31 March 2020
	£000	£000
Tax losses	5,041	5,041

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

Notes to the Financial Statements

Recognised deferred tax

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

Movements were in respect of the following items:

	Opening balance	Movement in profit or loss	Movement in other comprehensive income	Closing balance
	£000	£000	£000	£000
For the year ended 31 March 2021				
Deferred tax assets				
Derivative financial instruments	16,846	-	(131)	**16,715**
Net deferred tax asset/(liability)	**16,846**	**-**	(131)	**16,715**
For the year ended 31 March 2020				
Deferred tax assets				
Derivative financial instruments	14,678	-	2,168	16,846
Deferred tax liabilities				
Derivative financial instruments	(530)	530	-	-
Net deferred tax asset/(liability)	14,148	530	2,168	16,846

The Finance Bill 2020 set the main rate of Corporation Tax for all non-ringfenced profits to 19 per cent from 1 April 2020. The Corporation Tax charge and the main rate are also set at 19 per cent from April 2021. In his Spring Budget on 3 March 2021, the Chancellor of the Exchequer announced that the main rate of Corporation Tax will rise to 25 per cent from April 2023. However, as this change had not yet been substantively enacted by the end of the reporting period, deferred tax balances at 31 March 2021 have been calculated at the rate of 19 per cent.

7 Loans to related parties

	2021	2020
	£000	£000
Current		
Non-current		
Loans to fellow Group undertakings	**1,372,777**	1,397,777

8 Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank	**2**	17,018

Notes to the Financial Statements

9 Trade and other payables

	2021	2020
	£000	£000
Current		
Interest accruals on derivatives	2,351	2,045
Amounts due to fellow Group undertakings	54,304	76,880
	56,655	78,925

10 Borrowings

	2021	2020
	£000	£000
Non-current		
Amounts due to fellow Group undertakings	1,372,777	1,397,777

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:

	2021	2020
Weighted average interest rate	2.62%	2.59%

Notes to the Financial Statements

11 Derivatives

	2021	2021	2020	2020
	Fair value	Notional amount	Fair value	Notional amount
	£000	£000	£000	£000
Non-current assets				
Cash flow hedges				
Interest rate swaps	20,876	211,866	34,164	208,606
Foreign currency forward contracts	238	19,735	1,498	20,077
	21,114	231,601	35,662	228,683
Current assets				
Cash flow hedges				
Foreign currency forward contracts	6,486	229,106	3,385	40,533
	6,486	229,106	3,385	40,533
Non-current liabilities				
Cash flow hedges				
Interest rate swaps	29,561	336,866	50,869	408,606
Foreign currency forward contracts	17,697	271,464	12,205	316,647
	47,258	608,330	63,074	725,253
Current liabilities				
Cash flow hedges				
Interest rate swaps	1,193	75,000	247	25,000
Foreign currency forward contracts	10,753	165,683	26,010	688,496
	11,946	240,683	26,257	713,496

12 Share capital

	2021	2020
	£000	£000
Share capital issued and fully paid		
2 ordinary shares of £1 each	-	-

	Number	Number
Authorised share capital		
Ordinary shares of £1 each	2	2

Notes to the Financial Statements

13 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 derivative financial instruments, loans to related parties, cash and cash equivalents, trade and other payables and borrowings. 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 counterparty to a financial instrument fails to meet contractual obligations. Credit risk arises in relation to deposits and derivatives with banks and financial institutions.

The TfL Treasury Management Strategy for 2020/21, which was approved by TfL's Board, lists exposure limits by counterparty credit rating. The investment limit for an institution is linked to the credit rating of the institution. Although actively managed, credit risk is an immaterial risk to the company.

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

Market risk is the possibility that future changes in foreign exchange rates or interest rates may make a derivative more or less valuable. Since the Company uses derivatives for risk management, market risk relating to derivative instruments will be principally offset by changes in the cash flows of the transactions being hedged.

Interest rate risk

The Company is exposed to interest rate risk on borrowings from TfL. The Company uses interest rate swaps (the hedging instrument) to reduce exposure to interest rates movements (the hedged risk) on borrowings (the hedged item) that are already in issue. The Company does not use derivative financial instruments for speculative purposes. The Finance Committee is responsible for the hedging strategy and must approve all decisions to enter into derivative products. The Finance Committee's aim is to ensure that exposure to interest rate risk on floating interest rate borrowings is managed by entering into appropriate derivative products.

All interest rate derivatives are designated as hedges. Those derivatives that do not satisfy the hedging criteria in accordance with adopted IFRS 9 ('IFRS 9') are not hedge accounted for and are fair valued immediately through the Income Statement.

Notes to the Financial Statements

Effects of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's most significant risk exposure affected by these changes relates to its LIBOR linked floating rate borrowing and lease payments.

The notional amount of interest rates swaps designated as hedges relating to LIBOR is disclosed below.

In assessing whether the hedge is expected to be highly effective on a forward looking basis, the Group has early adopted IFRS 9 Phase 1 amendments and applied the associated temporary reliefs to assume that the GBP LIBOR interest rate, upon which the cashflows of the interest rate swaps and the cashflows attributable to the hedged risk are based, are not altered by IBOR reform.

Hedge accounting

As at 31 March 2021 the Company, held five interest rate swaps at a notional value of £200.0m (2020 six interest rate swaps at a total notional value of £225.0m). The net fair value of these contracts at 31 March 2021 was a liability of £9.9m (2020 £16.9m). The fair value is recognised in equity at 31 March 2021 and will be transferred to net financing costs within the Income Statement as the hedged payments occur.

The hedge ratio is 1:1. The economic relationship of all hedging relationships has been assessed as effective and the change in value of hedged items since 1 April 2020 has been offset by the change in value of hedging instruments.

It is expected that the hedged interest payments will take place in the period to December 2042. Details on the maturity of these contracts is disclosed later in this note.

Foreign exchange risk

As at 31 March 2021, the Company held forward foreign exchange contracts to hedge €215.0m (2019/20 €720.4m) future Euro receipts in relation to Euro investments held by the Company's ultimate parent, Transport for London. Although fully effective as hedges, as the hedged investments are in a different legal entity to the derivatives, these contracts were not in formally designated hedging relationships for accounting purposes, and hence hedge accounting has not been applied. A fair value gain on these contracts totalling £27.2m (2019/20 a loss of £26.2m) has therefore been recognised directly in the Income Statement within financial income/expenses.

Hedge accounting

At 31 March 2021, the Company held forward foreign derivative contracts in Euros, Swedish Krona, Swiss Francs, Chinese Yuan Renminbi and Canadian Dollars. These forward contracts hedge planned foreign currency capital expenditure payments and are designated as such, with a nominal value of £371.5m (2019/20 £443.1m). At 31 March 2021, these contracts had a combined net fair value of £(25.7)m (2019/20 £(10.5)m). Hedge accounting is applied and the fair value of forward contracts were recognised in equity at 31 March 2021 with the exception of Swiss Francs contracts with fair value of £(0.3)m for which hedge accounting was discontinued as future payments in that currency are no longer probable to occur and it was recognised in the income statement. For the rest of the currencies once hedged purchases occur, the subsequent realised gain or loss will be transferred to fixed asset additions as a basis adjustment.

The hedge ratio is 1:1. The economic relationship of all hedging relationships have been assessed as effective and the change in value of hedged items since 1 April 2020 has been offset by the change in value of hedging instruments.

It is expected that the hedged purchases will take place in the period to 25 March 2027. Detail on the maturity of these contracts is disclosed later in this note.

Notes to the Financial Statements

Sensitivity analysis

Fair value sensitivity analysis for fixed interest instruments

As at 31 March 2021, the Company holds interest rate derivative contracts with a combined net notional value of £200.0m (2019/20 £225.0m) which are designated as cash flow hedges. An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £3.9m/£(2.3)m (2019/20 £4.7m/£(4.6)m). All of the Company's non-derivative financial instruments are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the Statement of Financial Position or net income figures in respect of these items.

Fair value sensitivity analysis on foreign exchange risk

As at 31 March 2021, the Company held forward Euro foreign exchange contracts with a combined total net nominal buy value of £119.3m (2019/20 £264.7m net nominal buy value) and a net fair value liability of £20.8m (2019/20 a liability of £33.4m). A 10 percent increase/(decrease) in GBP against the Euro would increase/(decrease) the fair value of these derivative instruments to £(31.9)m/£(7.1)m (2019/20 £(6.3)m/£(66.5)m).

As at 31 March 2021, the Company also holds forward foreign exchange contracts with a combined net notional value of £36.4m (2019/20 £62.3m) and a fair value of £1.2m (2019/20 £2.4m) to purchase Canadian dollars. A 10 percent increase/(decrease) in GBP against the Canadian dollar would (decrease)/increase the fair value of these derivative instruments to £(2.1)m/£5.2m (2019/20 £(3.4)m/£9.6m).

As at 31 March 2021, the Company also holds forward foreign exchange contracts with a combined net notional value of £23.3m (2019/20 £22.5m) and a fair value of £(1.8)m (2019/20 £(2.9)m) to purchase Swedish Krona. A 10% increase/(decrease) in GBP against the Swedish Krona would (decrease)/increase the fair value of these derivative instruments to £(3.9)m/£0.8m (2019/20 £(4.4)m/£(0.5)m).

As at 31 March 2021, the Company also holds forward foreign exchange contracts with a combined net notional value of £2.5m (2019/20 £2.3m) and a fair value of £(0.3)m (2019/20 £(0.1)m) to purchase Swiss Francs. A 10% increase/(decrease) in GBP against the Swiss Franc would (decrease)/increase the fair value of these derivative instruments to £(0.5)m/£0.1m (2019/20 £(0.3)m/£0.2m).

As at 31 March 2021, the Company also holds forward foreign exchange contracts with a combined net notional value of £6.8m (2019/20 £6.4m) and a fair value of £(0.1)m (2019/20 £0.5m) to purchase Chinese Renminbi. A 10% increase/(decrease) in GBP against the Chinese Renminbi would (decrease)/increase the fair value of these derivative instruments to £(0.7)m/£0.6m (2019/20 £(0.1)m/£1.3m). The Company has no other material exposure to foreign exchange rate movements.

Notes to the Financial Statements

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. All other non derivative financial instruments are due within one year.

The following table details the Company's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Amounts falling due in less than one year	Amounts due between 1 and 2 years	Amounts falling due between 2 and 5 years	Amounts falling due in more than 5 years	Total
	£000	£000	£000	£000	£000
At 31 March 2021					
Derivatives settled net					
Interest rate swaps and gilt locks	(7,117)	(4,357)	(277)	-	(11,751)
Derivatives settled gross					
Foreign exchange forward contracts					
Amounts receivable	453,250	76,734	206,538	8,398	744,920
Amounts payable	(457,800)	(81,066)	(226,459)	(8,946)	(774,271)
	(11,667)	**(8,689)**	**(20,198)**	**(548)**	**(41,102)**
At 31 March 2020					
Derivatives settled net					
Interest rate swaps	(7,636)	(6,522)	(4,200)	-	(18,358)
Derivatives settled gross					
Foreign exchange forward contracts					-
Amounts receivable	721,776	128,687	154,774	41,735	1,046,972
Amounts payable	(744,400)	(131,251)	(161,015)	(43,637)	(1,080,303)
	(30,260)	(9,086)	(10,441)	(1,902)	(51,689)

Notes to the Financial Statements

The Company's derivatives have the following maturities

	2021	2021	2021	2020	2020	2020
	Average exchange rate/contracted fixed interest rate	Fair value	Notional amount	Average exchange rate/contracted fixed interest rate	Fair value	Notional amount
	%	£000	£000	%	£000	£000
Foreign currency forward contracts						
Sell Euro						
Less than 1 year	0.870	3,910	(183,159)	0.853	(23,128)	(614,206)
Buy Euro						
Less than 1 year	0.874	(8,332)	79,151	0.898	(738)	54,261
1 to 2 years	0.885	(3,307)	43,305	0.916	(2,161)	97,582
2 to 5 years	0.916	(12,944)	173,828	0.950	(5,422)	154,064
After 5 years	0.914	(81)	6,200	0.970	(1,902)	43,637
	0.892	(20,754)	119,325	0.883	(33,351)	264,662
Buy Canadian dollars						
Less than 1 year	0.560	1,212	36,064	0.542	1,752	38,372
1 to 2 years	0.590	(8)	305	0.550	700	23,588
2 to 5 years	-	-	-	0.590	(14)	313
	0.561	1,204	36,369	0.545	2,438	62,273
Buy Swedish Krona						
Less than 1 year	0.086	(862)	2,381	0.093	(983)	7,604
1 to 2 years	0.087	(414)	3,742	0.093	(1,119)	8,709
2 to 5 years	0.086	(459)	14,967	0.094	(787)	6,180
After 5 years	0.086	(35)	2,198			
	0.086	(1,770)	23,288	0.093	(2,889)	22,493
Buy Swiss Francs						
Less than 1 year	0.868	(242)	2,139	0.864	(25)	861
1 to 2 years	0.889	(22)	154	0.878	(32)	963
2 to 5 years	0.905	(36)	239	0.899	(18)	458
	0.880	(300)	2,532	0.877	(75)	2,282

Notes to the Financial Statements

	2021	2021	2021	2020	2020	2020
	Average exchange rate/contracted fixed interest rate	Fair value	Notional amount	Average exchange rate/contracted fixed interest rate	Fair value	Notional amount
	%	£000	£000	%	£000	£000
Sell Chinese Renminbi						
Less than 1 year	-	-	-	0.104	(341)	(3,828)
1 to 2 years	-	-	-	0.100	(47)	(411)
Buy Chinese Renminbi						
Less than 1 year	0.103	46	-	0.104	838	9,796
1 to 2 years	0.110	(143)	6,338	0.100	95	819
2 to 5 years	0.107	(9)	452	-	-	-
	0.106	(106)	6,790	0.104	545	6,376
Total	-	(21,726)	188,304	-	(33,332)	358,086
Interest rate hedges						
Amounts falling due in less than one year	3.837	(1,193)	75,000	3.548	(247)	25,000
Amounts due between 1 and 2 years	4.284	(6,380)	100,000	3.837	(3,637)	75,000
Amounts falling due between 2 and 5 years	4.489	(2,305)	25,000	4.325	(13,068)	125,000
Total	4.142	(9,878)	200,000	4.076	(16,952)	225,000

Fair value of financial instruments

In accordance with IFRS 13, the fair values of the financial assets and liabilities are calculated as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of the Company's financial instruments is not materially different to their carrying value.

- Cash and cash equivalents – approximates to the carrying amount.
- Loans to related parties – approximates to the carrying amount.
- Derivative financial instruments – In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13.
    - Forward exchange contracts and currency options – based on market data and exchange rates at the balance sheet date.

Notes to the Financial Statements

- Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows.

- Trade and other payables – approximates to the carrying amount.

- Long-term borrowings – approximates to the carrying amount.

Capital management

The capital structure of the Company consists entirely of shareholders' equity and borrowings from the Company's ultimate parent, TfL. The Company's borrowings are fully matched by loans made to fellow subsidiary undertakings. 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 from its ultimate parent, TfL, to fund operations.

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 A+ stable outlook with Fitch Ratings, A+ negative outlook with Standard & Poor's and A3 negative outlook with Moody's.

14 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 (2019/20 none). Details of directors' emoluments can be found in note 3.

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

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

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

- Interest accrued on loans from TfL as disclosed in notes 5 and 10;
- Interest accrued on loans to London Underground Limited as disclosed in notes 4 and 7;
- Net interest receivable under intercompany interest rate swaps with Rail for London Limited (notes 4 and 11);

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.

15 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 Transport for London Finance 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.

Notes to the Financial Statements

16 Events occurring after the reporting date

The impact of the coronavirus pandemic on the Company is discussed in the Strategic Report.

Since 31 March 2021, the Company has continued to experience revenue shortfalls as a result of the pandemic, and the TfL Group remains reliant on extraordinary funding support from the Department for Transport (DfT) for the continued provision of services. The latest funding package, agreed on 1 June 2021, extends to 11 December 2021 and contains an acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until 2022/23, with longer term external funding being required to support TfL's capital investment programme.

Management have considered the impact of the pandemic and the status of ongoing discussions with Government regarding TfL's longer term funding requirements on the values at which income, assets and liabilities have been recorded in these accounts. We do not consider that there has been any post-balance sheet event that would require a further adjustment being made to the carrying values at 31 March 2021 as reported in these Financial Statements. As at the date of signing of the accounts, the Company continues to provide a full level of service.

Throughout 2021/22 we will continue to work closely with the DfT and the Mayor of London to determine what further sources of funding will be made available to progress our capital investment programme. We will make decisions regarding the future of assets under construction at the balance sheet date as and when Government priorities in relation to future Transport investment, and the quantum of likely future funds, become clearer. We consider any possible future impairments of the carrying value of existing assets or assets under construction to be non-adjusting post balance sheet events for the purposes of these Financial Statements.