

# Transport for London Finance 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 06745516

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# 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 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 to administer derivative strategies on behalf of TfL and subsidiaries across the TfL Group.

## Directors

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

H. Carter

P. Doig                                      Appointed 18 May 2022

S. Kilonback                                Resigned 29 April 2022

R. McLean                                   Appointed 18 May 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.

## 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 (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

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 the TfL Annual Report and Statement of Accounts.

# Directors' Report

## Additional disclosures

The Company has chosen, in accordance with Section 414c (1) 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
Principal risks and risk management	page 5

## 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:



**P. Doig**

Director

14 July 2023

# Strategic Report

## Activities and Future Developments

As stated in the Directors' Report, the principal activity of the Company is to administer derivative strategies. 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 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. The Company is a subsidiary of the TTL Group. Key policies and governance for all TTL Group companies are set by the TfL Board.

## High standards of business conduct

TfL's governance and decision-making arrangements ensure the business is managed 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 and do not relate to activities of the Company.

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 (DfT) 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. Neither the Coronavirus pandemic nor the cost control initiatives employed had an impact on the Company's activities i.e. the execution of derivative strategies.

TfL has established a committee structure to which detailed scrutiny of key areas of responsibilities are delegated. The TfL Board has the right range and depth of knowledge, skills and experiences to run the business effectively. Board membership was refreshed, in line with best practice, so it remains 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

# Strategic Report

cent of our Board members are women. TfL understands the benefits of diversity and are continually seeking to improve this across our Board and executive teams.

TfL also has a series of policies and guidance setting out expected standards of behaviour and conduct. 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, day-to-day decisions are delegated to company employees within the governance framework.

## 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. 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. The TfL Accounts for the year ending 31 March 2023 include 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 (2021/22 none).*

## Financial and Business Review

At 31 March 2023, the Company held no (2021/22 none) interest rate derivatives to hedge the interest rate on borrowings thus had £0.0m fair value outstanding (2021/22 £0m). Further, cumulative net cash payments in prior years, of £118.1m made on settlement of gilt locks that hedged gilt rates prior to Bond issuance, 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. £9.6m (2021/22 £9.7m) was released to financial expenses during the year, leaving a remaining balance of £29.9m related to gilt locks deferred in the hedging reserves as at 31 March 2023. 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.

Additionally, one additional interest rate swap contract was entered into in December 2022, hedging interest rate risk on lease payments on an existing lease that was already partially hedged. Further, one interest rate swap was terminated in March 2023 following the termination of the respective lease the interest rate swap was hedging. Therefore, at 31 March 2023, the Company holds two (2021/22 two) interest rate swaps in order to fix the floating interest rate risk on 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 2023 was a net asset of £24.7m (2021/22 net asset of £13.0m). The economic impact of these new swaps as well as the termination settlement (£13.5m gain) of the swap terminated in March 2023, 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 2023, the Company held forward foreign derivative contracts in Euros, Canadian Dollars, Swedish Krona, and Chinese Renminbi to hedge planned foreign currency capital expenditure payments. At 31 March 2023 these forward contracts had a net nominal value of £259.6m (2021/22 £278.6m) and a combined net fair value of £(11.1)m (2021/22 £(17.1)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 £0.0m (2021/22 £(0.0)m) for these derivatives was recognised in the Income Statement within financial expense and the position held on these derivatives closed out.

# Strategic Report

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 2023, the Company held forward foreign exchange contracts to sell euros to a net value of £105.6m (2021/22 £238.9m). Although fully effective as hedges at the TfL Group level, 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. Fair value gains/losses on the derivatives executed by the Company offset the fair value gains/losses on the retranslation of foreign currency investments in TfL Corporation's Comprehensive Income and Expenditure Statement. For the Company, a fair value gain on these contracts totalling £2.7m (2021/22 loss of £(5.6)m) has been recognised directly in the Income Statement within financial expenses.

## 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 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.

## 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 governed and managed by TfL through administration of the Treasury Management Strategy which is approved by the TfL Board annually.

TfL manages its liquidity risk and ability to support subsidiaries by maintaining a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equivalent to approximately £1.2bn.

TfL also has access to several external sources of financing, within the affordable borrowing limit set by the Mayor. Providing market conditions permit access, TfL can raise debt on the capital markets. Alternatively, and in addition, TfL has direct access to reliable funding from the Public Works Loan Board and has an arranged, uncommitted, £0.1bn overdraft facility and a further £0.1bn uncommitted money market line facility.

For the period 1 April 2020 to 31 March 2022, the Secretary of State for Transport has provided a series of extraordinary funding grants through four distinct funding agreements. On top of this grant funding, a further additional borrowing from the PWLB was agreed in 2020/21.

On 30 August 2022 the TfL Board approved a long term 20-month funding settlement with the DfT until 31 March 2024. This is significantly longer than any of the previous settlements during the pandemic. The agreement provides TfL £1.2bn of Government funding along with guaranteeing passenger revenue of the period.

Details of, and conditions attaching to the latest funding agreement are set out in TfL's Annual Report and Statement of Accounts and on the TfL website ([www.tfl.gov.uk](http://www.tfl.gov.uk)).

Due to the funding and liquidity risk mitigations set out above, there is no significant risk that TfL would be unable to raise finance to meet the TfL Group and the Company's financial commitments.

# Strategic Report

## 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.

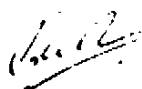
## Credit Risk

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 for 2022/23, 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.

Signed on behalf of the Board by:



P. Doig

Director

14 July 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	£000	£000
Financial income	4	35,571	57,572
Financial expenses	5	(32,901)	(63,194)
Foreign exchange gains/(losses)	6	1,819	(3,846)
Profit/(loss) before taxation	1	4,489	(9,468)
Income tax credit	7	-	2,744
Profit/(loss) for the year attributable to the owners of the Company		4,489	(6,724)

## Statement of Comprehensive Income

For the year ended 31 March

	2023	2022
	£000	£000
Profit/(loss) for the year	4,489	(6,724)
Other comprehensive income and expenditure		
Items that may be subsequently reclassified to profit or loss		
Net change in fair value of cash flow hedges	6,021	17,885
Net change in fair value of cash flow hedges reclassified to profit or loss	10,106	10,646
Deferred tax on the movement in the fair value of cash flow hedges	(4,032)	(1,854)
Total comprehensive income and expenditure for the year attributable to owners of the Company	16,584	19,953

## Statement of Financial Position

		31 March 2023 £000	31 March 2022 £000
	Note		
Non-current assets			
Derivative financial instruments	12	27,688	13,227
Deferred tax asset	7	10,829	14,861
Long term loans receivable	8	504,771	1,172,777
		<u>543,288</u>	<u>1,200,865</u>
Current assets			
Derivative financial instruments	12	1,701	1,370
Cash and cash equivalents	9	11	2
		<u>1,712</u>	<u>1,372</u>
Current liabilities			
Trade and other payables	10	(35,486)	(47,402)
Derivative financial instruments	12	(3,415)	(6,474)
		<u>(38,901)</u>	<u>(53,876)</u>
Non-current liabilities			
Borrowings	11	(504,771)	(1,172,777)
Derivative financial instruments	12	(36,332)	(27,172)
		<u>(541,103)</u>	<u>(1,199,949)</u>
Net liabilities		<u>(35,004)</u>	<u>(51,588)</u>
Equity			
Share capital	13	-	-
Retained deficit		(2,522)	(7,010)
Hedging reserve		(30,074)	(41,634)
Cost of hedging reserve		(2,408)	(2,944)
Total deficit attributable to the owners of the Company		<u>(35,004)</u>	<u>(51,588)</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 Accounting Policies and notes on pages 13 to 32 form part of these Financial Statements. These Financial Statements were approved by the Board on 14 July 2023 and signed on its behalf by:



**P. Doig**

Director

Company Registration Number 06745516

## Statement of Changes in Equity

	Called up share capital £000	Cost of hedging reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
At 1 April 2021	-	(3,871)	(67,384)	(286)	(71,541)
Loss for the year	-	-	-	(6,724)	(6,724)
Other comprehensive income and expenditure:					
Net change in fair value of cash flow hedges	-	-	17,885	-	17,885
Net change in fair value of cash flow hedges reclassified to profit or loss	-	927	9,719	-	10,646
Deferred tax on the movement in the fair value of derivatives	-	-	(1,854)	-	(1,854)
At 31 March 2022	-	(2,944)	(41,634)	(7,010)	(51,588)
Profit for the year	-	-	-	4,489	4,489
Other comprehensive income and expenditure:					
Net change in fair value of cash flow hedges	-	-	6,021	-	6,021
Net change in fair value of cash flow hedges reclassified to profit or loss	-	538	9,569	-	10,107
Deferred tax on the movement in the fair value of derivatives	-	-	(4,032)	-	(4,032)
At 31 March 2023	-	(2,406)	(30,076)	(2,521)	(35,003)

# Statement of Cash Flows

For the year ended 31 March

		2023	2022
	Note	£000	£000
Cash generated from operating activities			
Profit/(loss) for the year		4,489	(6,724)
Adjustments for			
Financial income	4	(35,571)	(57,572)
Financial expenses	5	32,901	63,194
Reversal of tax credit	7	-	(2,744)
Cash flow from operating activities before movements in working capital		1,819	(3,846)
Decrease in trade and other payables		(13,650)	(8,613)
Cash utilised by operations		(11,831)	(12,459)
Taxation paid		-	2,744
Net cash utilised by operating activities		(11,831)	(9,715)
Cash flows from investing activities			
Repayment of loans to fellow group undertakings		668,006	200,000
Interest received on derivatives		2,271	-
Interest received on loans to fellow group undertakings		35,373	57,572
Net cash generated from investing activities		705,650	257,572
Cash flows from financing activities			
Repayment of loans from fellow group undertakings		(668,006)	(200,000)
Payment on settlement of derivative financial instruments		-	(5,032)
Interest paid on derivatives		-	(8,206)
Interest paid on loans from fellow group undertakings		(25,804)	(34,619)
Net cash utilised by financing activities		(693,810)	(247,857)
Increase in net cash during the year		9	-
Net cash and cash equivalents at the start of the year		2	2
Net cash and cash equivalents at the end of the year		11	2

# Accounting Policies

## a) Reporting entity

The Company is domiciled in the United Kingdom. The Company's registration number is 06745516. The address of the Company's registered office is 5 Endeavour Square, Stratford, London, E20 1JN. The Company is a subsidiary of TTL which is in turn a subsidiary of 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 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 14 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. Management 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 £0.0m (2022 £5.4m). 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 £0.0m (2022 £5.4m).

## 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

## Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

The impact of the IBOR reform has been assessed to have minimal impact on the Company's accounts for the year ending 31 March 2022. The instruments that used to reference GBP LIBOR are interest rate swaps hedging the finance cost related to borrowing interest. The interest rate swaps have been treated under the normal IFRS 9 hedge discontinuation rules, as they were early terminated during the financial year and were not replaced, without an economically equivalent replacement.

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:

### 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.

### 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.

### 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).



# Accounting Policies

## **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.

## **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.

## **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 amendments aim to make accounting policy disclosures more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and by adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

## **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).

The Company does not consider that any standards, amendments or interpretations issued by the IASB at this time, but not yet applicable, will have a significant impact on the Financial Statements.

### **g) Going concern**

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

## Accounting Policies

- 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 2025 (i.e. the remainder of the 2023/24 and 2024/25 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
- 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.

### h) 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.

### i) 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 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.

### j) 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.

# Accounting Policies

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.

## k) 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
- 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.

# Accounting Policies

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.

## 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 derivatives are classified as a long-term asset or a long-term liability if the remaining maturity of the derivative contract is more than 12 months and as a short-term asset or a short-term liability if the remaining maturity of the derivative contract is less than 12 months.

## Hedge accounting

# Accounting Policies

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
- 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.

# Accounting Policies

Expected credit loss allowances are recognised in the Income Statement.

## **l) 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.

# Notes to the Financial Statements

## 1 Operating profit/(loss)

*Operating result is stated after charging/(crediting):*

Auditors' remuneration

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

## 2 Employee costs

The Company did not employ staff during the year ended 31 March 2023 or the year ended 31 March 2022.

## 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 (2021/22 none).

## 4 Financial income

<i>For the year ended 31 March</i>		<b>2023</b>	<b>2022</b>
	Note	<b>£000</b>	<b>£000</b>
Interest receivable on loan notes to fellow Group undertakings		<b>35,373</b>	53,575
Interest receivable on derivative financial instruments with fellow Group undertakings		<b>(2,472)</b>	3,997
Fair value gain on non-hedge accounted derivative financial instruments	12	<u><b>2,671</b></u>	<u>-</u>
		<u><b>35,572</b></u>	<u><b>57,572</b></u>

## 5 Financial expenses

<i>For the year ended 31 March</i>		<b>2023</b>	<b>2022</b>
	Note	<b>£000</b>	<b>£000</b>
Interest on loans from fellow Group undertakings		<b>25,804</b>	34,619
Interest payable on derivative financial instruments		<b>7,097</b>	17,926
Fair value loss on early termination of interest rate derivative financial instruments	12	-	5,032
Fair value loss on non-hedge accounted derivative financial instruments	12	<u>-</u>	<u>5,617</u>
		<u><b>32,901</b></u>	<u><b>63,194</b></u>

## 6 Foreign exchange gains/(losses)

<i>For the year ended 31 March</i>		<b>2023</b>	<b>2022</b>
	Note	<b>£000</b>	<b>£000</b>
Realised gains/(losses) on hedge accounted derivatives	12	<u><b>1,819</b></u>	<u><b>(3,846)</b></u>

## Notes to the Financial Statements

The items above relates to the maturing of derivatives in the Company that were executed to hedge foreign currency capital payments on behalf of a TfL subsidiary. The derivatives have matured in advance of the payment being made and in a financial year that differs from the financial year the payment occurs. The impact of this timing difference on the Company's results resolves once payment is made and the Company is reimbursed by the subsidiary it executed the derivative on behalf of.

### 7 Taxation

For the year ended 31 March

	2023	2022
	£000	£000
Adjustments in respect of prior years	-	(945)
Current year UK Corporation Tax	-	(1,799)
Total income tax credit for the year	-	(2,744)

Reconciliation of tax credit

For the year ended 31 March

	2023	2022
	£000	£000
Profit/(loss) before tax	4,489	(9,468)
Profit/(loss) before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2020/21 19%)	853	(1,799)
Effects of:		
Prior period adjustment	-	(945)
Utilisation of brought forward tax losses for which no deferred tax was recognised	(853)	-
Income tax credit for the year	-	(2,744)

Unrecognised deferred tax

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

	31 March 2023	31 March 2022
	£000	£000
Deductible temporary differences	-	5,412
Tax losses	4,290	-

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

Movements were in respect of the following items:

Opening balance	Movement in other comprehensi ve income	Closing balance
£000	£000	£000



# Notes to the Financial Statements

For the year ended 31 March 2023

Deferred tax assets

Derivative financial instruments	14,861	(4,032)	10,829
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Deferred tax liabilities

Net deferred tax asset/(liability)	14,861	(4,032)	10,829
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For the year ended 31 March 2022

Deferred tax assets

Derivative financial instruments	16,715	(1,854)	14,861
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Deferred tax liabilities

Net deferred tax asset/(liability)	16,715	(1,854)	14,861
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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.

## 8 Loans to related parties

	2023	2022
	£000	£000
Current		
Non-current		
Loans to fellow Group undertakings	504,771	1,172,777

## 9 Cash and cash equivalents

	2023	2022
	£000	£000
Cash at bank	11	2

## 10 Trade and other payables

	2023	2022
	£000	£000
Current		
Interest accruals on derivatives	(11)	189
Amounts due to fellow Group undertakings	35,497	47,213
	35,486	47,402

# Notes to the Financial Statements

## 11 Borrowings

	2023	2022
	£000	£000
Non-current		
Amounts due to fellow Group undertakings	<u>504,771</u>	<u>1,172,777</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
	5.11%	2.94%
Weighted average interest rate		

## 12 Derivatives

	2023	2023	2022	2022
	Fair value	Notional amount	Fair value	Notional amount
	£000	£000	£000	£000
Non-current assets				
Cash flow hedges				
Interest rate swaps	27,644	146,967	13,013	215,631
Foreign currency forward contracts	<u>44</u>	<u>14,559</u>	<u>214</u>	<u>5,778</u>
	<u>27,688</u>	<u>161,525</u>	<u>13,227</u>	<u>221,409</u>
Current assets				
Cash flow hedges				
Foreign currency forward contracts	<u>1,009</u>	<u>41,300</u>	<u>1,370</u>	<u>23,777</u>
Derivatives not in a hedge relationship				
Foreign currency forward contracts	<u>691</u>	<u>105,558</u>	<u>-</u>	<u>-</u>
	<u>1,701</u>	<u>146,858</u>	<u>1,370</u>	<u>23,777</u>
Non-current liabilities				
Cash flow hedges				
Interest rate swaps	27,644	146,967	13,013	215,631
Foreign currency forward contracts	<u>8,688</u>	<u>143,955</u>	<u>14,132</u>	<u>203,373</u>
	<u>36,332</u>	<u>290,922</u>	<u>27,145</u>	<u>419,004</u>
Derivatives not in a hedge relationship				
Foreign currency forward contracts	<u>-</u>	<u>-</u>	<u>27</u>	<u>-</u>
	<u>36,332</u>	<u>290,922</u>	<u>27,172</u>	<u>419,004</u>

# Notes to the Financial Statements

## Current liabilities

### Cash flow hedges

Foreign currency forward contracts	<u>3,387</u>	<u>59,849</u>	<u>4,494</u>	<u>57,293</u>
Derivatives not in a hedge relationship				
Foreign currency forward contracts	<u>27</u>	<u>-</u>	<u>1,980</u>	<u>238,926</u>
	<u>3,415</u>	<u>59,849</u>	<u>6,474</u>	<u>296,219</u>

## 13 Share capital

	2023	2022
	£	£
Share capital issued and fully paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

## 14 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 2022/23, 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.

TfL manages its liquidity risk and ability to support subsidiaries by maintaining a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equivalent to approximately £1.2bn.

TfL also has access to several external sources of financing, which are sufficient to meet anticipated funding requirements, within the affordable borrowing limit set by the Mayor. Providing market conditions permit access, TfL can raise debt on the capital markets. Alternatively, and in addition, TfL has direct access to reliable funding from the Public Works Loan Board and has an arranged, uncommitted, £0.1bn overdraft facility and a further £0.1bn uncommitted money market line facility.

# Notes to the Financial Statements

In response to the funding pressures faced over the course of 2021/22 and 2022/23, TfL secured a number of Extraordinary Funding and Financing Agreements from the Secretary of State, as set out in the Viability Statement section of the Narrative report, which gave it secure access to funding in the form of a mixture of Government grant and borrowing from the Public Works Loan Board until 24 June 2022. These agreements contained an acknowledgement from the Secretary of State for Transport that further financial support from the Government was likely to be needed until 1 April 2023, with longer term external funding being required to support TfL's capital investment programme.

On 30 August 2022 the TfL Board approved a long term 20-month funding settlement with the DfT until 31 March 2024. This is significantly longer than any of the previous settlements during the pandemic. The agreement provides TfL £1.2bn of Government funding along with guaranteeing passenger revenue of the period. Due to the liquidity risk mitigations set out above, there is no significant risk that TfL would be unable to raise finance to meet the TfL Group and the Company's 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 primarily uses interest rate swaps and gilt locks (the hedging instrument) to reduce exposure to interest rates movements (the hedged risk) as appropriate, 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.

Any interest rate derivatives executed 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.

## Effects of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as interbank offered rates ('IBORs') became a priority for global regulators. LIBOR ceased to be published for GBP immediately after 31 December 2021. Sterling Overnight Index Average (SONIA) was selected as the preferred sterling risk-free rate by the Bank of England's Working Group on Sterling Risk Free Reference Rates.

## Hedge accounting

As at 31<sup>st</sup> March 2023 there are no interest rate swaps hedging interest risk on short term borrowings (2021/22 zero outstanding interest rate swaps).

## Fair value sensitivity analysis for fixed interest instruments

As at 31 March 2023, the Company no longer holds interest rate derivative contracts and all of the Company's non-derivative financial instruments are accounted for at amortised cost. The economic impact of the interest rate swap contracts executed on behalf of another TfL subsidiary, Rail for London has been reflected in Rail for London's financial statements. 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.

# Notes to the Financial Statements

## Foreign exchange risk

As at 31 March 2023, the Company held forward foreign exchange contracts to hedge €120.2m (2022 €282.9m) 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, thus, these contracts were not in formally designated hedging relationships for accounting purposes, and hedge accounting has not been applied. A fair value gain/(loss) on these contracts totalling a gain of £2.7m (2021/22 a loss of £5.6m) has therefore been recognised directly in the Income Statement within financial income/expenses.

## Hedge accounting

At 31 March 2023, the Company held forward foreign derivative contracts in Euros, Swedish Krona, 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 £259.7m (2022 £278.7m). At 31 March 2023, these contracts had a combined net fair value loss of £(11.1)m (2022 £(17.1)m). Hedge accounting is applied and the fair value of forward contracts were recognised in equity at 31 March 2023 and 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 2022 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 September 2029. Detail on the maturity of these contracts is disclosed later in this note.

# Notes to the Financial Statements

## Sensitivity analysis on foreign exchange risk at 31 March

	2023	2023	2023	2023
	Net nominal value	Fair value	Fair value after a 10% increase in GBP against other currency	Fair value after a 10% decrease in GBP against other currency
	£000	£000	£000	£000
Impact on Comprehensive Income and Expenditure				
Net sell				
Euros	(105,558)	691	10,259	(11,002)
Net buy				
Swiss Francs	-	(27)	(27)	(27)
	<u>n/a</u>	<u>664</u>	<u>10,231</u>	<u>(11,029)</u>
Impact on Hedging Reserve				
Net buy				
Euros	217,094	(9,348)	(28,241)	13,744
Canadian dollars	15,322	(297)	(1,660)	1,369
Swedish Krona	20,017	(1,444)	(3,186)	685
Chinese Yuan Renminbi	7,229	67	(582)	859
	<u>n/a</u>	<u>(11,022)</u>	<u>(33,669)</u>	<u>16,658</u>
Total liability	<u>n/a</u>	<u>(10,358)</u>	<u>(23,437)</u>	<u>5,628</u>
	2022	2022	2022	2022
	Net nominal value	Fair value	Fair value after a 10% increase in GBP against other currency	Fair value after a 10% decrease in GBP against other currency
	£000	£000	£000	£000
Impact on Comprehensive Income and Expenditure				
Net sell				
Euros	(238,926)	(1,962)	19,776	(28,531)
Net buy				
Swiss Francs	-	(44)	(44)	(44)
	<u>n/a</u>	<u>(2,006)</u>	<u>19,732</u>	<u>(28,575)</u>
Impact on Hedging Reserve				
Net buy				
Euros	248,418	(16,419)	(38,853)	11,000
Canadian dollars	845	24	(52)	118
Swedish Krona	22,043	(1,256)	(3,201)	1,121
Chinese Yuan Renminbi	7,358	608	(58)	1,421
	<u>n/a</u>	<u>(17,043)</u>	<u>(42,164)</u>	<u>13,660</u>
Total liability	<u>n/a</u>	<u>(19,049)</u>	<u>(22,432)</u>	<u>(14,914)</u>

# Notes to the Financial Statements

## Contractual maturity of financial liabilities

	Amounts falling due in less than one year £000	Amounts due between 1 and 2 years £000	Amounts falling due between 2 and 5 years £000	Amounts falling due in more than 5 years £000	Total £000
<b>At 31 March 2023</b>					
Derivatives settled gross					
Foreign exchange forward contracts					
Amounts receivable	232,737	96,204	70,594	3,473	403,008
Amounts payable	(234,942)	(103,653)	(75,939)	(3,761)	(418,295)
	<u>(2,205)</u>	<u>(7,449)</u>	<u>(5,345)</u>	<u>(288)</u>	<u>(15,287)</u>
<b>At 31 March 2022</b>					
Derivatives settled net					
Derivatives settled gross					
Foreign exchange forward contracts					
Amounts receivable	342,929	67,108	148,360	-	558,397
Amounts payable	(348,236)	(71,810)	(166,016)	-	(586,062)
	<u>(5,307)</u>	<u>(4,702)</u>	<u>(17,656)</u>	<u>-</u>	<u>(27,665)</u>

This table details at a summary level 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 market rates at the end of the reporting period. Further detailed tables are illustrated in the following pages on the maturity of derivative financial instruments.

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.

## Notes to the Financial Statements

### Sell Euro

Less than 1 year	0.886	691	(105,558)	0.840	(1,962)	(238,926)
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### Buy Euro

Less than 1 year	0.888	(1,460)	69,636	0.874	(3,243)	68,538
1 to 2 years	0.913	(4,951)	85,850	0.889	(2,838)	42,567
2 to 5 years	0.917	(2,865)	58,135	0.921	(10,338)	137,313
After 5 years	0.952	(72)	3,474	-	-	-
	0.910	(8,656)	111,536	0.894	(18,381)	9,492

### Buy Canadian dollars

Less than 1 year	0.610	(297)	15,322	0.591	24	844
	0.610	(297)	15,322	0.591	24	844

### Buy Swedish Krona

Less than 1 year	0.084	(696)	9,445	0.085	(469)	4,819
1 to 2 years	0.086	(417)	5,520	0.085	(390)	6,177
2 to 5 years	0.086	(332)	5,053	0.086	(397)	11,047
	0.085	(1,444)	20,017	0.085	(1,256)	22,043

### Buy Swiss Francs

Less than 1 year	0.861	(27)	-	0.846	(18)	-
1 to 2 years	-	-	-	0.861	(26)	-
	0.861	(27)	-	-	(44)	-

### Buy Chinese Renminbi

Less than 1 year	0.115	74	6,747	0.110	564	6,868
1 to 2 years	0.122	(8)	482	0.107	44	490
	0.117	67	7,229	0.109	608	7,358

### 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.
  - 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.



## Notes to the Financial Statements

- 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 AA- with Fitch, A+ with S&P Global ratings and Baa1 with Moody's.

# Notes to the Financial Statements

## 15 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 3.

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:

- Interest accrued on loans from TfL as disclosed in notes 5 and 11;
- Interest accrued on loans to London Underground Limited as disclosed in notes 4 and 8;
- Intercompany interest rate swaps with Rail for London Limited as disclosed in notes 12 and 16;

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.

## 16 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.

## 17 Events occurring after the reporting date

Management 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 2023 as reported in these Financial Statements.