Bazalgette Holdings Limited

Annual report and financial statements

For the year ended 31 March 2017

Registered number 09553510

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Directors and advisors

Directors holding office

Moira Turnbull-Fox	(resigned 2 September 2016)
Andrew Cox	(appointed 31 January 2017)
Christoph Holzer	(resigned 31 January 2017)
Jaroslava Korpancova	
Alistair Ray	
Angela Roshier	(appointed 2 September 2016)
Michael Ryan	
Gavin Tait	
Amanda Woods	

Company Secretary

Tracey Lee-Lewis

Registered office

The Point
37 North Wharf Road
London
W2 1AF

Independent auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Strategic report

The Directors present their Strategic report for Bazalgette Holdings Group (the Group) and Bazalgette Holdings Limited (the Company) for the year ended 31 March 2017.

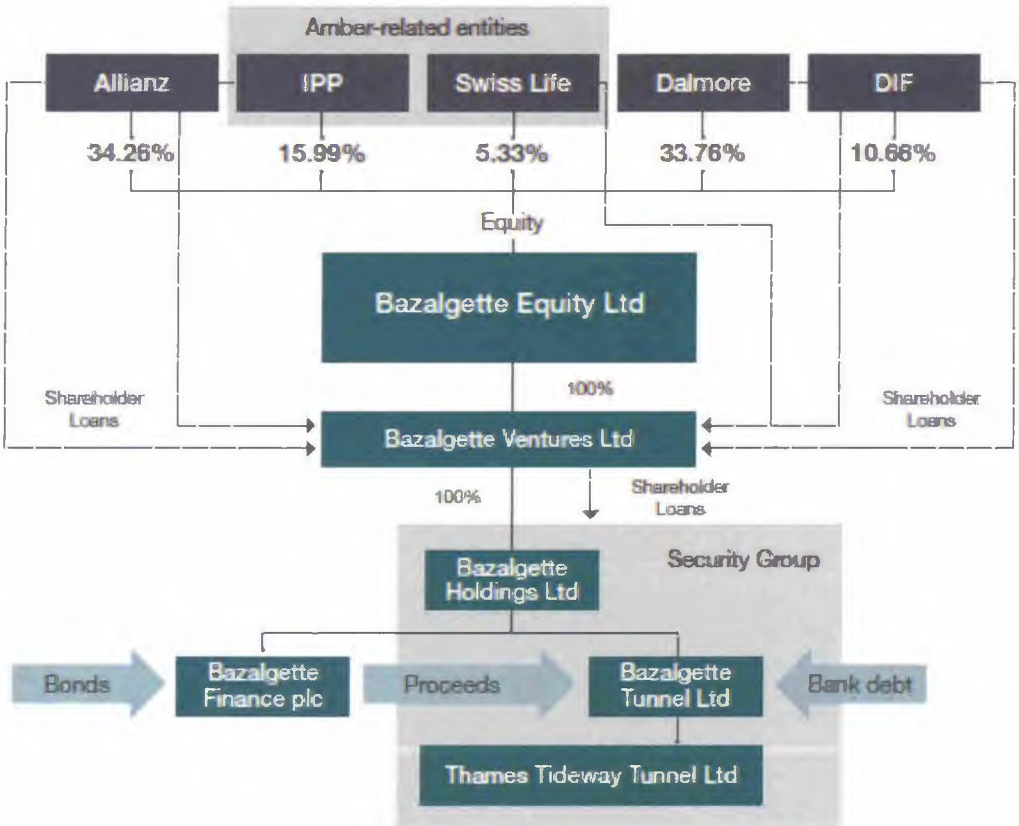
Introduction

The Bazalgette Holdings Limited is an intermediate holding company in the Bazalgette Equity group of companies. The Company is a subsidiary of Bazalgette Ventures Limited (BVL) which itself is a subsidiary of the ultimate holding company, Bazalgette Equity Limited (BEL).

The Group comprises the Company, Bazalgette Tunnel Limited (BTL), Bazalgette Finance plc (BF) and Thames Tideway Tunnel Limited (TTT Ltd). BTL is an independent regulated water company which was awarded a licence by Ofwat in August 2015.

The principal activity of the Company is to act as an intermediate holding company. It does not carry out any activities beyond this role.

The Bazalgette Equity Limited Group's investors include Allianz Infrastructure Luxembourg I S.a.r.l, Dalmore Capital 14 GP Limited, IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK). The Group structure is set out below:



Holding company governance

Each shareholder controlling 10 per cent or more of the ordinary shares of BEL and loan notes of BVL is entitled to appoint one director to the Boards of BEL, BVL and the Company. Each shareholder controlling 20% or more of the ordinary shares of BEL and loan notes of BVL is entitled to appoint an additional director to the Boards of BEL, BVL and the Company, The board of the Company is committed to best practice in corporate governance.

On a day to day basis the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of BTL also carry out duties on behalf of the Group with clear governance and controls in place to ensure that decisions that affect individual Group companies are taken in line with this governance framework.

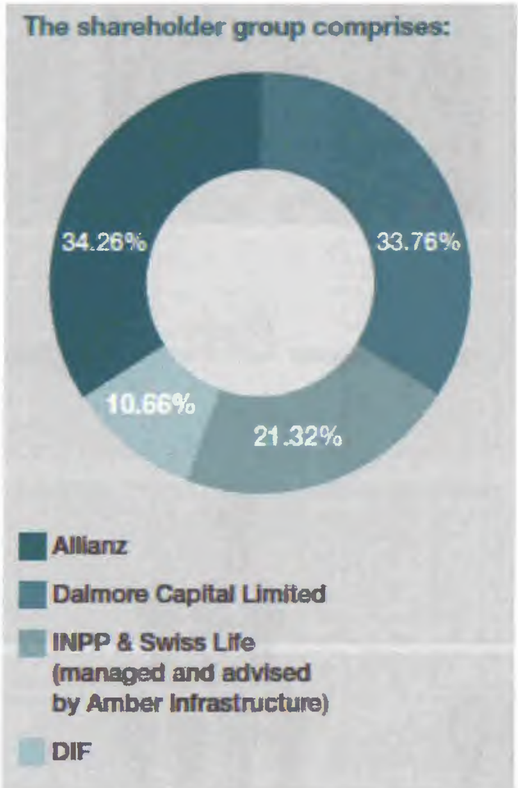
Further information on our equity investors and their equity interests, as well as Board leadership, transparency and governance are disclosed in the Holding Company Principles statement which is available at www.tideway.london.

Business review

The principal activity of the Group is the design, build, commission and maintenance of the Thames Tideway Tunnel (TTT). BTL began operating as an independent regulated water company in August 2015 when Ofwat awarded it a licence to carry out those appointed activities. The emphasis given to BTL, which trades under the name 'Tideway', throughout this report reflects its importance to the overall performance of the Group.

The TTT will be a 25km tunnel beneath London, which has been dubbed the 'super sewer' and will store and transfer tens of millions of tonnes of untreated sewage each year, which currently pollutes the tidal River Thames.

Our Shareholder group has extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas. At Licence Award, our Shareholders committed total financing of £1,274m. This backing helps fulfil a key component of HM Treasury's National Infrastructure Plan, to finance the development of UK infrastructure with the support of private investors. Over half the total equity invested is by UK investors, including a large number of UK pensioners through investment by major pension funds, giving UK pensioners an indirect investment in Tideway.



Thames Tideway Tunnel Scheme

London's sewer network was built by Sir Joseph Bazalgette in the 1860s, to cope with a population of up to four million people. The system now struggles to serve a city of more than eight million.

This population increase means that the network is regularly overwhelmed, resulting in discharges into the Thames via combined sewer overflows (CSOs), which were designed to release excess sewage flows during heavy storms. These discharges have increased from one to two a year in Victorian times to an average of one a week more recently. This results in tens of millions of cubic metres of sewage entering the tidal section of the Thames each year.

Thames Water is responsible for developing the original TTT scheme, acquiring land, and for enabling and interface activities. The total estimated cost is £4.2bn (in 2014/15 prices). Ofwat has set a regulatory baseline of £3.1bn for Tideway's element of the programme (in 2014/15 prices), with the rest delivered by Thames Water.

25
kilometres long

Travelling from west to east London, the main tunnel will be 25km long. Two connection tunnels will be 4.6km and 1.1km long.

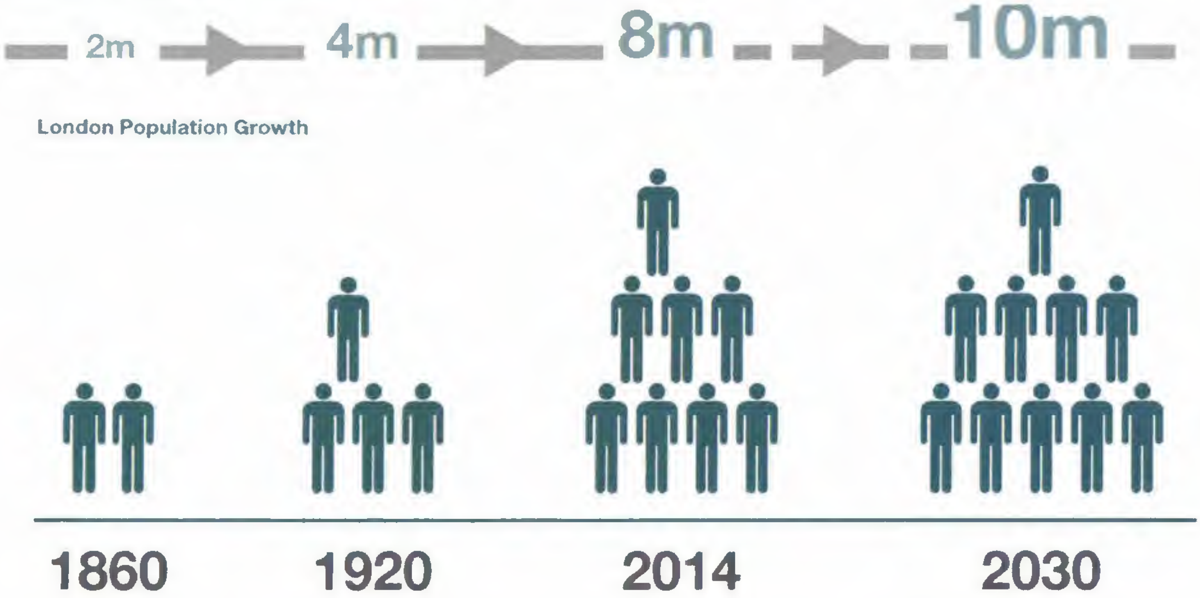
7.2
metres wide

The main tunnel will have an internal diameter of 6.5 metres between Acton Storm Tanks and Carnwath Road Riverside. It will have a 7.2 metre internal diameter at Abbey Mills Pumping Station. The Greenwich connection tunnel will have a 5 metre internal diameter and Frogmore connection tunnel will be 2.6 metres.

66
metres deep

The tunnel needs to fall one metre every 790 metres so it can be self-cleaning. Starting from 30 metres deep at Acton Storm Tanks, it will finish 66 metres deep at Abbey Mills Pumping Station.

London Population Growth



The Timeline

Following Licence Award and the award of the main works contracts (MWC), we agreed a baseline schedule with our works contractors that met the licence date, which we call our regulatory baseline.

The key stages in the schedule include:

- Mobilisation of the Main Works Contractors. This is initially started off site, with mobilisation of resource, the start of detailed design work, consenting applications and procurement of subcontractors and materials. It then moves on site as these activities progress, construction sequencing is finalised and any applicable enabling Thames Water Works are completed.

- Construction, which includes:
  - General site setup and early construction activity – Includes a variety of tasks prior to shaft construction such as site setup, access road development, site clearance, temporary buildings setup and ground treatment.
  - Shafts – the excavation of deep shafts for both the three main drive sites and the CSO interception shafts.
  - Main Tunnels – Tunnelling begins once the deep shafts have been excavated at the three main drives sites. It encompasses the excavation and primary lining of the main tunnels by Tunnel Boring Machines (TBM) in a well-tested process.
  - Tunnel Secondary Lining – the tunnels will have a secondary lining that in combination with the primary lining provides the required durability to meet our obligations.
  - Finally, the MWC install mechanical and electronical equipment (penstocks, air treatment etc.) to physically integrate the TTT with the Sewer Network. The System Integrator Contractor installs the instrumentation and control systems to provide a supervisory control and data acquisition system integrated with the Sewer Network.
  - Throughout the construction period the Main Works Contractors undertake architectural and landscaping works at sites.

- Commissioning - will be done in two stages:
  - The first stage is Worksite Testing in which each individual worksite will be tested as stand-alone plant by the contractors. The penstocks, fans, air treatment, monitors and software controlling the site will be dry tested (without sewage).
  - The second stage is System Commissioning in which all the worksites and tunnels, including Thames Water's Lee Tunnel, are connected as one system - the London Tideway Tunnel (LTT) system. The purpose of System Commissioning is to demonstrate the LTT is fit for purpose and can be operated by Thames Water to fulfil the environmental requirements. Tideway, Thames Water, and the contractors will work together to test and commission the LTT system during several storms. The Alliance will ensure the LTT control devices properly open and close the penstocks to control combined sewage overflows and report discharges, and operate the fans and air treatment units to prevent odours from being released.

- Handover (of the TTT Works from the Contractors to Tideway) occurs after System Commissioning has been successfully completed and the contractors have submitted final versions of the construction drawings, commissioning records, asset data, maintenance records, and training materials. At Handover, the MWCs' activities are completed and the contractors demobilized.

- System Acceptance period:
  - The System Acceptance period is an 18 to 36 month proving period in which the LTT will be operated across a variety of storms and conditions to demonstrate it fulfils the project requirements for controlling and reporting on CSO discharges, treating air vented from the tunnel, and can be operated in coordination with the Thames Water sewer network and treatment works and the first 10-year inspection of the tunnel, shafts and near-surface structures.

- System Acceptance:
    - System Acceptance occurs once the tests in a range of storm conditions for System Acceptance have been passed.
    - At Acceptance, Thames Water will take over maintenance responsibilities for the near-ground structures and assets. Tideway will retain responsibilities for the shafts and tunnel structures.

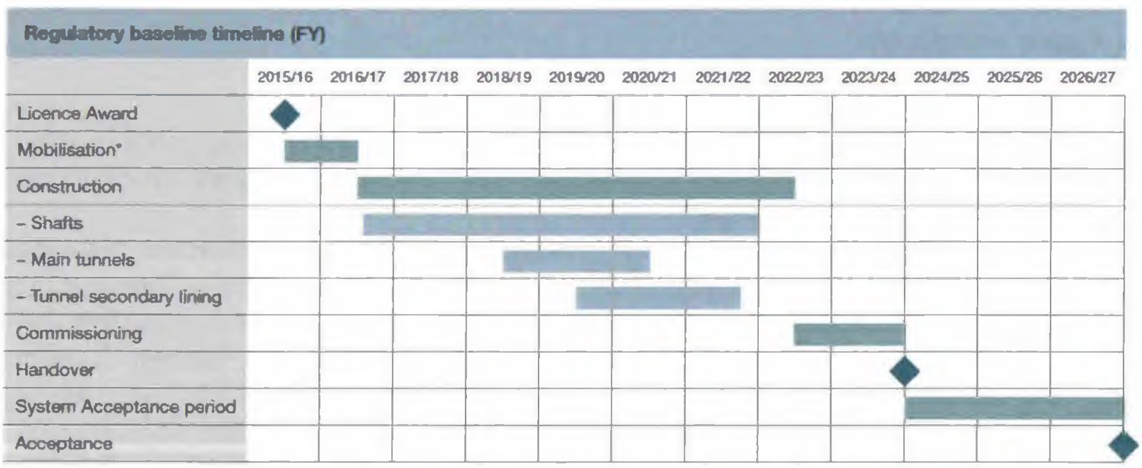
In 2016/17 we have been in the Mobilisation phase and have entered the construction phase, including shaft construction.

Delivering for our stakeholders – our legacy for London

In addition to the benefits that early delivery of the tunnel will bring, we are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a lasting legacy for London.

Over the coming years, we aim to transform the way in which many things are done in the industry. Starting with health, safety and wellbeing, we are treating people differently from the very beginning, seeking much higher levels of engagement and commitment to doing things better and safer. We want to see a step change in the health and wellbeing of everyone working on the project, with people leaving healthier than when they started.

We aspire to have a diverse and inclusive workforce. As part of this, we are attracting young people into the construction industry, particularly women. With an engaging programme for apprentices, Tideway is also helping to fill the skills gap, benefiting our delivery programme and future projects in London. We have worked closely with the Women Returners organisation to reintroduce experienced individuals back to work after career breaks. In 2016/17 we employed three women through this route, bringing the total number of women returners to 10. Another key commitment is to use the River Thames, wherever possible, to transport materials and spoil in and out of our construction sites. This offers less disruption for Londoners, the environmental benefit of a lower carbon footprint and the safety benefit of fewer vehicles on London's roads.



This phase shows Mobilisation activities from Licence Award to the start of Construction at the three main drive sites. Additional Mobilisation activities continue throughout Construction (i.e. consents, procurement).

Business Model

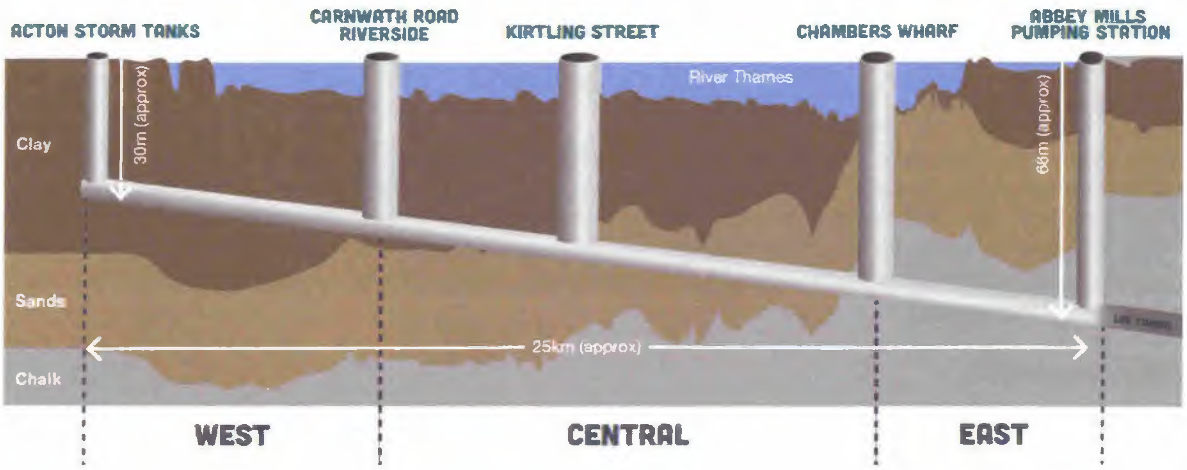
Tideway's business has two distinct phases:

- The construction period, leading up to Thames Water's acceptance of the TTT (System Acceptance), and the operational period thereafter.

The construction period

Our key responsibilities during the construction period are:

- Managing the overall programme, including overseeing the MWCs.
- Engaging with our stakeholders, to gain support for the project and minimise delays to construction.
- Working with Thames Water, to ensure the tunnel is connected and effectively integrated into the sewerage network.
- Developing a system control philosophy and supervisory control and data system that supports the integration with the existing sewer network.
- Managing the System Commissioning, Handover and Acceptance Testing of the completed TTT.



Our delivery partners

To construct the TTT as efficiently as possible, we have divided the tunnel construction into three contracts (West, Central and East), led by different consortia.

Contract	Contractors
West	**BMB JV:** Bam Nuttall Ltd Morgan Sindall Plc Balfour Beatty Group Ltd
Central	**FLO JV:** Ferrovial Agroman UK Ltd Laing O'Rourke Construction Ltd
East	**CVB JV:** Costain Ltd Vinci Construction Grands Projets Bachy Soletanche Ltd

This spreads delivery risks and enables us to benefit from the combined expertise of the most experienced construction contractors. In addition to the three main works contracts, we have entered into a System Integrator Contract and a project management contract.

The contracts transfer certain key risks to the contractors, including design, discharge of consents and ground conditions identified before contract award. Each main works contract provides for reimbursement of costs incurred and a fee, as well as a gain/pain share mechanism against the target price.

We have also created an overarching Alliance, governed by an Alliance Agreement between us, Thames Water, the MWCs and the System Integrator. The Alliance Agreement provides for the establishment of an incentive framework, which aligns all parties around the construction programme's aims and outcomes, including the key milestones and the objective of meeting overall cost, driving everyone to manage costs and risks in an integrated way. This is designed to help us manage and incentivise collaborative behaviour, so we realise economies of scale, synergies between activities and share best practice.

In addition to the MWCs, we have a number of other partners who are key to delivering the tunnel:

- Amey OWR Ltd is the system integrator and is responsible for providing process control, communication equipment, and software systems for operation, maintenance and reporting across the London Tideway Tunnel (which comprises the TTT and Lee Tunnel).
- CH2M is providing programme management support during the construction period. This gives us continuity in our programme team, with CH2M having undertaken the design management, development and delivery of the TTT since 2008.
- Thames Water is designing, building and commissioning enabling works and other works that are needed to connect the TTT to the sewer network. These works are known as the Thames Water Works.

The operational period

Following System Acceptance, we will transfer to Thames Water the above- ground assets, structures and equipment we have constructed. The deep tunnels and shafts and other related non-mechanical assets will remain under our ownership. During the operational period, we are responsible for ensuring the TTT is available to allow flow to pass through into the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, and performing any maintenance required as a result of the inspections.

Regulatory oversight

Tideway is an independent regulated water company, with a new delivery model designed to attract private sector capital to finance infrastructure and deliver value for money to customers. This will enable us to finance our functions, earn a reasonable return on our investors' capital and maintain an investment grade credit rating. Our bespoke regulatory framework provides a revenue stream in both the construction and operational periods.

Revenues are billed and collected on our behalf by Thames Water from its wastewater customers. We received our first revenue in April 2016. In April 2017, Thames Water formally exited the non- household retail market. From that point, Thames Water will receive non-household revenue from the new sewerage licensees and pass the relevant amounts to Tideway.

The Secretary of State for Environment, Food and Rural Affairs, through the Government Support Package (GSP), has committed to provide contingent financial support while the TTT is being built. Such support is available in exceptional circumstances only and mitigates certain risks which may arise during the construction period. This package provides strong mitigation for highly unlikely specific risks, such as extreme cost overruns, Tideway suffering a loss that exceeds the limit of our insurance policies, or our inability to issue debt due to disruption in the capital markets. The GSP ceases to apply on System Acceptance.

For the period until 2030, revenues are calculated according to the framework set out in our Licence, which is primarily based on a percentage return (2.497 per cent) on the regulatory value of BTL (the Regulatory Capital Value or RCV). From 2030, we expect to be regulated in line with the rest of the water industry, with price control reviews every five years.

As with other water companies, we publish an annual performance report in line with Ofwat guidelines. Due to the specific legal, commercial and regulatory arrangements for BTL and the GSP, we engage regularly throughout the year with both Ofwat and the government.

Stakeholder engagement

Part of our legacy will be judged by the overall reputation of the project once it is delivered.
We want to reconnect London with its river and engage with stakeholders at all levels, including politicians, opinion formers, interest groups and local communities, to help achieve this. In particular, we engage fully with local communities, proactively informing them about the project through targeted communications to residents and site-specific, online information while dealing with their issues on a one-to-one basis via locally-based teams and a 24-hour helpdesk.

More widely, we have independently- chaired Community Liaison Working Groups (CLWGs) at some of our live sites and also community information centres at our main drive sites – these are currently open at Chambers Wharf and Carnwath Road with Kirtling Street to follow. Additionally, there are a variety of independent services available to support stakeholders with disputes, which include:

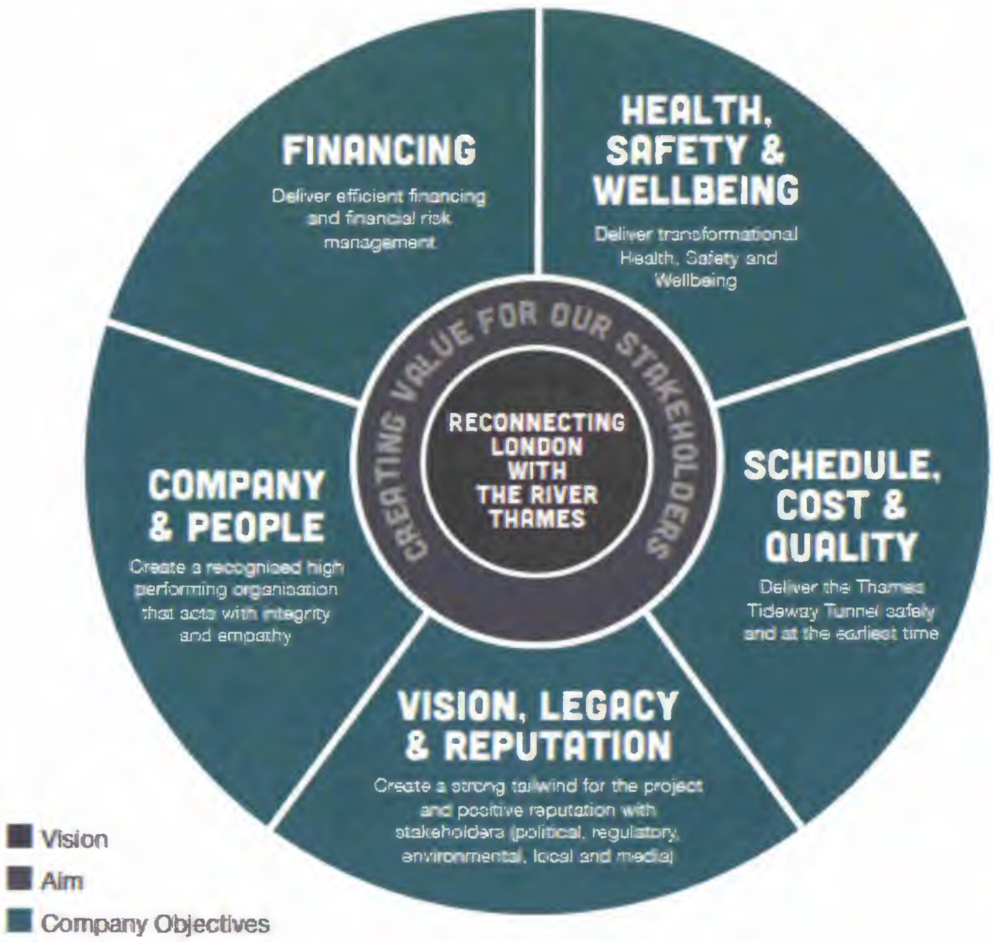
- Independent Advisory Service (IAS): The IAS offers independent help and support to stakeholders living and working close to our construction sites. They can advise about the non-statutory compensation policies.
- Independent Compensation Panel (ICP): The ICP oversees and determines claims made under any of the non- statutory compensation policies. It ensures all applications for non-statutory compensation for the TTT are dealt with in an impartial and transparent way.
- Independent Complaints Commissioner (ICC): The ICC assist stakeholders where they are not satisfied with the ICP's response regarding a claim. The ICC also helps investigate unresolved complaints seeking to make sure Tideway has met its commitments and complied with agreed policies and procedures.

We use the quarterly TTT Forum to bring together representatives of the directly affected boroughs and other statutory consultees.

Category	Whom	Channel
Government and Regulatory Stakeholders	• Defra • Ofwat • Environment Agency • Health and Safety Executive	• Quarterly Liaison Committee meeting • Bi-lateral meetings
Consenting bodies and delivery partners	• Greater London Authority • Local authorities • Port of London Authority • Transport for London • Marine Maritime Organisation • Historic England • Landowners and asset owners	• Quarterly Thames Tideway Tunnel Forum • Bi-lateral meetings
Communities directly impacted by construction	• Residents • Businesses/local services • Schools	• Regular Community Liaison Working Group meetings • Letter drops about works • Dedicated web pages • Independent Advisory Service • Independent Compensation Panel • Independent Complaints Commisioner

Our vision and strategy

Our vision is to reconnect London with the River Thames.



Tideway's business is to design, build, commission and maintain the TTT, to leave our capital city's river cleaner than it has probably been for over a hundred years. We believe that seeing the TTT as simply a mechanical endeavour would be a huge lost opportunity. We therefore take a broader view of what we are doing.

The increase in sewage pollution over many decades caused London to turn its back to the river, breaking the once vital link between London and the Thames. We aim to re-establish that connection. In a city whose roads are getting busier every year, wherever possible we are using the river to transport our materials. The benefits of this approach include:

- Creating potentially hundreds of jobs within the marine environment.
- Demonstrating the river's capacity to support 24-hour-a-day high-volume logistics.
- Providing environmental benefits from a lower carbon footprint and safety benefits from fewer vehicles on London's roads.

Equally, when the TTT is commissioned and the river's health is restored, Londoners will be able to reconsider the river's leisure value. That could mean more water sports, pursuits on the foreshore, fishing, or simply the enjoyment of being near a clean and healthy watercourse.

Our values and behaviours

We understand the significance of what we are doing and are proud of its importance for London's future health and prosperity. We are also very clear that we will not achieve it at any cost. First and foremost is the safety of those employed through us and of the public we work among. We intend to do things safely or not at all.

We recognise that we will be a distraction for our neighbours and those with whom we come in contact. We want to develop our relationships with our stakeholders and recognise that we will be more effective and efficient when we treat everyone with respect, empathy and integrity – treating people as we would like to be treated.

We know we need to be clear in our intentions and communications, and must respect our environment. We are inspired by what we are doing and we hope to inspire others by what we do, how we do it and the potential for London that we will unlock.

Our strategy

Our long-term objectives are described under five key headings:

- Health, Safety and Wellbeing (HSW).
- Schedule, Cost and Quality.
- Vision, Legacy and Reputation.
- Company and People.
- Financing.

Our strategy and objectives were refined this year through our business planning process, to identify how we can best achieve our vision.
This process involved:

- An internal review of the past 12 months.
- An external market review, covering regulation, finance, politics, infrastructure, supply chain and partners, and the broader macro context.
- A detailed assessment of the upcoming key project milestones.

As a result, we refined the wording of some long-term objectives and some activities, to ensure that we can achieve our vision in the most effective and efficient way. The notable changes were as follows:

- For HSW, we will establish a new industry benchmark for occupational health.
- For Financing, we will continue to build trust and confidence with our stakeholders through high quality reporting, engagement and assurance.

Health, Safety and Wellbeing

Objective and Outcome:
We are targeting zero fatalities or serious injuries, off-site and on-site, by setting new standards for Health, Safety and Wellbeing (HSW). This is the right thing to do and will improve productivity and reduce the chance of delays or stoppages.

Key Long Term Activities:
- Implementing a transformational HSW programme.
- Delivering RightWay, our HSW strategy and approach.
- Establishing a new industry benchmark for health and wellbeing.
- Providing river training, through the Thames Skills Academy (TSA).

Priorities for 2017/18:
- Realise transformational HSW in the mobilisation stage, to avoid the injury 'peak' seen in other comparable projects.
- The continued focus on leading indicators and assessment, including the development of our Health and Safety Performance Index (HSPI) throughout the year.
- Validate that our workforce consistently agree that HSW is different and substantially better on Tideway.
- Ensure no increase in HSW risk due to marine activities, with marine operatives equipped with the skills to operate safely.
- Set a new industry benchmark on the Occupational Health Maturity Matrix.

Relevant Principal Risks:
- Health, Safety and Wellbeing.
- High impact, low probability events.

Schedule, Cost and Quality

Objective and Outcome:
We want to deliver the TTT safely and at the earliest time. Finishing earlier would reduce cost, benefiting bill payers and investors, deliver environmental benefits more quickly and reduce disruption to local residents.

Key Long Term Activities:
- Creating an effective Alliance, enabling all our delivery partners to work together to safely deliver the project more efficiently and at lower cost.
- Maintaining our focus on delivering a high-quality, fit-for-purpose tunnel and its integration into the wider sewer network.

Priorities for 2017/18:
- Maintain the current programme in relation to our key milestones.
- Develop the programme from the delivery phase to Handover.
- Safely mobilise on 10 sites.
- Maintain high confidence in delivering a fit for purpose asset within a cost of £3.1bn.
- Continue to develop the Alliance.
- Start implementing a solution at Cremorne Wharf with regard to Thames Water's Counter's Creek flood alleviation scheme by July 2017.

Relevant Principal Risks:
- Programme delivery.
- Supply chain failure.
- High impact, low probability events.
- Thames Water performance.
- Regulation.
- Brexit.

Vision, Legacy and Reputation

Objective and Outcome:
We want to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. Looking after our neighbours and stakeholders reduces the scope for delays, so we can deliver the tunnel's benefits quicker.

Key Long Term Activities:

- Ensuring continued good relations with stakeholders, including the consent granting bodies.
- Understanding how best to address the needs and concerns of our neighbours.
- Delivering on all of our legacy plans.
- Protecting and promoting Tideway's reputation.

Priorities for 2017/18:

- Deliver our strategy to protect and promote the reputation of the project.
- Build positive community relations with project neighbours, focusing particularly on those at the 19 sites that will be live by the end of 2017/18.
- Ensure demonstrable compliance with our legacy, environmental sustainability, skills and employment and innovation commitments.
- Establish a public/stakeholder metric by June 2017.

Relevant Principal Risks:

- High impact, low probability events.
- Reputation.

Company and People

Objective and Outcome:
We want a high-performing, motivated and engaged workforce, which will deliver better value and help us recruit and retain people.

Key Long Term Activities:

- Implementing our diversity programme.
- Providing training and development and succession planning.
- Offering competitive employment terms and conditions.
- Delivering systems, processes and tools to support an effective organisation.

Priorities for 2017/18:

- Support employee engagement by rewarding our people appropriately, recognising good performance, developing their skills and encouraging retention of staff.
- Improve employee effectiveness by empowering our people to make decisions at the lowest level, ensuring accountability for delivery.
- Make progress towards Tideway's gender diversity goals.
- Enable the organisation to share information to work efficiently.
- Increase stakeholders' confidence in our ability to deliver the project, by enhancing our assurance and audit approach.

Relevant Principal Risks:

- High impact, low probability events.
- Reputation.
- Brexit.

Financing

Objective and Outcome:
We aim to deliver efficient financing and financial risk management, which minimises our cost of capital and supports our investment grade credit rating.

Key Long Term Activities:

- Maintaining a low-risk financing position by preserving our Baa1/BBB+ credit rating.
- Maintaining appropriate levels of liquidity.
- Optimising our cost of finance, to increase our return to Shareholders.
- Continuing to build trust and confidence with our stakeholders, through high quality reporting, engagement and assurance.

Priorities for 2017/18:

- Continue to build shareholder value through efficient financing.
- Continue de-risking shareholder returns by long dated issuance.
- Strengthen stakeholders' confidence in our ability to deliver the investment programme and financing plan, through enhanced reporting.

Relevant Principal Risks:

- Financing.
- Regulation.
- Brexit.

Risk Management

Our risk appetite

To manage the risks we face, we need to define our risk appetite, which is the level of residual risk that we are ready to take. Although this level is heavily influenced by the agreements that underpin our delivery model, such as our Licence and the GSP, our Board can further refine the residual risk through the strategies it sets.

Tideway's risk policy is to target an overall company risk profile consistent with an independent UK regulated water company. This reflects our Board's risk appetite which is low. The Board's appetite for risk has been at the core of the main strategic decisions that it has taken to date, such as:

- Setting new standards for health, safety and wellbeing through developing programmes such as the RightStart programme and EPIC, to support our target of zero fatalities or serious injuries, off-site or on-site.
- Aiming for an earlier delivery date, to mitigate the risk of slippage against the regulatory schedule.
- Mitigating liquidity risk and interest rate risk, by raising significant amounts of debt well in advance of needing the financing.

Finally, in our financing strategy we have set a target to maintain a robust investment grade credit rating at all times, which provides a tangible external benchmark of the Board's appetite for risk.

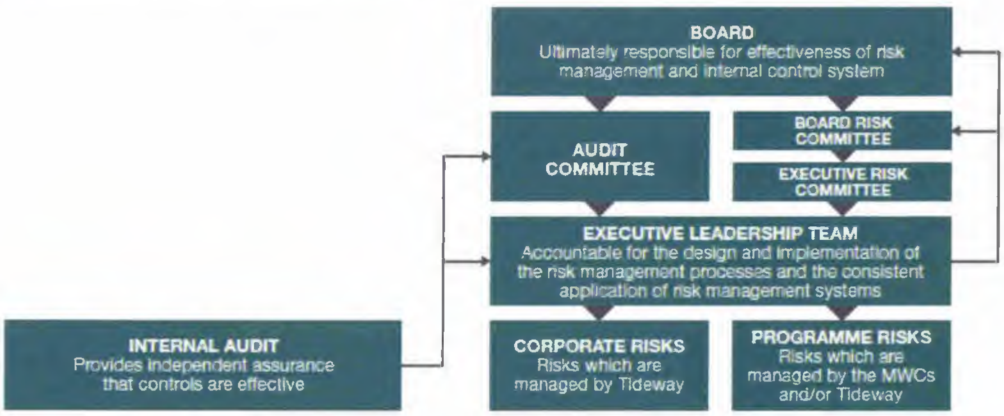
Our risk management framework

Risk management is embedded in our culture and is central to achieving our objectives and priorities. We have developed and implemented a framework which gives us a clearly defined process for identifying, analysing and controlling both corporate and project delivery risks throughout the business. Our approach includes actively monitoring risks, which are maintained on a comprehensive risk management database. This database, called Active Risk Manager, includes quantifications for project risks in terms of potential cost and schedule impact and allows us to monitor the effectiveness of our mitigating actions.

The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. The Executive Risk Committee considers on a rolling basis the risks for the West, Central and East areas and the different categories of corporate risks.

Throughout this risk management process, we actively review and manage new and emerging risks. For example, in light of the growing trend in cyber crime this year, we carefully assessed our exposure to cyber risk. Given the nature of our business and operations, the lack of sensitive customer data held by Tideway, we do not believe that this is a principal risk for Tideway. We do however take this risk seriously and have policies in place to manage it.

The successful execution of Tideway's strategy depends on our ability to manage risks appropriately.



Principal risks

Below are our principal risks, which are those that could have a material adverse impact on our business, reputation and/or financial condition. Each principal risk is owned and managed by a named senior executive and is reviewed each quarter by the Executive Risk Committee.

The past year has seen considerable progress across the project which is beginning to have a positive impact on our principal risks. The Performance Review and Finance Review sections set out the specific progress we have made in the year in implementing our RightWay approach to HSW and working effectively with our contractors and stakeholders to mobilise to main drive sites early. Notably, despite mobilising to sites there has been no material change in the level of delivery risk.

It has been a successful year for our financing having secured a significant amount of our external debt requirements which improves certainty over our financing costs and provides liquidity to the end of construction. As a consequence of our financing activities we have been able to remove liquidity risk from our principal risks and mark a positive trend for two financial risks (interest rate and credit rating risk).

To reflect the recent referendum and subsequent developments we have added Brexit as a principal risk.

Further information is included within the below commentary column.

Risk	Effect	Mitigations	Relevant Objective	Trend*	Commentary
Health, Safety and Wellbeing The health, safety and wellbeing of our employees and the public is paramount. There is a risk that incidents could cause harm to individuals and delay progress.	A safety failure could cause injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent time and cost targets from being met.	We are implementing our RightWay programme, which is aligned to the delivery programme. It includes the RightStart approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites and different prospective activities, including marine activities.	• Health, Safety and Wellbeing	↔ No Change	We continue to develop our transformational HSW programme, and actively manage this risk, especially as we enter the period of significant delivery due to mobilising on the majority of our sites.
Programme Delivery We are delivering a capital investment programme of £3.1bn (2014/15 prices). While there is experience of delivering similar projects in London, it is possible that the construction could take longer than planned and/or cost more.	A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement. Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water, increase financing requirements and reduce returns for our investors.	Our approach to selecting and working with our contractors will help us to deliver the programme on time and to budget. This includes: • World class contractors, with experience of tunnelling in London. • Contracts that transfer certain risks to our contractors that they are better placed to manage. • Establishment of the Alliance, to encourage co-operation and support across the project. • The intent to pursue an earlier schedule. • An integrated, proactive approach to risk management.	• Schedule, Cost, and Quality	↔ No Change	Our assessment of the risk and mitigation measures is unchanged.

Risk	Effect	Mitigations	Relevant Objective	Trend*	Commentary
Supply Chain Failure Our delivery strategy is based on outsourcing works. Our ability to deliver therefore depends on our contractors' performance. Our contractors operate in a very competitive environment and may experience financial difficulties through the delivery of the project.	If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on budget.	The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. The contracts contain step-in rights, whereby one contractor could replace another, which would help mitigate against financial failure. All three consortia are joint and severally liable.	• Schedule, Cost, and Quality	↔ No Change	Mitigation measures to manage changes in supplier circumstances remain effective.
High Impact, Low Probability Events Major investment programmes are complex and challenging, and we could suffer incidents that were highly unlikely but have a significant impact. These could affect the tunnel or assets belonging to others.	These events could have a significant effect on cost, schedule, health and safety, or our reputation. Their financial impact could exceed our insurance cover, damaging our financial position and our ability to deliver the tunnel.	We minimise the chance of these events occurring by using best in class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and we mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.	• Health, Safety and Wellbeing • Company and People • Schedule, Cost, and Quality • Vision, Legacy, and Reputation	↔ No Change	We view the risk as broadly unchanged.

Risk	Effect	Mitigations	Relevant Objective	Trend*	Commentary
Financing Risks **Interest rate risk** Increases in interest rates would increase the cost of new borrowings and any existing floating rate debt.	Higher interest costs would adversely affect our cash flow and debt service.	Tideway has raised and locked in the cost of £1.25bn of long-dated debt (£100m secured after 31 March 2017). This means that the cost of a significant percentage of our total requirements for external debt is now fixed. Our improved liquidity position means that going forward we can be more selective as to when to raise debt – locking in the best possible cost. Additionally, the Financing Cost Adjustment in the regulatory revenue calculation provides partial protection against market movements in the cost of debt above certain thresholds.	• Financing	↓ Improved	Tideway has locked in the cost of £1.25bn of debt (£100m secured after 31 March 2017).
Credit Ratings Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.	The loss of an investment grade credit rating would impact our ability to raise debt.	We have a robust delivery model, within a regulated framework, and a GSP. Maintaining or improving the timeline to deliver the tunnel will enhance confidence in our credit worthiness. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.	• Financing	↓ Improved	We believe that the financing during the year improved our overall credit position.
Inflation There is a risk of inflation that is lower than assumed in our business plan.	Our revenues are directly linked to the Retail Price Index (RPI), and lower inflation would therefore reduce our cash flow unless our costs moved on the same basis. Our RCV is index-linked to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	Tideway has issued RPI index-linked debt. Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.	• Financing	↔ No Change	We continue to monitor changes in inflation expectations and their potential impact on the business.

Risk	Effect	Mitigations	Relevant Objective	Trend*	Commentary
Reputation Poor performance on our sites, on the river or with our neighbours could damage our reputation and support.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.	We actively develop relationships with key stakeholders. For example, through our CLWGs we seek to find the best ways of addressing neighbours' concerns, in advance of works happening. The 'more by river' strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river. We have established the Tideway brand, as part of our efforts to build trust and confidence and communicate the legacy and long term benefits we aim to deliver.	• Company and People • Vision, Legacy, and Reputation	↔ No Change	We conduct a proactive communication strategy to manage the reputational impact of our works.
Thames Water Performance Thames Water is a key partner for Tideway. In addition to the Revenue Agreement, we have a number of important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period, the Handover and Acceptance process and in the operational period.	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.	Tideway and Thames Water have worked closely together through all key milestones to date, reflecting a strong supportive relationship. The Alliance Agreement incentivises Thames Water to help us deliver the programme. Thames Water is also incentivised to deliver its share of the works in a timely manner, through its regulatory settlement. We have worked with Thames Water to develop and agree arrangements for managing the revenue process.	• Schedule, Cost, and Quality	↔ No Change	Thames Water's performance on the enabling works during the year has been good, and provides a solid foundation for moving forward.

Risk	Effect	Mitigations	Relevant Objective	Trend*	Commentary
Regulation We operate under a licence granted by Ofwat, which places rights, restrictions and obligations on us. We need to ensure we comply with our Licence at all times. Changes to the regulatory framework may affect our performance.	If we do not meet Ofwat's requirements, we could face enforcement which could include financial penalties and, in the worst case scenario, the loss of our Licence. A revised regulatory framework could affect our financial performance and investors' returns.	Our Licence sets out a specific framework for revenue until 2030. Ofwat's explanatory memorandum to our Licence states that any modification of Appendix 1 of our Licence, which considers the period to 2030, is only likely to be made with our agreement. We are focused on being a compliant and high performing regulated company, with positive regulatory relationships.	• Schedule, Cost, and Quality • Financing	↔ No Change	Our regulatory strategy and processes have matured. However there is significant regulatory change facing the industry.
Brexit A referendum on the UK's membership of the EU was held on 23 June 2016. Following enactment of the European Union (Notification of Withdrawal) Act in March 2017, Article 50 of the Treaty on European Union was invoked on 29 March 2017. On that date, a two-year negotiation period started for the UK and EU to negotiate a post-EU membership settlement.	While the vote to leave the EU did not have the immediate negative impact on the capital markets and wider UK economy that were originally projected, uncertainty about the final terms of the settlement is likely to have a short to medium term disruptive impact on a few fronts. As result of the de-risking achieved on our financing plan, we are less concerned about impacts on the capital markets. The potential for impacts on the supply chain and their financial stability remains, as well as on the availability of skilled labour.	We will closely monitor the supply chain and begin dialogue to address labour issues in a timely manner.	• Schedule, Cost, and Quality • Financing • Company and people	NA – new risk	We have included this as a principal risk given the scale of the uncertainty and the potential impact on the business.

** Compared to previous year*

Performance review

Health, safety and wellbeing

Measure	2016/17 Target	2016/17 Actual
Number of major injuries	0	0
Accident Frequency Rate (Number of reportable accidents per 100,000 hours worked – includes both Tideway employees and contractors)	AFR-3: 0.00	AFR-3: 0.10
	AFR-7: 0.00	AFR-7: 0.03

Definition:
AFR-3: *12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than three days lost time for the individual involved*
AFR-7: *12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than seven days lost time for the individual involved*

Our priorities for the year

Tideway's HSW objective is to achieve zero fatalities or serious injuries, off-site or on-site. We will do this by setting new standards for health, safety and wellbeing. This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages. In support of this, our priorities for 2016/17 were to establish the RightStart programme, which aims to reduce the number of incidents in the first six months on-site, when accidents typically occur, as well as continuing and developing our EPIC programme, which is mandated for all people working on our sites.

There were no major injuries recorded during the year, which was a significant achievement. However we did have some lost time incidents, including one AFR-7. We are committed to continuing to find ways to do things safer, healthier and better in the years to come.

Implementing a transformational HSW programme

In 2016/17, we achieved this through the delivery of RightWay, RightStart, EPIC and the Health and Safety Performance Index (HSPI) detailed below.

RightWay

This is the Tideway Health, Safety and Wellbeing strategy and approach, in line with the delivery programme. The RightWay approach is shaped by:

- Recognition that "we're all in it together" with a true sense of collaboration and a commitment to a common goal.
- Learning from previous projects in order to identify best practice and implement it on Tideway.
- A supportive yet challenging collaboration between client and supply chain.
- The creation of a supportive environment for our teams to thrive.
- Recognising that we need to focus on our people and innovative approaches to push beyond mere compliance in order to make significant improvement.

The Transforming Health and Safety Working Group (THSG) is Alliance-wide. It was established to look at how Tideway can make a difference to on-site activities through the staff and operatives involved in the day-to-day leadership of health and safety, as well as to co-ordinate the various working groups formed throughout Tideway.

Working groups consist of both Tideway and MWC site-based specialists and are formed to address both current and future risks. In 2016/17, the THSG working groups have been responsible for:

- Investigating the use of wireless sensors to reduce risks at people/plant interfaces and improve tallying of operatives once tunnelling starts.
- Improving supervision of lifting operations and mentoring/upskilling of lifting teams.
- Implementing occupational health reviews during design stages.

- Developing temporary works training specific to tunnelling.
- Disseminating of lessons learned from previous projects in relation to tunnelling.
- Implementing agreed minimum standards for plant and reinforcement cages.

RightStart

This is one of the elements of RightWay. It aims to reduce the number of incidents in the first six months on-site, when there is typically a spike in accident rates. RightStart incorporates a standard set of requirements prior to site mobilisation, in line with industry recognised best practice. In 2016/17, all our mobilised sites successfully passed a rigorous RightStart process, which also included detailed planning for site start-up, verification by senior executive from Tideway and the MWCs prior to mobilisation, and a follow-up assessment by our HSW teams.

EPIC

Our innovative and interactive induction programme, EPIC, was established in 2015/16 and has been widely recognised as industry leading. It is a mandatory one-day immersive induction course using actors and a structured management training approach to help every individual understand what we want to achieve and how we can all work together to make Tideway the safest and healthiest project yet.

To date, over 7,000 employees and contractors have attended the programme, including approximately 4,500 in 2016/17. This includes people working on Tideway and from other interested companies. EPIC provides a common language for everyone who successfully passes the remaining day-and-a-half of on-boarding, before they are kitted up with industry leading PPE available and set to work.

In 2016/17 we reviewed the programme's overall structure and safety message which led us to upgrade the hardware at the centre to enable use of a new storyline as well as more flexibility for any future changes that may be required. The feedback from the new upgrade and storyline has been extremely positive and has created an overall more immersive experience which is supported by a 95 per cent 'hugely positive' score on exit.

HSPI

We introduced the HSPI at the start of quarter three. It has enabled us to develop a balanced scorecard to measure the HSW performance of each MWC across the project. HSPI uses a set of 14 leading performance indicators which have been developed through analysis of accident and incident data from previous projects.

We collaboratively review all the indicators to ensure they remain challenging and relevant to our current and future works. HSPI enables Tideway to introduce targeted improvements, specific to each MWC, to further improve HSW on our sites.

Schedule, cost and quality

Measure	2016/17 Target	2016/17 Actual
Delivery against the regulatory baseline – cost*	£3.1bn	In line with £3.1bn
Delivery against the regulatory baseline – schedule	Handover by quarter one 2024	In line with Handover by quarter one 2024

** Tideway's element of the programme, up to System Acceptance by Thames Water (in 2014/15 prices). The value in outturn prices is c£3.5bn (based on current inflationary expectations).*

Overview

In last year's Annual Report, which was published at a time when activity on site was limited to explorations and clearances, we recognised the challenges typical of the early phase of any major infrastructure project in a busy city. These challenges included developing high-quality designs, building teams with the right skills and expertise, establishing the construction sites and securing the necessary consents, so we could start major engineering works in some of the most congested areas of London. We also knew that we needed to explore how we could do this as safely and as quickly as possible, to de-risk our overall schedule. Starting ahead of plan gives us greater confidence on both schedule and cost. In addition, we understood the importance to our neighbours and to London more generally of using the river as much as possible – more than originally planned and more than required of us under the Development Consent Order (DCO).

It was therefore under the banners of 'Transformational Health, Safety and Wellbeing', 'setting a challenging target for delivery' and 'More by River' that we began mobilising the project works. Our approach to transformational HSW is discussed earlier in this Performance Review.

We created a challenging target for delivery, in order to de-risk delivery of the project. It showed potential start dates earlier than assumed at Licence Award, so that Tunnelling could start similarly early, and with resequencing of key activities (rather than simply doing things faster), ultimately showed Handover early. We reflected the target dates in our commercial agreement with our Alliance partners.

Key to achieving early start on site was working closely with and incentivising Thames Water to procure the land for each site earlier than planned, and working closely with all of the consent granting bodies (TfL, the Port of London Authority (PLA), the Marine Maritime Organisation (MMO), the Environment Agency (EA) and the boroughs and councils) to secure the consents required. We were already co-located with Thames Water in our head office, but as we set up our joint offices with the MWCs we focused on finding ways to work as collaboratively as possible with the consent granting bodies, some of whom joined in the co-location. As a result, we were able to start on the main tunnel drive sites three to five months early, and we continue to drive this approach for all of our worksites. This has served us well as a key de-risking policy, as we subsequently managed the inevitable challenges of opening up multiple worksites in London. With the bulk of this behind us on the critical tunnel drive sites, and with designs well developed and tunnel-boring machine manufacture well under way for first deliveries later in 2017, we are well placed for the start of tunnelling.

The driver for 'More by River' was to get as much traffic as possible off the roads, to increase safety and reduce congestion around our sites, and to benefit air quality and congestion in London more generally. Our 'More by River' strategy is expected to reduce two-way heavy goods vehicles movements down to 140,000 – or 28 percent of the forecast all by road total of 506,000. We are required under the DCO to remove the majority of tunnel spoil and deliver the majority of precast tunnel segments by river, but given the scale of the marine logistics operations required, we recognised our responsibility to explore how much more we could do. We have worked closely with our MWCs, TfL, the PLA and the existing river operators, to halve the already demanding heavy goods vehicle limits of the DCO and will continue to do so as we establish the detailed arrangements for each river-based site. The Thames Skills Academy (TSA), which we have strongly supported, is now up and running and many new and existing boat masters have been endorsed at the virtual Thames simulator developed for us by HR Wallingford.
Tideway's success lies in constructing a sewer that will protect the Thames for generations to come, but our most visible impact will be the new spaces and facilities that we will create. We are proud of the new pier we have created at Blackfriars, which has double the capacity of the one that we removed. It blends

modern functionality and design with the historic listed design of Blackfriars road bridge and has set a high bar for the public realm we will deliver in years to come.

We are working effectively with our Programme Manager and MWCs and there is positive dialogue across the Alliance. Under the target price contracts that we have established the MWCs submit compensation notifications for changes in requirements or circumstances that can amend the target price. Since Tideway entered into the main works contracts there has been an increase in the MWCs' target prices. The increases include those from certain risks materialising which were retained by the Company and scope changes made by the Company under the contracts i.e. implementing the `More by River` initiative. Our Programme Manager assesses the notifications and its view is reflected in our cost estimate.

Our focus on the highest levels of safety, the best schedule possible and the most efficient use of the river all serve our ambition to deliver the tunnel at the earliest time and at the lowest possible cost. We are in line to meet our regulatory schedule of Handover by quarter one 2024 and in line to meet the regulatory cost baseline of £3.1bn (in 2014/15 prices).

West Area

Our West MWC, BMB, mobilised to Carnwath Road, Hammersmith and Putney, which are three of the seven West sites. The preparation, design and consents for these and the remaining sites have progressed and West will be fully mobilised across its sites by the end of 2017.

At Carnwath Road, we enhanced the original logistics plan by delivering the initial site accommodation and welfare by river. We have begun piling for the main shaft and the acoustic shed, which will help to reduce sound for local residents. BMB began strengthening the river walls, overcoming particular challenges caused by the river wall support structures being in a worse state than expected.

We also made good progress at Putney. Piling works were completed in early January 2017 to allow the start of construction of the temporary slipway using pre-cast blocks. We completed construction of the temporary slipway in time for it to be used in the University Boat Race. To mitigate the local community's concerns about construction traffic, we continue to seek greater use of river transport as part of our enhanced logistics planning.

At Hammersmith, we established the site and prepared for piling operations, which started at the beginning of 2017/18.

The West TBM has been procured and is on schedule to be transported to Carnwath Road by late 2017.

We continue to engage with local communities and councils, to keep them informed about our works and obtain their feedback and approvals. We will continue to support local communities through initiatives such providing a design and technology teaching bursary at a local school.

Central Area

Our Central MWC, FLO, mobilised to three sites, which are three of the eight Central sites. The remaining sites are due to be mobilised by 31 March 2018.

Despite some early design and procurement delays, the target staff level was achieved and both TBMs were procured in December 2016.

Enabling works were substantially complete on all sites. In the meantime, Tideway delivery and FLO teams mobilised to the site, where 50 per cent of the diaphragm wall for the shaft has now been constructed and preparations for the acoustic shed and foundations and marine structures have commenced.

Following extensive conversations with TfL and the City of London, the cycle superhighway operation at Blackfriars was agreed and diversion works were completed in early 2017, enabling preliminary site mobilisation. At the same site, the first Tideway permanent work was completed in October 2016, with the opening of a new pier at Blackfriars, which provides better visibility and the ability to berth two boats (versus one at the previous pier).

During the relocation of the Tattershall Castle vessel at Victoria, an unexploded bomb was discovered in the foreshore. This led to additional site surveys and divers' investigations before site clearance, staff mobilisation and relocation was completed in May 2017.
The planning for the integration of Thames Water's proposed Counters Creek flooding alleviation scheme progressed during the year with an agreed way forward expected by summer 2017.

East Area

The achievements during the year reflect our joint efforts with Thames Water and the East Main Contractor CVB through mobilising at three of the seven East sites. Together, we maximised the opportunity to work in parallel on site, to ensure the cofferdam started on time at Chambers Wharf and we gained early access at King Edward Memorial Park. At Greenwich Pumping Station joint working enabled CVB to start critical site investigation work before the year end.

During the year, we progressed several key activities at Chambers Wharf, including cofferdam construction to increase the size of the site, and ground treatment for tunnel junctions around the shaft area, alongside other critical work.

At Greenwich Pumping Station, the team moved into the site offices and started work on initial site activities, including ground investigations and diverting the Quietway public footpath, in parallel to Thames Water's enabling works.

CVB gained access to King Edward Memorial Park foreshore in early January 2017, three weeks ahead of plan. Works are progressing well on initial site setup, including hoarding, site offices and ground investigations.

As our presence increases, we are working hard to keep our local communities informed of progress through our CLWGs. These are a very helpful forum for local concerns. We are actively working to address any concerns and where appropriate, enabling local residents to have some respite.

Some of the community-related achievements during the year included:

- Delivered site facilities by river at Chambers Wharf.
- Agreed to use Deptford Creek to transport a proportion of tunnel spoil off-site, to minimise transport by road at Greenwich and give us the opportunity to outperform during tunnelling
- CVB reduced disruption to local residents by maximising the use of silent piling for the cofferdam at Chambers Wharf.

We have broad support from key stakeholders and our consenting activities are progressing well.
We awarded critical procurement packages, with the TBMs contract placed during quarter one 2017/18.

Vision, legacy and reputation

Measure	2016/17 Target	2016/17 Actual
Percent of live legacy commitments on track/green rating	75%	75% (Monthly Average)
STEM volunteer hours per project staff*	1 hr per 3 FTE	2,395 hrs or 6.7 hr per 3 FTE
Community volunteer hours per project staff	1 hr per 3 FTE	4,179 hrs or 11.7 hr per 3 FTE
Apprentices per project staff**	1 in 50 FTE	1 in 60 FTE (Monthly Average)

** Includes Tideway and MWC staff*
***Commentary on apprentices is within the Company and People performance review section.*

Our Legacy Statement, which is published on our website, is one of the strongest ways we articulate our vision of 'Reconnecting London with the River Thames'. It sets out our detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities, to keeping our carbon emissions down. By the end of the year we had started delivering against 38 of the 51 commitments. Of these, 75 per cent were on track, in line with our target (when averaged across the year).

Among the highlights was the project's first physical legacy, a new, purpose-built pier at Blackfriars, described earlier in the Performance Review.

Another legacy highlight was the development of our partnership with environmental charity Thames 21, which engages with communities across London to improve waterways. The Thames River Watch (TRW) programme, which we fund, reconnects Londoners with the river through water quality and litter surveys. The programme had about 100 active volunteers in the year and it also engaged with more than 400 schoolchildren. We also support TRW with staff volunteers. Through this and our other community partnerships, we delivered over 4,100 community volunteering hours (1,700 for Tideway and 2,400 for our MWCs.

Charity Partners

We continued to support our corporate charity partners: Thames Reach, which supports the homeless; Envision, which supports teenage students with social action projects; and KEEN London, which provides one-to-one sports and fun for children and young adults with additional needs. Our staff raised £10,173 through the activities co-ordinated by our staff Charity Committee.

STEM programme

Tideway and its contractors support our commitment to inspiring the next generation of engineers through our STEM Ambassador programme is supported by our contractors and over 2,300 STEM volunteering hours were achieved by the Alliance. Our Skills and Employment Plan was endorsed by 14 London boroughs and we ran a successful pre-employment pilot for 30 local residents taking part in a four-week training programme. This has resulted in 15 placements for work experience and 12 into jobs.

Development

We established the new TSA with the PLA, the Company of Watermen and Lightermen and TfL. In May 2017, the organisation had 16 employer members covering the majority of those employed afloat on the Thames, with passenger, freight and line handling and boatmen services all represented. The TSA has delivered a number of training courses and developed syllabuses in towing and pushing practical assessment and riverside safety.

We successfully launched our public art and heritage interpretation strategies and following a competitive process we now have 23 artists commissioned across the project.

Environment

Over the past 12 months we have made significant progress on our environmental commitments and initiatives to reduce our impact either during construction or the long-term operation of the tunnel. Our suite of key performance indicators are now fully embedded within the programme reporting cycle.

The MWCs have produced their first accurate carbon footprint which shows an approximate five per cent reduction from the 840,000 tonnes predicted within the Energy and Carbon Footprint Report which was submitted as part of the planning DCO. As a project, we continue to report to the Department for Business, Energy & Industrial Strategy on our performance as part of our commitments made to the Infrastructure Carbon Review. To assist the progression towards carbon maturity we launched our first carbon action plan which sets clear targets.

To fully understand the impacts of increasing freight on the river air quality we have commissioned a series of studies to monitor the exhaust emissions from a range of vessels to identify point of source greenhouse gas emissions and particulates. The results of this research will inform future initiatives with marine sector and provide up-to-date information to Defra and other stakeholders.

To monitor the success of these initiatives and our overall performance, we continue to work with the Building Research Establishment (BRE) on the development of the new BREEAM (Building Research Establishment Environmental Assessment Method) for Infrastructure standard and we have successfully completed our first pilot of the strategic stage of the standard.

Stakeholders

With work on site gathering pace this year, we have prioritised engaging communities and stakeholders in our vision by building our reputation and profile both locally and across London. We established CLWGs with a further seven communities directly affected by our work, bringing the total number of sites supported by a CLWG to 11. Our 24-hour helpline service handled 2,780 enquiries.

Towards the end of the year we began to review our mitigation and compensation processes to look at how these can be further simplified and more accessible. Our site-based communication activities increased to coincide with the increase in activity on site and we also appointed a new Independent Complaints Commissioner (ICC), Fiona Penhallurick, in the year.

We continued to support the TTT Forum, an independently-chaired body bringing together local authorities, pan-London agencies and Ofwat and the EA to discuss strategic issues. The Forum met five times and will continue to meet throughout the project.

We held a successful exhibition in the Palace of Westminster, enabling us to engage with Members of Parliament from all political parties and from different regions of the UK. We also held a large number of briefing sessions with stakeholders including Members of Parliament (MPs), Members of the London Assembly and local authority leaders. We hosted our first ministerial site visit, with Water Minister Therese Coffey coming to our main Central site, Kirtling Street, to meet many of our 27 apprentices.

We launched a programme of Tideway boat tours to give our stakeholders a more close-up view of the problem of sewage pollution as well as our construction sites. With 58 specially tailored tours for stakeholders, from government, industry bodies, academic institutions, business organisations and elected representatives, this has been a hugely successful way of engaging all those interested in what we are doing. Some of these tours were also open to the public. This financial year over 400 stakeholders attended with 79 per cent rating the trips 'excellent' for building awareness of the project.

Innovation

Innovation is important to Tideway, which is demonstrated through our dedicated innovation programme 'The Great Think'. In collaboration with i3P, (the Infrastructure Industry Innovation Platform), over 40 Tideway staff actively engage online with over 150 Alliance colleagues, as we seek to encourage value creation in our delivery phase and leave a legacy of innovation for the industry. As of March 2017, the Tideway Alliance had implemented and shared over 30 innovative solutions, with a further 100 new ideas submitted for investment consideration by the Tideway Innovation Forum (TIF). With a 'seed investment fund' of £250,000 per annum, The Great Think had supported a number of innovative projects during

2016/17 totalling £240,000. This included several 'Big Bang' innovations with lifecycle benefits, including autonomous robots for asset inspections, as detailed below.

Robotics for remote tunnel inspections	**INNOVATION PROJECT**
£12,000 Tideway contribution to desktop feasibility study (Total cost to Alliance £15,500)	**£ INVESTED**
When the tunnel is in operation, it will require a detailed inspection every ten years. As a hazardous environment, it would be preferable not to place engineers into the tunnel to carry out the inspection. To tackle this challenge, a feasibility study was carried out to consider emerging robotic and drone technologies to inspect the tunnel instead. A dedicated Tunnel Inspection Working Group (TIWG) has been set up for the research, and technology trials of various solutions will take place in 2017. If used, this could have safety, environmental, operational and cost benefits.	**CONTEXT**

Company and people

KPI	2016/17 Target	2016/17 Actual
Employee diversity* (percentage of women within Tideway at 31 March 2016)	40%	37% (37% previous year)
Employee engagement (Tideway employee survey: percentage of favourable responses)	62%	63% (59% previous year)
Employee enablement (Tideway employee survey: percentage of favourable responses)	62%	67% (59% previous year)

** Includes Tideway employees and our programme manager*

Our priorities for the year

Tideway recognises the importance of having high performing, motivated and engaged workforce. This will help us to deliver better value and to recruit and retain the right people.

People

Overall it was a successful year, with a variety of initiatives delivering benefits. This was reflected in our 2016 employee survey, which included Tideway, CH2M, agency and sub-contractors. Employee engagement increased from 59 per cent to 63 per cent and enablement from 59 per cent to 67 per cent, indicating that we are improving and that our people feel valued and empowered.

Successful delivery of the project will require a strong culture and one-team approach. In September, we held our inaugural Tideway staff conference with the theme of 'Safer, Smarter, Better'. This brought our full team together from all sites, to explore our vision and take stock of progress on the project so far. We continued our internal engagement through the year, with monthly team briefings at each main location. We also launched The Tributary, a newspaper for everyone working on the project. Again, the positive impact of these initiatives was reflected in our 2016 employee survey, with 85 per cent of staff having a good understanding of the Group's strategic priorities and goals, and 86 per cent understanding how their job contributes to them.

Effective performance management is important. Our people identified this as a focus area in last year's engagement survey and we were pleased to see a five per cent improvement in our score this year. We look to give employees clear objectives and regular reviews, to help develop their performance and recognise and reward achievements. To ensure that we deliver against our milestones and goals, we cascaded targets through the organisation from the CEO down. These targets also formed the basis for the Company element of the performance-related bonus for Tideway staff.

We review talent management and succession planning annually, both as a regular health check of the business and to ensure we have appropriate bench strength for key roles, as part of Tideway's structured performance review process.

Enablement

During the year, we looked to develop how our employees experience decision making, delegated authority, and co-operation when working across teams, due to its importance in the successful delivery of the project. We therefore developed guiding principles, to address how we manage and govern the project and work together. We also established an internal project, to investigate organisational roles and responsibilities, information management, our working environment and training and development.

One key element of the guiding principles is to empower those who have the skills, knowledge and expertise to take decisions, ensuring we do so at the lowest possible level within the organisation. This improves the speed and quality of decision making, and therefore also improves delivery. The guiding principles were embedded across Tideway through a variety of training sessions and workshops known as 'Constructing the Tideway'. Further embedding these principles during 2017/18 will be pivotal in delivering a more effective and enabled organisation.

Diversity

Tideway recognises the importance of diversity, since diverse organisations have been shown to make better decisions and have higher performance. Gender diversity is a key performance indicator for us and we finished the financial year with 37 per cent female staff. This is below our end of year target of 40 per cent, however, we continue to seek ways to achieve our aim of gender parity by the end of construction.

Through our employee-led diversity forum Encompass, we focus on all aspects of diversity. Some of the key activities in 2016/17 included:

- Joining the Business Disability Forum.
- Launching a new group, LGBT+.
- Becoming a member of Stonewall (LGBT charity).

Inclusivity is important for Tideway and we continue to outperform external benchmarks when employees are asked whether "the company values and promotes diversity". Our score for this question was 89 per cent favourable.

Headcount (as at 31 March 2017)*	Female 31 March 2017	Male 31 March 2017	Total 31 March 2017	Female 31 March 2016	Male 31 March 2016	Total 31 March 2016
Board	3	9	12	3	9	12
Senior Management	18	34	52	12	31	43
Other Employees	159	261	420	137	214	351
Total	180	304	484	152	254	406

** Includes Tideway employees and our project management contractors (CH2M)*

Talent

We continue to develop the next generation of talent and to help local and disadvantaged people into employment, so we leave a lasting skills legacy for London and beyond. As part of the planning process, we entered into section 106 agreements with most of our local authorities, which included targets for employing apprentices, local people and ex-offenders. Tideway and our contractors are committed to:

- One in 50 staff being an apprentice.
- One in 100 being an ex-offender.
- 25 per cent of our workforce being residents across all London Boroughs.

We have developed plans to meet these targets.

Tideway has effective apprenticeship programmes, which extended beyond engineering to include corporate functions. We are working with several organisations to support individuals who are ex-offenders or currently not in work, by providing training, work experience placements or permanent roles. Women into Construction, a non-profit organisation supporting women in the home building and construction sector, and Build London, a specialist construction industry jobs rokerage.

Tideway is committed to ensuring that all employees are paid at or above the London Living Wage, and has set it as a minimum for contractor staff working full-time on site.

Company

This year, we focused on developing innovative ways of working, both physically and virtually. We investigated flexible working arrangements to improve wellness and employee satisfaction and trialled new office layouts to improve collaboration. Additionally, we worked on making information more available, to ensure all staff are kept up to date and have the right information and tools to be effective in their day-to-day work.

In June 2016, we launched the Tideway Information Management (TIM) programme, to build an information management system that will help us work together towards our common goal. This is changing the way Tideway works and treats its information, giving us an open, straightforward, collaborative approach to information management that is also auditable and complies with our obligations. In the coming year, we will build on this foundation, embed the necessary cultural change, and explore efficiencies to common business processes and how we collaborate with our Alliance members and other stakeholders.

We continue to maintain our management system certifications to ISO 9001:2008 for Quality, ISO 14001:2004 for Environment and OHSAS 18001: 2007 for Health and Safety. Work is under way to move to the new 2015 versions for ISO 9001 and ISO 14001 at the next assessment by BSI in September 2017.

Human rights

Our approach to business and how we work provides a clear ethical and legal framework for our employees, contractors and stakeholders, setting out the minimum behaviours we expect. Our policies and procedures cover a wide range of human rights issues, including discrimination, working conditions and equal opportunities. Tideway has a confidential 24-hour whistleblowing helpline, allowing any employee to ask questions or raise concerns.

To ensure our MWCs are compliant, their contracts oblige them to follow the principles of the Ethical Trading Initiative Code. This is based on the standards of the International Labour Organisation and covers ten key areas, such as child labour, living wage, working hours and working conditions. Now the MWCs' supply chains are growing, we will explore how we can assure compliance with this requirement through audits.

We have anti-bribery and anti-corruption policies and have published a modern slavery statement, highlighting our stance against modern slavery and human trafficking. Additionally, we supported the publication of the Ethical Sourcing handbook, by participating in the working group and providing funding. The handbook is due to launch shortly and will help our procurement professionals to source products that are ethically suitable and to be mindful that some materials carry more risk than others.

Financing

Measure	2016/17 Target	2016/17 Actual
Maintain strong credit rating* (Moody/ Fitch)	Baa1/ BBB+	Baa1/ BBB+
Maintain strong liquidity position (Funds available immediately)	>18 months	c4 years
Make progress on the bond financing programme (Amount of inflation debt priced)	Issue £350m of index-linked financing	Issued £450m of index-linked bonds

** The Group has been assigned a corporate family credit rating of Baa1 by Moody's and the Company's Revolving Credit Facility (RCF) has been rated BBB+ by Fitch*

Treasury policy

Tideway's treasury policy is to drive shareholder value by financing BTL while minimising our weighted average cost of capital. Our target is to maintain a robust investment grade credit rating at all times. Our financing strategy defines how we implement the policy and key elements of the strategy are detailed in the Our Vision and Strategy section on pages 11-12.

Financing activity

As at 31 March 2017, we had received £926.0m from Shareholders. This was in the form of £370.4m of equity and £555.6m of shareholder loans. Part of the Shareholder loans have been repaid and the balance at 31 March 2017 is £529.3m. The final instalment of the £1.3bn of shareholder funds committed at Licence Award will be drawn by January 2018. In line with our strategy to fund the early stages of our investment programme using Shareholders' funds, the £1bn RCF remained undrawn during the period.

We made good progress with implementing our financing plan and the £1.15bn of long-term financing closed during the year help secure the financing for our investment programme.

In May 2016, we closed a £700m 35-year loan with the European Investment Bank, to finance the BTL's construction works. This is the EIB's largest-ever water sector loan and the innovative structure enables us to lock-in financing costs, whilst matching our funding requirements and profiling debt service in line with the expected growth in our asset base.

During the year, we expanded the loan debt platform we had put in place at Licence Award. We now have a multi-format debt platform, under a whole business securitisation framework. Whole business securitisation is a form of financing where debt is secured on the cash flows and cash generating assets of a whole business with debt holders relying on future cash flow of the business. The securitised structure supports the raising of long term debt via structural enhancements that include a bankruptcy remote structure and a package of covenants and restrictions protecting cash flows. The debt platform now also includes a multi-currency bond programme, which is listed on the regulated market of the London Stock Exchange. Tideway's inaugural prospectus for the listing was published in May 2016.

In June 2016, we priced bonds totalling £350m, marking our debut in the capital markets. A further £100m bond was issued in December 2016. In total, Tideway has issued eight series of bonds to a range of deferred investors, both on an amortising and bullet basis, with deferral periods for drawing the debt of two to five years and maturities from 2040 to 2054.

The financing is innovative in applying the deferred bond purchase structure to a regulated utility company in the sterling market, with terms agreed now but the bonds only being funded by the investors at a later date. This structure enabled us to de-risk our financing plan and secure the best possible borrowing terms, by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding. These bonds represented the longest deferral on a corporate inflation-linked bond issuance and were recognised with a highly commended deal award by the Treasurer magazine in February 2017.

Hedging

After we signed the £700m EIB loan in May 2016, we linked the loan to inflation, in line with our financing plan. This was done individually for each tranche, by either drawing it in an inflation linked format (which has been locked in with the EIB) or by entering into inflation linked swaps, with those tranches then drawn in floating format. To this end, Tideway entered into hedging transactions to lock-in the cost for the period from the drawdown of the loan to 2030-2032 on a RPI basis of £620m notional value of the EIB loan. By locking-in the interest rate to inflation for the first c14 years of the EIB loan, we have ensured a fully hedged position until the end of the current regulatory period, whilst maintaining flexibility to review the strategy for the remaining duration of the EIB loan.

Tideway will continue to manage interest rates on its debt programme, balancing the objective of securing long-term rates with the likely changes arising after the end of the current regulatory period in 2030.

Distributions

We capitalise our construction costs and do not expect to record distributable profits until after System Acceptance, which means we do not expect to pay dividends during the construction period. To provide a return to our Shareholders during the construction period, in line with the agreed regulatory model, we made distributions totalling £53.3m in 2016/17 through payment of interest and repayment of principal on our shareholder loans.

Liquidity

At 31 March 2017, we had total liquidity in excess of £2.8bn, comprising £316m of cash, £348m of committed and undrawn capital from Shareholders, the £1bn undrawn, the £700m EIB loan and £450m bonds. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target including all debt requirements to the end of construction.

Ratings

Moody's and Fitch assigned investment grade credit ratings of Baa1 and BBB+ to our new bond platform in May 2016 and to the subsequent bond issuances, consistent with the initial ratings received at Licence Award and affirmed during the year.

Investment Management

The disbursement profile of shareholders' funds led to us benefiting from substantial cash balances during the year, averaging £250m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, whilst prioritising the preservation of principal, ensuring adequate liquidity and striving to optimize the yield. During the year, we held cash in three types of instrument: bank accounts with our main bankers Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds with immediate cash availability, held with selected institutions.

In 2016/17, we generated a total return of around £0.93m on our cash balances, at an average yield of 0.37 per cent per annum for the year. The return averaged 3 basis points above the base rate both before and after the Bank of England interest rate cut to 0.25 per cent per annum in August 2016.

Operations and payments

We completed the implementation of a treasury management system during the year. We now have a fully functioning system, with automated deal management and payment processes, ensuring greater accuracy and cash controls within the business.

Post year end

In April, we entered into a further £100m long-term inflation linked financing with an institutional investor which further locks-in our financing costs. This was our first index-linked issuance in loan format with an investor, demonstrating the benefits of our flexible platform which enables us to issue seamlessly in different markets and instruments. The transaction also confirmed the downward trajectory of Tideway's credit margin, in line with the growing confidence in and maturity of the execution of our financing and delivery plans.

We continue to review our capital raising strategy and the markets in which we do so, as well as the potential for additional pre-funding to take advantage of market conditions and further de-risk the financing plan.

Reporting

We provide regular updates on the progress of the delivery and financing plans to our main stakeholders, through the quarterly meetings of the Liaison Committee attended by Thames Water, the Secretary of State, Ofwat and the Environmental Agency. We also report regularly to our lender investors in compliance with the terms of our financing documents and the GSP.

Financial performance review

Accounting basis

Our financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Under IFRS, we consider that lease accounting is the most appropriate accounting basis for Tideway post System Acceptance. Accordingly, during the construction phase of the project expenditure which is directly attributable to bringing the TTT into its intended use will be capitalised as an asset under construction within the Statement of Financial Position. Similarly, during the construction phase, we recognise the regulated revenue received from Thames Water as 'deferred income' within the Statement of Financial Position.

Non-GAAP measures: reporting of Allowable Project Spend

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. We believe these measures are valuable to the users of the accounts in helping them understand our underlying business performance. Our principle non-GAAP measure is Allowable and Excluded Project Spend.

Under our Licence, our costs are classified as either 'Allowable Project Spend' or 'Excluded Project Spend'. Allowable Project Spend (on a cash basis) is added to our RCV. Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

Allowable costs are costs stated on an accruals basis, which form part of the Allowable Project Spend (and are added to our RCV) when the underlying assets or liabilities are cash settled. Excluded costs are costs stated on an accruals basis which will be Excluded Project Spend (and not added to our RCV) when the underlying assets or liabilities are cash settled.

Income Statement

During the year ended 31 March 2017, Tideway reported a loss of £34.2m (2015/16: £nil) with no dividends paid or proposed (2015/16: £nil). We did not recognise any taxable profits in the period (2015/16: £nil) and therefore have no corporation tax charges (2015/16: £nil).

We do not consider that the reported loss in the year reflects our business performance, as it results from the movement in the fair value in the Group's financial instruments. These are long-term swaps which we entered into with commercial banks, to hedge the interest rate for tranches one to eight of the £700m EIB loan we secured in May 2016. The swaps fix finance costs for the Group's regulatory period in a cost-effective manner and ensure that we benefit from low-cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because under IAS 23 these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 12 to the financial statements provides more detail on the financial instruments.

We have made a 'disregard election' to HMRC effective 1 April 2016, which means that any gains or losses arising from the movement in the fair value will be disregarded for current tax purposes.

Statement of Financial Position

The table below analyses capitalised costs in the Statement of Financial Position (on an accruals basis) and the associated cash outflows.

	2016/17			2015/16		
Analysis of Costs and Cash Outflows (£m)	Costs	Timing Differences	Cash Outflows	Costs	Timing Differences	Cash Outflows
Allowable	348.0	(7.5)	340.5	118.9	31.4	150.3
Excluded	36.7	53.1	89.8	42.3	22.7	65.0
Total	**384.7**	**45.6**	**430.3**	**161.2**	**54.1**	**215.3**
Brought Forward	**161.2**			**0.0**		
Capitalised Costs*	**545.9**			**161.2**		

** Capitalised Costs is the GAAP measure and aligns to note 6 of the financial statements*

For the year ended 31 March 2017, our Allowable Project Spend is marginally lower than the Allowable costs, as our Allowable Costs include the timing of accruals and unwinding of prepayments of items, including insurance contracts and the GSP. The Excluded Cash Outflows are significantly higher than the Excluded costs. This is mainly due to the £24.1m repayment of shareholder loans and £12.1m timing of VAT payments, which are not included within Excluded Costs.

At 31 March 2017, costs of £545.9m were capitalised within the asset under construction in the Statement of Financial Position. This represents £384.7m costs during the year and £161.2m for the prior period to 31 March 2016.

The table below analyses Allowable Costs:

Allowable Costs (£m)	2016/17	2015/16
Direct Costs	**262.6**	**69.0**
Resource Costs	60.3	31.1
Other Indirect Costs	25.1	18.8
Indirect Costs	**85.4**	**49.9**
Total	**348.0**	**118.9**

Direct costs

Direct costs are primarily the MWC costs. They also include the System Integrator Contract and the contract with Volkerstevin to provide services and works for the removal and replacement of piers and the relocation of marine vessels.

The direct costs incurred in the year have increased significantly compared with 2015/16, reflecting the commencement of construction activities and 2015/16 containing only circa seven months' costs post Licence Award.

Indirect costs

The largest indirect cost is resource costs of £60.3m. This represents the cost to employ the circa 450 average FTEs (2015/16 circa 400 average FTEs) either employed or contracted by the Group. The other indirect costs include information systems, insurance, payment for the GSP, office and other running costs.

Indirect costs have increased significantly compared with 2015/16, reflecting the growth in FTEs to support the start of construction and 2015/16 containing only circa seven months' costs post Licence Award.

Excluded Costs

The Excluded Costs (on an accruals basis) for the year ended 31 March 2017 were £36.7m. These comprise £29.3m of Shareholder loan interest, £5.4m of financing costs and £2.0m of interest.

Net Cash & Financing

The net cash at 31 March 2017 was £315.9m, which was £203.0m higher than the £112.9m net cash at 31 March 2016. The tables below summarise the movements in net cash:

Net Cash (£m)	2016/17	2015/16	Ref.[1]
Opening Balance	**112.9**	**0.0**	
Proceeds from shareholder loans	348.3	207.4	d
Proceeds from Equity	232.1	138.3	d
Deferred revenue	32.1	0.0	a
Transfer from/(to) Short Term Deposits	17.5	(17.5)	c
Other	3.3	(0.0)	a
Cash Inflows	**633.3**	**328.2**	
Construction of the tunnel asset	(384.7)	(160.3)	b
Working capital outflows	(21.5)	(51.8)	a
Repayment of shareholder loans	(24.1)	(3.2)	d
Cash Outflows	**(430.3)**	**(215.3)**	
Closing Balance	**315.9**	**112.9**	

Reconciliation to the Group Cash Flow Statement (£m)	2016/17	2015/16	Ref.[1]
Net cash used in operations	13.9	(51.8)	a
Net cash used in investing activities – Infrastructure asset	(384.7)	(160.3)	b
Net cash used in investing activities – Short term deposits	17.5	(17.5)	c
Net cash from financing activities	556.3	342.5	d
Net increase in cash and cash equivalents	**203.0**	**112.9**	
Cash and cash equivalents at the start of the period	112.9	0.0	
Cash and cash equivalents at the end of the period	**315.9**	**112.9**	

[1] *See cross ref*

The cash inflows of £633.3m include proceeds of £348.3m from Shareholder loans, £232.1m from Shareholder equity, £35.5m of working capital inflows and £17.5m of transfers from short term deposits. The working capital inflows include £32.1m of regulated revenue received from Thames Water and £3.3m of other inflows, including interest and payment for other services provided to Thames Water.

The cash outflows of £430.3m include £384.7m of investment in the construction of the TTT, £24.1m of shareholder loan repayments and working capital outflows of £21.5m.

At 31 March 2017, the Group's borrowings were £529.3m in the form of shareholder loans. In addition to the secured loan for £700m with the EIB and the deferred bond issuances of £450m completed during the year, the Group had access to a £1.0bn RCF. At 31 March 2017, both the RCF and EIB loan were undrawn.

Regulatory Financial Reporting

For regulatory financial reporting, interest is expensed through the Regulatory Income Statement and this shows a net loss of £62.5m. This represents £34.2m of fair value movement on financial instruments, £29.3m of loan interest expense, partly offset by £1.0m of interest income.

At 31 March 2017, the RCV was £502.1m (in March 2017 prices). The RCV is the sum of Allowable Project Spend that has been incurred, verified by the Independent Technical Assessor and adjusted for inflation. At 31 March 2017, the Company's cumulative Allowable Project Spend on a cash basis was £490.8m, versus the Regulatory Baseline cost of £634.9m in outturn prices. This is due to timing differences both in respect of re-profiling of the risk contingency from a proportional distribution at Licence Award to a more back-ended profile in line with the Company's updated risk modelling, and also deferral of some expected spending. This is consistent with Table 5B in the Regulatory Report section.

Revenue

Within the financial statements, all revenue is currently recorded as deferred income in the Statement of Financial Position, in line with our revenue recognition accounting policy. Revenue of £17.3m is reported for the year, which is based on the latest estimate as at 21 April 2017. This is £2.5m lower than the December 2016 updated revised Revenue Statement submission to Ofwat, largely reflecting lower Allowable Project Spend in the year and a significant decrease in forecast APS for 2017/18.

During the year, we received cash inflows of £32.1m (£26.7m plus VAT) from revenue, which includes some revenue from 2015/16.

The Strategic Report was approved by the Board on 15 June 2017 and was signed on its behalf by:

T Lee-Lewis

Tracey Lee-Lewis
Company Secretary

Directors' report

The Directors present their report and the audited Group and Company financial statements of Bazalgette Holdings Limited (the Company) for the year ended 31 March 2017.

The registered company number is 09553510.

Financial results and dividends

The Group recorded a loss of £34.2m for the year (11 month period ended 31 March 2016: £nil). The loss reflects the fair value movement of the Group's derivative financial instruments. The detailed financial results of the Group are set out in the financial performance review within the Strategic report on pages 35-38.

The Company did not pay any dividends in the year (11 month period ended 31 March 2016: £nil).

During the year, £29.3m (11 month period ended 31 March 2016: £8.3m) of shareholder loan interest was accrued on the shareholder loan notes. At 31 March 2017, £29.3m (11 month period ended 31 March 2016: £7.4m) of the accrued shareholder loan interest had been paid and £nil (11 month period ended 31 March 2016: £0.9m) rolled up within the shareholder loans. The shareholder loan notes bear an interest rate of 8%, with maturity on 30 September 2064. Further details of the shareholder loan notes are set out in note 11 of the financial statements.

Financial risk management

Full disclosure on the Group's financial risk management is set out in note 13 of the financial statements.

Directors

The Directors who held office during the year, and thereafter, for the Company were as follows:

Andrew Cox	(appointed 31 January 2017)
Christoph Holzer	(resigned 31 January 2017)
Jaroslava Korpancova	
Alistair Ray	
Angela Roshier	(appointed 2 September 2016)
Michael Ryan	
Gavin Tait	
Moira Turnbull-Fox	(resigned 2 September 2016)
Amanda Woods	

Directors' Indemnities

The Group has had in place Directors and Officers Liability insurance for the period (2016: none).

Employees

The average number of persons employed by the Group (including Directors) during the year was 151 (2016: 90). At the Statement of Financial Position date, the Company did not employ any staff directly other than the Directors to the Company disclosed in this report.

Details relating to the Group's employment policies and values are set out on pages 29-31 of the Strategic report.

Greenhouse gas emissions

The Group's approach to identifying and reducing its greenhouse gas emissions is set out in the Strategic Report on page 27.

Directors' report (continued)

Charitable and political donations

The Group made charitable donations totalling £51,356 during the year (2016: £500). Details of the Group's charitable partnerships are set out on page 26 of the Strategic report.

The Group did not make any political donations or incur any political expenditure during the year (2016: £nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Group's policy is to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms.

The Group, along with its Main Work Contractors, has signed up to the Construction Supply Chain Payment Charter. The Charter applies to all construction contracts with the aim of helping to create a more collaborative culture and ensure a strong, resilient and sustainable supply chain.

The creditor days for the year ending 31 March 2017 are approximately 17 days (2016: 18 days).

Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 20 of the financial statements.

Future Outlook

The future outlook of the Group is discussed in the Strategic Report. The Company is expected to continue to act as the ultimate holding company within the Group for the foreseeable future.

Disclosure of information to auditor

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

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 33.

Auditor

Having carried out a review of their effectiveness during the year, and following an audit tender process, KPMG were reappointed during the year and will be deemed to be reappointed going forwards. Further details on the audit tender process can be found in the Audit Committee Report of the Bazalgette Tunnel Limited Annual Report.

Statement of Directors' responsibilities in respect of the Annual report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the company's position and performance, business model and strategy.

TLeeLewis

Tracey Lee-Lewis
Company Secretary

The Point
37 North Wharf Road
London
W2 1AF

15 June 2017

Independent Auditor's Report to the members of Bazalgette Holdings Limited

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Bazalgette Holdings Limited for the year ended 31 March 2017 set out on pages 46-66. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Overview	
Materiality: group financial statements as a whole	*£3.0m (2016: £1.5m)* *0.78% (2016: 0.93%) of gross expenditure*
Coverage	*100% (2016:100%) of group loss before tax*
Risks of material misstatement	**vs 2016**
Recurring risks	*Completeness and existence of capitalised costs and creditors*
	Current and deferred tax charges

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

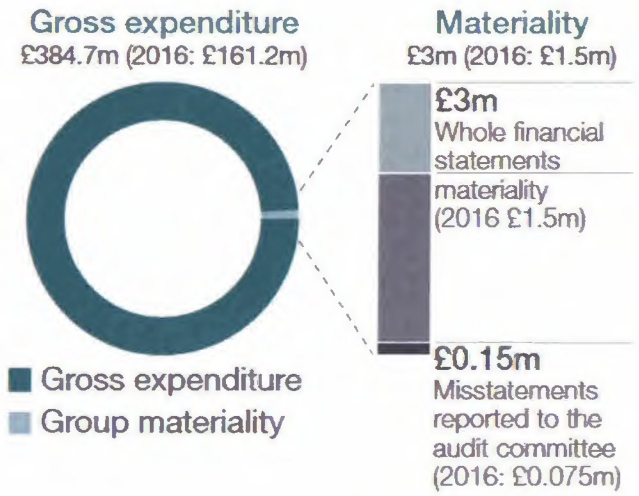
	The risk	Our response
Completeness and existence of capitalised costs and creditors Costs: (£384.7m; 2016: £161.2m) Creditors: (£20.0m; 2016: £28.4m) Refer to page 50-51 (accounting policy) and page 57 (financial disclosures).	**2016/2017 costs** The Group incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalised costs and creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: • **Control design:** Testing controls over the analysis, challenge and discussion of the cost verification process and applications for payment from the main works contractors as well as other purchase invoices, which included observing for a sample that amounts per the agreed payment certificate matched the invoices received and inspecting that payments were authorised. • **Tests of detail:** Inspecting the content of a sample of invoices before and subsequent to the year end to consider the timing of work performed and therefore appropriate recognition relating to costs and creditors in the year. • **Tests of detail:** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred.
Current and deferred tax charges (£nil; 2016: £nil) Refer to page 51, 54 (accounting policy) and page 56 (financial disclosures).	**Accounting treatment** The current and deferred tax treatment is primarily dependent on the classification of the wastewater infrastructure asset's lease, upon its completion, for tax purposes. The terms of the lease have already been set and judgment is required to determine if the lease will be classified as a finance lease or not. Judgment is also required as to the classification of the entity as 'trading' or 'non-trading', and these judgments may be open to challenge by the tax authorities.	Our procedures included: • **Accounting analysis:** Considering the continued appropriateness of the expected future accounting treatment as a finance lease, in line with the current accounting requirements and any expected future changes to those requirements. • **Own tax expertise:** With assistance from our tax specialists, critically assessing the Group's judgements in relation to the resultant tax consequences with reference to the relevant tax law.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.0m, determined with reference to a benchmark of gross expenditure in the year, of which it represents 0.78% (2016: 0.93%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £150,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above, covered 100% (2016: 100%) of Group loss before taxation and total Group assets.



4. Our opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.
In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

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

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.
This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL
15 June 2017

Group Income Statement
For the year ended 31 March 2017

	Note	2017 £m	11 month period ended 31 March 2016 £m
Net operating costs	2, 3	-	-
Operating result		-	-
Net financing costs	4	(34.2)	-
Loss/result before tax		(34.2)	-
Taxation	5	-	-
Loss for the year/period		(34.2)	-

Group Statement of Other Comprehensive Income
For the year ended 31 March 2017

	Note	2017 £m	11 month period ended 31 March 2016 £m
Loss/result for the year/period		(34.2)	-
Other comprehensive income for the year/period		-	-
Total comprehensive income for the year/period		(34.2)	-

Notes 1 to 20 form an integral part of these financial statements.

Group and Company Statement of Financial Position

As at 31 March 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Property, plant and equipment	6	545.9	161.2	-	-
Trade and other receivables	8	54.8	54.9	529.3	205.1
Investment in subsidiary undertakings	7	-	-	370.5	138.3
		600.7	216.1	899.8	343.4
Current assets					
Trade and other receivables	8	29.8	25.3	-	-
Cash and cash equivalents	9	315.9	112.9	-	-
Short-term cash deposits	9	-	17.5	-	-
		345.7	155.7	-	-
Total assets		**946.4**	**371.8**	**899.8**	**343.4**
Current liabilities					
Trade and other payables	10	(20.0)	(28.4)	-	-
		(20.0)	(28.4)	-	-
Non-current liabilities					
Advance payment liability	10	(26.7)	-	-	-
Borrowings	11	(529.3)	(205.1)	(529.4)	(205.1)
Derivative financial instruments	12	(34.2)	-	-	-
		(590.2)	(205.1)	(529.4)	(205.1)
Total liabilities		**(610.2)**	**(233.5)**	**(529.4)**	**(205.1)**
Net assets		**336.2**	**138.3**	**370.4**	**138.3**
Equity					
Share capital	14	370.4	138.3	370.4	138.3
Retained earnings	14	(34.2)	-	-	-
Total equity		**336.2**	**138.3**	**370.4**	**138.3**

These financial statements were approved by the board of Directors on 15 June 2017 and were signed on its behalf by:

Gavin Tait
Director
Company registered number: 09553510

Notes 1 to 20 form an integral part of these financial statements.

Group and Company Statement of Changes in Equity

	Group			Company		
	Share capital £m	Retained earnings £m	Total Equity £m	Share capital £m	Retained earnings £m	Total Equity £m
Balance at 21 April 2015	-	-	-	-	-	-
Result for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-
Transactions with owners recorded directly in equity:						
Issue of ordinary shares	138.3	-	138.3	138.3	-	138.3
Total contributions by and distributions to owners	**138.3**	**-**	**138.3**	**138.3**	**-**	**138.3**
Balance at 31 March 2016	**138.3**	**-**	**138.3**	**138.3**	**-**	**138.3**
Balance at 1 April 2016	138.3	-	138.3	138.3	-	138.3
Loss for the year	-	(34.2)	(34.2)	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**(34.2)**	**(34.2)**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:						
Issue of ordinary shares	232.1	-	232.1	232.1	-	232.1
Total contributions by and distributions to owners	**232.1**	**-**	**232.1**	**232.1**	**-**	**232.1**
Balance at 31 March 2017	**370.4**	**(34.2)**	**336.2**	**370.4**	**-**	**370.4**

Notes 1 to 20 form an integral part of these financial statements.

Group and Company Cash Flow Statements

For the year ended 31 March 2017

	Note	Group 2017 £m	Group 11 month period ended 31 March 2016 £m	Company 2017 £m	Company 11 month period ended 31 March 2016 £m
Cash flows from operating activities before working capital movements			-		-
Increase in trade and other receivables	8	(4.4)	(80.2)	(324.2)	(205.1)
(Decrease)/increase in trade and other payables	10	(8.4)	28.4	-	-
Increase in advance payment liability	10	26.7	-	-	-
Cash flows from operations		**13.9**	**(51.8)**	**(324.2)**	**(205.1)**
Net cash flow from operating activities		**13.9**	**(51.8)**	**(324.2)**	**(205.1)**
Cash flows used in investing activities					
Construction of infrastructure asset	6	(384.7)	(160.3)	-	0.9
Short-term cash deposits	9	17.5	(17.5)	-	-
Investment in subsidiary undertaking		-	-	(232.2)	(138.3)
Net cash flows from investing activities		**(367.2)**	**(177.8)**	**(232.2)**	**(137.4)**
Cash flows from financing activities					
Proceeds from the issue of share capital	14	232.1	138.3	232.1	138.3
Proceeds from shareholder loans		348.3	207.4	348.3	207.4
Proceeds from loan from subsidiary undertaking		-	-	0.1	-
Repayment of shareholders loan principal		(24.1)	(3.2)	(24.1)	(3.2)
Net cash flows from financing activities		**556.3**	**342.5**	**556.4**	**342.5**
Net increase in cash and cash equivalents during the period		**203.0**	**112.9**	-	-
Cash and cash equivalents at the start of the year/period	9	**112.9**	-	-	-
Cash and cash equivalents at the end of the year/period	9	**315.9**	**112.9**	-	-

Notes 1 to 20 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

Bazalgette Holdings Limited (the Company) is a private company incorporated, domiciled and registered in the UK. The registered number is 09553510 and the registered address is The Point, 37 North Wharf road, London, W2 1AF.

The accounting policies set out below have been applied consistently to all periods presented in these group and parent company financial statements.

The Bazalgette Holdings Group, comprises the Company, Bazalgette Tunnel Limited (BTL), Thames Tideway Tunnel Limited (TTTLtd) and Bazalgette Finance plc (FinCo). The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

The Company financial statements present information about the Company as a separate entity and not about its Group.

The Group and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The financial statements are prepared in accordance with the historical cost accounting convention except where adopted IFRSs requires an alternative treatment. Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Group and the Company's financial position.

In the process of applying the Group's accounting policies, the Directors are required to make certain judgements, estimates and assumptions that they believe are reasonable based on the information available. The Directors consider the significant judgements, estimates and assumptions made in the application of these accounting policies that have significant effect on the financial statements with a risk of material adjustment to the carrying amounts in the next year are as follows:

Impairment - In assessing the recoverable value of the TTT asset, the Directors are required to make judgements around the assumptions and estimates used to calculate the recoverable amount of the asset which is deemed to be BTL's regulated capital value (RCV). This is because the asset carrying value includes all attributable costs that are capitalised whereas the RCV, which is the driver of economic return for BTL, does not include financing costs such as capitalised borrowing costs.

The significant judgements that the Directors are required to make include the reasonableness of the capital expenditure profile through to systems acceptance presented in the Group's business plans as well as assumptions included for RCV performance through to systems acceptance. The indexation of RCV via RPI performance is a key estimate and this calculation is based on an average of independent forecasts provided via HM Treasury.

Derivative financial instruments - A net present value model is used to estimate the fair value of the Group's derivative financial instruments, which are all Index-linked swaps. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Group's credit risk. This estimate of the Group's credit risk is considered to be an unobservable input and sensitivities with regards to the impact of this adjustment are disclosed in note 12.

Capitalised costs/creditors - The Group has a substantial capital programme which has been agreed with Ofwat and therefore incurs significant annual expenditure in relation to the construction of the TTT asset. All costs incurred, except for fair value movements on derivative financial instruments, are capitalised as assets under construction. Due to the significance of these costs the Directors make judgements about the completeness, existence and validity of these costs.

1 Accounting policies (continued)

Tax - The tax treatment in the year is an area of judgement and is based on the accounting treatment that the TTT asset will be leased at system acceptance. There is a risk that the tax authorities will challenge the tax consequences of that accounting treatment and consequently the tax accounting in the current year maybe inappropriate.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprises assets under the course of construction and fixtures and fittings.

Additions to assets under construction represent the capitalised costs of project expenditure by the Group.

The construction phase of the TTT project commenced in 2015 and is expected to be completed at system acceptance. During the construction phase of the project, expenditure which is directly attributable to bringing the TTT asset into its working condition for its intended use will be capitalised within assets under construction. Fair value movements from derivative financial instruments reported directly in the Income Statement are not capitalised. The Directors consider that the Group is constructing one asset, that being the TTT and do not consider there to be other individual assets under construction.

The Directors consider all expenditure, except for fair value losses on derivative financial instruments, in the year ended 31 March 2017 to have met the capitalisation criteria.

Assets under construction are measured at cost less any accumulated impairment losses.

Land and property acquired for the TTT project is not included in the Statement of Financial Position because all acquisitions are made by Thames Water.

Depreciation

Assets under construction are not depreciated.

Fixtures and fittings are depreciated over five years.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time that those assets are ready for their intended use. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time is interpreted as being greater than one year.

1 Accounting policies (continued)

Impairment

The Directors consider assets under construction to consist of a single asset, the TTT. As such, impairment is considered in the context of the whole asset under construction as opposed to review of individual components.

The carrying value of the Group's asset under construction is reviewed at each reporting date to determine whether there is objective evidence that the asset is impaired. The Directors consider the asset to be impaired if the forecast carrying value of the asset at system acceptance exceeds the forecast recoverable value of the asset at system acceptance.

For other financial and non-financial assets, the Group reviews the individual carrying amount of those assets to determine whether there is any indication of impairment in those assets. If any such impairment exists, the recoverable amount of the asset is calculated in order to determine the extent of any impairment loss.

Impairment losses are recognised in the Income Statement.

Revenue and bad debt risk

The Group's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the TTT the primary component of revenue is the regulated return on BTL's RCV. BTL's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to BTL. Through the construction period, revenue is deferred as the services associated with this revenue will not be delivered until system acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by BTL to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

In determining the accrued revenue earned in the period, the Directors consider the value of revenues that will not be recovered through bad debt risk and subsequently the accrued revenue in the Statement of Financial Position is adjusted to reflect this.

Invoiced revenues reflect the actual cash collected by Thames Water from its customers and as such the bad debt risk is considered to be very low.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are capitalised provided they meet in the period during which services are rendered by employees.

Other employee benefits

Other short and long-term employee benefits are measured on an undiscounted basis and are recognised as an expense over the period in which they accrue.

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or contractual obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded at management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date.

Operating leases

Payments made under operating leases are capitalised in assets under construction on a straight-line basis over the term of the lease, provided they meet the capitalisation criteria for assets under construction.

1 Accounting policies (continued)

Financial instruments

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) are classified as either derivative or non-derivative financial instruments. Derivative financial instruments comprise financial liabilities designated at fair value through profit or loss. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group determines the classification of financial instruments at initial recognition and re-evaluates this designation at each financial year end. The initial and subsequent measurement of financial instruments depends on their classification as follows:

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand balances and short-term deposits with a maturity at acquisition of three months or less. Cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

Short-term cash deposits disclosed in the Statement of Financial Position comprise cash deposited with a maturity of greater than three months on acquisition, a fixed interest rate and which do not constitute cash equivalents under IAS 7 'Statement of cash flows'.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method, whereby interest costs are charged to the Income Statement and added to the carrying value of the borrowings at a constant rate in proportion to the amount outstanding.

Deferred purchase bonds

No financial asset or liability is recorded on the initial issue date. The commitment to issue the bonds on the investor settlement date is accounted for as a loan commitment and thus as an executory contract it falls outside the scope of IAS 39. As a result there is no Income Statement impact from any movements in their fair value between the initial issue date and the deferred investor settlement date.

Derivative financial instruments

The Group has entered into index-linked swaps to manage its exposure to inflation linked rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the Statement of Financial Position date. The resulting gain or loss is recognised immediately in the Income Statement, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Income Statement depends on the nature of the hedge relationship. The Group has not designated any derivatives within hedging relationships and therefore has not applied hedge accounting.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

1 Accounting policies (continued)

Derivative financial instruments (continued)

In addition, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety.

Further details of the derivative financial instruments fair values, valuation technique and fair value hierarchy level are disclosed in note 12.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

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.

Recently issued accounting standards

The following new and revised IFRS's will be applicable in future periods subject to endorsement by the EU and have not been applied by the Group in these financial statements. The adoption of these standards is not expected to have a material effect on the Group's financial statements.

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective date 1 January 2017).
- Disclosure Initiative - Amendments to IAS 7 (effective date 1 January 2017).

The Group is currently assessing the impact of these standards ahead of their future adoption.

2 Auditor's remuneration

	2017	11 month period ended 31 March 2016
	£000	£000
Audit Services		
Statutory audit – Group and the Company	2	2
Statutory audit - subsidiaries	85	59
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	9	10
Other non-audit services		
Review of interim financial information	8	-
Tax advisory services	68	60
Other regulatory assurance services	42	27
	214	**158**

All of these fees have been capitalised in the Company's subsidiary BTL.

3 Employee costs

The average number of persons employed by the Group (including Directors) during the year was 151 (11 month period ended 31 March 2016: 90).

The aggregate payroll costs of these persons were as follows:

	2017	11 month period ended 31 March 2016
	£m	£m
Wages and salaries	12.9	4.8
Social security costs	1.5	0.5
Contributions to defined contribution plans	0.6	0.3
Capitalised into asset under construction	(15.0)	(5.6)
	-	-

The Group operates a single defined contribution pension plan which is open to all employees of the Group.

Director's remuneration

The Directors of the Company did not receive any payment for their services during the year ended 31 March 2017. Any qualifying services the Directors perform in respect of the Company are considered to be incidental and part of the directors' overall management responsibilities within the Company.

The remuneration for the Directors to the Group for the current year and prior period is included in note 17.

On 31 March 2017 all employees of TTT Ltd were transferred to BTL under the Transfer of Undertakings (Protection of Employment) Regulations 2006. From this date the employment costs relating to these employees will be incurred by BTL.

4 Finance income and expense

	2017 £m	11 month period ended 31 March 2016 £m
Finance income		
Interest income	(1.0)	(0.4)
Finance costs		
Interest expense on borrowings	29.3	8.3
Financing fees	4.4	0.5
Financial instruments at fair value through profit or loss:		
- Index linked swaps	34.2	-
Capitalised finance interest and expense into asset under construction	(32.7)	(8.4)
Net finance costs	**34.2**	**-**

5 Taxation

	2017 £m	11 month period ended 31 March 2016 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

Reconciliation of effective tax rate

	2017 £m	11 month period ended 31 March 2016 £m
Profit before tax	-	-
Profit before tax using the UK corporation tax rate of 20%	-	-

Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £12.0m (2016: £1.6m) have been calculated with regards to the Group's trading losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits. A reduction in the UK corporation tax rate from 18% to 17% (effective from 1 April 2020) was substantively enacted on 7 September 2016. The unrecognised deferred tax assets are calculated at the enacted rate.

6 Property, plant and equipment

Property, plant and equipment comprised the following at 31 March 2017:

	Fixtures and fittings £m	Asset under construction £m	Total £m
Cost			
At 1 April 2016	0.1	161.2	161.3
Additions	-	384.7	384.7
Balance at 31 March 2017	0.1	545.9	546.0
Accumulated depreciation			
At 1 April 2016	(0.1)	-	(0.1)
Depreciation charge	-	-	-
Balance at 31 March 2017	(0.1)	-	(0.1)
Net book value at 31 March 2017	**-**	**545.9**	**545.9**
Net book value at 31 March 2016	-	161.2	161.2

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at system acceptance, all expenditure which is directly attributable to bringing the TTT asset into its working condition for its intended use will be capitalised. All expenditure, excluding the fair value losses, is considered to have met this requirement in the year ended 31 March 2017. The amount of net borrowing costs capitalised during the year was £28.3m (11 month period ended 31 March 2016: £7.9m) with a capitalisation rate of 100 per cent.

7 Investments in subsidiaries

The Company has held the following investments in subsidiaries in the current year and prior period:

	Country incorporated in	Class of shares held	Direct ownership 2017	Indirect ownership 2017	Direct ownership 2016	Indirect ownership 2016
Direct subsidiaries						
Bazalgette Tunnel Limited	UK	Ordinary	100%	-	100%	-
Bazalgette Finance plc	UK	Ordinary	100%	-	100%	-
Indirect subsidiaries						
Thames Tideway Tunnel Limited	UK	Ordinary	-	100%	-	100%

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company which is The Point, 37 North Wharf Road, London W2 1AF.

During the year the Company increased its investment in its subsidiary Bazalgette Tunnel Limited by £232.1m to a total investment of £370.4m (2016: 138.3m).

8 Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade receivables	2.2	1.7	-	-
Accrued Income	-	8.6	-	-
Other receivables	17.8	5.5	-	-
Prepayments	64.6	64.4	-	-
Amounts owed by Bazalgette Tunnel Limited	-	-	529.3	205.1
	84.6	**80.2**	**529.3**	**205.1**
Non-current assets	**54.8**	**54.9**	**529.3**	**205.1**
Current assets	**29.8**	**25.3**	-	-

Accrued income of £nil (2016: £8.6m) relates to cumulative revenue earned on the project to date that has not been invoiced to Thames Water as at the Statement of Financial Position date.

Prepayments include £34.9m (2016: £39.8m) in relation to the Government Support Package and £13.1m (2016: £15.2m) in relation to insurance contracts.

9 Cash and cash equivalents

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash and bank balances	84.1	0.1	-	-
Cash equivalents	231.8	112.8	-	-
Cash and cash equivalents per cash flow statement	**315.9**	**112.9**	-	-

Cash equivalents comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value. Short-term deposits with a maturity of greater than three months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £nil (2016: £17.5m).

Restricted Cash:

The Group holds a Debt Service Reserve Account to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in the Debt Service Reserve Account was £3.7m at 31 March 2017 (2016: £nil).

10 Trade and other payables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade payables	2.0	-	-	-
Accrued expenses	16.2	19.6	-	-
Deferred income	1.8	8.8	-	-
Advance payment liability	26.7	-	-	-
	46.7	**28.4**	**-**	**-**
Non-current liabilities	**26.7**	**-**	**-**	**-**
Current liabilities	**20.0**	**28.4**	**-**	**-**

The advance payment liability represents deferred revenues that have been invoiced to and settled by Thames Water. This revenue is deferred until system acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £1.8m (2016: £8.8m) represents the balance of revenue invoiced to Thames Water cumulatively on the project to date, less the cumulative revenue that has been collected from Thames Water at the Statement of Financial Position date.

11 Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see note 13.

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Current Liabilities				
Loan from Bazalgette Tunnel Limited	-	-	0.1	-
Non-current liabilities				
Shareholder loan notes	529.3	205.1	529.3	205.1
	529.3	**205.1**	**529.4**	**205.1**

The principal economic terms and conditions of outstanding borrowings are:

	Currency	Nominal interest rate	Maturity date	Carrying value 2017 £m	Carrying value 2016 £m
Borrowings measured at amortised cost					
Loan from Bazalgette Tunnel Limited	GBP	Libor + 85bp	2020	0.1	-
Shareholder loan notes (principal):	GBP	8%	2064	529.3	205.1

11 Borrowings (continued)

Deferred purchase bonds

The Company's subsidiary Bazalgette Finance plc, placed £450m of deferred purchase bonds during the year ended 31 March 2017. Bazalgette Finance plc operates for the sole purpose of raising finance on behalf of BTL, for the purposes of the BTL's licensed activities.

In total, Bazalgette Finance plc has issued eight series of bonds and entered into agreements with a range of investors (the Deferred Bond Purchasers) to purchase the bonds. The bonds have deferral periods of two to five years and maturities from 2040 to 2054.

Bazalgette Finance plc will on-lend the proceeds of the deferred purchase bonds to Bazalgette Tunnel Limited when it receives the proceeds from the Deferred Bond Purchasers on the future settlement dates. This will be through a series of Issuer Borrowing Loan Agreements (IBLAs) which Bazalgette Finance plc has entered into with BTL.

12 Financial instruments

Categories of financial instruments:

The carrying values of the financial assets and liabilities of the Group and Company are as follows:

Financial Assets:

	Group 2017 £m	**Group 2016 £m**	**Company 2017 £m**	**Company 2016 £m**
Other financial assets				
Trade and other receivables	84.6	80.2	529.3	205.1
Cash and cash equivalents	315.9	112.9	-	-
Total	**400.5**	**193.1**	**529.3**	**205.1**

Financial Liabilities:

	Group 2017 £m	**Group 2016 £m**	**Company 2017 £m**	**Company 2016 £m**
Liabilities at fair value through profit and loss:				
Derivative financial instruments	34.2	-	-	-
Other financial liabilities:				
Trade and other payables	46.7	28.4	-	-
Borrowings	529.3	205.1	529.4	205.1
Total	**610.2**	**233.5**	**529.4**	**205.1**

Fair Value Measurements:

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. During the year ended 31 March 2017, the Group entered into long-term index-linked swaps to hedge the interest rate of the first eight tranches of the EIB loan. The valuation techniques

12 Financial instruments (continued)

that the Group employs in determining the fair value for these are outlined below. The Group did not have any derivative financial instruments for the 11 month period ended 31 March 2016.

Index-linked Swaps:
Where an active market exists, derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value model. As there is no quoted market price, the fair value of each swap is calculated as the net present value of the estimated future cash flow associated with each leg of the swap; the pay leg which is index-linked and the receive leg which is floating. Estimates of future floating-rate cash flows and index-linked cash flows are based on well-defined and traded market references. Estimated future cash flows associated with each swap are discounted to the reporting date using market rates and adjusted for the credit risk of the Group.

The valuation techniques for determining the fair values of financial instruments are classified under the hierarchy defined in IFRS 13, which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included for Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised across different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group considers all its derivative financial instruments to fall within level 3 of the fair value hierarchy as the calculation of the estimated fair value is based on assumptions which include an unobservable input with regards to the Group's credit risk. The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2017.

	2017 Level 3 £m
Financial instruments at fair value	
Derivative financial liabilities:	
- Index linked swaps	34.2
	34.2

The carrying value of the derivative financial instruments is equal to the fair value.

12 Financial instruments (continued)

The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values.

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2016	-
Loss recognised in finance costs	
- Net change in fair value (unrealised)	34.2
Balance at 31 March 2017	**34.2**

The fair value estimate of the credit risk of the Group is calculated using several data points, including analysis of market data for similar corporate entities, which is publically available and based on a large portfolio of liquid, tradeable instruments, as well as an assessment of the credit spread on the Group's recent bond issuances. Having considered all available information, the Directors believe that the risk adjustment applied in the fair value estimate reflects the Group's current credit risk.

Level 3 fair values sensitivity

For the fair value of the index linked swaps, reasonably possible changes to the unobservable input, holding other inputs constant, would have the following effects.

	31 March 2017 Impact on loss for the year	
	Decrease	**(Increase)**
Risk-adjusted discount rate (+/- 100bps movement)	£10.7m	(£12.8m)

13 Capital and financial risk management

The Group's principal objectives in managing capital are:

- ensure that the appropriate level of financing is available to finance the cost of construction of the TTT, provide adequate working capital and liquidity, meet Tideway's contractual obligations, regulatory requirements and strategic business aims.
- supply Tideway's group funding needs at the lowest possible cost;
- minimise financing risk; and
- diversify funding sources wherever possible.

The Group seeks to maintain a low risk financing position by preserving the investment grade Baa1 (Moody's)/BBB+ (Fitch) credit ratings. These credit ratings were unchanged in the year. The Group monitors gearing targets at Company and Group level on a regular basis, taking into consideration Shareholders' objectives and financing, legal and regulatory constraints and optimal level of execution within the capital structure.

During the year the Group has secured a further £700m of undrawn loans via the EIB Bank. This is in addition to the £1.0bn revolving credit facility (RCF) the Group had in place in the prior period. This facility was undrawn at the Statement of Financial position date (2016: £nil draw down). The Group issued £450m of deferred bond issuances via multiple counterparties. The bonds have deferred purchase dates of between two and five years and maturities beyond 2040.

13 Capital and financial risk management (continued)

The Group's management of specific financial risks is dealt with as follows:

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. The Group has a strong liquidity position with over £0.3bn in cash balances and £1.7bn in undrawn loan facilities which include the £1.0bn RCF which does not expire until 2025 and the secured £700m EIB loan. The remaining £348m of instalments of the £1.27bn Shareholder funding committed at Licence Award will be received in the forthcoming financial year. Furthermore, £450m of deferred purchase bonds have been placed by the Group during the year.

The Secretary of State for Environment, Food and Rural Affairs, through the Government Support Package, has committed to provide certain financial support during the construction period. Such support is available in exceptional circumstances and includes the Market Disruption Facility providing BTL with up to £500 million debt facility for use where it is unable to issue debt in the debt capital markets as a result of market disruption.

Interest rate risk

The Group currently has minimum exposure to interest rate risk on its financial liabilities as the only interest-bearing financial instruments are fixed rate Shareholder loan notes. The effective interest rate of these borrowings are disclosed in note 11.

The Group's finance strategy defines long term objectives for the management of interest rate risk, in addition to compliance with the hedging policies contained in the Government Support Package and financing documentation. These include, amongst other things, restrictions on over hedging and requirements as to the amount of the Group's debt which bears a fixed or index-linked rate of interest.

The Group has raised and locked in £1.15bn of long dated debt during the year. This means that the cost of a significant percentage of the Group's total requirements for external debt is now fixed and moving forward the Group can be more selective as to when to raise debt to lock in the best possible cost. Additionally, the Financing Cost Adjustment in the regulatory revenue calculation provides partial protection against market movements in the costs of debt above certain thresholds.

During the year ended 31 March 2017, the Group entered into index linked swaps to hedge the interest rate of the first eight tranches of the EIB loan with a notional value of £620m. The fair value measurement of these derivative financial instruments is disclosed in note 12.

Inflation risk

The Group is exposed to changes in the Retail Price Index (RPI), through its RCV and revenue. A sustained period of low or negative inflation as measured by RPI, would reduce returns to Shareholders. The Group's financing strategy has involved issuing RPI index-linked debt to ensure that reductions in revenue due to low inflation will be partially offset by reductions in interest costs. The resulting correlation between nominal RCV and nominal debt will help protect equity returns.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Treasury Policy limits application of funds through concentration limits and minimum rating requirements. The financing documents include minimum rating requirements for lenders under the RCF. At the Statement of Financial Position date there were no significant concentrations of credit risk.

14 Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	**Ordinary shares 2017 No.**	**Ordinary shares 2016 No.**
At the beginning of the year/period	138,258,754	-
Issued for cash	232,148,894	138,258,754
At the end of the year/period	**370,407,648**	**138,258,754**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of the Company in line with the details of the Shareholders Agreement. Further information on the role of the Shareholders is outlined in the Holding Company Principles statement which is available at www.tideway.london

Retained earnings

	2017 £m
At 1 April 2016	-
Loss for the year	(34.2)
At 31 March 2017	**(34.2)**

15 Operating leases

The Group has entered into non-cancellable operating leases in respect of buildings and IT services. The future minimum rentals payable under non-cancellable operating lease rentals are payable as follows:

	2017 £m	**2016 £m**
Less than one year	6.7	5.4
Between one and five years	2.0	4.6
More than five years	-	-
	8.7	**10.0**

16 Contingent liabilities

There are a number of uncertainties surrounding the Group including potential claims, which may affect the financial performance of the Group. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Consolidated Statement of Financial Position, but are monitored to ensure that should a possible obligation become probable and a transfer of economic benefits to settle an obligation can be reliably measured, then a provision for the obligation is made. There were no material contingent liabilities at the Statement of Financial Position date.

17 Related parties

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited are disclosed in note 11.

Key management personnel

Key management personnel comprise the Directors to the Group. The aggregate compensation of key management personnel to the Group was as follows:

	2017 £m	11 month period ended 31 March 2016 £m
Short term benefits	2.2	1.2
Other long term benefits	-	0.2
	2.2	**1.4**

Further information can be found in the Remuneration Report of BTL's Annual Report which is available at www.tideway.london.

Company

Amounts outstanding on loans to and from the Company's subsidiary BTL, are disclosed in note 8 and 11.

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited are disclosed in note 11.

Key management personnel

The Directors of the Company are considered to be the key management personnel. They did not receive any payment for their services during the year ended 31 March 2017 (2016: £nil).

18 Acquisitions

Acquisitions in the prior period

On 24 August 2015, the Group acquired all of the ordinary shares in TTT Ltd for £1, satisfied in cash. TTT Ltd provides services to BTL under a management services agreement. These services largely constitute the employment cost of business functions within the Group. These employment services are recharged to BTL at zero mark up. In the 7 months to 31 March 2016 the subsidiary contributed net profit of £nil to the consolidated result of the Group. If the acquisition had occurred on the first day of the accounting period, there would have been no change to the Group result. The Group has concluded that no fair value adjustments were required to the assets and liabilities acquired and no goodwill has arisen on the acquisition.

19 Ultimate parent company and parent company of larger group

The Company is a wholly owned subsidiary of Bazalgette Ventures Limited. The Company's ultimate controlling parent is Bazalgette Equity Limited, which is also the largest group in which the Company is consolidated.

Copies of the consolidated accounts for the Bazalgette Equity Group are available from the Company Secretary at The Point, 37 North Wharf Road, London, W2 1AF.

20 Subsequent events occurring after the reporting date

On 7 April 2017, the Group executed a £100m inflation-linked loan with an institutional investor. Linked to RPI, the loan will be drawn in 2019 and will mature in 2049.