Bazalgette Holdings Limited

Annual report and financial statements

For the 11 month period ended 31 March 2016

Registered number 09553510

Contents

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Strategic report

The directors present their strategic report for Bazalgette Holdings Group and Bazalgette Holdings Limited (the "Company") for the 11 months and 10 days ended 31 March 2016 ("the 11 month period ended 31 March 2016"). The Company was incorporated on 21 April 2015 and began day to day operations in August 2015.

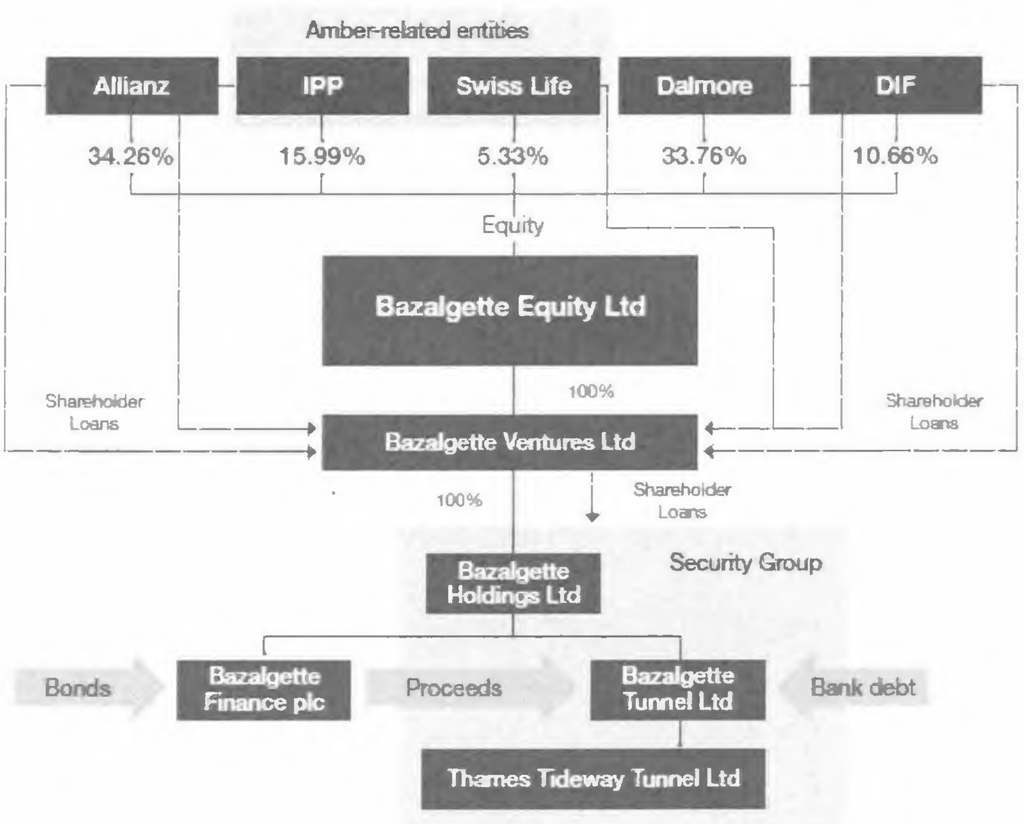
Introduction

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").

Bazalgette Holdings Group (the "Group"), comprises the Company, Bazalgette Tunnel Limited ("BTL"), Bazalgette Finance plc ("BF") and Thames Tideway Tunnel Limited ("TTT"). 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 Dalmore Capital 14 GP Limited, Allianz Infrastructure Luxembourg I S.a.r.l, 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% 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. Bazalgette Tunnel Limited was awarded a licence by Ofwat in August 2015 and appointed to carry out these activities. The emphasis given to Bazalgette Tunnel Limited (trading under the name Tideway) throughout this report reflects its importance to the overall performance of the Group.

The Thames Tideway Tunnel 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 that currently pollutes the tidal River Thames.

British money is helping to deliver this vital piece of infrastructure, which is fundamental to London's success. The tunnel is being financed by the private sector, giving more than 1.7 million UK pensioners an indirect investment in Tideway, through pension funds managed by our investors.

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. Our shareholder group has extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas.

London Tideway Improvements Programme

The network of sewers built by Sir Joseph Bazalgette in the 1860s still forms the backbone of London's sewerage system. Constructed when London's population was two million and designed to cope with four million, the system now struggles to serve a city of more than eight million people.

London's current sewerage system includes 57 combined sewer overflows (CSOs), designed to allow the release of excess sewage flows into the River Thames during heavy storms. In Victorian times, this happened once or twice a year. The current lack of capacity means that the network is regularly overwhelmed, resulting in discharges in recent years averaging (based on a typical year) once a week and around 39 million cubic metres of sewage per year entering the tidal section of the Thames.

An independent study, which concluded in 2006, assessed the environmental impact of these discharges and proposed the London Tideway Improvements Programme. This has three main components:

- upgrades to the five sewage treatment works that discharge to the tidal River Thames, which were completed by Thames Water in 2015;
- construction of the Lee Tunnel, which runs from Abbey Mills Pumping Station to Beckton sewage treatment works, and was completed by Thames Water in early 2016; and
- construction of the larger Thames Tideway Tunnel, which will connect to the Lee Tunnel.

Thames Water is responsible for developing the Thames Tideway Tunnel, acquiring land, and enabling/interface activities. The total estimated cost is £4.2bn. 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. The impact on Thames Water customers' annual bills is estimated to be around £20-25 per household, before inflation, by the mid-2020s, considerably lower than the £70-80 per household originally estimated.

The route

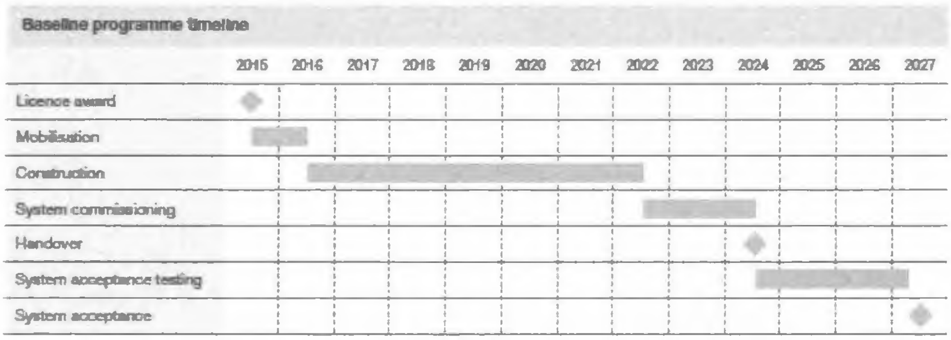
The majority of the tunnel, which runs from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, will be under the River Thames. The flow from over 30 CSOs will be diverted from the existing sewerage network into the main tunnel, where it will continue to flow by gravity to the Lee Tunnel connection. From there it will run through the Lee Tunnel to the Tideway Pumping Station, to be pumped to Beckton Sewage Treatment Works. The tunnel's design will make it self-cleansing and minimise ongoing operational and maintenance requirements during its expected life of at least 120 years.

The construction of the tunnel will require works to drive the tunnel using tunnel-boring machines and to intercept the CSOs and connect them to the main tunnel. The main tunnel construction will take place in four drives from shafts at three main tunnel drive sites, with two additional connection tunnel drive sites. The main drive sites are located in Fulham in the West, Battersea in the Central section and Bermondsey in the East.

Timeline for delivery

Following licence award, we agreed a baseline schedule with our works contractors. The expected timeline for the delivery of the tunnel is detailed below.

Work has started at the key drive sites ahead of schedule, with construction scheduled to complete in 2022. Our aim is to reduce risk in the construction phase and shorten the time to construction completion. Once construction has completed, a period of commissioning will take place to ensure that the tunnel is integrated effectively into the wider sewer network. When the system commissioning tests have been completed and the handover criteria met, Thames Water will conduct system acceptance tests to ensure that operations are optimised.



Delivering for our stakeholders – our legacy for London

We are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a lasting legacy for London, with the ambition of delivering the Thames Tideway Tunnel as early and as safely as possible. Finishing earlier would reduce cost, benefiting both bill payers and investors, and deliver environmental benefits earlier.

Over the coming years, Tideway aims to transform how many things are done in the industry. Starting with health, safety and wellbeing, we intend to treat 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 have an aspiration for a diverse and inclusive workforce, 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. Another key commitment is to use the River Thames, wherever possible, to transport materials in and out of our construction sites, including most of the tunnel's spoil and tunnel materials. 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.

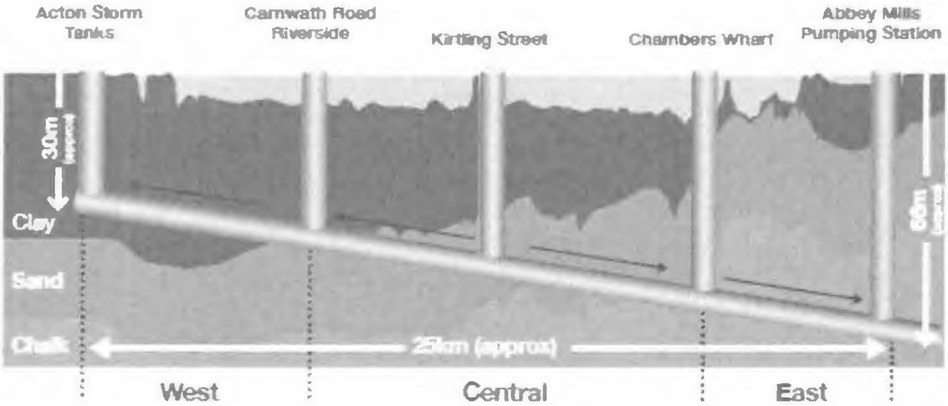
Business model

Tideway's business has two distinct phases: the construction period, leading up to Thames Water's acceptance of the Thames Tideway Tunnel (system acceptance), and the operational period thereafter.

The construction period

Our key activities during the construction period are:

- overall programme management, including overseeing the main works contractors;
- engaging with our stakeholders to gain support for and minimise delays to construction;
- working alongside Thames Water to synchronise our construction work with the Thames Water Works (which are enabling and other works required to connect the tunnel to the sewer network) and to ensure the Thames Tideway Tunnel is 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; and
- managing the commissioning, handover and acceptance testing of the completed Thames Tideway Tunnel.



Our delivery partners

To construct the Thames Tideway Tunnel as efficiently as possible, we have entered into three main works contracts, a systems integration contract and a project management contract. Our contractors were selected through a comprehensive procurement programme prior to Tideway's creation. Each consortium will construct a specific section of the tunnel and includes contractors with valuable experience of recent major construction projects in London, such as the Lee Tunnel, Crossrail, the National Grid cable tunnels and the 2012 Olympics. Dividing the tunnel construction into three contracts, led by three different consortia, spreads delivery risks and enables us to benefit from the combined expertise of the most experienced construction contractors.

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 cost reimbursement (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 main works contractors and the system integrator. The Alliance Agreement provides for the establishment of an incentive framework, which will align 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 will help us to manage and incentivise collaborative behaviour, so we realise economies of scale, synergies between activities and share best practice.

In addition to the main works contractors, 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 (comprising of the Thames Tideway Tunnel 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 Thames Tideway Tunnel since 2008; and

- Thames Water is designing, building and commissioning enabling works and other works that are needed to connect the Thames Tideway Tunnel to the sewer network.

Contract	Contractors	Contract value (£m)
West	**BMB JV:** Bam Nuttall Ltd Morgan Sindall Plc Balfour Beatty Group Ltd	£416m
Central	**FLO JV:** Ferrovial Agroman UK Ltd Laing O'Rourke Construction Ltd	£746m
East	**CVB JV:** Costain Ltd Vinci Construction Grands Projets Bachy Soletanche Ltd	£605m

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 Thames Tideway Tunnel 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 a newly formed independent regulated water company, with a new delivery model designed to attract private sector capital to finance infrastructure. 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 period. We received our first revenue in April 2016. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers. 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 Thames Tideway Tunnel 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. 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 the company and the GSP, we engage regularly throughout the year with both Ofwat and the Government.

Our vision and strategy

Our vision

Our vision is reconnecting London, and Londoners, with the River Thames.

Tideway's business is to design, build, commission and maintain the Thames Tideway Tunnel, to leave our capital city's river cleaner than it has been for over a hundred years. This alone could be a sufficient ambition for the Company but we see what we are doing in a broader way.

A number of factors have influenced our thinking. London is located where it is because of the River Thames and its use for shipping and commerce, as well as for personal transport, leisure and drinking water. The Thames has seen cycles of pollution and cleansing through increased population and industrialisation. In the 1950s, the river was declared biologically dead. As industrial pollution diminished, sewage pollution has increased. London turned its back to the river, breaking the once vital link between Londoners and the Thames.

In a city whose roads are getting busier every year, wherever possible we will use the river to transport our materials. We estimate that we will treble freight usage of the river, creating the need to train around 300 new workers. When we have finished, we will have demonstrated the river's capacity to support time-critical, 24/7, high-volume logistics throughout the centre of London. This capability is a valuable resource to be re-appreciated by London. It will bring environmental benefits from a lower carbon footprint and safety benefits with fewer vehicles on London's roads.

Equally, when the Thames Tideway Tunnel is commissioned and the health of the river is restored, Londoners will be able to reconsider the river's leisure value, whether that is water sports, pursuits on the foreshore, fishing, or simply the enjoyment of being near a clean and healthy watercourse. For these reasons, seeing the Thames Tideway Tunnel as simply a mechanical endeavour would be a huge lost opportunity. While our challenge is to build a tunnel and hence intercept sewage from reaching the river, our vision is to regain something that has been lost – 'Reconnecting London, and Londoners, with the River Thames'.

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 amongst. We intend to do things safely or not at all. Surveys confirm that most Londoners, including our neighbours, support what we are doing, but we recognise that we will be a distraction for our neighbours and those we come in contact with. 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 understand the need to be clear in our intentions and communications, and to 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
- Company and people
- Schedule, cost and quality
- Financing
- Vision, legacy and reputation

Health, safety and wellbeing

Objective:

We are targeting zero fatalities or serious injuries, off-site or on-site. We will achieve this by setting new standards for health, safety and wellbeing (HSW). This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages.

Our key activities include:

- Implementing a transformational HSW programme.
- Delivering 'Right Way', our HSW strategy and approach, in line with the delivery programme.
- Providing river training, through the newly established Thames Skills Academy.

Our priorities for next year are to:

- Establish a 'Right Start' programme, which aims to reduce the number of incidents in the first six months onsite, when accidents typically occur.
- Continuing and developing our Employee Project Induction Centre programme which is mandated for all people working on our sites.

Company and people

Objective:

A high-performing, motivated and engaged workforce will deliver better value and help us recruit and retain people.

Our key activities include:

- Implementing our 'Encompass' diversity programme.
- Providing training and development, and succession planning.
- Offering competitive terms and conditions, benefits and incentives.

Our priorities for next year are to:

- Support employee engagement by rewarding our people appropriately, recognising good performance and giving them the chance to develop their skills.

- Improve employee effectiveness by empowering our people to make decisions, while ensuring accountability for delivery within a strong governance framework.

Schedule cost and quality

Objective:

We want to deliver the Thames Tideway Tunnel safely and at the earliest time. Finishing earlier will reduce cost, benefiting bill payers and investors, and deliver environmental benefits more quickly.

Our key activities include:

- Implementing our Alliance Agreement, incentivising all our delivery partners to work together to deliver more quickly and at lower cost.
- Maintaining our focus on delivering a high-quality, fit for purpose asset and its integration into the wider sewer network.

Our priorities for next year are to:

- Make progress against our construction schedule to de-risk the programme, by beginning drop shaft construction at the three main drive sites.
- Agree the interface with Thames Water on the Counters Creek sewer flooding alleviation plan.

Financing

Objective:

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

Our key activities include:

- Maintaining a low risk financing position by preserving our Baa1/BBB+ credit ratings.
- Maintaining at least 18 months of liquidity.
- Investing the funds committed by our shareholders ahead of any external debt.
- Maximising the proportion of index-linked debt, to minimise cash interest costs and match Tideway's financing profile to growth in its Regulatory Capital Value.

Our priorities for next year are to:

- Position ourselves to access the debt markets, to benefit from the current low interest rate environment.
- Agree terms on the £700m EIB loan (completed May 2016) and progress on the bond financing programme (June 2016 priced bond issues totalling £350m).

Vision, legacy and reputation

Objective:

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 as soon as possible.

Our key activities include:

- Working closely with the consent granting bodies.
- Understanding how best to address the needs and concerns of our neighbours.
- Delivering on our legacy plan.

Our priorities for next year are to:

- Secure the consents necessary to support our earlier programme ambitions.
- Commence the programme for local employment and apprenticeships.
- Agree a 'more by river' plan that maximises benefits to the local communities at our key sites.
- Establish a robust river skills training programme.

Risk management

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 provides a clearly defined process for identifying, analysing and controlling risks throughout the business. We consider both corporate and project delivery risks. 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 both cost and schedule impact and allows us to monitor the effectiveness of our mitigating actions.

The following table sets out our principal risks, which 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 on a quarterly basis by the Executive

Risk Committee. Our process includes a bi-annual review of the principal risks and the risk management process by the Board Risk Committee, which reports to the Board on its reviews. The Executive Risk Committee also considers on a rolling basis the risks for each of the West, Central and East areas and the different categories of corporate risks.

Risk	Effect	Mitigations
Health, Safety & 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, or 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 'Right Way' programme, including the 'Right Start' approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our Employee Project Induction Centre programme, which is mandated for all people working on 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 Thames Water's customers, 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 (see page 16 for more details); • the intent to pursue an earlier schedule; and • an integrated, proactive approach to risk management.
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.
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 planning 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. Tideway is a member of the industry-wide Tunnel Boring Machine and Concrete Lining (SCL) working groups. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.

Risk	Effect	Mitigations
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 effect our cash flow and debt service.	Our treasury policy is to maintain a high proportion of our debt on a fixed and index-linked basis. Tideway will seek to pre-finance debt to reduce the exposure to increases in interest rates. The Financing Cost Adjustment in the regulatory revenue calculation provides partial protection against market movements in the cost of debt above certain thresholds.
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 Government Support Package. 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.
Inflation risk 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 indexed to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	Tideway plans to issue a high proportion of RPI-indexed debt. Reductions in revenue due to low inflation will be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.

Risk	Effect	Mitigations
Reputational risk 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 Community Liaison Working Groups 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.
Thames Water performance Thames Water is a key delivery 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 for Tideway, it could have a financial impact.	The Thames Water team deployed on the project is co-located in our offices to encourage good communication and cooperation. 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.
Regulatory risk We operate under a licence granted by Ofwat, which places 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 the agreement of Tideway. We are focused on being a compliant and high performing regulated company, with positive regulatory relationships.

Performance review

Health, safety and wellbeing

Ensuring the highest standards of health and safety is paramount for Tideway. We are pleased to report that we did not have any significant incidents during the period. We introduced a new health, safety and wellbeing strategy, "Right Way". The first element of Right Way is "Right Start", a collection of actions and standards designed to prevent incidents that typically occur at the start of major projects. Right Start includes:

- risk profiling early works, and reviewing and ensuring effective controls for significant risks;
- an innovative induction process to engage all new staff and operatives; and
- defining and committing to significantly higher standards for the things we do, from personal protection equipment, site layout and arrangements, to welfare facilities and marine logistics.

In late summer 2015, we established the Transforming Health and Safety Group (THSG). This group looks at how we can make a difference to on-site activities through staff and operatives involved in the day-today leadership of health and safety, with appropriate support and challenge from senior management. This facilitates sharing of best practice to achieve high levels of health, safety and wellbeing performance across the Alliance. THSG includes representatives from Tideway, the main works contractors, the systems integrator and Thames Water.

As part of the first stages of the transformational HSW programme, this year we established EPIC. This forms part of the induction process and every person engaged on the project is required to attend. To date, 2,549 employees and contractors from 150 different organisations have attended the course, for which we have received outstanding feedback. EPIC's innovative and interactive training has been recognised by the industry, winning the EvCom live training award in November 2015.

We recognised that clear communication is key to preventing incidents. Research has shown that 30% of all incidents in the construction industry are due to poor communication. We therefore delivered an HSW communication assessment, with technical, understanding and pictorial questions. This is the first time this approach has been undertaken on a major project.

Our safety documentation was audited by an independent certification body, BSI, and achieved OHSAS18001 accreditation. We also achieved accreditation for our environmental and quality management systems to ISO14001 and ISO9001 respectively. We expect the main works contractors to achieve the same standard in 2016. Tideway also partnered with Loughborough University, which is undertaking a study into health and safety approaches and practices. This study will look at the early stages and activities we have completed already, such as EPIC and early contractor engagement. The learning from this research will be available in Autumn 2016.

Company and people

KPIs	2015/16
Gender diversity* (percentage of women within Tideway at 31 March 2016)	37%
Employee engagement (Tideway employee survey: percentage of favourable responses)	59%
Employee enablement (Tideway employee survey: percentage of favourable responses)	69%

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

During the year, we implemented a number of important initiatives in relation to our people. Two months after licence award (October 2015), we conducted an externally benchmarked employee engagement survey (overall score achieved in 2015/16: 59%). This showed that Tideway has strong results that exceed HayGroup external benchmarks in the following areas: social responsibility, ethical business dealings, respecting diversity and our people and understanding of the Company's strategy and goals. However, more work is required to improve decision making, performance management and enabling all employees to be effective. Company and local team action plans are in place to address these areas.

Effective performance management is important and our people identified this as a focus area in the engagement survey. We look to give employees clear objectives and regular reviews to help develop performance and recognise and reward achievements. To ensure that we deliver against our milestones and goals, we cascaded targets through the organization from the CEO down. These targets also formed the basis for the company element of the performance-related bonus for Tideway staff. As part of this process, we carried out our first talent management and succession planning review after licence award. This will form a regular health check of the business and ensure we have appropriate bench strength for key roles, as part of Tideway's structured performance review process.

Tideway recognises the importance of diversity, since diverse organisations have been shown to make better decisions and have higher performance. We improved our gender balance within Tideway from 30% female at the start of the year to 37% at year end. We achieved this through a number of initiatives, including how and where we advertise roles to ensure the broadest range of candidates, unconscious bias training for all employees, and implementing the first returners programme outside the banking industry. This programme is open to people who have been out of employment for two years or more, typically because they had caring responsibilities. While the programme is open to men and women, all the successful candidates were women. Seven joined Tideway on a 12-week paid internship, in disciplines including operations, asset management, finance, legal and business planning. Six remain with the Company and five have become permanent employees. At the end of the year, the gender mix of our people was as follows:

Headcount* as at 31 March 2016	Male	Female	Total
Board	9	3	12
Senior management	31	12	43
Other employees	214	137	351
Total	254	152	406

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

We look 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, the project 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 employing one in 50 staff as an apprentice, one in 100 to be an ex-offender and 25% of our workforce being residents of the London Boroughs.

We have developed plans to meet these targets. Tideway has effective apprenticeship programmes, which we extended in 2015/16 from just engineering to include corporate functions. Our on-site café is provided by Changing Paths, a charitable trust helping to get serving offenders, ex-offenders and the long-term unemployed into full time employment, through training and work experience placements. Tideway is committed to ensuring that all employees are paid at or above the London Living Wage.

Human rights

Our approach to business and how we work provide 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.

Schedule, cost and quality

KPIs	2015/16
Delivery against the regulatory baseline – cost*	£3.1bn (on target)
Delivery against accepted programme – schedule	Handover by Q1 2024 (on target)

*Tideway's element of the programme, up to system acceptance by Thames Water (in 2014/15 prices)

Working closely with our contractors, we developed plans to unlock opportunities to de-risk the delivery of the tunnel against the regulatory baseline schedule and complete the tunnel at the earliest, safe time. The ambition of starting tunnelling earlier and subsequently handing over the tunnel earlier should de-risk the programme and drive cost savings against the regulatory baseline of £3.1bn, benefiting both investors and Thames Water's customers, as well as delivering environmental benefits sooner and reducing community disruption.

The Alliance between us, the main works contractors, Amey and Thames Water is another key part of our strategy. It is governed by an Alliance Agreement which sets out an overarching framework for collaborative working between all parties and incentivises behaviours to promote the successful completion of the works.

How we work with our colleagues across the Alliance will be key to delivering success. Numerous team building activities have begun, to support team integration across Tideway and its delivery partners. This encourages collaborative behaviour, which helps to realise synergies, reduce costs and shorten the delivery schedule. Consents are critical to allow tunnelling to start earlier so a key focus has been to develop an integrated contractor-led consents schedule. With good progress in 2015/16, we were able to start onsite earlier than originally planned. This has enabled us to have more time to deal with the inevitable problems and challenges of tunnelling in London.

Our first site works began in December 2015, with the works at Blackfriars to relocate the Millennium Pier. We are building a new pier for the riverboats on the eastern side of Blackfriars Station. Work is under way to construct a new lift and stairs to improve access. HMS President, which was berthed close to the Millennium Pier, has been relocated by its owner as part of the early works.

Work continued throughout the year on the challenges associated with directly integrating Thames Water's proposed Counters Creek sewer flooding alleviation scheme with our works at Cremorne Wharf. After year end and in support of our earlier schedule ambitions, we have mobilised early on each of our three main tunnel drive sites with the establishment of offices and facilities, site surveys and investigations, and some temporary works. These activities should allow the early commencement of main construction works later in the year.

Financing

KPIs	2015/16
Maintain Group credit rating* / (Moody's / Fitch)	Baa1/BBB+
Total Liquidity at 31 March 2016	£2bn (>18 months)

* *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 finance the Company, while minimising our weighted average cost of capital to drive shareholder value. Our target is to maintain a robust investment grade credit rating at all times. Tideway has a financing strategy which defines the implementation of the policy. Key elements of the strategy are detailed within the strategy section.

Financing activity

At Licence Award in August 2015, Tideway's shareholders committed £1.3bn of capital in the form of equity (40%) and shareholder loans (60%). Tideway also entered into a £1bn, ten-year revolving credit facility (RCF) with a consortium of six banks. This facility remained undrawn over the year. Following licence award, the Group received investment grade credit ratings of Baa1 from Moody's and the RCF has been rated BBB+ by Fitch. Those ratings remained unchanged during the year.

As at 31 March 2016, a net £342.5m had been received from shareholders. This was in the form of £138.3m of equity and £204.2m of net shareholder loans. During the year, we progressed negotiations with the EIB to borrow financing for the Company's construction works and began work on the bond financing programme.

Distributions

Tideway capitalises its construction costs and does not expect to record distributable profits until after system acceptance. Accordingly Tideway does not expect to pay dividends during the construction period.

In order to provide a return to its shareholders during the construction period, Tideway makes distributions through payment of interest and repayment of principal on its shareholder loans. These payments are set to provide a sustainable growth profile, while maintaining an appropriate headroom to our financing covenants over the construction period.

Liquidity

At 31 March 2016, we had total liquidity in excess of £2bn, comprising £0.1bn of cash, £0.9bn of committed and undrawn capital from shareholders and the £1bn undrawn revolving credit facility. This provides liquidity significantly in excess of our 18-month target.

After year end

We have entered into financing transactions which further improve our liquidity and help lock-in financing costs. In May 2016, the EIB agreed to provide a £700m 35- year long-term loan to Tideway. The innovative structure enables us to lock-in financing costs, whilst also matching our funding requirements and profiling debt service, in line with the expected growth in our asset base.

In June 2016, Tideway priced bond issues totalling £350m. These deferred-purchase bond issues mark Tideway's debut on the capital markets. Combined with our EIB loan, they will help secure the financing for our long-term investment programme.

Vision, legacy and reputation

KPIs	2015/16
Volunteering*: STEM (science, technology, engineering, maths) sessions and time spent supporting community causes and charities.	STEM – 506 volunteering hours
* Includes Tideway employees and contractors	Community – 757 volunteering hours
Number of apprentices working at Tideway	1 per 84 FTEs

Establishing Tideway's vision and identity was a key part of our work this year. Our vision of "Reconnecting London, and Londoners, with the River Thames" defines what we want to achieve and was developed through in-house workshops with our staff. We selected the Tideway name for its simplicity and effective communication of our connection to the river.

To deliver our vision, we have to ensure that we build a strong reputation with stakeholders, forge close links with local communities and deliver a lasting legacy for the capital.

Engaging communities and stakeholders is a key priority. The quarterly Thames Tideway Tunnel Forum is independently chaired and has brought together officer representatives of the directly affected London boroughs and other statutory consultees since 2008. Now with a number of sub groups, it is a very effective way of exchanging information and creating a consensus on project-wide issues in a timely and cost-efficient manner.

Tideway is committed to building relationships with local communities and getting residents involved in what we are doing. Community Liaison Working Groups operate where we have active construction sites and regular community meetings, to help share information on the project and seek input from residents on arrangements. In the past year, Tideway held more than 20 of these meetings for three sites, with a number of further smaller meetings for specific residents.

Tideway has established a dedicated helpdesk to answer all public enquiries. Staffed 24/7 as a one-stop-shop for local communities and those wanting to know more about the project, it took more than 2,400 calls in the year. In addition, we have put in place a series of measures to help those who can benefit from our mitigation and compensation policies. Specifically, these include an:

- Independent Advisory Service – to offer free advice about mitigation and compensation.
- Independent Compensation Panel – to ensure that claims are assessed fairly and quickly.
- Independent Complaints Commissioner – to provide a high level point of contact for those who wish to escalate a complaint or claim.

As well as being a good neighbour, Tideway is determined to give back to the communities in which we work. We engage directly with a number of community investment projects, which aim to create enduring partnerships. In 2015/16 these included Thames River Watch, a citizen science project run by environmental charity Thames 21, which aims to improve understanding of the health of the tidal Thames. Another key community investment project was London Youth Rowing. This project aims to establish an indoor rowing programme and competition across the London boroughs that border the Thames. The scheme forms part of our efforts to encourage young people to reconnect with the river and take advantage of the leisure opportunities it provides.

We support three staff-nominated London charities, which gained from staff fundraising and the voluntary contribution of our staffs' skills and time. They are: Thames Reach, which helps homeless and vulnerable people; Envision, which develops young people's employability; and KEEN London, which provides sports and arts/crafts activities for children with special needs.

Tideway aims to leave lasting benefits for London and our legacy programme will make this aspiration a reality. The Tideway Alliance has developed a Skills and Employment Plan, together with a more wide-reaching Legacy Plan. This defines our commitments under five themes - Environment, Health and Safety, Economy, People and Place.

Environment

While we have a clear objective to significantly improve the environment of the River Thames, another key commitment is to reduce the environmental impact of constructing the tunnel. We have started to develop a carbon management plan and, once this is finalised, we will agree a target to reduce our carbon footprint below current predictions of 840,000 tonnes of CO2. We have also signed up to the Government's Infrastructure Carbon Review.

Health and safety

Tideway is aiming to deliver a transformational programme which sets new standards for major projects to follow. Details of our achievements in 2015/16 are in the Health, Safety and Wellbeing section of this review.

Economy

The Tideway Alliance has signed up to the Fair Payment Charter, which requires companies to pay suppliers within 30 days. We also held our first 'Meet The Buyer' events in Greenwich, to highlight opportunities for local businesses. It was attended by 99 companies, of which 91 were local and 93 were small and medium enterprises.

People

The development of the Tideway-supported Thames Skills Academy, which will train a new generation of river workers, was a milestone in 2015/16. With the UK predicted to need 182,000 new engineers by 2022, our STEM and education programme is a key part of our legacy. We delivered 36 STEM sessions in the year (506 STEM volunteering hours) and our education programme delivered classroom resources, careers information and focused on employability skills.

Place

Tideway's community partnerships helped deliver 757 hours of volunteering (1.16 hours per FTE), well ahead of the published target. Good progress was also made against the commitment to employ ex-offenders.

Financial Performance Review

Accounting basis

Our financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Under IFRS, lease accounting is considered the most appropriate accounting basis for Tideway post system acceptance. Accordingly during the construction period all costs are being capitalised under the heading "Asset under Construction" within the Statement of Financial Position. All revenue is being recognised as "deferred income" within the Statement of Financial Position.

Reporting of Allowable Project Spend

Under Tideway's licence, its regulated costs are classed as either "Allowable Project Spend" or "Excluded Project Spend". Allowable Project Spend (on a cash basis) is added to the Regulatory Capital Value (RCV) while Excluded Project Spend, such as financing costs, is not added to the RCV. In our financial statements we present costs on an accruals basis and there is no distinction between Allowable and Excluded costs.

Income Statement

During the period ended 31 March 2016, the Group reported a profit of £nil and no dividends were paid or proposed. The Group did not recognise any taxable profits in the period and has no corporation tax liability.

Statement of Financial Position

The table below provides an analysis of costs capitalised in the Statement of Financial Position (on an accruals basis) and cash outflows for the period ended 31 March 2016.

Analysis of costs and cash outflows	Costs £m	Timing differences £m	Cash outflows £m
Direct costs	69.0	(11.6)	57.4
Indirect costs	49.9	43.0	92.9
Total allowable costs	118.9	31.4	150.3
Total excluded costs	42.3	19.5	61.8
Total	**161.2**	**50.9**	**212.1**

The £150.3m Allowable Project Spend (on a cash basis) is higher than the £118.9m of Allowable costs (on an accruals basis) as it includes upfront payments for insurance and the Government Support Package (GSP).

During the period, £161.2m of costs were capitalised as "Asset under Construction" within the Statement of Financial Position. These include £118.9m of Allowable costs and £42.3m of excluded costs. The table below provides an analysis of the costs relating to Allowable costs:

Allowable costs	£m
Main works costs	54.9
Other direct costs	14.1
Direct costs	69.0
Resources	31.1
Other indirect costs	18.8
Indirect costs	49.9
Total	**118.9**

Main works costs

The main works contract costs are split between three regional contracts, West, Central and East, for the design and construction of the main tunnel. All three main works contracts are based on the New Engineering Contract (NEC3) Option C Target Price with Activity Schedule terms and conditions. The costs incurred in the period include contractors' staff, design, consents and preliminary costs to support the "Right Start" readiness and mobilisation at the three main drive sites.

Other direct costs

The other direct costs of £14.1m mainly consist of £10.8m of marine vessel relocation and design costs. These costs relate to a contract with VolkerStevin Ltd to provide services and works for the removal and replacement of piers and the relocation of marine vessels. Also within other direct costs are £1.7m of third party costs for the management, monitoring and mitigation of the impact of construction on third parties.

Indirect costs

The largest indirect cost is the resource costs of £31.1m. This represents the cost to employ the circa 400 FTEs either employed or contracted by the Company. The other indirect costs include information systems, insurance, payment for the GSP, office and other running costs.

Excluded costs

The Excluded costs to 31 March 2016 were £42.3m on an accruals basis, comprising mainly of financing costs, with part of the fees related to the GSP and loan interest.

Net Cash and financing

The net cash for the Group at 31 March 2016 was £130.4m. This included £17.5m of short-term cash deposits with a maturity of greater than three months and £112.9m of cash and cash equivalents. The table below summarises the net cash movements during the period:

Net cash	£m
Net proceeds from loans	204.2
Proceeds from equity	138.3
Cash inflows	**342.5**
Cash outflows	**(212.1)**
Total	**130.4**
Cash and cash equivalents	112.9
Short-term cash deposits	17.5

During the period, the Group received funds of £342.5m from shareholder injections. This was in the form of equity (£138.3m) and net shareholder loans (£204.2m). The cash outflows of £212.1m included £160.3m for investing activities, being the construction of infrastructure assets. The balance of £51.8m reflects working capital movements.

At 31 March 2016, the Group had debt of £205.1m in the form of shareholder loans. The £205.1m represents the £204.2m of net proceeds and £0.9m of capitalised interest. Tideway also had access to a £1.0 billion revolving credit facility which was undrawn at 31 March 2016.

On 1 April 2016, the Group received further shareholder injections of £107.1m, in the form of £42.8m equity and £64.3m of shareholder loans. During May 2016, Tideway entered into a £700m loan with the EIB. In June 2016, Tideway priced bond issues totalling £350m.

Revenue

Within the financial statements, all revenue is recorded as deferred income in the Statement of Financial Position, in line with the revenue recognition accounting policy. Revenue of £8.8m is reported for 2015/16, which is based on the latest estimate as at April 2016. This is lower than the £11.2m included in the final December 2015 revenue statement submitted to Ofwat, largely reflecting lower Allowable Project Spend in 2015/16. While the Company did not receive any cash inflows from revenue during the period, monthly revenue receipts commenced in April 2016.

The Strategic report was approved by the Board on the 21 July 2016 and was signed on its behalf by:

Tracey Lee
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 11 month period ended 31 March 2016.

The registered company number is 09553510.

Financial results and dividends

The Company and the Group recorded £nil profit for 11 month period ended 31 March 2016. The detailed financial results of the Group are set out in the financial performance review within the Strategic report on pages 21 to 22.

The Company did not pay any dividends in the 11 month period ended 31 March 2016.

During the period, £8.3m of shareholder loan interest was accrued on the shareholder loan notes. At 31 March 2016, £7.4m of the accrued shareholder loan interest had been paid and £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 on notes 13 of the financial statements.

Financial risk management

Full disclosure on the Group's financial risk management is set out in note 15 of the financial statements.

Directors

The directors who held office during the period for the Company were:

	Appointed	Resigned
Andrew Freeman	1 May 2015	17 March 2016
Christoph Holzer	1 May 2015	
Jaroslava Korpancova	1 May 2015	
Norman Mitchell	21 April 2015	1 May 2015
Alistair Ray	1 May 2015	
Michael Ryan	1 May 2015	
Gavin Tait	1 May 2015	
Moira Turnbull-Fox	17 March 2016	
Amanda Woods	1 May 2015	
David Wyles	24 April 2015	1 May 2015

Directors' Indemnities

The Group has had in place Directors and Officers Liability insurance for the period.

Employees

The Group has 108 employees at 31 March 2016. These are all employed by Thames Tideway Tunnel, Ltd. The Company does not employ any staff directly. Details relating to the Group's employment policies and values are set out on pages 16 to 17 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 20.

Charitable and political donations

The Group made charitable donations totalling £500. Details of the Group's charitable partnerships are set out on pages 19 to 20 of the Strategic report. The Group did not make any political donations or incur any political expenditure during the year.

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Company'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 Fair 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 Charter's ambition for 2025 is that the construction industry's standard payment terms are 30 days and that retentions are no longer withheld.

The creditor days for the period ending 31 March 2016 are approximately 18 days.

Events occurring after the reporting period

Details of any events occurring after the reporting period are included in note 21 of the financial statements.

Going concern

The directors believe, after due and careful enquiry, that the Company and Group have sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2016 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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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

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 Group and the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess and provide the company's position and performance, business model and strategy
- state whether applicable IFRS's have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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 company and to prevent and detect fraud and other irregularities.

Tracey Lee
Company Secretary

The Point
37 North Wharf Road
London
W2 1AF

21 July 2016

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 period ended 31 March 2016 set out on pages 28 to 44. 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 2016 and of the group's result for the period 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.

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 significance, were as follows:

Completeness and existence of capitalised costs and creditors - costs £161.2 million, creditors £28.4 million

Refer to pages 32 to 35 (accounting policy) and page 39 and 40 (financial disclosures)

- *The risk* - The Group has a substantial capital programme which has been agreed with the Water Services Regulation Authority ('Ofwat') and therefore incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. All costs incurred are capitalised as assets under construction. Due to the significance of these costs, their completeness and existence is considered a significant risk, in particular the inclusion of purchases around the year end in the correct period.

- *Our response* - Our procedures included testing controls over the authorisation of invoices from main works contractors as well as other purchase invoices. We inspected the content of a sample of invoices around the year end to consider the timing of work performed and therefore appropriate recognition of costs in the year. We also inspected a sample of invoices received during the year to assess the existence of amounts capitalised.

We also considered the adequacy of the group's disclosures in this area.

Current and deferred tax charges - £nil

Refer to page 35 (accounting policy) and page 37 (financial disclosures)

- *The risk* – Tax accounting is an area of complexity. The current and deferred tax treatment in the period, dependent upon the judgement that the terms under which the wastewater infrastructure asset will be leased upon completion, which are already set, will be classified as a finance lease, is an area of judgement for the group. There is also a risk that the tax authorities will challenge the tax consequences of that accounting treatment and therefore that the tax accounting in the current year is inappropriate

- *Our response* – Our procedures included considering the 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. With the help of our tax specialists we critically assessed the group's judgements in relation to the resultant tax consequences with reference to the relevant tax law. We also considered the adequacy of the Group's disclosures in this area.

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 £1.5m, determined with reference to a benchmark of gross expenditure (being the total additions to Property, plant and equipment) in the year, of which it represents 0.93%. We considered this to be the most appropriate benchmark as it is the most indicative measure of the activity of the Group during the year.

We reported to the board any corrected or uncorrected identified misstatements exceeding £75,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 6 components, we subjected all to audits for group reporting purposes, The audit work on all components was performed by the group audit team.

The component materialities ranged from £1,000 to £1.1m, having regard to the mix of size and risk profile of the Group across the components.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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 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 25, 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

Canary Wharf

London

E14 5GL

Date: 21 July 2016

Group Income Statement
For the 11 month period ended 31 March 2016

	Note	**2016 £m**
Net operating costs	*4*	-
Operating result		-
Net financing costs	*5*	-
Profit on ordinary activities before tax		-
Taxation	*6*	-
Result for the period		-

Group Statement of Other Comprehensive Income
For the 11 month period ended 31 March 2016

	Note	**2016 £m**
Result for the period		-
Other comprehensive income for the period		-
Total comprehensive income for the period attributable to owners of the Company		-

Group and Company Statement of Financial Position

At 31 March 2016

	Note	Group 2016 £m	Company 2016 £m
Non-current assets			
Property, plant and equipment	*8*	161.2	-
Trade and other receivables	*10*	54.9	205.1
Investment in subsidiary undertaking	*9*	-	138.3
		216.1	343.4
Current assets			
Trade and other receivables	*10*	25.3	-
Cash and cash equivalents	*11*	112.9	-
Short-term cash deposits	*11*	17.5	-
		155.7	-
Total assets		**371.8**	**343.4**
Current liabilities			
Trade and other payables	*12*	(28.4)	-
		(28.4)	-
Non-current liabilities			
Borrowings	*13*	(205.1)	(205.1)
		(205.1)	(205.1)
Total liabilities		**(233.5)**	**(205.1)**
Net assets		138.3	138.3
Equity attributable to equity holders of the parent			
Share capital	*14*	138.3	138.3
Total equity		**138.3**	**138.3**

Notes 1 to 21 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 21 July 2016 and were signed on its behalf by:

Gavin Tait
Director

Company registered number: 09553510

Group and Company Statement of Changes in Equity

	Share capital £m	Total Equity £m
Balance at 21 April 2015	-	-
Profit or loss	-	-
Other comprehensive income	-	-
Total comprehensive income for the period	**-**	**-**
Transactions with owners recorded directly in equity:		
Issue of ordinary shares	138.3	138.3
Total contributions by and distributions to owners	**138.3**	**138.3**
Balance at 31 March 2016	**138.3**	**138.3**

Group and Company Cash Flow Statements
For the 11 month period ended 31 March 2016

	Note	Group 2016 £m	Company 2016 £m
Cash flows from operating activities before working capital movements		-	-
Increase in trade and other receivables	*10*	(80.2)	(205.1)
Increase in trade and other payables	*12*	28.4	-
Cash used in operations		**(51.8)**	**(205.1)**
Net cash used in operating activities		**(51.8)**	**(205.1)**
Cash flows used in investing activities			
Construction of infrastructure asset		(160.3)	0.9
Short-term cash deposits	*11*	(17.5)	-
Investment in subsidiary undertaking			(138.3)
Net cash used in investing activities		**(177.8)**	**(137.4)**
Cash flows from financing activities			
Proceeds from the issue of share capital	*14*	138.3	138.3
Proceeds from shareholder loans		207.4	207.4
Repayment of shareholders loan principal		(3.2)	(3.2)
Net cash from financing activities		**342.5**	**342.5**
Net increase in cash and cash equivalents during the period		**112.9**	-
Cash and cash equivalents at 21 April 2015	*11*	-	-
Cash and cash equivalents at 31 March 2016	*11*	**112.9**	-

Notes to the financial statements

1 Accounting policies

Basis of preparation

Bazalgette Holdings Limited (the "Company") is a company incorporated and domiciled in the United Kingdom. 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 (TTT) and Bazalgette Finance PLC (BF). 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").

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 Group is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The directors consider the significant judgements made in the application of these accounting policies that have significant effect on the financial statements and estimates 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 Thames Tideway Tunnel asset, the directors are required to make judgements around the assumptions used to calculate the recoverable amount. The assumptions include the Retail Price Index (RPI) for which an average of independent forecasts is used.

Completeness of 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 Thames Tideway Tunnel asset. All costs incurred are capitalised as assets under construction. Due to the significance of these costs, their completeness and existence is considered a risk.

Current and deferred tax - The current and deferred tax treatment in the period is an area of judgement for the Group and is based on the accounting treatment that the Thames Tideway Tunnel 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 therefore that the tax accounting in the current year is 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.

Measurement convention

The financial statements are prepared in accordance with the historical cost accounting convention except where adopted IFRS requires an alternative treatment.

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.

Notes to the financial statements

Property, plant and equipment (continued)

The construction phase of the Thames Tideway Tunnel 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 Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised within assets under construction. The directors consider that the Group is constructing one asset, that being the Thames Tideway Tunnel and do not consider there to be other individual assets under construction.

The directors consider all expenditure in the period ended 31 March 2016 to have met the capitalisation criteria.

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

Land and property acquired for the Thames Tideway Tunnel 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 5 years.

Intangible assets

Intangible assets represent software assets that were transferred over to the Group on the acquisition of TTT.

Software costs are measured at cost less accumulated amortisation and accumulated impairment charges.

Amortisation is capitalised on a straight-line basis over the estimated useful life of the assets from the date they are available for use, unless such assets lives are indefinite.

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.

Impairment

The directors consider assets under construction to consist of a single asset, the Thames Tideway Tunnel. 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 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 Thames Tideway Tunnel the primary component of revenue is the regulated return on the Company's RCV. The Company'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

Notes to the financial statements

Revenue and bad debt risk (continued)

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 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 Company 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.

Financial instruments

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as non-derivative financial instruments. 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.

Notes to the financial statements

Financial instruments (continued)

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.

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).
- Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 (effective date 1 January 2016).
- IFRS 14 Regulatory Deferral Accounts (effective date 1 January 2016).
- 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).

Notes to the financial statements

2 Acquisitions of subsidiaries

Acquisitions in the current period

On 24 August 2015, the Group acquired all of the ordinary shares in Thames Tideway Tunnel Limited for £1, satisfied in cash. TTT provides services to Bazalgette Tunnel Limited (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.

The acquisition had the following effect on the Group's assets and liabilities.

	Book value £m	Fair value adjustments £m	Recognised values on acquisition £m
Acquiree's net assets at the acquisition date:			
Intangible assets	0.3	-	0.3
Tangibles assets	0.1	-	0.1
Trade and other receivables	1.0	-	1.0
Trade and other payables	(1.4)	-	(1.4)
Net identifiable assets and liabilities	-	-	-
Cash price paid			-
Total consideration			-

No goodwill has arisen on the acquisition.

3 Auditor's remuneration

The auditor's remuneration for the audit of these financial statements was £2,000. These costs are being wholly borne by Bazalgette Tunnel Limited

Notes to the financial statements

4 Employee costs

The average number of persons employed by the Group (including directors) during the period ended 31 March 2016 was 90.

The aggregate payroll costs of these persons were as follows:

	2016 £m
Wages and salaries	4.8
Social security costs	0.5
Contributions to defined contribution plans	0.3
Capitalised into asset under construction	(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 period ended 31 March 2016.

5 Finance income and expense

	2016 £m
Finance income	
Interest income	(0.4)
Finance costs	
Interest expense on borrowings	8.3
Financing fees	0.5
Capitalised finance interest and expense into asset under construction	(8.4)
Net finance costs	-

6 Taxation

	2016 £m
Total current tax	-
Total Income Statement tax expense	-

Reconciliation of effective tax rate

	2016 £m
Profit before tax	-
Profit before tax using the UK corporation tax rate of 20%	-

Unrecognised deferred tax assets

Deferred tax assets of £1.6m in relation to carried forward losses have not been recognised due to uncertainty around the recoverability of these losses against future taxable profits.

Notes to the financial statements

7 Intangible assets

Intangible assets comprised the following at 31 March 2016:

	Note	Software Costs £m	Total £m
Cost			
At 21 April 2015		-	-
Acquired through business combinations	*2*	0.3	0.3
Balance at 31 March 2016		0.3	0.3
Accumulated amortisation			
At 21 April 2015			
Amortisation		(0.3)	(0.3)
Balance at 31 March 2016		(0.3)	(0.3)
Net book value at 31 March 2016		-	-
Net book value at 21 April 2015		-	-

Notes to the financial statements

8 Property, plant and equipment

Property, plant and equipment comprised the following at 31 March 2016.

	Note	Fixtures and fittings £m	Asset under construction £m	Total £m
Cost				
At 21 April 2015		-	-	-
Additions		-	161.2	161.2
Acquired through business combinations	2	0.1	-	0.1
Balance at 31 March 2016		0.1	161.2	161.3
Accumulated depreciation				
At 21 April 2015		-	-	-
Depreciation charge		(0.1)	-	(0.1)
Balance at 31 March 2016		(0.1)	-	(0.1)
Net book value at 31 March 2016		**-**	**161.2**	**161.2**
Net book value at 21 April 2015		-	-	-

Asset under construction

During the construction phase of the project which commenced in 2015 and which is expected to be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure in the period ended 31 March 2016 is considered to have met this requirement. The amount of net borrowing costs capitalised during the period was £7.9m with a capitalisation rate of 100%.

9 Investments in subsidiaries

The Company has the following investments in subsidiaries:

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

All subsidiaries have the same period end as the Company.

Notes to the financial statements

10 Trade and other receivables

	Group 2016 £m	Company 2016 £m
Trade receivables	1.7	-
Accrued Income	8.6	-
Other receivables	5.5	-
Prepayments	64.4	-
Amounts owed by Group undertakings	-	205.1
	80.2	**205.1**
Non-current assets	**54.9**	**205.1**
Current assets	**25.3**	**-**

Accrued income of £8.6m relates to revenue earned in the period ended 31 March 2016 that has not been invoiced to Thames Water as at the Statement of Financial Position date.

Prepayments include £39.8m in relation to the Government Support Package.

11 Cash and cash equivalents

	2016 £m
Cash and bank balances	0.1
Cash equivalents	112.8
Cash and cash equivalents per cash flow statement	**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 3 months are shown separately on the Statement of Financial Position.

12 Trade and other payables

	Group 2016 £m	Company 2016 £m
Current		
Accrued expenses	19.6	-
Deferred income	8.8	-
	28.4	**-**

Deferred income of £8.8m represents revenue that is deferred until Systems Acceptance as the services associated with this revenue will not be delivered until this date.

Notes to the financial statements

13 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 15.

	2016 £m
Non-current liabilities	
Shareholder loan notes	205.1
	205.1

The principal economic terms and conditions of outstanding borrowings are:

	Currency	Nominal interest rate	Maturity date	Carrying value 2016 £m
Borrowings measured at amortised cost				
Shareholder loan notes (principal):	GBP	8%	2064	205.1

14 Capital and reserves

Share capital

Allotted, called up and fully paid ordinary shares of £1 each	Ordinary shares
On issue at 21 April 2015	-
Issued for cash	138,258,754
On issue at 31 March 2016	**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.

15 Financial risk management

The key objective of the Group's financing principles is to deliver efficient financing and financial risk management, which minimises the Group's cost of debt and supports the investment grade credit rating. The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's Statement of Financial Position and related notes. The Group's management of specific 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's exposure to liquidity risk is considered low as the Group's shareholders have committed funding of £1.3bn backed by letters of credit. The equity and loans provided by shareholders will be substantially invested before the business is expected to enter a position of net debt at the end of 2018.

The Group has a £1bn RCF which does not expire until 2025. At the Statement of Financial Position date this facility was undrawn.

Notes to the financial statements

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.

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.

Interest rate risk

The Group does not have any exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed rate shareholder loan notes. The nominal interest rate of these borrowings are disclosed in note 13.

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 will seek to pre-finance debt to reduce exposure to increases in interest rates.

Inflation risk

The Group is exposed to changes in 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 proposed financing strategy includes raising a large proportion of index-linked debt which will ensure that interest costs and principal move in line with RPI and therefore offset any reductions in revenue and RCV that result from lower inflation.

Capital management

The capital structure of the Group consists entirely of shareholder equity and borrowings from the shareholder through loan notes. The Group currently has no external borrowings. The Group has been assigned a corporate credit rating of Baa1 by Moody's and with regards to the RCF, BBB+ by Fitch.

16 Operating leases

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

	2016
	£m
Less than one year	5.4
Between one and five years	4.6
More than five years	-
	10.0

Notes to the financial statements

17 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 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. The assessment is there were no contingent liabilities at the Statement of Financial Position date.

18 Contingent assets

The majority of the Group's works contracts are based on a target cost mechanism under which over or under spends on target are shared with the contractor. As a result, it is possible that a cash inflow to the Group may occur in the future. Where amounts due to the Group are not virtually certain, they are treated as contingent assets and not recognised in the Statement of Financial Position as an asset. The assessment is there were no contingent assets at the Statement of Financial Position date.

19 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 13.

The compensation of key management personnel (including directors) to the Group was as follows:

	2016 £m
Short-term employee benefits	1.2
Other long-term benefits	0.2
	1.4

The remuneration of key management personnel is determined by the Remuneration Committee of Bazalgette Tunnel Limited with regards to the performance of individuals and market trends. Further information can be found in the remuneration report section of the Bazalgette Tunnel Limited annual report which is available at www.tideway.london.

Company

Amounts outstanding at 31 March 2016 between the Company and its subsidiary Bazalgette Tunnel Limited are disclosed in note 10. No related party receivables and payables were secured and no guarantees were issued in respect thereof.

Notes to the financial statements

20 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.

21 Events occurring after the reporting date

The European Investment Bank has provided a £700m long-term loan, expected to be drawn from 2018 in index-linked form. The Group has put in place a bond issuance platform and priced bond issues of £350m