Bazalgette Equity Limited

Annual report and financial statements

For the year ended 31 March 2018

Registered number 09553394

Contents

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Strategic report

The directors present their Strategic report for Bazalgette Equity Group (the Group) and Bazalgette Equity Limited (the Company) for the year ended 31 March 2018.

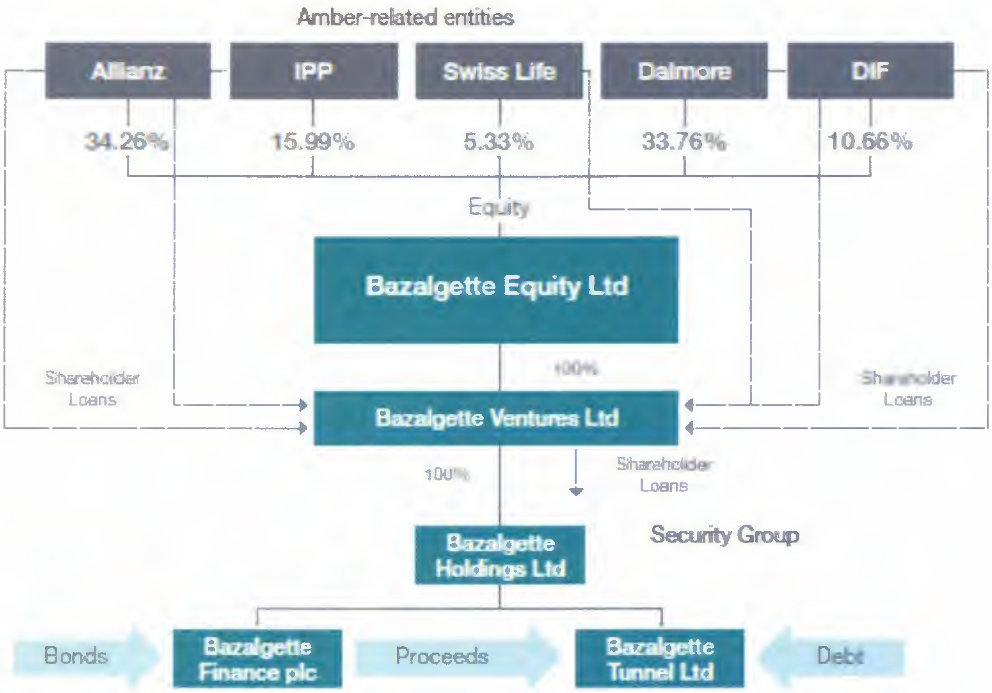
Introduction

The Bazalgette Equity Limited is the ultimate controlling company of the Bazalgette Equity Limited group of companies.

As at the 31 March 2018, the Group comprised the Company, Bazalgette Ventures Limited (BVL), Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited (BTL), Bazalgette Finance plc (FinCo) and Thames Tideway Tunnel Limited (TTT Ltd). BTL is an independent regulated water company which was awarded a licence by Ofwat in August 2015. In April 2018, TTT Ltd was voluntarily dissolved with its last trading date being the 31 March 2017.

The principal activity of the Company is to act as the ultimate holding company of the Group and to act as the vehicle for shareholder share capital financing. It does not carry out any activities beyond this role.

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



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

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

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

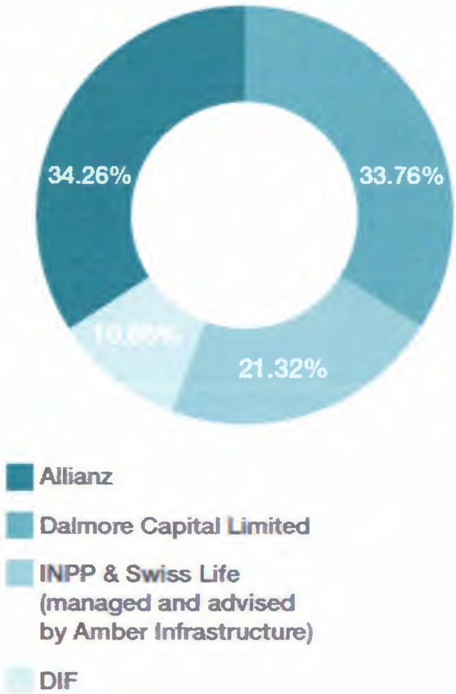
Business review

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

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

Our Shareholder group has extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas. Since Licence Award, our Shareholders have invested £1.3bn. Over half the total equity invested is by UK investors, including a large number of UK pensioners through investment by major pension funds, giving UK pensioners an investment in Tideway.

The shareholder group comprises:



Thames Tideway Tunnel scheme

London's sewer network was built by Sir Joseph Bazalgette in the 1860s, to cope with up to four million people. The system now struggles to serve a city of more than eight million. This population increase means that the network is regularly overwhelmed, resulting in discharges into the Thames via combined sewer overflows (CSOs), which were designed to release excess sewage flows during heavy storms. These discharges have increased from one or two a year in Victorian times to an average of one a week more recently. This results in tens of millions of cubic metres of sewage entering the tidal section of the Thames each year.

The total estimated cost of the tunnel is £4.2bn, in 2014/15 prices. Ofwat has set a regulatory baseline of £3.1bn (in 2014/15 prices, with the total of £3.5bn in outturn prices) for Tideway's element of the programme, with the rest delivered by Thames Water. The real impact on Thames Water customers' annual bills for the entire project is estimated to be around £20-25 per household by the mid-2020s (in 2014/15 prices), considerably lower than the £70-80 per household originally estimated. The tunnel's design will make it self-cleaning and will minimise ongoing operational and maintenance requirements during its expected life of at least 120 years.

Regulatory oversight

Tideway is an independent regulated water company, with a new delivery model designed to attract private sector capital to finance infrastructure and deliver value for money to customers. This enables us to finance our functions, earn a reasonable return on our investors' capital and maintain an investment grade credit rating. Our bespoke regulatory framework provides a revenue stream in both the construction and operational periods. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers and passed to Tideway.

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

Our delivery partners

Our delivery partners include our Programme Manager (PM), consortia known as the Main Works Contractors (MWCs) for the works in the West, Central and East areas (see table below) and our system integrator, Amey OWR.

Role	Contractors	
West Contract	**BMB JV:**	Bam Nuttall Ltd Morgan Sindall Plc Balfour Beatty Group Ltd
Central Contract	**FLO JV:**	Ferrovial Agroman UK Ltd Laing O'Rourke Construction Ltd
East Contract	**CVB JV:**	Costain Ltd Vinci Construction Grands Projects Bachy Soletanche Ltd
System Integrator		Amey OWR Ltd
Programme Manager		Jacobs (formerly CH2M)

We have also created an overarching Alliance, governed by an Alliance Agreement between us, Thames Water, the MWCs and the System Integrator. This agreement incentivises collaborative behaviour 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.

The route

The tunnel will run from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, with most of the tunnel being 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 existing Lee Tunnel. From there it will run to the Tideway Pumping Station, to be pumped to Beckton sewage treatment works.

The main tunnel construction will use TBMs in four drives from three main sites, with two additional connection tunnel-drive sites. The main drive sites are in Fulham in the West, Battersea in the Central section and Bermondsey in the East. Additional works will intercept the CSOs and connect them to the main tunnel.

25
kilometres long

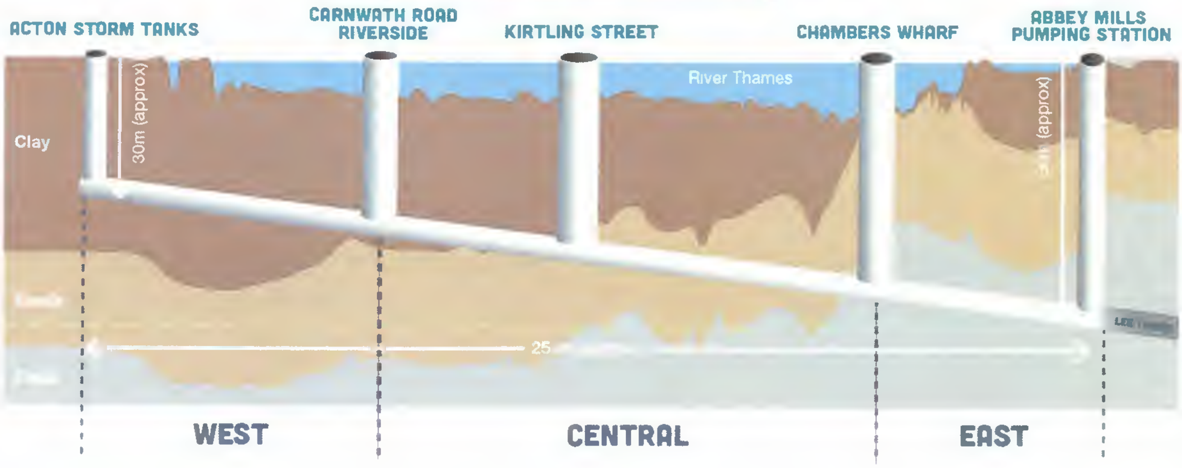
Travelling from west to east London, the main tunnel will be 25km long. Two connection tunnels will be 4.6km and 1.1km long.

7.2
metres wide

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

66
metres deep

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



Who We Are and What We Do
Thames Tideway Tunnel

The tunnel generally follows the River Thames from Acton to Limehouse, then continues north-east to Abbey Mills Pumping Station where it will connect to the Lee Tunnel

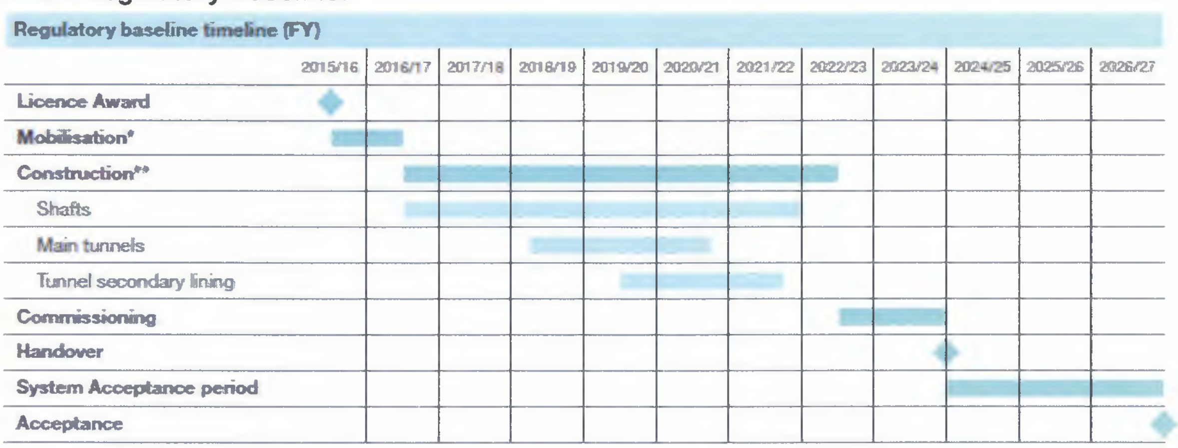
The timeline

Following Licence Award and the award of the Main Works Contracts, we agreed a baseline schedule with our MWCs that met the licence date, which we call the Current Regulatory Baseline.

The key stages in the schedule include:

- Mobilisation of the MWCs. This initially started off site, with mobilisation of resource, the start of detailed design work, consenting applications and procurement of subcontractors and materials. The mobilisation then moved on site as these activities progressed, construction sequencing was finalised and any applicable enabling Thames Water Works were completed.
- Construction. This includes tasks such as excavating deep shafts for the three drive sites and each of the CSO interception shafts, tunnelling, tunnel secondary lining, installing mechanical and electronical equipment, and architectural and landscaping works.
- Commissioning. This will be done in two stages and includes worksite testing for each worksite and the connection of all the worksites and tunnels to one system - the London Tideway Tunnel (LTT) system. Once this is complete, Handover occurs, with the Thames Tideway Tunnel (TTT) Works handed from the MWCs to Tideway. At this stage, the MWCs' activities are complete and the contractors are demobilised.
- System Acceptance period. This is an 18 to 36 month proving period, in which the LTT will be operated across a variety of storms and conditions, to demonstrate it fulfils the project requirements. Once this is complete, Thames Water takes over the responsibility to maintain for the near-ground structures and assets. Tideway will retain responsibility for the shafts and tunnel structures and ensure the TTT is available to allow flow to pass through into the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, and performing any maintenance required.

Current Regulatory Baseline:



*This phase shows Mobilisation activities from Licence Award to the start of Construction at the three main drive sites. Additional Mobilisation activities continue throughout construction (i.e. consents, procurement).
**The gap between shafts and commissioning reflects the need to complete additional construction activities after shafts are complete, prior to the start of commissioning (i.e. air management systems, structures, landscaping).

Business Model

Delivering for our stakeholders – our legacy for London

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

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

Our key enablers and the value we create for stakeholders are set out in the table below.

Enablers	Stakeholder Value
Safe Operations/Delivery We strive to create and maintain a culture of safely or not at all **See Health, Safety and Wellbeing section**	**London** • Reconnecting London with the River Thames • Ensuring that we leave a positive and lasting legacy for London • Developing the river economy
Effective Governance/Oversight/GSP* Our risk management systems and policy provide a clear and consistent framework for managing and reporting risks. The Board regularly reviews how we identify, evaluate and manage risks. **See Risk Management section**	**Our people** • A unique and innovative project with a focus on learning and development • A safe and inclusive workplace • A competitive and fair compensation package that incentivises delivery and rewards success
Talented and Passionate People We work to attract, motivate, develop and retain the best talent – our performance and ability to thrive depends on it. **See Company & People section**	**Environment** • A positive impact on the tidal River Thames, through the development of the tunnel • Ensuring, where we can, that we reduce our environmental impact
Experienced and Competitive Supply Chain (PM & MWCs) We have an experienced and competitive supply chain with the right incentives in place and strong information links across each of our three contract areas, so we can share lessons learned. **Collaborative Thames Water Relationship** We work closely and co-locate with Thames Water to ensure that we have a collaborative relationship. **See Schedule, Cost and Quality section**	**Communities** • Providing a river that locals deserve and can use • Enhanced local landscapes for reclaimed land and public art
Stakeholder Focus We aim to build enduring relationships with government, local authorities, local communities, partners, suppliers and others we impact on this project. **See Vision, Legacy and Reputation section**	**Bill Payers** • Minimising the impact on Thames Water wastewater customers **Investors** • An appropriate return on their investment
Efficient Financing We aim to finance this project as efficiently as possible, to ensure that we can minimise our impact on bill payers in the future. **See Financing section**	**Industry/ Supply chain** • Providing opportunities for companies and for workers to develop skills and gain experience • Industry leading innovations that are shared via i3P

Stakeholder engagement

To be regarded as truly successful, we believe the Thames Tideway Tunnel must leave a wider legacy than just a cleaner, healthier Thames. Part of this legacy will be judged by the project's overall reputation once it is delivered.

We want to reconnect London with its river and engage with stakeholders at all levels, including elected representatives, opinion formers, interest groups and local communities, to help achieve this. We use the quarterly TTT Forum to bring together representatives of the directly affected boroughs and other statutory consultees.

In particular, we engage fully with local communities by proactively informing them about the project through targeted communications to residents and site-specific online information, while dealing with their issues on a one-to-one basis via locally-based teams and a 24-hour helpdesk.

We have independently-chaired community liaison working groups (CLWGs) at some of our live sites and community information centres at our main drive sites.

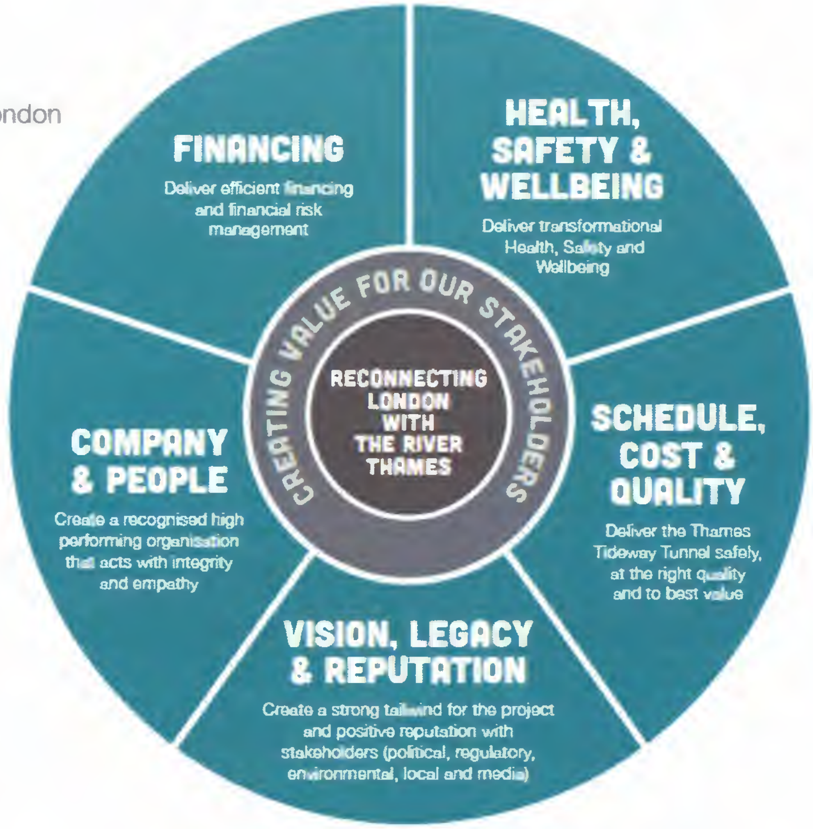
Category	Key Government and regulatory stakeholders	Consenting bodies and delivery partners	Communities directly impacted by construction
Stakeholder	Ofwat Environment Agency Defra	Greater London Authority Local authorities Port of London Authority Transport for London Marine Management Organisation Historic England Landowners and asset owners	Residents Businesses/local services Schools
Channel	Quarterly Liaison Committee meeting (including Thames Water)	Quarterly Thames Tideway Tunnel Forum Bilateral meetings	Regular Community Liaison Working Group meetings Letter drops about works Quarterly newsletters Dedicated web pages and other communications
Independent roles and assurance	**Independent Technical Assessor (ITA):** The ITA review Tideway and Thames Water reporting to the Liaison Committee.	Independent Chairman of Tideway Reporting Group, which is a group set up to oversee stakeholder reporting. He also oversees the ICP and ICC.' Independent Chairman for TTT Forum'.	Additionally, there are a variety of independent services available to support stakeholders, which include: **Independent Advisory Service (IAS):** The IAS offers independent help and support to stakeholders living and working close to our construction sites. **Independent Compensation Panel (ICP):** The ICP oversees and determines claims made under any of the non-statutory compensation policies. **Independent Complaints Commissioner (ICC):** The ICC assists stakeholders who are not satisfied with the ICP's response regarding a claim.

Our Vision, Values, and Strategy

Our vision

Our vision is to reconnect London with the River Thames.

- Vision
- Aim
- Company Objectives



Tideway's business is to design, build, commission and maintain the TTT, to leave our capital city's river cleaner than it has probably been for over a hundred years. This alone could be a sufficient ambition for Tideway, but we believe that seeing the TTT simply as an engineering endeavour would be a huge lost opportunity. Our focus is not just what we are doing, but how we are doing it and the broader benefits we can deliver to the range of stakeholders we affect.

The increase in sewage pollution over many decades caused London to turn its back to the river, breaking the once vital link between London and the Thames. We aim to re-establish that connection. Furthermore, in a city where roads are getting busier every year, wherever possible we are using the river to transport our materials, with the aim of revitalising the river economy and reducing road congestion, making the roads safer.

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

Our values

Our values:

- Safety: Transform the health, safety and wellbeing of all;
- Legacy: Create a healthier future for London;
- Collaboration: Working together as an effective team;
- Respect: For people, places and resources; and
- Innovation: Striving for excellence in project delivery.

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.

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

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

Our strategy

Throughout the year, we ensured that our targets and aspirations encouraged and allowed us to deliver best performance for all our key stakeholders. To develop our targets and aspirations we assessed our performance against our key performance indicators and stakeholder requirements. Additionally, we assessed the current external environment and future industry trends, which allowed us to identify areas of best practice and areas for improvement.

The Executive Team and the Board discussed the insights from this exercise. We used the lessons learned to develop our ambitions and targets and to provide best value and resilience to our shareholders and stakeholders. To ensure that awareness of, and commitment to, these aspirations spreads throughout Tideway, we use the most important performance indicators in allocating company bonuses for all staff and personal bonus measures for the executive directors. We report the performance against these indicators publicly.

Through this process, we found that we had made significant progress against most of our key performance indicators and priorities, with some areas requiring further work in the coming year. The external environment had also changed quite significantly, particularly in the political and supply chain space, and the understanding of this helped shape our future priorities. Lastly, we reviewed a variety of schedule milestones based on an internal review and assessment of the external environment across a range of areas including designs, consents, mobilisation of sites and marine activity.

The outcomes of this review resulted in refinements to our long-term objectives and activities. The notable changes were as follows:

- For Health, Safety, and Wellbeing, we added 'Drive for an equivalent high level of HSW performance in the marine environment'. This was included as marine works will be a lasting legacy for Tideway and require prioritisation as we are developing it from the ground up;
- For Company and People, we added 'reinforcing Tideway's values and behaviours' to emphasise its importance as we enter a stable phase of the project and focus on empowerment to improve efficiency and effectiveness; and
- Schedule, Cost and Quality: We adjusted the objective to reflect our focus on 'delivering the Thames Tideway Tunnel safely at the right quality and to best value'.

Our strategy is set out in detail on the following pages.

2018/19 Strategy

Health, Safety and Wellbeing

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

Key Long Term Activities:

- An HSW programme which is recognised as transformational in comparison to previous projects
- Delivering HSW the 'RightWay', in line with the delivery programme, verified by appropriate assurance
- Maintaining a focus on health and wellbeing, to achieve relative parity with safety
- Driving for an equivalent high level of HSW performance in the marine environment

Priorities for 2018/19 :

- Reinforce HSW performance in the construction phase, which shows continued improvement in comparison to previous projects

Relevant Principal Risks:

- Health, safety and wellbeing
- High impact, low probability events

Schedule, Cost and Quality

Objective and Outcome:
We want to deliver the Thames Tideway Tunnel safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, deliver environmental benefits more quickly and reduce disruption to local residents.

Key Long Term Activities:

- Enabling all our delivery partners to safely deliver the project more efficiently and at lower cost, and using the Alliance to best effect
- Maintaining our focus on delivering a high-quality, fit for purpose asset and its integration into the wider sewer network

Priorities for 2018/19:

- Work with the Programme Manager to deliver the best value for money schedule possible
- Work with the Programme Manager to ensure the MWCs' marine operations are in line with our requirements
- Seek all appropriate opportunities to increase efficiency
- Ensure that the asset being delivered is of the right quality
- Develop our relationship with TWUL as interfaces evolve at all levels, to support efficient delivery

Relevant Principal Risks:

- Programme delivery
- Supply chain failure
- High impact, low probability events
- Interfaces with Thames Water infrastructure
- Regulation
- Brexit

Vision, Legacy and Reputation

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

Key Long Term Activities:

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

Priorities for 2018/19:

- Refine our stakeholder and neighbour engagement programme in a structured and targeted way, to support efficient delivery

Relevant Principal Risks:

- High impact, low probability events
- Reputation

Company and People

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

Key Long Term Activities:

- Implementing our diversity programme
- Providing training and development, and succession planning
- Offering competitive terms and conditions, benefits and incentives
- Delivering systems, processes and tools to support an effective organisation
- Reinforcing Tideway's values and behaviours

Priorities for 2018/19:

- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

Relevant Principal Risks:

- High impact, low probability events
- Reputation

Financing

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

Key Long Term Activities:

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

Priorities for 2018/19:

- Support the organisation to deliver the best result for bill payers and shareholders
- Undertake opportunistic funding issuance across formats
- Continue focus on capital preservation and liquidity and seek to optimise returns

Relevant Principal Risks:

- Programme delivery
- High impact, low probability events
- Financing
- Inflation
- Regulation
- Brexit

Risk Management

Our risk appetite

To manage the risks we face, we need to define our risk appetite, which is the level of residual risk that we are ready to take. Although this appetite recognises the agreements that underpin our delivery model, such as our Licence and the GSP, our Board can further refine the residual risk through the strategies it sets. While setting these strategies, a focus on operational, financial, and corporate resilience across Tideway's activities has been crucial, as it helps to ensure that we take a long-term view on risk.

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

- Setting new standards for health, safety and wellbeing by developing programmes such as RightWay, to support our target of zero fatalities or serious injuries, off-site or on-site.
- Requiring industry leading operational standards on the river, through our compliance with the code of practice and validation of worker skills via new training approaches, such as the vessel simulation training facility.
- Mitigating liquidity risk and interest rate risk, by raising significant amounts of long-term debt well in advance of needing the financing.

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

Our risk management framework

Our ability to deliver the positive outcomes we want to achieve for all of our stakeholders depends on our ability to manage risk.

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

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Group's activities, both as the client or through the PM and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities.

The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. The Executive Risk Committee considers on a rolling basis the programme risks across the West, Central and East areas. During the year, we separated out the review of corporate risks from programme risks, to strengthen the approach to both risk groups.

Throughout this risk management process, we actively review and manage new and emerging risks. In the year, we continued to review our exposure to cyber risk, due to its rising prevalence. This resulted in strengthened internal systems and the refinement of current processes. Due to these mitigations and the residual impact should an attack occur, we continue to believe this is not a principal risk for Tideway.

Principal risks

Set out below are our principal risks, which are those that could have a material adverse impact on our business, reputation or financial condition. Each principal risk is owned and managed by a named member of the senior management team.

The past year has yet again seen considerable progress across the project, which is continuing to have a positive impact on our principal risks. The Operational Performance Review and Finance Review sections set out the specific progress we have made in the year, particularly with respect to our continued focus on health, safety and wellbeing and construction.

The main changes in the year have been:

- a reduction in our reputation risk, to reflect our strengthened relationship with key stakeholders;
- an increase in Thames Water Performance risk, reflecting asset and performance issues whilst acknowledging a co-operative approach; and
- the addition of political risk to the existing regulatory risk. This is to reflect the increased political scrutiny of the water sector and other regulated industries.

It has been another successful year for our financing, as we secured a significant amount of our long term external debt requirements which improved certainty over our financing costs and provides liquidity to System Acceptance. Because of our financing activities, we have been able to remove interest rate risk from financing risks.

Further detail on changes in the year are included within the principal risk table on the next page.

PRINCIPAL RISK TABLE

Set out in the table are our principal risks, which are those that could have a material adverse impact on our business, reputation or financial condition. Each principal risk is owned and managed by a named member of the senior management team.

	1 Health, Safety and Wellbeing	2 Programme Delivery
Description	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. 2018/19 sees mobilisation of full marine capability, which brings with it associated health, safety and wellbeing risks.	We are delivering a capital investment programme of £3.5bn (£3.1bn in 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.
Effect	A safety failure could cause injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.	A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement. Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water, increase financing requirements and reduce returns for our shareholders.
Mitigation	We are implementing our RightWay programme, which is aligned to the delivery programme. It includes the RightStart approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites and for different prospective activities, including marine activities.	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 • An integrated, proactive approach to risk management
Relevant Objective	• Health, Safety and Wellbeing	• Schedule, Cost, and Quality • Financing
Commentary	**No change in risk level*** We have actively reviewed this risk during the year, particularly as we have mobilised on the majority of our sites. Additionally, we have updated the risk description to reflect the importance of ensuring we mobilise marine capability safely as it ramps up.	**No change in risk level*** Overall, our assessment of the risk and mitigation measures is unchanged, with some cost pressures balanced by contingency, coming through in the year.

	3 Supply Chain Failure	4 High impact, low probability (HILP) events	5 Financial risks
Description	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.	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.	**Credit Ratings Risk** Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.
Effect	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.	HILP events could have a significant affect 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.	The loss of an investment grade credit rating would affect our ability to raise debt.
Mitigation	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. The members of all three consortia are joint and severally liable.	We minimise the chance of these events occurring by using best-in-class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and we mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.	We have a robust delivery model, within a regulated framework, and a GSP. Maintaining or improving the timeline to deliver the tunnel will enhance confidence in our credit worthiness. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.
Relevant Objective	• Schedule, Cost, and Quality	• Health, Safety and Wellbeing • Company and People • Schedule, Cost, and Quality • Financing • Vision, Legacy, and Reputation	• Financing
Commentary	**No change in risk level*** We conducted a full review of our supply chain (including subcontractors) to assess the risk within our contracts, due to Carillion going into liquidation earlier in the year, even though it is not part of our supply chain. This was in addition to our business as usual supply chain reviews. We continue to monitor this closely and have undertaken appropriate contingency planning.	**No change in risk level*** We view the risk as broadly unchanged.	**Risk increased*** We note Moody's has reduced its rating of the water sector's regulatory regime from Aaa to Aa.

*Compared to previous year

	6 Inflation Risk	7 Reputation Risk	8 Thames Water Performance
Description	There is a risk of inflation that is lower than assumed in our business plan	We are particularly focused on the risk that poor performance on our sites, on the river or with our neighbours could damage our reputation and support	Thames Water is a key partner for Tideway. 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 also passes revenue through to Tideway.
Effect	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.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.
Mitigation	Tideway has issued RPI and CPI-indexed debt. Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.	We actively develop relation-ships with key stakeholders. For example, through our CLWGs we seek to find the best ways of addressing neighbours' concerns,in advance of works happening. The more-by-river strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river. We have established the Tideway brand, as part of our efforts to build trust and confidence and communicate the legacy and long-term benefits we aim to deliver.	Tideway and Thames Water have worked closely together through all key milestones to date. 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.
Relevant Objective	• Financing	• Company and People • Vision, Legacy, and Reputation	• Schedule, Cost, and Quality
Commentary	**No change in risk level*** We view the risk as broadly unchanged.	**Risk reduced*** As we have now mobilised on most of our sites and developed relationships with stakeholders, this risk has been reduced. We continue to conduct a proactive communication strategy, to manage the reputational impact of our works.	**Risk increased*** There have been some operational challenges in the past year, which have increased this risk. We are working closely with Thames Water to mitigate this.

	9 Regulatory and Political Risk		10 Brexit Risk
Description	**Political climate** The political climate appears to be shifting in favour of greater state intervention, illustrated by Labour's manifesto commitment to water renationalisation and Conservative support for utility price caps. This shift could have a range of regulatory, legal and reputational impacts on Tideway.	**Regulation** 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.	A referendum on the UK's membership of the European Union (EU) was held on 23 June 2016. Following enactment of the European Union (Notification of Withdrawal) Act in March 2017, Article 50 of the Treaty on European Union was invoked on 29 March 2017. On that date, a two-year negotiation period started for the UK and EU to negotiate a post-EU membership settlement.
Effect	Direct impacts could include government actions such as renationalisation. Indirect impacts are likely as public bodies react to changing government policy. Ofwat has already signalled that it is willing to intervene in a range of areas. Both direct and indirect impacts may affect investors and increase compliance costs.	If we do not meet Ofwat's requirements, we could face enforcement action 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.	Uncertainty about the final terms of the settlement is likely to have a short- to medium-term disruptive impact on a few fronts, such as the Tideway supply chain and the availability of skilled labour. As a result of the de-risking achieved on our financing plan, we are less concerned about impacts on the capital markets.
Mitigation	Tideway has a broad range of mitigation actions sitting across several teams, including information gathering and relationship building, legal horizon scanning, and Defra/Ofwat engagement.	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 Tideway's agreement. We focus on being a compliant and high-performing regulated company, with positive regulatory relationships.	We will closely monitor the supply chain and establish a dialogue to address labour issues in a timely manner.
Relevant Objective	• Schedule, Cost, and Quality • Financing	• Schedule, Cost, and Quality • Financing	• Schedule, Cost, and Quality • Financing
Commentary	**New risk** During the past year there has been a shift in the policy environment, which has caused us to include this risk. We will monitor it closely	**Risk increased*** We view that there is an increased likelihood of regulatory change in the sector while compliance with our obligations remains unchanged.	**No change in risk level*** We continue to include this as a principal risk, given the scale of uncertainty and the potential impact of the business.

*Compared to previous year

Long-term viability statement

The UK Corporate Governance Code requires company directors to state whether they have a reasonable expectation that Tideway will be able to continue in operation and meet its liabilities as they fall due over a long-term period.
To assess the Group's long-term viability, the Board has:

- identified the most appropriate period over which to make the assessment;
- evaluated the Tideway's current position and future prospects; and
- considered the potential impact of principal risks over the period and, where appropriate, analysed the potential financial impact under a suitable set of sensitivities.

The Board considers that it is now appropriate to assess the Tideway's viability over the period to 2030, in line with Tideway's current regulatory period. This time horizon is supported by the progress made in the implementation of our investment programme to date, and the significant de-risking of our financing plan achieved during the last year. This period extends beyond the forecast timeline for delivery of the Thames Tideway Tunnel and System Acceptance by Thames Water but is still covered by Tideway's planning horizon which extends to the end of the current regulatory period (2030). The Board is not aware of any specific relevant factors that would affect this statement beyond this period and therefore has no reason to believe Tideway will not be viable over a longer period.

The viability assessment takes into account our business and financing plan which is prepared as part of our annual planning process. The plan is consistent with our performance since Ofwat granted our Licence in August 2015 and with our financial position at the end of the financial year. In the period covered by this Annual Report, we continued to implement our financing plan and raised £1.05bn of long-dated debt. Post period end we raised additional £325m in long-dated bonds. Tideway has now raised £2.5bn of long-term financing since Licence Award, and we would be able to fund our operating activities and fixed charges until 2030, using cash available in our balance sheet, the committed and undrawn debt facilities (including the £750m Revolving Credit Facility), and the revenue we will generate over the period.

Where appropriate during the year, we conduct sensitivity analysis on our financial model to stress-test the resilience of Tideway and our business model to the potential impact of our principal risks, or a combination of those risks. For the purposes of this assessment, we have considered the likely impact of each principal risk on Tideway's viability, taking into account the availability and effectiveness of risk mitigation plans and the measures we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, we take into account the Board's regular monitoring and review of risk management and internal control systems.

We have assessed the potential impact of the principal risks on Tideway's viability by modelling a number of scenarios, which have been discussed and agreed by the Board. We consider that there are three key routes through which viability could be impacted: increases in the total cost of the project, reduction in outturn inflation, and an increase in bad debt. For each of these routes, we have modelled three scenarios representing impacts ranging from moderate to severe. For increases in the total cost we have modelled 10%, 20% and 30% increases in remaining cost to complete the project. For inflation risk we have modelled scenarios where outturn inflation is 1% and 2% lower than current expectations, as well as a scenario with 0% average inflation in the period. For bad debt, we have assumed a 50% lower revenue collection in one, two and four years in the period. Finally, we have modelled a combined scenario with 20% cost increase, 2% lower inflation and 50% revenue under recovery for 2 years, which we consider a reasonable 'worst case' combination of impacts given that we do not believe principal risks are strongly correlated.

The Board confirms that it conducted a robust assessment of the principal risks facing Tideway, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks section of this report.

The outcome of the sensitivities has been assessed considering a range of different financial ratios. In all downside scenarios modelled, the ratios are robust, above the minimum requirements in our financing covenants and consistent with an investment grade rating, and Tideway does not call on the Government Support Package. The output of this analysis is summarised in the following table.

Risk	Scenario	Assessment
Programme delivery (includes HSW risk, Supply Chain Failure, Thames Water performance)	**Scenario 1.** An increase of 10% in the remaining cost to complete the project	Tideway would be able to finance the increase in cost by flexing the amount of distributions to its shareholders. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 2. An increase of 20% in the remaining cost to complete the project	
	Scenario 3. An increase of 30% in the remaining cost to complete the project	
Inflation risk	**Scenario 4.** Outturn inflation 1% lower than current forecast	A high percentage of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 5. Outturn inflation 2% lower than current forecast	
	Scenario 6. Average inflation 0% until 2030	
Thames Water performance - Revenue collection	**Scenario 7.** A 50% under recovery in one year	Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 8. A 50% under recovery in two years	
	Scenario 9. A 50% under recovery in four years	
Combined scenario	**Scenarios 2, 5, and 8.**	Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.

In reaching its conclusion, the Board has taken into account Ofwat's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect Tideway's viability.

The Board also believes that financing will be available to Tideway over the period covered by the analysis, although given Tideway's liquidity position this assumption is no longer critical to arrive at the conclusion. In this respect, the Board believes that it is reasonable to assume that the purchasers of our deferred bonds will honour their commitments given the diversification and credit worthiness of the institutions with which Tideway has entered into such agreements.

We have undertaken a range of internal assurance activities, which the Board considers provide a robust degree of assurance over the analysis. This long-term viability statement has also been reviewed by KPMG as part of the statutory audit. The Board considers that this combination of internal and external assurance means that checks have been carried out by parties with the most appropriate skills and knowledge.

On the basis of the robust assessment of our principal risks, and on the assumption that we manage or mitigate them in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of our sensitivity analysis and assurance described above, the Board has a reasonable expectation that Tideway will be able to continue in operation and meet its liabilities as they fall due over the period to 2030.

The Board has also considered it appropriate to prepare the financial statements on the going concern basis. The Directors believe, after due careful enquiry, that Tideway 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 2018 financial statements.

Performance Review

Health, Safety and Wellbeing

Figures from 2017/18

Number of major injuries

Target	Actual
0	0

Number of reportable accidents*

Accident Frequency Rate 3

Target	Actual
0.00	0.09

Accident Frequency Rate 7

Target	Actual
0.00	0.09

* Per 100,000 hours worked – includes both Tideway employees and contractors

Definition:
__Major Injuries:__ Any serious injury that results in permanent disability, long-term medical problems or shortened life expectancy (i.e. life changing).
__AFR-3:__ 12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than three days lost time for the individual involved. Injuries included in AFR-7 will automatically be included in AFR-3.
__AFR-7:__ 12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than seven days lost time for the individual involved. Injuries included in AFR-7 will automatically be included in AFR-3.

Our priorities and performance for the year

Tideway's health, safety and wellbeing (HSW) objective is to achieve zero fatalities or major injuries, off-site and on-site. We will do this by setting new standards for HSW through our transformational programme. This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages.

In support of this, our priorities for 2017/18 were to:

- continue the RightStart programme introduced in 2016/17, which aimed to reduce the number of incidents in the first six months on-site, when accidents typically occur;
- continue to focus on leading indicators and assessment through our Health and Safety Performance Index (HSPI);
- validate Tideway's approach to HSW through employee engagement;
- ensure no increase in risk as a result of marine activities; and
- increase our focus on occupational health and wellbeing across the programme.

Despite the ramp up on most of our sites, we were pleased that there were no major injuries this year, which was a significant achievement for both Tideway and the people working on the project. However, we did have a number of lost time incidents, including four injuries which contributed to AFR-7. We are committed to finding ways to do things better and we have investigated these lost time incidents and implemented the lessons learned. Overall, our AFR-7 of 0.09 compares very favourably with other large infrastructure projects during their mobilisation phase, and we will strive to continue this.

We recognise the importance of measuring ourselves against others and were pleased to achieve second place for a "medium sized" organisation in the new entrant category for Vitality's Britain's Healthiest Workplace 2017 competition. The results have highlighted strengths and improvement areas, which we will look into, as well as a clear direction for our health and wellbeing programme.

RightWay

RightWay is Tideway's HSW strategy and approach. It is shaped by:

- the recognition that 'we are all in it together', with a true sense of collaboration and a commitment to a common goal;
- learning from previous projects, to identify best practice and implement it on Tideway;
- a supportive yet challenging collaboration between us and our supply chain;
- the creation of a supportive environment for our teams to thrive in; and
- the recognition that we need to focus on our people and innovative approaches, to push beyond mere compliance and make significant improvement.

In 2017/18, we embedded RightStart Reviews. These confirm that site start up and welfare arrangements are effectively implemented in advance of any new works and that they meet Tideway's transformational aspirations. RightStart Reviews complement standard readiness reviews, which confirm that all engineering, health, safety and security, and consents requirements are in place. RightStart Reviews ensure that we and the contractors discuss and agree the criteria that they are required to demonstrate, for example relating to welfare or security.

The Transforming Health and Safety Working Group (THSG) is Alliance-wide. It was established to look at how we can make a difference to on-site activities, through the people involved in leading day-to-day health and safety. During the year, the THSG improved its effectiveness and rigour by involving a broader range of stakeholders and by improving the structure of its meetings, to ensure more transparency of sub-group activities and greater visibility of actions raised in the group, to support the sharing of best practice.

EPIC

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

To date, over 12,000 employees and contractors have attended the programme, including approximately 4,900 in 2017/18. This includes people working on Tideway and from other interested companies, allowing us to further improve health and safety in the industry.

Following feedback from drivers attending the induction, EPIC Logistics was developed and launched in 2017/18. This was also approved by the Driver and Vehicle Standards Agency. EPIC Logistics aims to help HGV drivers on Tideway understand their role in ensuring the safety and wellbeing of everyone on the project, as well as the public.

In December 2017, Tideway, in partnership with Active Training Team, won the 'Health, Safety and Wellbeing Initiative of the Year' category at the 2017 New Civil Engineer Tunnelling Awards. In addition, EPIC has been shortlisted for the following 2018/19 awards:

- Construction News Awards 2018 – 'Training Excellence' category
- Water Industry Achievement Awards 2018 – 'Health and Safety Initiative of the Year' category for EPIC
- Ground Engineering Awards 2018 – 'Health and Safety Award' category.

HSPI

We introduced HSPI in 2016/17. It enables us to develop a balanced scorecard, so we can measure the HSW performance of the contractors working on the project. HSPI comprises a set of leading performance indicators, developed by analysing accident and incident data from previous projects and considering future risk profiles. Each performance indicator is scored either:

- 0 (does not meet basic HSW expectation);
- 1 (meets basic HSW expectations);
- 2 (exceeds HSW expectations); or
- 3 (meets transformational HSW expectations).

We review all indicators annually, to ensure they remain challenging and relevant to current and future works and support our approach to transformational HSW. HSPI enables us to introduce targeted improvements, specific to each MWC, to improve HSW on our sites further.

In 2017/18, the overall HSPI score improved from 2.15 at 31 March 2017 to 2.24 at the end of March 2018, with 11 of the 14 measures meeting or exceeding an average score of two.

Health, Safety and Wellbeing Culture Survey

Our first annual HSW Culture Survey completed in December. The survey explored employees' attitudes and perceptions in key areas of HSW and was intended to identify further opportunities for improvement. Initial reports were shared with the MWC and PM teams in January and we have identified initial areas of improvement, such as managing stress. We are now carrying out further work to develop action plans to address these improvement areas.

Mates in Mind

We recognise that mental health is a major issue in our sector and is important to our people and the project. Tideway is therefore a sponsor and early adopter of the Mates in Mind programme, which has also been adopted by the MWCs and PM. Mates in Mind aims to raise awareness and understanding of mental health and mental ill-health in construction, helping people to understand how, when and where to get support and breaking through silence and stigma by promoting a culture of positive wellbeing throughout the industry.

Start the Conversation

Tideway launched 'Start the Conversation' training sessions in February 2018, as part of the Mates in Mind programme. The 45 minute sessions are delivered by trained Tideway employees and aim to create general awareness and understanding of mental health and its biggest barriers, particularly in the workplace. To date, 110 Tideway employees have attended sessions, with further sessions being rolled out by MWCs on sites across the programme.

Mental Health First Aiders

In addition to training 40 mental health first aiders to date, we hosted our first Mental Health First Aiders Networking Group event on 23 February. The group provides a support network for all trained mental health first aiders on the programme. The networking events will be held regularly, ensuring attendees are refreshed on key topics that were taught in training.

Marine Training

Marine training is important because of the significant positive impact we can have as the river economy develops. We are seeking to drive change in an industry that has had less attention to date than general construction and as a result has a different culture.

Our HSW Training Team has worked extensively with Thames Skills Academy (TSA) to introduce a Personal Survival course, which is suitable for our operatives. In addition to providing information about the riverside environments, the course allows candidates to experience entering the water with an auto-inflating lifejacket. With the TSA, Tideway has worked with HR Wallingford to develop a programme for Boat Masters and vessel Mates, including use of Thames river simulators. The programme continues to be rolled out with the marine operators. During the year, 8 boat masters have been trained across the programme, bringing the total over the project to 24.

The Marine Safety Group was formed in 2017/18 to encourage dialogue between marine contractors, MWCs, Programme Manager and Tideway. This includes sharing of best practices and lessons learned following incidents, and the development of new initiatives to help improve all aspects of marine operations on Tideway.

The group identified two key actions for implementation across the programme:

- Development of an EPIC refresher module focused on marine safety, which is currently in the early development stage; and

- Engagement of an independent body to carry out an audit on marine activities. This was conducted during the final quarter of 2017/18. The initial findings were presented at the Marine Safety Working Group, with the final report currently being produced.

Security and Incident and Crisis Management

During the year, we implemented new incident management procedures following a review of our processes. The new procedures are now aligned to national best practice and the Joint Emergency Services Interoperability Principles (JESIP). In addition, we conducted two incident/crisis management exercises at our head office, using a new exercise provider, London Resilience (the resilience forum for London). This makes Tideway the first private sector company to conduct an exercise with London Resilience.

Schedule, Cost and Quality

Figures from 2017/18

Delivery against the regulatory baseline – cost*

Target	Actual
£3.5bn	£3.5bn In line with our target

Delivery against the regulatory baseline – schedule

Target	Actual
Handover by quarter one 2024	Handover by quarter one 2024 In line with our target

*Tideway's element of the programme in outturn prices (based on current inflationary expectations), up to System Acceptance by Thames Water. Ofwat has set a regulatory baseline of £3.1bn (in 2014/15 prices, with the total of £3.5bn in outturn prices)

Our priorities for the year

Our objective is to deliver the Thames Tideway Tunnel safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, as well as delivering environmental benefits more quickly and reducing disruption to local residents.

Our focus on the highest levels of safety, the best schedule possible and the most efficient use of the river all serve our ambition to deliver the tunnel at the lowest possible cost.

Performance

This has been a challenging but highly successful year, as we have significantly progressed design and consenting and started on all but one of our sites. The change at many of our sites is clear to see, as we look forward to starting tunnelling this year.

Our performance in the year is in line with the challenging targets we set ourselves to make a positive start and de-risk the delivery of the project. The last year has a built a solid foundation on which we can continue to deliver the project, ensuring we are in line with our regulatory cost of £3.5bn (outturn prices) and handover by quarter one 2024.

To achieve this, we have worked through the challenges typical of the early phase of any major infrastructure project in a busy city. These included developing high-quality designs, building teams with the right skills and expertise, establishing the construction sites and securing the necessary consents, so we could start major engineering works in some of the most congested areas of London. Making a positive start, while keeping our people as safe as possible, has given us greater confidence on meeting our schedule.

We have made significant progress at our three main drive sites. At Carnwath Road in the West, we have constructed an acoustic shed to minimise disruption to residents and begun excavating the shaft. At Kirtling Street in our Central section, we have excavated the shaft down to 53m and constructed the launch tunnels for the TBMs. This is our first piece of tunnelling on the project and paves the way to launch the TBMs later this year. At our Chambers Wharf site in the East, we have completed the construction of a cofferdam to increase the size of the site. This has allowed us to install a diaphragm wall in the chalk, in readiness for excavating the shaft.

In preparation for receiving our TBMs, we held a public competition, with over 24,000 votes submitted, to select names based on well-known women from the boroughs the machines will be launched from. Following this, the project took delivery of three TBMs (Rachel, Millicent and Ursula) this year.

Area	West		Central		East	
TBM	Rachel	Charlotte	Millicent	Ursula	Selina	Annie
In recognition of	Rachel Parsons, who established the first women-only engineering company in Fulham.	Charlotte Despard, a key figure in the suffragette movement.	Dame Millicent Fawcett, an English suffragist, intellectual, and political leader, who is the first woman to be commemorated with a statue erected at Parliament Square.	Audrey 'Ursula' Smith, a British cryobiologist at King's College Hospital in South London, who discovered the use of glycerol to protect human red blood cells during freezing.	Selina Fox, a pioneering doctor who set up Bermondsey Medical Mission for the poor and disadvantaged residents in Bermondsey. It still continues today as a charity.	Annie Scott Dill Russell, the first female scientist to work at the Greenwich Observatory and who worked as a 'Lady Computer'. She worked for the Astronomer Royal William Christie and paved the way for women in science.

During the year, we have seen our initiative to encourage the use of low entry cab (LEC) HGV's bear fruit, with the first concrete deliveries from this type of vehicle. The LEC vehicles ensure better visibility for drivers, reducing the likelihood of injuring vulnerable road users.

Commercial

The Company has made certain scope changes under the contracts, such as the 'More by River' initiative and changes at Blackfriars due to a reassessment of our interaction with other utilities. The combination of these factors has resulted in an increase to each of the Main Works Contractors' target prices since Licence Award. Due to this the Company has allocated contingency within the Regulatory Baseline to reflect the increase in target prices. This contingency was included in the original baseline to recognise the cost impact of Company retained risks. As we allocate contingency there is less unallocated contingency available within the Regulatory Baseline to fund any Company retained risks that materialise in future. However, as work progresses the Company has the benefit of greater clarity over the cost and timing of the works generally. We remain on track to deliver the project to both time and our regulatory baseline cost.

Working with our stakeholders

Securing the consents required was key to achieving start on site. We have therefore worked closely with all of the consent granting bodies: Transport for London (TfL), the Port of London Authority (PLA), the Marine Maritime Organisation (MMO), the Environment Agency (EA) and local authorities. As we have set up joint offices with the Project Manager and Main Works Contractors, we have focused on finding ways to work as collaboratively as possible with the consent granting bodies, some of whom joined in the co-location. As a result, we have developed good working relationships with all consent granting bodies.

More by River

We know the importance to our neighbours and to London of using the river as much as possible. Our commitment to do 'More by River' aims to get as much traffic as possible off the roads, increase safety and reduce congestion around our sites, and benefit air quality and congestion in London more generally. During the year, we delivered three TBMs by river to our sites at Carnwath Road and Kirtling Street. We also use the river to deliver materials to all of our foreshore sites and to remove spoil excavated.

Innovation

Tideway's Innovation programme has had an exciting year in terms of engagement campaigns within and outside the Groupy, innovations invested in and fruits of previous years' innovations being realised. Colleagues across the Alliance continued to develop novel solutions, implement innovative technologies and share their knowledge on the online industry innovation portal, with 50 innovations published online and 80 new ideas submitted to our Innovation team. Tideway invested over £270,000 in new ideas, which included over £93,500 for plant telematics and over £21,000 for low carbon cement free concrete trials, both successful pitches aimed at reducing the project's carbon footprint as well as cost. Plant telematics is expected to realise significant cost savings, estimated at approximately £400,000 in the first year alone.

Tideway continued to engage across the industry to support collaboration and innovation. This included Andy Mitchell chairing the cross-industry group i3P and hosting its first live funding event, i3P Spark. This had over 30 collaborative submissions from member organisations, with £100,000 from the i3P Collaborative Innovation Fund invested in three winning pitches from the final. These were the ideas deemed to have the highest potential to benefit the whole industry.

Area Summary

<u>West Area</u>

Tideway's West team has been working with the MWC, BMB, to successfully mobilise on all seven of the West sites: Acton Storm Tanks, Hammersmith Pumping Station, Barn Elms, Putney Embankment Foreshore, Dormay Street, King George's Park and Carnwath Road Riverside.

The most obvious sign of progress is at our Carnwath Road site, where we have started excavating a shaft from which we will launch the TBM. We have built an acoustic enclosure to reduce the impact on local residents, which includes two gantry cranes and a concrete batching plant to support the shaft construction and tunnelling. We have also installed around 500 piles to support the site structures and strengthen the river wall, allowing us to move materials by river.

Rachel, our first TBM to arrive on the project, was delivered to Carnwath Road Riverside site on 1 December 2017 and will tunnel to Acton Storm Tanks. Charlotte, the second TBM for the West, is currently being refurbished and will arrive at Dormay Street later in the year. Charlotte will construct the Frogmore Connection Tunnel from King George's Park in Wandsworth to Carnwath Road.

At Putney, the year began with completion of the temporary slipway, which opened for public use in June 2017. The main works design and construction methodology were changed at the Putney site, so they are safer and offer significant potential savings and a shorter construction programme than the original solution. Both the temporary and permanent works piling are planned to be completed by the end of 2018, as well as starting construction of the shaft. In March 2018, the Heads of the River Race and the University Boat Race both used the site safely and successfully. Our team ensured that the University Boat Race Slipway, which is within our site, could be used to start the races.

BMB started at Dormay Street in June 2017, with the welfare facilities and office opening in November 2017 on Causeway Island. We installed a 30m footbridge over the Bell Lane Creek, to allow safe access for workers and increase efficiency between the two sections of the site. River wall strengthening works are ongoing prior to shaft construction, with shaft piling planned in May 2018.

At Hammersmith, we completed all pilling works and have begun modifications to the Inlet Works, new pumping station, shaft and culvert excavation.

At Barn Elms, construction of the new changing rooms has started and they are scheduled to be open in Autumn 2018.

King George's Park was handed over to BMB by Thames Water in November 2017. One of the key activities was completing the temporary footpath through the site, which was handed over and opened by the London Borough of Wandsworth Parks Team in December 2017. In addition, we built a bridge to protect the existing sewer, allowing vehicles and plant to access the entire site.

Acton Storm Tanks was the final of the seven sites to mobilise in November 2017. Site set up has begun, together with initial enabling works.

Our team in the West has worked hard to minimise disruption for the local residents and hold regular meetings to allow local communities to engage with the project.

Central Area

Working with the MWC, FLO, our Central Team made concerted and high-profile progress across all eight sites in the Central Section. Our progress over the past year has built on the solid foundation of the previous year, with some significant works packages complete and many more started.

Progress has been most significant at the main drive site at Kirtling Street, where we completed the shaft excavation, following the completion of the diaphragm walls forming the sides of the shaft. The site now has a shaft more than 50m deep and more than 30m in diameter, providing an imposing and dramatic beginning to the construction of the main tunnel. Above ground, the site team has constructed an acoustic enclosure, which is a 25m tall structure designed to protect our neighbours from noise arising from the works inside.

At Blackfriars, the team has worked hard to overcome some significant engineering challenges primarily caused by the project's reassessment of the tunnel's proximity to two large Victorian gas mains. We need to ensure that the mains are not damaged by our works and we have been working very closely with Cadent, City of London and TfL to come up with a solution. This has required us to alter our method of construction which has impacts on schedule and cost at this site. We have also agreed with our contractor FLO revised commercial arrangements for the site. During this year, we will explore how best to optimise the scheme at this complex site. The team has done an excellent job and we have started construction of a cofferdam, in line with our programme.

At Victoria Embankment, we have continued site works to drive a sheet pile cofferdam, providing a strong wall in the river foreshore behind which we can begin construction of the drop shaft and associated structures. Both the Blackfriars and Victoria sites have also made a significant mark on the landscape, with striking hoardings and cabins in some of the most visible parts of the city, which are popular with tourists and Londoners alike.

At Albert Embankment, we completed works to install protective noise insulation, providing the mitigation required for businesses next to the site. This was followed by the construction of a sheet piled cofferdam and works to divert several important utilities at the site.

We have set up Heathwall pumping station, close to Kirtling Street, with the installation of cabins and the completion of enabling works to protect utilities running close to the worksite. The Chelsea Embankment Foreshore site has provided a unique challenge, with the site team working hard to accommodate the specific needs of the annual Chelsea Flower Show alongside our works. With piling started, the team is engaging well with the Royal Hospital Chelsea to protect its vital income streams during the main works construction.

At Cremorne Wharf, the Central team has worked with Thames Water to support its works around the Counter's Creek Flood Alleviation Scheme. We are now working to set up the site at Cremorne Wharf, carrying out a range of works in the existing sewer network and on the site to prepare for main works construction.

At Falconbrook Pumping Station, works to set up the site have continued, with Tideway taking possession of the site from Thames Water and setting up site hoarding and preparing for main works.

The Central Team has continued to engage with our local communities and holds sessions monthly for all affected. At our Blackfriars site, we produce a monthly newsletter which is shared with all local businesses and residents, helping to ensure positive working relationships. The team is involved in the community, carrying out volunteering activities including helping with a local homeless charity and painting and repairing a local community centre.

We successfully took delivery of the two TBMs for the Central Section by river. The TBMs, named Millicent and Ursula, were built in Le Creusot, France, and have travelled 500 miles to London.

The next year will be critical for the Central Section of the project, as we launch the two TBMs and expand our foreshore sites into the river. Following the concerted efforts of the site teams, the Central Delivery Team is in a strong position to tackle the challenges of the coming year.

East Area

2017/18 saw significant progress across the eastern section, reflecting the collaborative approach between us and CVB, our MWC for the East.

At our main drive site, Chambers Wharf, we successfully completed the cofferdam, which increased the size of the site by 40%. The existing jetty was then removed and the team has now completed the diaphragm walls of the shaft using an innovative electrically powered hydrofraise. This reduces noise and shows our commitment to mitigating the impact on our neighbours and other local stakeholders. The works saw 35,000 tonnes of material being excavated, all of which was removed from site by barge in line with Tideway's More by River commitment. Similarly, all reinforcement cages for the walls were delivered to site by barge. We successfully completed fissure grouting at the site with the creation of a grout block of 17,000m3, to reduce the permeability of the chalk at the tunnel apertures. The site is now preparing to begin archaeology undertakings, shaft excavation and the installation of the acoustic enclosure.

At King Edward Memorial Park we opened the new permanent playground. This leaves a lasting legacy for the community in Tower Hamlets and has been well received locally. Completion of the cofferdam is taking longer than planned, due to unexpected ground conditions which require the team to install some additional piles. During the installation of the cofferdam at King Edward Memorial Park a jack-up barge became unstable and as a precaution we evacuated the neighbouring flats. This obviously caused concern and disruption to our neighbours and we have taken their feedback in refining our incident management plans. Diaphragm walling is now planned to start in 2019.

Excellent progress continues at Greenwich pumping station, where the team has worked closely with key stakeholders. A significant incident in the sewers at Greenwich led Thames Water to revise its sewer entry conditions across all of its assets and Tideway is working closely with Thames Water to embed these arrangements. Close collaborative working with Thames Water, Network Rail and Docklands Light Railway was instrumental in ensuring that diaphragm walling started on time and recent progress has been ahead of our regulatory baseline.

At our Deptford Church Street site, the offices are now fully installed and the team is getting ready for the start of diaphragm walling. At Earl Pumping Station, work continues with site preparation.

The two east TBMs, Selina and Annie, will be used to drive the tunnel from Chambers Wharf to Abbey Mills and the Greenwich Connection Tunnel. Design and manufacture of the TBMs is currently under way in Germany and the team is developing delivery options for them, utilising the river as much as possible.

Engaging with our local residents and stakeholders remains key for the East team, as we recognise the impact that works can have on them. Community Liaison Working Groups are now running at all our sites. The community information centre is open every week at Chambers Wharf and is a valuable space to engage with local residents and stakeholders. The team also continues to work closely with our consenting bodies and local authorities and maintains strong and open relationships with our key stakeholders.

Vision, Legacy and Reputation

Figures from 2017/18

Percent of live legacy commitments on track

Target	Actual
75%	79% Monthly Average

Apprentices per project staff

Target FTE	Actual FTE
1 in 50	1 in 50 Monthly Average

STEM* volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	4.7 hours 2527 hours in total

Community volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	13.9 hours 7012 hours in total

54 Legacy Commitments

37 Live Commitments

These included:

Health, Safety & Wellbeing	• EPIC • Boat Masters Health & Safety training • Industry leading lorry and vulnerable road-users initiatives
Environment	• Minimise carbon footprint
Economy	• Use of CompeteFor to encourage SMEs (small or medium sized enterprises) to compete for contracts • Supporting the London and UK Economy • Fair Payment Charter • Encourage Innovation
People	• London Living Wage • Local employment • Creating an inclusive environment • STEM education
Place	• 2 for 1 Tree replacement • Arts and Heritage Strategy • Community Investment activities

*Science, Technology, Engineering, Mathematics (STEM)
**Includes Tideway and MWC staff

Our priorities for the year

We want to create a supportive environment for delivering the tunnel, by building positive relationships with our stakeholders and demonstrating that we are meeting our commitments to leave a positive legacy.

Legacy

Our objective for 2017/18 was to ensure that we continue to integrate our legacy commitments into all facets of our operations. Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to keeping our carbon emissions down. This year our aim was to exceed our ambitious target of 75 per cent of live legacy commitments being on track at the year end. By the end of the year, 79 per cent were on track, which meant we exceeded our target when averaged across the year, with plans in place to address the lagging commitments. In addition, an independent assessment of the social value of our legacy commitments has shown that the anticipated return on investment for every Tideway pound spent was approximately £3.39.

Stakeholders

With work now under way at 20 of our 21 sites, we are more visible and our work has greater impact. This year we continued to build relationships with the communities we work within, as well as a wide range of other stakeholders across London.

Community Liaison Working Groups (CLWGs) now operate at each site in various formats, depending on the specific nature of the works and the best way to engage local residents and stakeholders. Our Helpdesk, which operates 24 hours a day, seven days a week, dealt with over 4,000 calls during the year and updates and news about the project published via social media channels saw a significant uptake.

Our contractors' community relations teams are based on site, reflecting our commitment to engaging with the communities in which we are working. The last year also saw the opening of the Community Information Centre at Carnwath Road, adding to the centres at Kirtling Street and Chambers Wharf. The centres allow us to host visits and events, to explain our works and the construction milestones to our stakeholders.

With greater activity on site, we have been able to use site tours as a way of engaging our stakeholders with our work. These complement the regular Tideway boat tours that we run to explain project aims, objectives and progress. Approximately 400 stakeholders joined one of the 50 boat tours held in the year, with plans in place to deliver these types of engagement opportunities for a general public audience in the year ahead. As part of the Government's flagship Skills Summit, we hosted the Education Secretary on a site visit to Kirtling Street, together with national media, to showcase Tideway's apprenticeship commitments.

To mark the centenary of the Representation of the People Act 1918, Tideway participated in the Government's 'suffragette flag relay', celebrating 100 years since women over the age of 30 were given the right to vote. A replica of the suffragist flag has travelled the country to mark the anniversary and made a stop at our Kirtling Street site as part of the celebration, further emphasising Tideway's commitments to diversity and gender parity.

Carbon

Tideway is a signatory to the Infrastructure Carbon Review. We made good progress in the year, achieving 75% of our Carbon Action Plan target. Further work is being undertaken with the remaining 25% to ensure that we achieve 100%. This resulted in progression along the maturity matrix, which is reported in full to the Department for Business, Energy & Industrial Strategy (BEIS). In the past year, our MWCs have been able to obtain more accurate carbon data, which resulted in our carbon footprint being reduced to 787,889 tonnes from 840,000 tonnes CO_2e. Our MWCs continue to report carbon performance on a quarterly basis, which will start to show the benefits of initiatives funded through our innovation programme and maximising our use of the River Thames as an artery to import and export materials.

Community investment and charitable giving

As part of our commitment to engaging with and supporting the communities we are working in, we actively support a number of community-based projects and charities.

Our partnerships with London Youth Rowing (LYR) and Thames21 had significant achievements in the year. LYR's new Active Row programme, funded by Sport England and Tideway, helped more than 2,700 young people to get active through rowing, representing a great start towards its target of reaching 8,000 youngsters over four years. Thames River Watch is the Tideway-funded programme run by the environmental charity Thames21, which recruits and trains volunteers to collect data on litter found in the Thames. This data was used by the GLA's Environment Committee to support its case for new policies on plastic waste. Mayor of London Sadiq Khan subsequently announced the introduction of water fountains to help tackle the problem.

Our local community investment programme ramped up in the year, to keep pace with the increase in our on-site activity. Highlights included the completion of a new children's playground at King Edward Memorial Park in Tower Hamlets; the start of work to build a new arts and community centre in Sands End, Fulham; and the funding of a new lease for a community centre in Kensington and Chelsea, to allow the World's End and Lots Road Big Local, a local trust, to continue to support community projects.

Tideway staff also continued to raise considerable amounts for London charities. One of the highlights was in June, when 90 staff in 12 boats rowed nine miles down the Thames from Chelsea to Deptford. With Tideway matched funding, they raised £37,000 for the AHOY Centre at Deptford, which supports disadvantaged and disabled children through rowing and water sports.

At the end of 2017, Tideway staff elected three new charity partners as the focus for their fundraising: South London Cares, which is a community network of younger professionals and older neighbours helping one another; Single Homeless Project, which supports homeless people across London; and Drive Forward Foundation, which supports care leavers aged 16 to 24 looking for employment. During 2017/18, Tideway staff raised a total of £43,303 for charity through organised and individual events. Tideway itself gave a total of £40,062 in charitable donations in 2017/18, in addition to the community investments mentioned above.

Educational outreach

In 2017/18, Tideway's education programme celebrated its fifth year of operation, over which period some 3,000 hours of volunteering have taken place. In the last financial year alone, the programme has reached over 4,000 young people with over 400 hours volunteered by Tideway staff.

The programme continues to develop new and innovative approaches to working with schools and colleges, to promote careers in engineering and construction whilst also delivering programmes that have become commonplace in our school engagement calendar.

A new development this year was the launch of our augmented reality tunnelling application, which provides teachers, students, and the wider community with an interactive way to learn about the project and has already been downloaded hundreds of times. This marks a new direction for our online educational resources, away from set piece lesson activities, towards shorter interventions that provide teachers with the flexible resources they need for a modern classroom environment.

Meanwhile our activity for British Science Week, STEM on the Thames, saw over 500 young people participate in an exciting week of activity out on the River Thames, learning about engineering, the river and the environment around them.

We are forging deeper relationships with new partner schools in strategically important boroughs. Over 80 STEM ambassadors have participated in events with our partner schools or supported careers fairs, work experience students or educational programmes with our partners, such as the Construction Youth Trust.

Supply chain

Our commitment to supporting the London and UK economy is demonstrated through our supply chain spend. This has extended throughout the UK and included the provision of technical equipment and services, materials and plant, labour, accommodation and catering facilities.

Ethical supply chain management is strategically significant for us, as shown by our:

- requirement for all full-time site and office-based employees on Tideway to be paid at least the London Living Wage, with robust assurance processes in place to identify and address any non-compliance;
- our Fair Payment Charter, which supports BEIS's ambition to ensure the construction industry has standard 30 day payment terms. We issued the Charter to all 1,029 supply chain companies in the UK and the 33 companies from outside the UK, and required them to comply with it;
- responsible sourcing, which requires all of our key building materials, principally steel, cement, aggregates and timber, to be certified to either Building Research Establishment's (BRE) responsible sourcing standard BES 6001 Very Good or above, CARES Sustainable Constructional Steel (SCS), Eco-Reinforcement or FSC or PEFC timber, as applicable;
- staff engage in policies, procedures and awareness events covering the complexities of human rights and ethics in the supply chain, including our Modern Slavery Statement, Anti Bribery and Anti-Corruption procedures; and
- compliance with the Ethical Trading Initiative Base Code.

Company and People

Figures from 2017/18

Employee diversity*

Percentage of women within Tideway at 31 March 2018

Target	Actual
40%	36%
	37% previous year

Employee engagement

Tideway employee survey: percentage of favourable responses

Target	Actual
63%	64%
	63% previous year

Employee enablement

Tideway employee survey: percentage of favourable responses

Target	Actual
67%	71%
	67% previous year

*Includes Tideway employees and our programme manager.

Our priorities for the year

Our priority for 2017/18 was to evolve the capabilities of the organisation, to support and encourage efficient delivery through a motivated and empowered team.

Performance

Overall it was a successful year, with a variety of initiatives delivering benefits across the organisation, including the office move and implementation of our Tideway Operating Model (TOM). We introduced innovative ways of working, both physically and virtually, and we continue to promote flexible working arrangements to improve wellness and employee satisfaction. We also implemented new office layouts to improve collaboration in our new London Bridge office. In addition, we reviewed our communication channels to make more information available and ensure all staff are kept up to date and have the right information and tools to be effective in their day-to-day work.

These changes were reflected in our 2017 employee survey, which included Tideway, Jacobs (formerly CH2M), agency workers and subcontractors. Employee engagement increased from 63 per cent to 64 per cent and enablement from 67 per cent to 71 per cent, indicating that we are improving and that our people feel valued and empowered.

Review of Corporate Structure

During the year, we invested time in ensuring that all parts of the organisation are clear on their respective roles and responsibilities, and developed the TOM, which clarifies and optimises the role of the Client, Programme Manager and MWCs. This has led to some restructuring within the Group, to realign roles to the TOM and to align the organisation to the current delivery phase of the project. Our efforts in this area were reflected in the 2017 Engagement survey, which saw an eight percentage point improvement in the "Work, Structure and Process" category. This is seven per cent above the UK norm.

Collaboration continues to improve across the project, as a result of implementing improved IT collaboration systems and tools, which have been positively received, as well as the relocation from Paddington to London Bridge, which has brought the organisation physically closer together as well as improving our working space.

The TOM developments, along with the information system and process improvements, were recognised in the Engagement survey with a nine percentage point increase in people agreeing that decisions are made at the lowest level. However, the overall score of 28 per cent is below the UK norm and will be the focus of training and continuous improvement activities for the coming year.

During Autumn 2017, we achieved compliance with the 2015 versions of ISO 9001, the Quality Management standard, and ISO 14001 Environmental Management, and maintained compliance with OHSAS 18001: 2007 for Health and Safety.

Diversity and Inclusivity

Through our employee-led diversity forum, Encompass, we focus on all aspects of diversity. Some of the key activities and achievements in 2017/18 included:

- employing the Business Disability Forum to assess our premises and develop an improvement plan;
- completing our first Stonewall LGBT+ survey, achieving 227th out of 460 with an action plan for improvement; and
- being named in The Times Top 50 Employers for Women 2018, with Chief Executive Officer Andy Mitchell a Finalist in the Gender Champion Award category.

Inclusivity is important for Tideway and we continue to outperform external benchmarks when employees are asked whether the Group values promotes diversity. Our score for this question was up one percentage point to 90 per cent favourable, which is above the UK average.

We recognise the importance of diversity and its positive impact on Company performance. Gender diversity is a key performance indicator for us and we finished the financial year with 36 per cent female staff. This is below our end of year target of 40 per cent. However, we continue to seek ways to achieve our aim of gender parity by the end of construction.

Headcount (as at 31 March 2018)*	Female 31 March 2018	Male 31 March 2018	Total 31 March 2018	Female 31 March 2017	Male 31 March 2017	Total 31 March 2017
Board**	2	11	13	3	9	12
Senior Management	20	33	53	18	34	52
Other Employees	153	271	424	159	261	420
Total *	**175**	**315**	**490**	**180**	**304**	**484**

*Includes Tideway employees and our project management contractors (Jacobs)
** Includes shareholder Directors

Talent

We reviewed our talent management and succession planning during the year, as a regular health check of the business and to ensure we have appropriate bench strength for key roles, as part of Tideway's structured performance review process. Tideway's organisational size and shape will continue to evolve over the life of the project and our approach ensures that individuals are supported in their career within the project, as well as their potential external roles in the future.

During the year, we made progress on our plans to develop the next generation of talent and help local and disadvantaged people into employment. This included targets for Tideway and our contractors to employ apprentices, local people and ex-offenders as follows:

- One in 50 staff should be a new apprentice. As at the year end, 52 apprentices were employed, of which 38 are new apprentices on the project. This equated to 1 in 53 people being a new apprentice and the average for the year is 1 in 47.
- One in 100 should be an ex-offender. Currently 19 ex-offenders have been recruited through our work with ex-offender organisations and 1 in 107 are ex-offenders, with a average for the year of 1 in 104.
- 25 per cent of our workforce should be resident across the 14 London Boroughs impacted by our works. Our current performance is at 21%.

Further work is being undertaken to ensure we continue to improve on these metrics and attain the desired result.

We have developed an effective apprenticeship programme, which in the last 12 months has extended beyond engineering to include corporate functions such as business administration and project management. We are working with several organisations to support individuals who are ex-offenders or currently not in work, by providing training, work experience placements or permanent roles. Our HR staff have been trained by Nacro, the ex-offender charity, on fair recruitment processes and we are launching an upskilling programme across the Alliance and part-funded by the Construction Industry Training Board (CITB), to enable progression of staff into better paid, higher quality roles.

Tideway is committed to ensuring that all our employees are paid at or above the London Living Wage and have set it as a minimum for contractor staff working full time on site. Currently, 99.6% of all staff who have employment on the project, excluding apprentices, are paid at or above the London Living Wage, with efforts in place to resolve cases of non-compliance. We are working hard to identify and resolve outstanding cases.

Ethics and Human Rights

Ethical behaviour and human rights are core to Tideway's ethos and operations. We participate in APRES (Action Programme for Responsible and Ethical Sourcing) and adhere to the International Labour Organisation's (ILO) Ethical Trading Initiative Code, giving a clear framework for our employees, contractors and stakeholders.

We ensure that:

- staff engage in policies, procedures and awareness events covering the complexities of human rights and ethics in the supply chain, including our Modern Slavery Statement, Anti Bribery and Anti-Corruption procedures;
- staff undertake mandatory training throughout the year;
- our contractors have similar policies and training programmes in place;
- our MWCs follow the Ethical Trading Initiative Base Code;
- all new suppliers meet Tideway standards in ethics and human rights, via the Tideway new supplier process; and
- staff have a confidential 24-hour whistleblowing helpline, allowing them to ask questions, raise concerns or report violations of our ethical and human rights stance.

Tideway was an early signatory to the Responsible and Ethical Sourcing Handbook, providing funding and participating in the initial working groups.

Financing

Figures from 2017/18

Maintain strong credit rating*

Target	Actual
Baa1/BBB+	Baa1/BBB+

(Moody's/Fitch)

Maintain strong liquidity position

Funds available immediately

Target	Actual
18 months	4 years

Continue de-risking of financing plan by issuing inflation-linked and nominal debt

Amount of inflation and nominal debt issued

Target	Actual
Issue £400m of inflation linked debt	Issued £500m of inflation linked debt
Issue £300m of nominal debt	Issued £550m of nominal debt

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

Treasury policy

Tideway's treasury policy incorporates the corporate objective of financing the Group while minimising risk. Our target is to maintain a robust investment grade credit rating at all times.

Financing activity

As at 31 March 2018, we had received £1,274.0m from shareholders, which was the full commitment at Licence Award, in line with our equity-first approach to financing. This was in the form of £509.7m of equity and £764.5m of shareholder loans. Part of the shareholder loans has since been repaid and the balance at 31 March 2018 was £714.4m. The revolving credit facility remained undrawn during the period and the commitment at the year end stood at £750m, after the cancellation of £250m in March 2018.

We continued to make timely progress with implementing our financing plan and the £1.05bn of long-term financing closed during the year helped secure the financing for our investment programme and further locked in our financing costs. These transactions also confirmed the downward trajectory of Tideway's credit margin, in line with the growing confidence in and maturity of the execution of our financing and delivery plans.

Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated market of the London Stock Exchange. Tideway's prospectus for the listing was updated in June 2017.

In April 2017, we entered £100m of long-term inflation linked financing with an institutional investor. This was our first index-linked issuance in loan format with an investor, demonstrating the benefits of our flexible platform which enables us to issue seamlessly in different markets and with different instruments.

In June 2017, we priced a £300 million US private placement (USPP) with a group of US investors, diversifying our investor base and adding resilience to the execution of the financing plan. This transaction funded in September, has a nominal interest rate and achieved a competitive rate, paving the way for the nominal public green bond issued later in the year.

During the year, we issued four bonds under the multi-currency bond platform, the first of which was in July 2017, when we priced a £125m deferred draw bond. Our differed draw down issuance enables us to de-risk our financing plan and secure the best possible borrowing terms by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding.

This was followed by three bonds issued on a cash basis. Two of these, which we issued in August and November, were indexed to the consumer price indexed (CPI), a first for Tideway. We also issued our debut public bond in November as a green bond (see below).

Green Bonds

Green bonds are debt instruments whose proceeds fund projects with environmental benefits, such as the Thames Tideway Tunnel. Tideway has become the largest corporate issuer of Green Bonds in sterling with £775 million of issuance, £325m of which was post year-end.

Over two consecutive days in November 2017 Tideway issued a £250 million debut green public bond, with a nominal interest rate, followed by a £200 million green CPI-linked private placement, both issued under Tideway's multicurrency bond programme. This last transaction won an mtn-i Deal of the Year award, as it was both an index-linked bond with an inflation floor and ceiling and a green bond.

As part of the execution of our green bond strategy, we published our Green Bond Framework aligned with the four core components of the International Capital Markets Association Green Bond Principles. This is a set of voluntary process guidelines that recommend transparency, disclosure and reporting. The framework included a description of Tideway and the sustainable legacy programme, as well as undertakings about the use of proceeds and reporting.

These issuances have several innovative features:

- The public bond was the first debut public bond issued as a green bond in the UK. We went to market on the day of the Autumn Budget 2017 and the day before the US Thanksgiving holiday, and were the only corporate issuer in Europe on the day. The transaction was well received by investors and was more than three times oversubscribed.
- The private placement was the first UK private placement issued as a green bond and the first combination of index-linked issuance with green bond, making us also the largest CPI-linked issuer in the UK; and
- In the Green Bond Framework, we aligned our sustainability commitments to the UN Sustainable Development Goals (SDGs). Tideway will make a direct contribution to seven of the SDGs.

We retained S&P Global Ratings to provide a Green Evaluation for the bond programme and for bond series issued under the programme. A green evaluation produces a relative green impact score for debt instruments financing environmental beneficial projects and is a second opinion aligned with the Green Bond Principles. This was S&P's first public green evaluation in the UK and it achieved the highest S&P mitigation score to date and the joint-highest overall score of E1 - 95/100.

The Green Bond Framework and the Green Evaluation have been published on our website.

Tideway's green bonds were covered by the specialist press and were mentioned in the government's "A Green Future: Our 25 Year Plan to Improve the Environment" published in January.

Hedging

We hedged £70m of the USPP £300m transaction by entering into two hedging transactions to lock-in the cost until maturity on an RPI basis.

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

Distributions

At Licence Award our shareholders committed a total amount of £1,274m in the form of equity and shareholder loans. This has been fully injected in Tideway and future investment will be debt financed. As a result, our gearing increases to our target capital structure as Tideway delivers its investment programme, risks are retired, and debt is used to fund the investment.

We capitalise our construction costs and do not expect to record distributable profits until after System Acceptance, which means we do not expect to pay dividends during the construction period. Distributions to shareholders prior to System Acceptance are through the payment of interest and repayment of the principal of our shareholders loans. This mechanism was put in place during the Infrastructure Provider (IP) equity procurement process run by Thames Water and overseen by Ofwat and the UK Government and was key to achieving the low cost of capital bid by our shareholders. Ultimately Thames Water's wastewater customers benefit from the low cost of capital achieved through the procurement through a lower charge in their bills. In 2017/18 we made distributions totalling £75.5m through payment of interest and repayment of principal on our shareholder loans.

When approving the amount of distributions at each distribution date, the Board sets the total amount and a profile of distributions that is consistent with our target capital structure at Handover. The Board also considers the operational and financial performance of the Group and the cumulative yield to ensure it is consistent with the level set during the equity procurement process.

Liquidity

At 31 March 2018, we had total liquidity of £3bn, comprising £904m of cash, the £750m undrawn RCF, the £700m EIB loan, £575m of bonds and a £100m loan. This, combined with expected revenue collection, provides liquidity significantly in excess of our 18-month target, including all debt requirements to System Acceptance.

Ratings

Moody's and Fitch assigned investment grade credit ratings of Baa1 and BBB+ respectively to our bond issuances, consistent with the initial ratings received at Licence Award and affirmed during the year. Moody's also assigned a rating of Baa1 to the USPP transaction.

Investment Management

The disbursement profile of shareholders' funds and the £825m of new debt issued and drawn during the year led to us benefiting from substantial cash balances during the year, averaging £631m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield. During the year, we held cash in three types of instrument: bank accounts with our main bankers, Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds with immediate cash availability, held with selected institutions.

In 2017/18, we generated a total return of around £2.3m on our cash balances, at an average yield of 0.37% per annum for the year. The return averaged 3 basis points below the base rate, driven by the Bank of England interest rate increase to 0.5% per annum in November 2017 and the large influx of cash after our successful debt issuance.

Post year end issuance

In April 2018, we issued another £150m long-term inflation linked green bond and in May we had three bond issuances totalling £175m, also linked to inflation and in green bond format. These issuances further lock-in our financing costs and continue the innovative strategy of pricing bonds with long deferral periods to match our investment profile. These new bonds take Tideway's green bond issuance to £775m.

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

Reporting

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

Financial performance review

Accounting basis

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

Non-GAAP measures

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

Under our Licence, our costs are classified as either 'Allowable Project Spend' or 'Excluded Project Spend'.

Allowable Project Spend (on a cash basis) is added to our RCV. Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

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

For the purposes of calculating net cash/(debt), Borrowings include all intra-group and third- party borrowings with the exclusion of shareholder loan notes.

Income statement

During the year ended 31 March 2018, Tideway reported a profit of £9.5m (2016/17: £34.2m loss), with no dividends paid or proposed (2016/17: £nil). We did not recognise any taxable profits in the period (2016/17: £nil) and therefore have no corporation tax charges (2016/17: £nil).

We do not consider that the reported profit in the year reflects our business performance, as it results from the movement in the fair value in the Group's financial instruments. These are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Group's debt. The swaps fix finance costs for the Group's regulatory period and ensure that we benefit from low-cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because, under IAS 23, these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 11 to the financial statements provides more details on the financial instruments.

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

Statement of financial position

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

Analysis of Costs and Cash Outflows (£m)	2017/18 Costs	2017/18 Timing Differences	2017/18 Cash Outflows	2016/17 Costs	2016/17 Timing Differences	2016/17 Cash Outflows
Allowable	542.7	(24.5)	518.2	348.0	(7.5)	340.5
Excluded	66.3	45.4	111.7	36.7	53.1	89.8
Total	**609.0**	**20.9**	**629.9**	**384.7**	**45.6**	**430.3**
Brought Forward	**545.9**			**161.2**		
Capitalised Costs*	**1,154.9**			**545.9**		

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

For the year ended 31 March 2018, our Allowable Project Spend is lower than the Allowable costs, as our Allowable costs include the timing of accruals and unwinding of prepayments of items, including insurance contracts and the GSP. The Excluded cash outflows are significantly higher than the Excluded costs. This is mainly due to the £23.8m (2017: £24.1m) repayment of shareholder loans and £9.8m (2017: £12.1m) timing of VAT payments, which are not included within Excluded costs.

At 31 March 2018, costs of £1,154.9m were capitalised within the asset under construction in the Statement of Financial Position. This represents £609.0m costs during the year and £545.9m for the prior periods to 31 March 2017.

The table below analyses Allowable costs:

Allowable Costs (£m)	2017/18	2016/17
Direct Costs	**443.2**	**262.6**
Resource Costs	68.4	60.3
Other Indirect Costs	31.1	25.1
Indirect Costs	**99.5**	**85.4**
Total	**542.7**	**348.0**

Direct costs

Direct costs are primarily the MWC (Main Work Contractors) costs. They also include the System Integrator Contract and in 2016/17 the contract with Volkerstevin to provide services and works for the removal and replacement of piers and the relocation of marine vessels.

The direct costs incurred in the year have increased significantly compared with 2016/17, reflecting the increase level of construction as we further mobilise on our sites in preparation for tunnelling.

Indirect costs

The largest indirect cost is Resource Costs of £68.4m. This represents the cost to employ the c479 average FTEs (2016/17 c450 average FTEs) either employed or contracted by the Group. The Other Indirect Costs include information systems, insurance, GSP, office and other running costs.

Indirect costs have increased compared with 2016/17, reflecting the growth in FTEs to support the increased level of construction.

Excluded costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2018 were £66.3m. These comprise £61.5m of interest payable (including shareholder loans), £7.1m of costs which mainly relate to financing, partly offset by £2.3m interest receivable.

Net cash and financing

At 31 March 2018, the Group's cash and cash equivalents were £846.4m. Borrowings (excluding shareholder loans) were £825.9m. These were in the form of £301.5m of fixed-rate loans, £247.2m of fixed-rate bonds and £277.2m of index-linked bonds.

The net cash balance (cash and cash equivalents less borrowings excluding shareholder loans) at 31 March 2018 was £20.5m, which was £295.4m lower than the £315.9m net cash at 31 March 2017.

In addition, the Group has secured deferred loans of £800.0m and deferred bond issuances of £575.0m which will be reflected in the financial statements when they are drawn down in the future. The Revolving Credit facility remained undrawn during the period and the commitment at the year end stood at £750.0m.

Revenue

Within the financial statements, all revenue is recorded as deferred income in the Statement of Financial Position, in line with our revenue recognition accounting policy. Revenue of £32.1m is reported for the year, which is based on the latest estimate.

During the year, we received cash inflows of £26.8m from revenue (£32.1m including VAT), which includes some revenue from 2016/17.

Tax strategy

The Directors are responsible for ensuring that we comply with tax laws in the UK, which is the only territory we undertake our business activities in. Our business activities mean that we fall under corporation, employment and other taxes. In addition, we collect and pay employee taxes, as well as indirect taxes such as VAT. The taxes we collect and pay make an economic contribution to the UK. Tideway is part of the Bazalgette Equity Limited Group, of which all members are domiciled in the UK. We consider the interaction with Group members when we implement our tax policy.

During the construction phase, all attributable expenditure required to construct the TTT is considered to be capital in nature and is capitalised. Revenue we receive from Thames Water is deferred onto the Statement of Financial Position. The calculation of taxable profit follows the accounting treatment in the Income Statement and as a result, we do not expect to recognise taxable profits during the construction phase. This is in line with expectations at the time Tideway was procured and customers benefit in full from lower bills.

The loan relationships we have entered into will generate carried forward deductions into future taxation periods. Our ability to use these deductions will depend on the tax law at that time and the availability of taxable profits to offset the deductions against.

During the year we carried out a review of the new tax legislation changes including the new Corporate Interest Restriction rules. This involved establishing the likely interest deductibility position for Tideway and the options available to utilise these. As a result of the review, presently we have decided not to elect for the Public Benefit Infrastructure Exemption.

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with the tax authorities.

This strategy is based on the following principles:

- **Tax planning:** We will engage in tax planning that supports our business and reflects commercial and economic activity. We will not engage in artificial tax arrangements and will adhere to relevant tax laws and seek to minimise the risk of uncertainty or dispute;
- **Relationship with HM Revenue & Customs (HMRC)**: We will seek to build and maintain a constructive relationship with HMRC. We will work collaboratively wherever possible with HMRC to resolve disputes and to achieve agreement and certainty. We will engage with the government on the development of tax laws where we can and the tax law change is relevant to Tideway's business activities;
- **Transparency:** We support measures that build greater transparency, increase understanding of tax systems and build public trust;
- **Tax risk management:** We identify, assess and manage tax risks and account for them appropriately. Risk management measures are implemented including controls over compliance processes and monitoring of effectiveness; and
- **Governance:** The Chief Financial Officer (CFO) is responsible for and implements our

approach to tax, which is reviewed and approved by the Audit Committee. The CFO is also responsible for ensuring that appropriate policies and procedures are in place and maintained and that the financial control team, with specialist external support as necessary, has the appropriate skills and experience to implement the approach effectively.

The Strategic report was approved by the Board on the 21 June 2018 and was signed on its behalf by:

Valmai Barclay
Company Secretary

Directors' report

The directors present their report and the audited Group and Company financial statements of Bazalgette Equity Limited (the Company) for the year ended 31 March 2018.

The registered company number is 09553394.

Financial results and dividends

The Group recorded a profit of £9.5m for the year (2017: £34.2m loss). The profit reflects the fair value movement of the Group's derivative financial instruments. The detailed financial results of the Group are set out in the financial performance review within the Strategic report on pages 39-41.

The Company did not pay any dividends in the year (2017: £nil).

During the year, £51.6m (2017: £29.3m) of shareholder loan interest was accrued on the shareholder loan notes. At 31 March 2018, £51.6m (2017: £29.3m) of the accrued shareholder loan interest had been paid and £nil (2017: £nil) rolled up within the shareholder loans. The shareholder loan notes bear an interest rate of 8 per cent, with maturity on 30 September 2064. Further details of the shareholder loan notes are set out in note 11 of the financial statements.

Financial risk management

Full disclosure on the Group's financial risk management is set out in note 12 of the financial statements.

Directors

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

Andrew Cox	
Jaroslava Korpancova	(resigned 23 March 2018)
Scott McGregor	(appointed 23 March 2018)
Joseph Philipsz	(appointed 19 February 2018)
Alistair Ray	
Angela Roshier	
Michael Ryan	(resigned 19 February 2018)
Gavin Tait	
Amanda Woods	

Directors' Indemnities

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

Employees

The average number of persons employed by the Group (including directors) during the year was 179 (2017: 151), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

Details relating to the Group's employment policies and values are set out on pages 33-35 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 31.

Directors' report (continued)

Charitable and political donations

The Group made charitable donations totalling £40,062 during the year (2017: £51,356). Details of the Group's charitable partnerships are set out on page 31of the Strategic report.

The Group did not make any political donations or incur any political expenditure during the year (2017: £nil).

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 Construction Supply Chain Payment Charter. The Charter applies to all construction contracts with the aim of helping to create a more collaborative culture and ensure a strong, resilient and sustainable supply chain.

The creditor days for the year ending 31 March 2018 are approximately 21 days (2017: 17 days).

Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 18 of the financial statements.

Future Outlook

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

Disclosure of information to auditor

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

Other information

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

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 Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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

Valmai Barclay
Company Secretary

Cottons Centre
Cottons Lane
London
SE1 2 QG

21 June 2018

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Independent auditor's report

to the members of Bazalgette Equity Limited only

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Bazalgette Equity Limited for the year ended 31 March 2018 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group and Company Statement of Changes in Equity, Group and Company Balance Sheet, Group and Company Statement of Cash Flows, and the related Notes including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
Materiality: group financial statements as a whole	£5.2m (2017: £3.0m) 0.98% (2017: 0.78%) of gross expenditure
Coverage	100% (2017:100%) of company profit before tax

Risks of material misstatement		**vs 2017**
Recurring risks	Completeness and existence of capitalised costs and creditors	◄►
	Recoverability of parent company's investment in subsidiary	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Fixed assets & capital creditors *Capitalised costs:* (£609.0 million; 2017: £384.6 million) *Capital creditors* *Refer to 56 (accounting policy) and page 62 (financial disclosures).*	**2017/2018 costs** The Company incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalized costs and capital creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effects on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: — **Control design**: Testing controls over the payment/ cost verification process which includes observing that for a sample of payments they were agreed to certificates, the amounts matched the invoices received and payments by the company were authorised. — **Test of detail:** Inspecting a sample of invoices received before and subsequent to the year end to consider the timing of work performed and therefore whether costs and creditors have been recorded in the correct year. — **Test of detail:** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred. — **Test of detail:** Comparing a sample of the claims from the independent project manager's assessment to the claims recorded by the company to assess completeness.
Recoverability of parent company's investment in subsidiaries (£509.7 million; 2017: £370.4 million) *Refer to page 62 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 100% (2017: 100%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Test of detail: Tests of detail:** Comparing the carrying amount of 100% of investments representing 100% (2016: 100%) of the total investment balance with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making or if they have potential to recover any obligations. **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team and considering the results of that work, on the subsidiary's profits and net assets. **Our sector experience:** Comparing the carrying amount of the investment with the expected value of BTL based on future cash flow projections for the next 8 years. Our findings: No issues identified.

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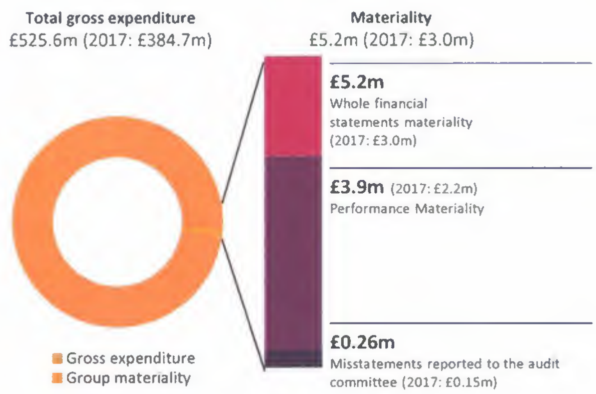
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £5.2m (2017: £3.0m), determined with reference to a benchmark of gross expenditure in the year, of which it represents 0.98% (2017: 0.78%).

Bazalgette Tunnel Limited is part of a group headed by Bazalgette Equity Limited. Materiality of £5.2m (2017: £3.0m), as communicated by the subsidiary audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to total assets and represents 100% of the Group's profit before tax (2017: 100%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £260,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit team performed the audit of the Group as if it was a single aggregated set of financial information.



4 We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the long-term viability statement page x that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

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

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, 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 these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 45, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2018

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Group Income Statement
For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Net operating costs	2, 3	-	-
Operating result		-	-
Net finance income/(costs)	4	9.5	(34.2)
Profit/(loss) before tax		**9.5**	**(34.2)**
Taxation	5	-	-
Profit/(loss) for the year		**9.5**	**(34.2)**

Group Statement of Other Comprehensive Income
For the year ended 31 March 2018

	2018 £m	2017 £m
Profit/(Loss) for the year	9.5	(34.2)
Other comprehensive income for the year	-	-
Total comprehensive income for the year attributable to owners of the parent	**9.5**	**(34.2)**

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Statement of Financial Position
As at 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Property, plant and equipment	6	1,154.9	545.9	-	-
Trade and other receivables	8	54.5	54.8	-	-
Investment in subsidiary undertakings	7	-	-	509.7	370.4
		1,209.4	600.7	509.7	370.4
Current assets					
Trade and other receivables	8	32.8	29.8	-	-
Cash and cash equivalents	9	846.4	315.9	-	-
Short-term cash deposits	9	57.5	-	-	-
		936.7	345.7	-	-
Total assets		**2,146.1**	**946.4**	**509.7**	**370.4**
Current liabilities					
Trade and other payables	10	(39.1)	(20.0)	-	-
		(39.1)	(20.0)	-	-
Non-current liabilities					
Other Payables	10	(3.5)	-	-	-
Advance payment liability	10	(53.5)	(26.7)	-	-
Borrowings	11	(1,540.3)	(529.3)	-	-
Derivative financial instruments	12	(24.7)	(34.2)	-	-
		(1,622.0)	(590.2)	-	-
Total liabilities		**(1,661.1)**	**(610.2)**	**-**	**-**
Net assets		**485.0**	**336.2**	**509.7**	**370.4**
Equity					
Share capital	13	507.4	368.1	507.4	368.1
Share premium	13	2.3	2.3	2.3	2.3
Retained earnings	13	(24.7)	(34.2)	-	-
Total equity		**485.0**	**336.2**	**509.7**	**370.4**

These financial statements were approved by the board of directors on 21 June 2018 and were signed on its behalf by:

Gavin Tait
Director
Company registered number: 09553394

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Statement of Changes in Equity

	Group				Company			
	Share capital £m	Share Premium £m	Retained earnings £m	Total equity £m	Share capital £m	Share Premium £m	Retained earnings £m	Total equity £m
Balance at 1 April 2016	136.0	2.3	-	138.3	136.0	2.3	-	138.3
Loss for the year	-	-	(34.2)	(34.2)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(34.2)**	**(34.2)**	**-**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:								
Issue of ordinary shares	232.1	-	-	232.1	232.1	-	-	232.1
Total contributions by and distributions to owners	**232.1**	**-**	**-**	**232.1**	**232.1**	**-**	**-**	**232.1**
Balance at 31 March 2017	**368.1**	**2.3**	**(34.2)**	**336.2**	**368.1**	**2.3**	**-**	**370.4**
Balance at 1 April 2017	368.1	2.3	(34.2)	336.2	368.1	2.3	-	370.4
Profit for the year	-	-	9.5	9.5	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**9.5**	**9.5**	**-**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:								
Issue of ordinary shares	139.3	-	-	139.3	139.3	-	-	139.3
Total contributions by and distributions to owners	**139.3**	**-**	**-**	**139.3**	**139.3**	**-**	**-**	**139.3**
Balance at 31 March 2018	**507.4**	**2.3**	**(24.7)**	**485.0**	**507.4**	**2.3**	**-**	**509.7**

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Cash Flow Statements

For the year ended 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flows from operating activities before working capital movements		-	-	-	-
Increase in trade and other receivables	8	(2.7)	(3.4)	-	-
Increase/(decrease) in trade and other payables	10	22.6	(9.4)	-	(13.7)
Increase in advance payment liability	10	26.8	26.7	-	-
Cash flows from/(used in) operations		**46.7**	**13.9**	**-**	**(13.7)**
Net cash flow from operating activities		**46.7**	**13.9**	**-**	**(13.7)**
Cash flows used in investing activities					
Construction of infrastructure asset	6	(605.2)	(384.7)	-	-
Short-term cash deposits	9	(57.5)	17.5	-	-
Investment in subsidiary undertaking		-	-	(139.3)	(232.1)
Net cash flows used in investing activities		**(662.7)**	**(367.2)**	**(139.3)**	**(232.1)**
Cash flows from financing activities					
Proceeds from the issue of share capital	13	139.3	232.1	139.3	232.1
Proceeds from shareholder loans		208.9	316.7	-	
Proceeds from loan from subsidiary undertaking		822.1	-	-	
Repayment of shareholders loan principal		(23.8)	(24.1)	-	
Net cash flows from financing activities		**1,146.5**	**524.7**	**139.3**	**232.1**
Net increase/(decrease) in cash and cash equivalents during the year		**530.5**	**171.4**	**-**	**(13.7)**
Cash and cash equivalents at the start of the year	9	**315.9**	**144.5**	**-**	**13.7**
Cash and cash equivalents at the end of the year	9	**846.4**	**315.9**	**-**	**-**

Notes 1 to 18 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

Bazalgette Equity Limited ("the Company") is domiciled in the UK. The registered address is Cottons Centre, Cottons Lane, London, SE1 2QG.

As at the 31 March 2018, the Bazalgette Equity Group comprised the Company, Bazalgette Venture Limited ("BVL"), Bazalgette Holdings Limited ("BHL"), Bazalgette Tunnel Limited ("BTL"), Bazalgette Finance plc ("FinCo") and Thames Tideway Tunnel Limited ("TTT Ltd"). TTT Ltd was voluntarily dissolved in April 2018 and its last date of trading was 31 March 2017. 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 IFRS"). The financial statements are prepared in accordance with the historical cost accounting convention except where adopted IFRS requires an alternative treatment. Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Group and the Company's financial position.

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

Impairment - In assessing the recoverable value of the Thames Tideway Tunnel asset, the directors are required to make judgements around the assumptions and estimates used to calculate the recoverable amount of the asset which is deemed to be the Group's Regulatory Capital Value ("RCV"). This is because the asset carrying value includes all attributable costs that are capitalised whereas the RCV, which is the driver of economic return for the Group, does not include financing costs such as capitalised borrowing costs.

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

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

Capitalised costs/creditors - The Group has a substantial capital programme 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 the directors need to ensure their completeness, existence and validity is appropriately monitored and controlled.

Basis of consolidation

Subsidiaries

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

Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the long-term viability statement included in the Strategic report on page 20 to 21.

Property, plant and equipment

Recognition and measurement

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

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

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 year ended 31 March 2018 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 by Thames Water is not included in the Statement of Financial Position because the economic benefit of such assets is retained by Thames Water.

Depreciation

Assets under construction are not depreciated.

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.

Any 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 Group's RCV. The Group's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Group. Through the construction period, revenue is deferred as the services associated with this revenue will not be delivered until System Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the Group to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

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

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

Employee benefits

Defined contribution pension plans

A defined pension contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised 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 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. Any provisions recognised by the Group 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 either derivative or non-derivative financial instruments. Derivative financial instruments comprise financial liabilities designated at fair value through profit or loss. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

Trade and other receivables

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

Trade and other payables

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

Notes to the financial statements (continued)

Financial instruments (continued)

Cash and cash equivalents

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

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

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost. Any difference between the proceeds received (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Derivative financial instruments

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

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

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

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

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position 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 Group has the right of set off.

Notes to the financial statements (continued)

Recently issued accounting standards not yet applied by the Group

At the date of authorisation of these financial statements, the Group has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Group as at 31 March 2018 and in some cases are subject still to endorsement by the EU.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures
- IAS 40 Transfers of Investment Property
- IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Prepayment Features with Negative Compensation
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Improvements to IFRSs (2014–2016)
- Improvements to IFRSs (2015–2017)

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

The Group has completed an impact assessment of the adoption of IFRS 9 and has concluded that on adoption of the new standard, impairment losses against financial assets under the 12-month expected credit loss (ECL) model and those under the simplified ECL model would be immaterial and therefore the impact of adoption of the new standard is not likely to be significant.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

The Group has assessed the impact of applying the five-step model under IFRS 15 and concluded that it will have no impact on the current treatment of revenue which is deferred while in the construction phrase of the project. Based on the completed assessment, the Group does not expect the application of IFRS 15 to have a significant impact on the Group's financial statements when it is adopted.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The Group has completed its initial assessment of the impact of applying the single recognition model for lessees and concluded that current operating property leases would fall under the scope of IFRS 16 at the date of transition. This would result in the Group recognising new right-to-use assets and lease liabilities on the balance sheet which are likely to increase assets and liabilities by approximately £10.3m.

The Group has assessed the three transition alternatives allowed under IFRS 16 and concluded that there would not be any material transition differences between each method in relation to the Group's potential IFRS 16 leases. The Group will continue to assess the impact of this standard as it approaches the adoption date.

Notes to the financial statements (continued)

2 Auditor's remuneration

	2018 £000	2017 £000
Audit Services		
Statutory audit – Group and the Company	3	2
Statutory audit - subsidiaries	80	89
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	9	9
Other non-audit services		
Review of interim financial information	8	8
Tax advisory services	-	68
Other regulatory assurance services	61	42
	161	**218**

All of these fees have been capitalised in the Company's indirect subsidiary Bazalgette Tunnel Limited.

3 Employee costs

The average number of persons employed by the Group (including directors) during the year was 179 (2017: 151).

The aggregate payroll costs of these persons were as follows:

	2018 £m	2017 £m
Wages and salaries	18.9	12.9
Social security costs	2.4	1.5
Contributions to defined contribution pension plan	0.7	0.6
Capitalised into asset under construction	(22.0)	(15.0)
	-	-

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

Director's remuneration

The directors of the Company did not receive any payment for their services during the year ended 31 March 2018. Any qualifying services the directors perform in respect of the Company are considered to be incidental and part of the director's overall management responsibilities within the Company.

The remuneration for the directors to the Group for the current and prior year is included in note 16.

Notes to the financial statements (continued)

4 Finance income and costs

	2018 £m	2017 £m
Finance income		
Interest income	(2.3)	(1.0)
Finance costs		
Interest expense on borrowings	61.5	29.3
Financing fees	5.2	4.4
Financial instruments at fair value through profit or loss:		
- Index linked swaps	(9.5)	34.2
Capitalised finance interest and expense into asset under construction	(64.4)	(32.7)
Net finance (income)/costs	**(9.5)**	**34.2**

5 Taxation

	2018 £m	2017 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit/(loss) before tax:	9.5	(34.2)
Expected tax charge/(credit) using UK corporation tax rate of 19% (2017: 20%)	(1.8)	6.8
Items not taxable[1]	1.8	(6.8)
Total Income Statement tax expense	-	-

1 – Items not taxable solely relate to fair value movements on the Group's derivative liabilities which are disregarded for current tax purposes

Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £20.4m (2017: £12.0m) have been calculated with regards to the Company's tax losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

Notes to the financial statements (continued)

6 Property, plant and equipment

Property, plant and equipment comprised the following at 31 March 2018:

	Asset under construction £m	Total £m
Cost		
At 1 April 2017	545.9	545.9
Additions	609.0	609.0
Balance at 31 March 2018	1,154.9	1,154.9
Accumulated depreciation		
At 1 April 2017	-	-
Depreciation charge	-	-
Balance at 31 March 2018	-	-
Net book value at 31 March 2018	**1,154.9**	**1,154.9**
Net book value at 31 March 2017	545.9	545.9

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the year ended 31 March 2018. The amount of net borrowing costs capitalised during the year was £59.2m (2017: £28.3m) with a capitalisation rate of 100%.

7 Investments in subsidiaries

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

	Country incorporated in	Class of shares held	Direct ownership 2018	Indirect ownership 2018	Direct ownership 2017	Indirect ownership 2017
Direct subsidiaries						
Bazalgette Ventures Limited	UK	Ordinary	100%	-	100%	-
Indirect subsidiaries						
Bazalgette Holdings Limited	UK	Ordinary	-	100%	-	100%
Bazalgette Tunnel Limited	UK	Ordinary	-	100%	-	100%
Bazalgette Finance plc	UK	Ordinary	-	100%	-	100%
Thames Tideway Tunnel Limited	UK	Ordinary	-	100%	-	100%

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company which is Cottons Centre, Cottons Lane, London, SE1 2QG.

During the year the Company increased its investment in its subsidiary Bazalgette Ventures Limited by £139.3m to a total investment of £509.7m (2016: 370.4m).

Notes to the financial statements (continued)

8 Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade receivables	1.9	2.2	-	-
Accrued Income	3.3	-	-	-
Other receivables	18.8	17.8	-	-
Prepayments	63.3	64.6	-	-
	87.3	**84.6**	-	-
Non-current assets	**54.5**	**54.8**	-	-
Current assets	**32.8**	**29.8**	-	-

Accrued income of £3.3m (2017: £nil) relates to cumulative revenue earned on the project to date that has not been invoiced to Thames Water as at the Statement of Financial Position date.

Prepayments include £31.4m (2017: £34.9m) in relation to the Government Support Package and £11.6m (2017: £13.1m) in relation to insurance contracts.

9 Cash and cash equivalents

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash and bank balances	84.9	84.1	-	-
Cash equivalents	761.5	231.8	-	-
Cash and cash equivalents per cash flow statement	**846.4**	**315.9**	-	-

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. At the Statement of Financial Position date these totalled £57.5m (2017: £nil).

Restricted Cash

The Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £20.4m at 31 March 2018 (2017: £3.7m).

Notes to the financial statements (continued)

10 Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade payables	1.9	2.0	-	-
Accrued expenses	36.0	16.2	-	-
Deferred income	4.7	1.8	-	-
Advance payment liability	53.5	26.7	-	-
	96.1	**46.7**	-	-
Non-current liabilities	**57.0**	**26.7**	-	-
Current liabilities	**39.1**	**20.0**	-	-

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £4.7m (2017: £1.8m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

11 Borrowings

The Group raises finance under a multi-currency financing platform in both a loan and bond format.

Some of the finance raised by the Group is in a deferred format which means that the proceeds from the borrowing are not received until a future settlement date so as to align when funds are raised with the construction expenditure profile of the project.

Where bonds are issued with deferred draw dates, the proceeds from these bonds are only received from the bond purchaser on the future settlement dates.

This note provides information about the Group's borrowings, which are measured at amortised cost.

	2018 £m	2017 £m
£250m 2.375% fixed-rate bond 2027	247.2	-
£75m 0.828% index-linked bond 2047 [a, b]	76.1	-
£200m 0.740% index-linked bond 2042 [a, c]	201.1	-
£300m 2.860% fixed-rate loan 2032	301.5	-
Shareholder loan notes 8.000 % fixed rate 2064	714.4	529.3
Total borrowings	**1,540.3**	**529.3**
Current liabilities	-	-
Non-current liabilities	**1,540.3**	**529.3**

a) The value of the capital and interest elements of these index-linked bonds are linked to movements in the Consumer Price Index (CPI)

b) This debt amortises from 2038

c) This debt amortises from 2033 and contains a collar mechanism that limits total accretion repayment within a predetermined range

Notes to the financial statements (continued)

11 Borrowings (continued)

Deferred loans

The Group raised £100m of loans during the year with a deferred draw date (2017: £700m).

Deferred purchase bonds

The Group placed £125m of deferred purchase bonds during the year ended 31 March 2018 (2017: £450m). In total, the Group has issued £575m of deferred bonds to a range of investors. The bond proceeds will be received over the next four years and the bonds have maturities from 2040 to 2054.

12 Financial instruments

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

Financial Assets:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Other financial assets:				
Trade and other receivables	24.0	20.0	-	-
Cash and cash equivalents	846.4	315.9	-	-
Short-term deposits	57.5	-	-	-
Total	**927.9**	**335.9**	**-**	**-**

Trade and other receivables above exclude prepayments.

Financial Liabilities:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Liabilities at fair value through profit and loss:				
Derivative financial instruments	24.7	34.2	-	-
Other financial liabilities:				
Trade and other payables	96.1	46.7	-	-
Borrowings	1,540.3	529.3	-	-
Total	**1,661.1**	**610.2**	**-**	**-**

Notes to the financial statements (continued)

12 Financial instruments (continued)

Fair value measurements

The fair value of financial instruments represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date.

The fair values of financial instruments and a comparison to their carrying value is shown in the table below. The Group has not disclosed the fair values for cash and cash equivalents, short-term deposits, trade receivables and trade payables as their carrying amounts are a reasonable approximation of the fair value.

	31 March 2018 Book value £m	31 March 2018 Fair value £m	31 March 2017 Book value £m	31 March 2017 Fair value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings – fixed-rate sterling loans	1,015.9	1,065.4	529.3	565.5
Borrowings – fixed-rate sterling bonds	247.2	246.1	-	-
Borrowings - index-linked sterling bonds	277.2	294.5	-	-
Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives - index-linked swaps	24.7	24.7	34.2	34.2
Total	**1,565.0**	**1,630.7**	**563.5**	**599.7**

Financial liabilities at amortised cost

Borrowings include index-linked bonds and fixed-rate bonds, fixed-rate loans and intra-group loans. The fair value of borrowings is determined using observable quoted market prices where this is available or by discounting the expected future cashflows using appropriate available market data and a credit risk adjustment representative of the Group.

Financial instruments at fair value through profit and loss

The Group's index-linked swaps are measured at fair value through profit and loss s. Where an active market exists, swaps are recorded at fair value using quoted market prices. Otherwise, they are valued using a net present value model. As there is no quoted market price, the fair value of each swap is calculated as the net present value of the expected future cash flow associated with each leg of the swap, discounted to the reporting date using market rates and adjusted for the credit risk of the Group. Estimates of future cash flows are based on well-defined and traded market references.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included for Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Notes to the financial statements (continued)

12 Financial instruments (continued)

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

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

The Group considers all its derivative financial instruments to fall within level 3 of the fair value hierarchy as the calculation of the estimated fair value is based on assumptions which include an unobservable input with regards to the Group's credit risk. The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2018.

	2018	**2017**
	Level 3	**Level 3**
	£m	**£m**
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps	24.7	34.2
	24.7	**34.2**

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

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

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2017	34.2
(Profit)/loss recognised in finance costs	
- Net change in fair value (unrealised)	(9.5)
Balance at 31 March 2018	**24.7**

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

Level 3 fair values sensitivity

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

	31 March 2018 Impact on profit for the year	
	Increase	**(Decrease)**
Risk-adjusted discount rate (+/- 100bps movement)	11.0	(13.6)

Notes to the financial statements (continued)

12 Financial instruments (continued)

The Group's principal objectives in managing capital are:

- To finance the Company while minimising the weighted average cost of capital. The Company will maintain at all times a robust investment grade credit rating;
- Financing will be a mix of some or all of commercial bank debt, bonds (public and private), EIB loans, lease financing and other instruments. Financing could be raised on a real/or nominal basis;
- The Company's weighted average cost of capital will be minimised by reducing risk, including interest rate, inflation, credit spread, maturity risk, liquidity and currency risk;
- Hedging and pre-financing may be used to reduce risk. The Company will not engage in speculative treasury activity; and
- The Company will manage its financing activities in compliance with the constraints imposed by the Government Support Package, financing documents and the Company's Licence.

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

During the year the Group has secured a further £400m of loans in addition to the £700m European Investment Bank loan it secured in the prior year and the Group also issued a further £650m of bonds via multiple counterparties, taking the total bond issuance to £1.1bn. The bond issuance includes deferred purchase bonds where the bond proceeds will be received over the next 4 years.

The Group maintains access to a £750m revolving credit facility (RCF), following the cancellation of £250m in March 2018. This RCF facility remained undrawn at the Statement of Financial position date (2017: £nil draw down).

Management of financial risk

The Treasury team, which reports directly to the CFO, substantially manages the Group's financing, including debt, cash management and interest costs for the Company on a day to day basis. The Treasury Committee, which is chaired by a non-executive director reviews and reports to the Board on the Company's treasury policy, treasury strategies and financial strategy. The Group also has an executive level Funding and Financing Committee, chaired by the CFO, which considers treasury and regulatory matters in detail on a monthly basis.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2018, the Group had total liquidity in excess of £3bn, comprising £904m of cash and short-term deposits, the £750m undrawn RCF, the £700m undrawn EIB loan, £575m of deferred purchase bonds and £100m of other undrawn loans. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all debt requirements to System Acceptance.

For deferred purchase bonds issued by the Group's subsidiary, Bazalgette Finance plc, the Group will receive these proceeds at a future settlement date. The Group is therefore exposed to the counterparties to these deferred bonds on whom it relies to provide funds on the pre-agreed dates. Bazalgette Finance plc evaluates counterparty risk prior to entering into such transactions and manages concentration risk in respect of deferred funding commitments. As part of its risk management, Bazalgette Finance plc has agreed information requirements and covenants with the Deferred Bond Purchasers, and monitors on an ongoing basis the Deferred Bond Purchasers' ability to honour their obligations, allowing it to assess any potential liquidity exposure in advance of settlement dates, and to make alternative funding arrangements if necessary.

Notes to the financial statements (continued)

12 Financial instruments (continued)

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

The tables below analyse the Group's interest-bearing borrowings and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the Statement of Financial Position date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest payable.

	2018 £m	2017 £m
Borrowings		
Within one year	(73.6)	(42.3)
Between one and two years	(73.7)	(42.3)
Between two and five years	(221.4)	(127.0)
After more than 5 years	(4,182.1)	(2,307.7)
	(4,550.8)	**(2,519.3)**

	2018 £m	2017 £m
Derivative financial instruments		
Within one year	3.4	-
Between one and two years	7.8	1.1
Between two and five years	51.0	34.7
After more than 5 years	(98.1)	(67.9)
	(35.9)	**(32.1)**

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.

Credit risk for the Group principally arises from trading (the supply of services) and treasury activities (the depositing of cash). The Group's exposure to trading risk is predominantly with Thames Water which is the Group's only significant trading counterparty and who constitute the full outstanding balance of trade receivables at the Statement of Financial Position date. As part of its licenced activities, the Group generates an annual revenue return on its RCV, which, it subsequently invoices to Thames Water periodically through the financial year. At any time, the outstanding trade receivable balance is approximately one month's revenue collection and represents amounts already collected by Thames Water from its customers so the risk of default is considered low.

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. A treasury policy on Investment Strategy Management provides clear instrument limits for money market funds, liquidity funds and money market deposits. The policy sets counterparty concentration and tenor limits through minimum credit rating requirements (as measured by reputable credit agencies).

At the Statement of Financial Position date there were no significant concentrations of credit risk.

The Group's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2018 was £927.9m (2017: £335.9m). Analysis of this amount can be found in the financial assets section of this note.

Notes to the financial statements (continued)

12 Financial instruments (continued)

Market risk - Interest rate risk

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, financing documentation and the Licence. These include, amongst other things, restrictions on over hedging and requirements as to the amount of the Group's debt which bears a fixed, floating or an index-linked rate of interest.

The Group's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2018 is either borrowed or hedged via swaps, at fixed or index-linked rates. A sensitivity analysis has not been disclosed as the impact from interest rate movements is considered immaterial.

Market risk – Inflation rate risk

The finance costs of the Group's index-linked debt instruments and derivatives vary with changes in RPI and CPI rather than interest rates. These financial instruments form an economic hedge with the Group's revenues and RCV, which are also linked to RPI changes. The financing strategy has involved issuing RPI and CPI linked debt to ensure that reductions in revenue due to low inflation will be partially offset by reductions in interest costs.

In the year, the Group issued long dated CPI bonds recognising Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. There is a risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens.

Inflation risk is monitored and reported monthly to the Funding and Financing Committee and subsequently to the Treasury Committee.

The table below summarises the sensitivity at 31 March 2018 of the Group's profit and equity to changes in RPI for the Group's index-linked derivatives only. Due to the adopted accounting policy of capitalising borrowing costs that are directly attributable to the construction of the TTT, the sensitivity analysis excludes the Group's index-linked borrowings. This analysis also excludes any RPI impact on the Group's revenues and RCV. The fair value of the Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an increase or decrease in RPI as shown in the table below. This analysis assumes all other variables remain constant.

	2018 £m +1%	2018 £m -1%	2017 £m +1%	2017 £m -1%
(Loss)/profit	(69.1)	62.9	(57.2)	55.3
Equity	(69.1)	62.9	(57.2)	55.3

13 Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2018 No.	Ordinary shares 2017 No.
At the beginning of the year	368,101,796	135,952,902
Issued for cash	139,264,953	232,148,894
At the end of the year	**507,366,749**	**368,101,796**

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

Notes to the financial statements (continued)

13 Capital and reserves (continued)

Share premium

Share premium was unchanged in the year at £2.3m (2017: £2.3m).

Retained earnings

	2018 £m	2017 £m
At the beginning of the year	(34.2)	-
Profit/(loss) for the year	9.5	(34.2)
At the end of the year	**(24.7)**	**(34.2)**

14 Operating leases

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

	2018 £m	2017 £m
Less than one year	2.1	6.7
Between one and five years	7.9	2.0
More than five years	1.4	-
	11.4	**8.7**

15 Contingent liabilities

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

16 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.

Key management personnel

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

	2018 £m	2017 £m
Short-term benefits	2.2	2.2
	2.2	**2.2**

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

Notes to the financial statements (continued)

16 Related parties (continued)

Company

The directors of the Company are considered to be the key management personnel. They did not receive any payment for their services during the year ended 31 March 2018 (2017: £nil).

17 Ultimate parent company and parent company of larger group

The Company has no ultimate controlling party. The Company is indirectly owned by Allianz Infrastructure Luxembourg I S.a.r.l, Dalmore Capital 14 GP Limited, IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK).

Copies of the consolidated accounts for the Bazalgette Equity Group are available from the Company Secretary, Bazalgette Equity Limited, Cottons Centre, Cottons Lane, London, SE1 2QG.

18 Subsequent events occurring after the reporting date

The Group's indirect subsidiary Thames Tideway Tunnel Limited has been voluntarily dissolved in April 2018. Its last trading date was 31 March 2017.

On 10 April 2018, the Group's subsidiary, Bazalgette Finance plc, issued a £150m Green index-linked bond. Linked to RPI the bond matures in 2032 and has a deferred purchase date of 2022.

On 14 May 2018, Bazalgette Finance plc issued three further deferred purchase bonds; a £75m Green CPI-linked bond with a maturity of 2052 and a deferred purchase date of 2022 and two £50m Green RPI-linked bonds with maturities of 2049 and deferred purchase dates of 2022 and 2023 respectively.