Bazalgette Holdings Group

Interim Report and Financial Statements for the six months ended 30 September 2017

Interim Operational Review

The Group

The Directors present the Interim Operational Review for Bazalgette Holdings Group (the Group) for the six months ended 30 September 2017.

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

The principal activity of the 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.

Overview

In the past six months Tideway has made good progress towards its ambition to safely deliver the TTT as early as possible. We continue to develop our transformational approach to health, safety and wellbeing, and are pleased to report that we have had no major injuries to date. We have now mobilised at 17 of our 21 sites, with preparations for the start of tunnelling progressing well. Total project costs for the six month period were £282.6 million (m), taking the total costs to September 2017 to £828.5m.

To manage our financial risk, we have extended our liquidity to cover the period until System Acceptance by adding £600m of new debt to the £1.15 billion (bn) raised in the last financial year. We have raised debt in a range of different instruments and markets, demonstrating the benefits of our flexible platform. These transactions resulted in a downward trajectory of Tideway's credit margin during the period, in line with the growing confidence in, and maturity of, the execution of our financing and delivery plans.

On the 7 November 2017, it was announced that Mark Corben, the Chief Financial Officer for Tideway, has decided to step down in 2018. Tideway expects to appoint a new CFO before Mark's departure next summer to allow for a smooth transition and handover.

Health, Safety and Wellbeing (HSW)

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

2017/18 Priorities:

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

Tideway has committed to reaching transformational standards of health, safety and wellbeing. We are pleased to report that there were no major injuries during the six-month period ended 30 September 2017, however there were three lost-time injuries in the past six months, one of which resulted in over seven days lost time. Although accident frequency rates (measuring lost-time injuries per 100,000 hours worked over a 12-month rolling period) on Tideway have decreased over the same period, Tideway remains focussed on improving HSW to achieve our transformational aspirations.

`RightWay`, the Tideway HSW strategy and approach, is undergoing a refresh and review to ensure that it is effectively implemented throughout Tideway. To support this a set of user friendly `RightWay` information booklets are being developed.

With more sites mobilising during the period, our `RightStart` programme, which aims to reduce the number of incidents in the first six months on-site, has been essential in ensuring the implementation of identified standards designed to prevent incidents that typically occur at the start of major projects.

The contracting organisations continue to show improvement against the leading indicators established through our HSPI. The next regular quarterly review of measures is scheduled for next month, with the aim of ensuring all leading indicators remain challenging and relevant to current and forthcoming programme risks.

Planning has commenced to launch an Alliance HSW Culture Survey in December. The aim of the survey will be to measure attitudes to and perceptions of Tideway's transformational HSW across the programme.

We continue to work closely with the Thames Skills Academy, which we helped launch last year. It now has 16 Employer and four Affiliate Members, and since April 2017 the organisation has delivered the equivalent of 220 days of training across a range of disciplines to around 12 different river operators. Marine safety is a key part of this training with marine work starting next year.

Tideway has worked extensively with the Thames Skills Academy to develop a Personal Survival course which is suitable for relevant operatives on Tideway, focussing on safety and survival in the Thames river environment.

Tideway continues to look at ways of improving health and wellbeing and has assisted the Mates in Mind charity in the development of a mental health and wellbeing programme specific to construction. This will be formally rolled out during the next period of operation.

Schedule, Cost and Quality

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

2017/18 Priorities:

- *Maintain the current programme in relation to our key milestones*
- *Clarify programme for delivery to Handover*
- *Safely mobilise on 11 sites, in line with the current programme*
- *Maintain high confidence in delivering a fit-for-purpose asset within a regulatory baseline cost of £3.1bn including contingency, in 2014/15 prices*
- *Continue to develop the commercial Alliance*
- *Start implementing a solution at Cremorne Wharf, with regard to Thames Water's Counter's Creek flood alleviation scheme by July 2017*

We have now successfully mobilised at 17 of our 21 sites, have all six of our tunnel boring machines (TBMs) ordered, and will see the TBMs arrive on site from November 2017.

In the West section, five of the seven sites are successfully mobilised, with King George's Park and Acton Storm Tanks on schedule for November. The West TBM has passed the factory acceptance testing, and is due for delivery to site in December. At the Carnwath Road Riverside main drive site, riverwall strengthening and site infrastructure, including piling and the construction of the acoustic shed (to reduce noise for local residents), are nearing completion with the main shaft excavation due to commence in November. Shaft and culvert piling works are complete at Hammersmith Pumping Station, with excavation for the inlet chamber to start by November.

In the Central section, six of the eight sites are successfully mobilised, and both TBMs ordered are under construction. At the Kirtling Street main drive site, diaphragm walling for the shaft was completed in the period. Excavation of the shaft has started with soil being taken by river, main jetty construction is underway to support TBM arrival by river, and the acoustic shed has been built.

We have commenced work on our Blackfriars Combined Sewer Overflow (CSO) interception site, have set up our site offices, and have carried out works within the river to confirm that there are no Unexploded Ordnances (UXOs). Following this work we now have a jack-up barge on site to commence the marine construction. As part of the detailed design development we have completed damage assessments to see how our works affect existing utility assets. These assessments have identified that there is a possibility of damaging two 36" diameter gas mains that run within a service subway in the riverwall. We are currently working with Cadent (formerly National Grid Gas) to divert these mains to avoid them being damaged and we are also developing a different construction method to minimise the impact we have on the mains. By using a different construction method we have delayed the point at which our works could damage the gas main, which allows us to maintain our programme and allow sufficient time to divert the gas mains.

In the East section, all six sites have now been mobilised. The TBM contract was signed in June and its detailed design is nearing completion. The temporary cofferdam at Chambers Wharf main drive site has been completed, and the diaphragm walling has commenced at the same site. The cofferdam construction at King Edward Memorial Park Foreshore has begun and is ahead of schedule thanks to a `continuous improvement` exercise following the completion of the cofferdam at Chambers Wharf. There have been some challenges at Greenwich Pumping Station relating to asset protection this period. However, through collaboratively working with the Docklands Light Railway, Thames Water, and the Royal Borough of Greenwich, there is a plan to overcome these challenges to allow the diaphragm walling operation to commence in Q3. Minor enabling works at Deptford Church Street and Earl Pumping Station are underway.

The system integrator Amey has seen changes in senior personnel on the project during the first part of the year and the focus of the new project director has been on improving definition of the delivery schedule and execution plans to achieve it. A series of workshops with Thames Water to aid in the design development work for the required software has gone well and agreements have been reached on proposed server locations and removing three redundant CSOs from the delivery scope.

During the period we agreed a solution with Thames Water to enable the future integration of its proposed Counter's Creek sewer flooding alleviation scheme with our works at Cremorne Wharf. The Proposed Variation for Counter's Creek was approved in July by the Liaison Committee, whose attendees include Defra, Ofwat, the Environment Agency and Thames Water. Tideway is progressing with implementing the revised works in accordance with the terms of the legal agreement signed with Thames Water.

In order to help ensure Tideway achieves the key milestone of the start of tunnelling, we have introduced an incentive arrangement which rewards the Contractors and the Programme Manager for achieving improved schedule performance against our delivery baseline. This arrangement works alongside the Thames Tideway Alliance and will motivate the delivery team to strive for the best possible results. The Contractors will earn incentive payments by achieving full tunnelling production for each of the main tunnel drives.

Relationships with the Consent Granting Bodies (PLA, EA, TfL, Local Authorities etc.) remain good. Significant consenting activity is now taking place across the project and will continue until all sites are under construction. The More by River strategy continues to be implemented across the programme, with the planning application for use of the Deptford Creek to transport spoil (a key mitigation of the tunnelling production risk) due to be submitted in Q4 2017.

Total project costs for the six month period were £282.6m, taking the total costs to September 2017 to £828.5m.

Vision, Legacy and Reputation

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

2017/18 Priorities:

- *Deliver a strategy for 2017/18, to protect and promote the reputation of the project*
- *Establish a public/stakeholder metric by June 2017*
- *Build positive community relations with project neighbours, focusing particularly on those at the 19 sites that will be live by the end of 2017/18*

- *Ensure demonstrable compliance with our legacy, environmental sustainability, skills and employment and innovation commitments*

Our Legacy Statement, which is published on our website, articulates our vision of `Reconnecting London with the River Thames`. It sets out our detailed commitments for delivering lasting project benefits, from realising jobs and skills to keeping our carbon emissions down. As at the end of the period, 79% of these were on track, which is an improvement of 4% over the period. Additionally, throughout the period great progress has been made across community relations, development, and volunteering which is detailed below.

With on-site construction activity ramping up significantly over the period, our work to liaise with affected communities has also increased, alongside increased activity to reconnect the public at large with the River Thames, in line with our company vision. In partnership with the MWCs, community liaison working groups have been established at all live sites, with more than 20 meetings held in the six months from April. Additionally, community information centres are open weekly at Chambers Wharf and Carnwath Road Riverside, with one due to open at the third main drive site Kirtling Street before the end of 2017.

In September, three regionalised editions of our new community newsletter 'River Times' were hand-delivered to properties within 250 metres of all active sites. We have established a project Facebook page, supplementing our website and Twitter account as a forum for updates about our work. Additionally, in September more than 4,000 people attended our first-ever Foreshore Festival in Putney, a celebration of the recreational value of the river.

More than 40 boat trips were held during the period to inform stakeholder groups and interested parties through describing the project, including residents, elected representatives, academics, the media and students. Artists have worked with local communities to develop hoardings at construction sites, including Chambers Wharf and Blackfriars. In September, our first artist in residence Tania Kovats produced 'Dirty Water', a limited-edition newspaper, which was distributed to the public at more than 20 riverside locations.

Our staff clocked up over 1,500 volunteering hours during the period, with charities such as Thames21, London Youth Rowing and at schools in the Boroughs affected by construction. Our long-term partnership with London Youth Rowing will soon be extended to offer young people from the Boroughs through which the tunnel passes the opportunity to get onto the water, in partnership with Sport England, with a focus on those from deprived backgrounds and encouraging greater female participation.

Charitable fundraising highlights included staff raising over £35,000 in a rowing challenge in June for the AHOY Centre in Deptford, which promotes recreational use of the river to underprivileged young people. As part of City Giving Day (26 September), a 25-strong team of stand up paddlers were also on the river to raise almost £4,000 for charity.

Company and People

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

2017/18 Priorities:

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

This year's focus is to continue to build on activities that support and improve our people's engagement and effectiveness. The Tideway Information Management project was successfully concluded and this has improved team collaboration and information sharing. Our intent to increase effectiveness and improve decision-making is being supported through the roll-out of the Tideway Operating Model, this clarifies the roles of the Client, Project Manager and Contractor. This has led to some organisational changes to realign activities to the appropriate part of the organisation.

The head office move was successfully conducted at the end of October. The new office will facilitate increased collaboration between individuals and teams as well as improving movement to sites along the river by improved proximity to drive sites.

Improving individual and team development is a focus for 2017/18. The first half of the year has been spent pulling together company-wide development plans to support effectiveness and engagement, and supporting talent management and succession planning activity.

Gender diversity is a key performance indicator for Tideway with female staff currently representing 36% of headcount.

To increase stakeholders` confidence in our ability to deliver the project, management undertook a review of Tideway's assurance framework and mapped the assurance activity that takes place across the company and the three lines of defence. This exercise has helped management to align the assurance activity to the company's operating model, identify gaps and overlaps, and assess the levels of residual risk. Going forward, this map will be a key tool to plan assurance and audit activity across Tideway.

Financing

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

2017/18 Priorities:

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

To manage our financial risk, we have extended our liquidity to cover the entire construction period until System Acceptance by adding £600m of new debt to the £1.15bn raised in the last financial year. We have raised debt in a range of different instruments and markets, demonstrating the benefits of our flexible platform. These transactions resulted in a downward trajectory of Tideway's credit margin during the period, in line with the growing confidence in, and maturity of, the execution of our financing and delivery plans.

As at 30 September 2017, we had received £1,224.6m from shareholders. This was in the form of £489.8m of equity and £734.8m of shareholder loans. The final instalment of the £1.27bn of shareholder funds committed at licence award will be drawn in December 2017.

At 30 September 2017, we had total liquidity in excess of £3.1bn, comprising £0.7bn of cash, £0.05bn of committed and undrawn capital from shareholders, the £1bn undrawn RCF and the £1.375bn of committed and undrawn term debt. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all debt requirements until System Acceptance.

We raised £600m of new term debt in the first six months of the year, via a number of major institutional investors:

- A 30-year £100m delayed draw index-linked loan was closed on 7 April
- A 15-year £300m US Private Placement with four investors was priced in June and funded in September 2017
- A £125m deferred draw index-linked bond was priced in July. The bond has a deferral period of two years, its final maturity is 2049 and average maturity is 2047
- A £75m CPI linked bond was priced and drawn in August 2017 with an average life of 25 years and maturity in 2047

An Investor Event was hosted on 19 May, which was attended by 46 investors and banks representing 32 institutions. Feedback from investors was very positive with many investors saying that the presentations and boat trip helped to raise their awareness of the project. This was then followed by the publication of Tideway's Annual Report for the financial year 2016/17 on 16 June 2017 and our updated Prospectus on 27 June 2017.

Moody's and Fitch investment grade credit ratings of Baa1 and BBB+ were affirmed during the period. Additionally, during the period we updated and strengthened our Treasury Policy and Investment Management Strategy.

Risk Management

Risk management is embedded in Tideway's culture and is central to achieving its objectives. The company has implemented a clearly defined process for identifying, analysing and controlling risk throughout the business.

Tideway's principal risks, which could have a material, adverse impact on the business, reputation and/or financial condition, have had some adjustments from those reported in the Annual Report and Financial Statements for the period ended 31 March 2017.

The principal risks are: health, safety and wellbeing; programme delivery; supply chain failure; high impact, low probability events; financing risks; inflation risks; reputational risk; the performance of Thames Water; regulatory risk, and Brexit risk.

During the period the principal risk `financing risks` has improved due to Tideway having secured additional debt. A new risk was added to the principal risk `regulatory risk` to address the potential changes to the UK water sector alluded to in both main political parties' manifestoes during the last general election. Additionally, a Board session was held on cyber security, which is not a principal risk but is an emerging risk we are observing, where it was discussed and mitigation plans put in place.

These principal risks are under continual review. We are closely monitoring potential impacts of the UK's exit from membership of the European Union and will continue to monitor both political and economic events and consider any possible impact on the business.

Further detail on these risks can be found in the Annual Report and Financial Statements for the year ended 31 March 2017, which can be found on the Tideway website at www.tideway.london

Interim Financial Performance Review

Accounting Basis

Our condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards "IFRS" as adopted by the EU. The Group's accounting policies are consistent with those disclosed in the Group's Annual Report for the period ended 31 March 2017. Accordingly during the construction phase of the project, expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its intended use will be capitalised as an asset under construction. Regulated revenue received from Thames Water is recognised as deferred revenue within the Statement of Financial Position.

Non-GAAP Measures: Reporting of Allowable Project Spend

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

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

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

Income Statement

During the six month period ended 30 September 2017, the Group reported a profit of £13.7m (2016: £30.3m loss) with no dividends paid or proposed (2016: £nil).

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

The movement in fair value of these financial instruments is recognised in the Income Statement. Under IAS 23 these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised.

We did not recognise any taxable profits in the period (2016: £nil) and the estimated current tax charge for the period is £nil (2016: £nil).

Statement of Financial Position

The table below analyses capitalised costs in the Statement of Financial Position and the associated cash outflows:

	Six months ended 30 September 2017			Six months ended 30 September 2016		
Analysis of Costs and Cash Outflows (£m)	Costs	Timing Differences	Cash Outflows	Costs	Timing Differences	Cash Outflows
Direct Costs	208.1	(42.4)	165.7	104.1	(3.6)	100.5
Indirect Costs	48.0	(0.5)	47.5	42.6	1.2	43.8
Allowable	256.1	(42.9)	213.2	146.7	(2.4)	144.3
Excluded	26.5	10.1	36.6	17.1	14.7	31.8
Total	282.6	(32.8)	249.8	163.8	12.3	176.1
B/Fwd 31 Mar 2017	545.9					
Capitalised Costs *	828.5					

* Capitalised Costs is the GAAP measure and aligns to note 4 of the condensed interim financial statements

Our Allowable Project Spend in the period is lower than the Allowable Costs as our Allowable Costs includes the timing of accruals and the unwinding of prepayments of items including insurance contracts and the Government Support Package. The direct costs variance of £42.4m represents the September 2017 accrued Allowable Costs that were paid after the period end.

At 30 September 2017, costs of £828.5m were capitalised within the asset under construction in the Statement of Financial Position. This represents £282.6m of costs during the period and £545.9m brought forward from prior periods.

The table below analyses Allowable Costs:

Allowable Costs (£m)	Six months ended 30 September 2017	Six months ended 30 September 2016
Direct Costs	208.1	104.1
Resource Costs	32.3	29.9
Other Indirect Costs	15.7	12.7
Indirect Costs	48.0	42.6
Total	256.1	146.7

Direct costs:

Direct costs are primarily the Main Works Contractor (MWC) costs. They also include the System Integrator contract. The direct costs incurred in the period have increased significantly compared with 2016, reflecting the commencement of construction activities.

Indirect costs:

The largest indirect costs are resource costs of £32.3m (2016: £29.9m) which includes the staff cost of those employed directly by the Group or through framework contracts and the resource costs of our programme delivery partner CH2M. Other Indirect Costs include non-resource costs such as information systems, office, insurance and third party payments.

Excluded Costs:

Excluded Costs to 30 September 2017 are £26.5m (2016: £17.1m) which largely reflects financing costs such as interest on shareholder loans and costs related to the Group's debt financing activities such as bank fees, legal advice and rating agency fees.

Net Cash and Financing

Our net cash at 30 September 2017 was £369.9m (2016: £278.6m) which was split between cash and cash equivalents of £745.1m (2016: £278.6m) less third party borrowings of £375.2m (2016/17: £nil).

Our cash and cash equivalents at 30 September 2017 was £745.1m (2016: £278.6m) which was split between cash held at bank of £95.1m (2016: £90.1m) and cash equivalents of £650.0m (2016: £188.5m), comprising short-term deposits and investments in money market funds.

The tables below summarise the movements in both net cash and cash and cash equivalents during the period.

Net Cash/(Debt) (£m)	Six months ended 30 September 2017	Six months ended 30 September 2016	Ref. [1]
Net proceeds from Shareholder Loans	165.0	179.7	d
Proceeds from Equity	119.4	127.7	d
Deferred revenue	16.2	14.5	a
Transfer from/(to) Short Term Deposits	0.0	17.5	c
Proceeds from new borrowings	375.0	0.0	d
Other	3.4	2.4	a
Cash Inflows	**679.0**	**341.8**	
Construction of the tunnel asset	(282.4)	(163.8)	b
Working capital movements	32.6	(12.3)	a
Cash Outflows	**(249.8)**	**(176.1)**	
Change in Net Cash/(Debt) from cashflows	**429.2**	**165.7**	
Change in Debt	(375.2)	0.0	
Change in Net Cash/(Debt)	**54.0**	**165.7**	
Net Cash/(Debt) at the start of the period	315.9		
Net Cash/(Debt) at the end of the period	369.9		

Reconciliation to the Group Cash Flow Statement (£m)	Six months ended 30 September 2017	Six months ended 30 September 2016	Ref. [1]
Net cash used in operations	52.2	4.6	a
Net cash used in investing activities - Infrastructure asset	(282.4)	(163.8)	b
Net cash used in investing activities - Short term deposits	0.0	17.5	c
Net cash from financing activities	659.4	307.4	d
Net increase in cash and cash equivalents	**429.2**	**165.7**	
Cash and cash equivalents at the start of the period	315.9	112.9	
Cash and cash equivalents at the end of the period	745.1	278.6	

[1] see cross ref.

The cash inflows of £679.0m (2016: £341.8m) includes financing cash flows of £659.4m (2016: £307.4m) from £284.4m (2016: £307.4m) net shareholder injections and £375.0m (2016: £nil) proceeds from new borrowings. The shareholder injections represent £119.4m (2016: £127.7m) of shareholder equity and £165.0m (2016: £179.7m) of net shareholder loans. These net shareholder loans were split £179.2m (2016: £191.5m) of proceeds from shareholder loans, less £14.2m (2016: £11.8m) loan repayments. The £375.0m (2016: £nil) proceeds from new borrowings represent draw downs on a £300.0m US Private Placement and a £75.0m CPI linked bond.

Working capital totalled £19.6m (2016: £16.9m) and include £16.2m (2016: £14.5m) regulated deferred revenue received from Thames Water and £3.4m (2016: £2.4m) of other inflows including interest and other services provided to Thames Water.

Cash outflows of £249.8m (2016: £176.1m) include £282.4m (2016: £163.8m) for investing activities being the construction of the Thames Tideway Tunnel asset offset by working capital movements of £32.6m (2016: (£12.3m)). The difference in working capital movement compared with 2016 is a result of an increase in Trade and Other payables, reflecting the significant increase in direct costs.

At 30 September 2017 the Group held debt of £1,069.5m (2016: £384.8m) in the form of £694.3m (2016: £384.8m) shareholder loans and £375.2m (2016: £nil) third party borrowings.

In addition at 30 September 2017 the Group had the following undrawn debt facilities: £1.0bn Revolving Credit Facility (RCF), £700m Loan with the EIB, and £675m of deferred bonds/loans.

Statement of the Directors' responsibilities in respect of the Interim Report and Financial Statements

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

The Directors of Bazalgette Holdings Limited are as listed on page 39 in the Bazalgette Holdings Annual Report for the year ended 31 March 2017. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london

The above statement of Directors responsibilities was approved by the Board of Directors on 16 November 2017 and signed on its behalf by:

Gavin Tait

Director

16 November 2017

Consolidated Income Statement

	Note	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Year ended 31 March 2017 Audited £m
Net operating costs		-	-	-
Operating result		-	-	-
Net finance income/(costs)	2	13.7	(30.3)	(34.2)
Profit/(loss) before tax		**13.7**	**(30.3)**	**(34.2)**
Taxation	3	-	-	-
Profit/(loss) for the period		**13.7**	**(30.3)**	**(34.2)**

Consolidated Statement of Other Comprehensive Income

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Year ended 31 March 2017 Audited £m
Profit/(loss) for the period	13.7	(30.3)	(34.2)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	**13.7**	**(30.3)**	**(34.2)**

Consolidated Statement of Financial Position

	Note	30 September 2017 Unaudited £m	30 September 2016 Unaudited £m	31 March 2017 Audited £m
Non-current assets				
Property, plant and equipment	4	828.5	325.0	545.9
Trade and other receivables		53.3	56.1	54.8
		881.8	381.1	600.7
Current assets				
Trade and other receivables		38.5	24.6	29.8
Cash and cash equivalents		745.1	278.6	315.9
		783.6	303.2	345.7
Total assets		**1,665.4**	**684.3**	**946.4**
Current liabilities				
Trade and other payables		(65.8)	(21.4)	(20.0)
		(65.8)	(21.4)	(20.0)
Non-current liabilities				
Advance payment liability		(40.3)	(12.1)	(26.7)
Borrowings	5	(1,069.5)	(384.8)	(529.3)
Derivative financial instruments	6	(20.5)	(30.3)	(34.2)
		(1,130.3)	(427.2)	(590.2)
Total liabilities		**(1,196.1)**	**(448.6)**	**(610.2)**
Net assets		**469.3**	**235.7**	**336.2**
Equity				
Share capital	7	489.8	266.0	370.4
Retained earnings		(20.5)	(30.3)	(34.2)
Total equity		**469.3**	**235.7**	**336.2**

The above condensed consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 20 to 24 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Retained earnings £m	Total Equity £m
Balance at 1 April 2017	**370.4**	**(34.2)**	**336.2**
Profit for the period	-	13.7	13.7
Total comprehensive income for the period	**-**	**13.7**	**13.7**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	119.4	-	119.4
Total contributions by and distributions to owners of the parent	**119.4**	**-**	**119.4**
Balance at 30 September 2017 (unaudited)	**489.8**	**(20.5)**	**469.3**

	Share capital £m	Retained earnings £m	Total Equity £m
Balance at 1 April 2016	**138.3**	**-**	**138.3**
Loss for the period	-	(30.3)	(30.3)
Total comprehensive income for the period	**-**	**(30.3)**	**(30.3)**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	127.7	-	127.7
Total contributions by and distributions to owners of the parent	**127.7**	**-**	**127.7**
Balance at 30 September 2016 (unaudited)	**266.0**	**(30.3)**	**235.7**

Consolidated Statement of Changes in Equity (continued)

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

Consolidated Cash Flow Statement

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Year ended 31 March 2017 Audited £m
Cash generated from operations before changes in working capital	-	-	-
(Increase) in trade and other receivables	(7.2)	(0.5)	(4.4)
Increase/(Decrease) in trade and other payables	45.8	(7.0)	(8.4)
Increase in advance payment liability	13.6	12.1	26.7
Cash used in operations	**52.2**	**4.6**	**13.9**
Net cash used in operating activities	**52.2**	**4.6**	**13.9**
Cash flows used in investing activities			
Construction of infrastructure asset	(282.4)	(163.8)	(384.7)
Short-term cash deposits	-	17.5	17.5
Net cash used in investing activities	**(282.4)**	**(146.3)**	**(367.2)**
Cash flows from financing activities			
Proceeds from the issue of share capital	119.4	127.7	232.1
Proceeds from shareholder loans	179.2	191.5	348.3
Proceeds from new borrowings	375.0	-	-
Repayment of shareholders loan principal	(14.2)	(11.8)	(24.1)
Net cash from financing activities	**659.4**	**307.4**	**556.3**
Net increase in cash and cash equivalents during the period	**429.2**	**165.7**	**203.0**
Cash and cash equivalents at the start of the period	315.9	112.9	112.9
Cash and cash equivalents at the end of the period	**745.1**	**278.6**	**315.9**

Notes to the condensed consolidated interim financial statements

1. General Information

Basis of preparation

The Bazalgette Holdings Group comprises Bazalgette Holdings Limited "BHL", Bazalgette Tunnel Limited, Thames Tideway Tunnel Limited and Bazalgette Finance plc.

These condensed interim financial statements consolidate those of BHL and its subsidiaries (together referred to as the "Group") and comprise the unaudited financial statements for the six months to 30 September 2017.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Transparency Rules issued by the Financial Conduct Authority and they should be read in conjunction with the Group's last audited consolidated financial statements for the year ended 31 March 2017. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

Accounting policies

These condensed consolidated interim financial statements have been prepared on a basis consistent with the IFRS accounting policies as set out in the Group's Annual Report for the year ended 31 March 2017.

Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2017.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing these interim financial statements, and there have been no material uncertainties identified that would impact the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Notes to the condensed consolidated interim financial statements (continued)

2. Finance income and costs

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Finance income			
Interest income	(0.5)	(0.6)	(1.0)
Finance costs			
Interest expense on loans from parent	23.2	12.2	29.3
Interest expense on third party borrowings	0.3	-	-
Financing fees	2.4	2.5	4.4
Financial instruments at fair value through profit or loss:			
- Index-linked swaps (gain)/loss	(13.7)	30.3	34.2
Capitalised finance income and costs into asset under construction	(25.4)	(14.1)	(32.7)
Net finance (income)/costs	**(13.7)**	**30.3**	**34.2**

3. Taxation

Income tax expense is recognised based on management's estimate of the weighted average effective annual corporation tax rate expected for the full financial year. The Group capitalises all costs incurred in relation to its tunnel asset and fair value gains and losses are disregarded for current tax purposes. As a result, the calculated profits attributable to corporation tax are £nil (2016: £nil) and therefore the estimated average effective annual tax rate used for the six months to 30 September 2017 is 0% (2016: 0%).

As at the Statement of Financial Position date, unrecognised deferred tax assets of £11.0m have been calculated with regards to the Group's carried forward trading losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

4. Property, plant and equipment

Asset under construction

During the construction phase of the project which commenced in 2015 and which is expected to be completed at System Acceptance, all costs which are directly attributable to bringing the Thames Tideway Tunnel into its working condition for its intended use will be capitalised, with the exception of fair value gains and losses. During the six months ended 30 September 2017, net costs totalling £282.6m were considered to have met this requirement (2016: £163.8m). The amount of net borrowing costs capitalised during the period was £23.0m with a capitalisation rate of 100% (2016: £11.6m).

Notes to the condensed consolidated interim financial statements (continued)

5. Borrowings

New borrowings raised by the Group during the six month period ended 30 September 2017 were as follows:

- A 30-year £100m delayed draw index-linked loan was closed on 7 April. The loan will be drawn in 2019 and will mature in 2049
- A 15-year £300m US Private Placement with four investors was priced in June 2017 and funded in September 2017
- In July 2017, a £125m deferred draw index-linked bond was priced. The bond has a deferral period of two years, its final maturity is 2049 and its average maturity is 2047
- A £75m CPI linked bond was priced and drawn in August 2017. The bond has an average life of 25 years and matures in 2047
- On 30 June 2017 and the 29 September 2017, the Group's immediate parent, Bazalgette Ventures Limited, injected a further £96.5m and £82.7m respectively of shareholder loans into the Group

6. Fair Value of financial instruments

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, trade receivables and trade payables as their carrying amounts are a reasonable approximation of the fair value.

	30 September 2017		30 September 2016	31 March 2017
	Book value £m	Fair Value £m	Book value £m	Book value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings - Shareholder loans	694.3	737.8	384.8	529.3
Borrowings - Fixed rate loans	300.0	284.3	-	-
Borrowings - Index-linked sterling bonds	75.2	77.2	-	-
Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives (index-linked swaps)	20.5	20.5	30.3	34.2
Total	**1,090.0**	**1,119.8**	**415.1**	**563.5**

Notes to the condensed consolidated interim financial statements (continued)

Financial liabilities at amortised cost:
Borrowings from third parties include index-linked bonds and private placements issued by the Group. The fair value of borrowings is determined 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:
Financial instruments measured at fair value through profit and loss are the Group's index-linked swaps. Where an active market exists, the 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.

Valuation hierarchy:
The Group considers all its derivative financial instruments carried at fair value 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 carried at fair value at the Statement of Financial Position date.

Level 3 financial instruments carried at fair value	**30 September 2017 £m**	**30 September 2016 £m**	**31 March 2017 £m**
Derivative liabilities			
Index-linked swaps	20.5	30.3	34.2
	20.5	**30.3**	**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	**30 September 2017 £m**	**30 September 2016 £m**	**31 March 2017 £m**
Opening liability	(34.2)	-	-
Gain/(loss) recognised in finance costs			
- Net change in fair value (unrealised)	13.7	(30.3)	(34.2)
Closing liability	**(20.5)**	**(30.3)**	**(34.2)**

The fair value estimate of the credit risk of the group is calculated using several data points, including analysis of market data for similar corporate entities, which is publically available and based on a large portfolio of liquid, tradeable instruments, as well as an assessment of the credit spread on the Group's recent debt 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.

Notes to the condensed consolidated interim financial statements (continued)

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.

	30 September 2017 Impact on profit for the period	
	Increase	**Decrease**
Risk-adjusted discount rate (+/- 100bps movement)	£10.8m	£12.9m

7. Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares No.
At 1 April 2017	370,407,648
Issued for cash	119,433,323
At 30 September 2017	**489,840,971**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of BHL 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

8. 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 Consolidated Statement of Financial Position date.

9. Related party transactions

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

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited were £694.3m at 30 September 2017 (2016: £384.8m).