Tideway

RECONNECTING LONDON WITH THE RIVER THAMES

ANNUAL REPORT 2016/17

Contents

2016/17 Highlights

Regulatory Capital Value

£502.1m

as at 31 March 2017

Health, Safety and Wellbeing

Zero
major injuries

Schedule, Cost and Quality

Mobilisation of main drive sites for tunnelling

three to five months early

Vision, Legacy and Reputation

>2,300

STEM education volunteering hours

>4,100

community volunteering hours

27

apprentices working across the programme

11

sites supported by a Community Liaison Working Group (CLWG) with **34** working group meetings held

Company and People

37 per cent

female staff

Financing

Fully financed

through the construction period including **£700m** 35-year European Investment Bank loan and **£450m** of bond issues

Vision and Purpose

OUR VISION IS TO RECONNECT LONDON WITH THE RIVER THAMES

The Thames Tideway Tunnel will be a major new sewer, which is urgently needed to protect the tidal River Thames from pollution. It is being delivered by Tideway, an independent regulated water company.

The tunnel is the largest project in the water sector since the construction of Sir Joseph Bazalgette's interceptor sewers in the 1860s.

It is being financed by the private sector, with half the total equity provided by UK investors. This includes a large number of UK pensioners through investment by major pension funds.

We aim to deliver the project to the right quality, ahead of time, and below budget. The health, safety and wellbeing of our people and the public are paramount – we intend to work safely or not at all.

We are working closely with our local stakeholders in delivering the tunnel, creating value for them, our investors, Thames Water's bill payers and the environment.

Strategic Report

Chambers Wharf: Our main drive site in the east section of the project

Strategic Report
Chairman's Introduction

SIR NEVILLE SIMMS
NON-EXECUTIVE CHAIRMAN

'I have every confidence that our teams are well prepared to ensure another year of real progress for Tideway'

Last year I was pleased to tell you that Bazalgette Tunnel Limited (Tideway) (The Company) was well on the way to establishing itself as an independent company and was preparing to deliver one of the UK's most important new infrastructure projects, for London.

This year, as you will read in more detail later, work has started on site and is progressing well at all our main drive sites, from Carnwath Road in the West to Chambers Wharf in the East. In addition, we have taken advantage, throughout the year, of the attractive financing options available in the market to ensure that the Company has a solid financial platform.

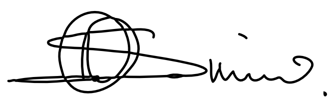
Alongside our committed Shareholder equity, we now have sufficient financing to see us through to the end of construction, which reduces our financing risk and is good news for investors and stakeholders. During the year, the Board endorsed the management team's actions to establish an earlier start on site and programme to completion, as a way to de-risk the programme to enable delivery on time and on budget. We have ambitions to do even better.

The Board comprises Executive Directors, Shareholders and Independent Non-Executive Directors, including the Independent Chairman. The Independent Non-Executive Directors (including the Chairman) are the largest single group on the Board. It has come together well during the year and the corporate governance structures we introduced when we were granted our Licence have proven to be robust and effective. It was therefore a pleasure to accept the ICSA Governance Project of the Year award in November 2016, which celebrates the highest standards in governance and rewards organisations, teams and individuals for exemplary achievements.

Through our Liaison Committee and the Thames Tideway Tunnel (TTT) Forum, we maintain an open dialogue with our key stakeholders – including government, regulators and local bodies affected by our works. We make a considerable effort to meet local residents, to understand concerns they may have and to mitigate these where possible.

As well as leaving a lasting legacy of a clean and healthy river, the company will generate new riverside public spaces and facilities for our capital. In November 2016, alongside Transport for London (TfL), we opened a new public pier at Blackfriars, with double the capacity of the previous one. I am sure this will play its role in increasing the use of the river, which we are keen to encourage.

I want to thank all concerned for the successful year covered by this report. It was exactly what was needed to establish a firm platform for the critical year ahead, in which production from our contractors will step up markedly. I have every confidence that our teams are well prepared to ensure another year of real progress for Tideway.



Sir Neville Simms,
Chairman

Our King Edward Memorial Park foreshore site with views of the City

Chief Executive Officer's Report

ANDY MITCHELL CBE,
CHIEF EXECUTIVE OFFICER

I am pleased to report a positive and productive first full year for the Company, as we established a sound financial platform for the business and made a very encouraging start with delivering the works in the field, as you will see in the highlights section below.

On the delivery side, we pledged our intention to set new standards for the health, safety and wellbeing of our workforce and those around us. We knew that to achieve a much better performance, we would have to do many things differently from the past. This started with establishing in 2015/16 an award-winning, full-day immersive induction course, which we call EPIC (Employer Project Induction Centre). EPIC has been highly acclaimed by attendees and received a variety of industry awards. It is followed by an extensive on-boarding programme that includes further site-specific inductions, a verbal communications test and biometric registration, and culminates in issuing the highest specification personal protective equipment (PPE), including a new design of safety boot aimed at significantly reducing all too common ankle injuries. We want to welcome a workforce that is well prepared and well equipped to deliver high quality works, safely and healthily – It is not easy for people to qualify to work on one of our sites and that is fine by us.

We have also pursued demanding standards for employing local people and ex-offenders, and have set the London Living Wage as a minimum. We have made good progress against these targets, as we are convinced that having a diverse and socially representative workforce is the right thing to do and makes good business sense.

To provide the best outcome for bill payers and investors alike, we worked closely during the year with all members of the Alliance, as we developed plans to de-risk the programme to support delivery on time and budget. We are aiming for early site mobilisation and tunnelling which would position us well for delivery and the challenges that we continue to face. With the strong support of the consent granting bodies, we were able to start between three and five months early at the main tunnelling drive sites. Notwithstanding the inevitable delays associated with mobilising large construction projects in cities like London, we are still aiming to deliver ahead of the schedule agreed at Licence Award.

The majority of our sites are on the river. Over the course of the year, we have developed plans to move even more of our materials and equipment by river. Each 1,000 tonne barge we use is another 50 heavy goods vehicles off London's roads. This is important for a city challenged by congestion and air quality concerns. Where we have to use roads, we are pushing to use the very latest designs of low-entry (high-visibility) trucks, for the benefit of all other road users.

The past year has seen considerable progress across the project which is beginning to have a positive impact on our principal risks. Notably, despite mobilising to sites, there has been no material change in the level of delivery risk and we have reduced our financing risks.

As a new company, we have had the opportunity to decide what and how we want to be – to truly own our vision and culture. The positive impact of our initiatives in this area were reflected in our 2016 employee survey, with 85 per cent of staff having a good understanding of the Company's strategic priorities and goals, and 86 per cent understanding how their job contributes to them. We continue to hold this as an important part of what drives us internally.

The delivery challenge for the year ahead is to consolidate the good health and safety and schedule position that we have achieved for the main tunnelling drive sites, while mobilising a further 10 sites along the river. This will see tunnelling machines arriving after the summer and in the ground and ready to start tunnelling in around a year.

With our Shareholders' 'equity first' approach, our financial task in year one was to establish Tideway as a recognised and attractive utility company investment, such that third-party finance was available after we deployed the £1.3 billion of Shareholder equity and loans. This we have done comfortably, by securing a £700 million EIB loan and a further £550m of deferred bonds and loans (£100m post period end) from the UK markets, at rates lower than we had assumed and extending our liquidity to the end of construction. We are now well set to continue this programme in the coming year.

We remain confident that we are well positioned to deliver a great result for London, the broader economy, our investors, bill payers and the environment.

Andy Mitchell

Andy Mitchell CBE,
Chief Executive Officer

Volunteers from across the project during a riverbank management volunteering day on Chiswick Eyot

HIGHLIGHTS:

2016/17 has seen Tideway make good progress towards its ambition to safely deliver the Thames Tideway Tunnel as early as possible.

Our key achievements this year included:

- Continuing to develop our approach to transformational health, safety and wellbeing, with zero major injuries.
- Maintaining schedule (Handover by quarter one 2024) and budget (£3.1bn) delivery in line with the regulatory baseline.
- Mobilised nine out of 24 sites.
- Progressing the construction schedule, with the main drive sites at Carnwath Road (West), Kirtling Street (Central) and Chambers Wharf (East) mobilised between three and five months earlier than the original schedule.
- Agreed a 'More by River' strategy, which is expected to reduce two-way heavy goods vehicles movements down to 140,000 – or 28 per cent of the forecast all by road total of 506,000.
- Developed an environmental plan that saw a reduction in carbon emission forecasts of approximately five per cent.
- Extending our liquidity to cover the entire construction period, taking advantage of the current low interest rate environment to lock in a low cost of finance through:
  - Securing a £700m, 35-year loan from the EIB.
  - Pricing £450m of bond issues (with £100m in loans secured since 31 March 2017).
- Contributed to over 2,300 Science, Technology, Engineering and Mathematics (STEM) education volunteering hours and 4,100 community volunteering hours.
- Developed a deeper stakeholder awareness of the project through having over 400 stakeholders attend the tideway boat tours with 79 per cent finding the trips 'excellent' for building awareness.
- Increased the number of sites supported by a Community Liaison Working Group (CLWG) to 11, with 34 working group meetings held.
- Maintained 37 per cent female gender diversity throughout the year with further improvements made to our diversity programme.
- Adopted the London Living Wage across the programme through setting it as a minimum both for Tideway and for contractor staff working full time on site.

Chambers Wharf, our main drive site in the east, with the sheet piles for the cofferdam in place

Who We Are and What We Do

An independent regulated water company financed by private capital, established to intercept sewage otherwise destined for the tidal River Thames

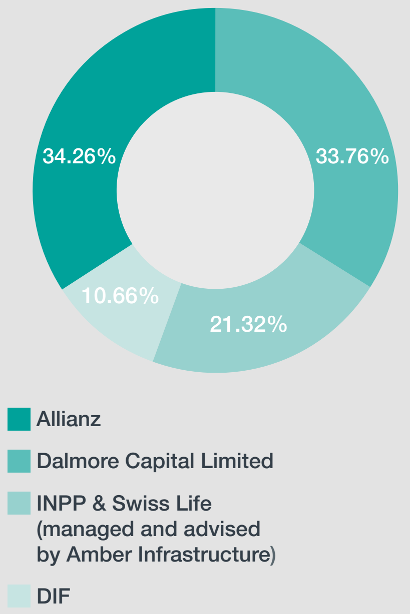
'We remain confident that we are well positioned to deliver a great result for London' – Andy Mitchell, CEO

The temporary slipway being installed at Putney Embankment

Bazalgette Tunnel Limited, trading under the name of Tideway, began operating as an independent regulated water company in August 2015 when Ofwat awarded us our Licence to design, build, commission and maintain the TTT. The 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. At Licence Award, our Shareholders committed total financing of £1,274m. This backing helps fulfil a key component of HM Treasury's National Infrastructure Plan, to finance the development of UK infrastructure with the support of private investors. Over half the total equity invested is by UK investors, including a large number of UK pensioners through investment by major pension funds, giving UK pensioners an indirect investment in Tideway.

The shareholder group comprises:



The Shareholders are represented on our Board, with one director each for Allianz, the Amber group, Dalmore and DIF. More information can be found in the Corporate Governance section of this report, on pages 91 to 95.

Who We Are and What We Do
Continued

Chambers Wharf in Bermondsey preparing for the installation of the sheet piles for the cofferdam

London's sewerage system was built for just four million people more than 150 years ago

THAMES TIDEWAY TUNNEL SCHEME

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

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

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

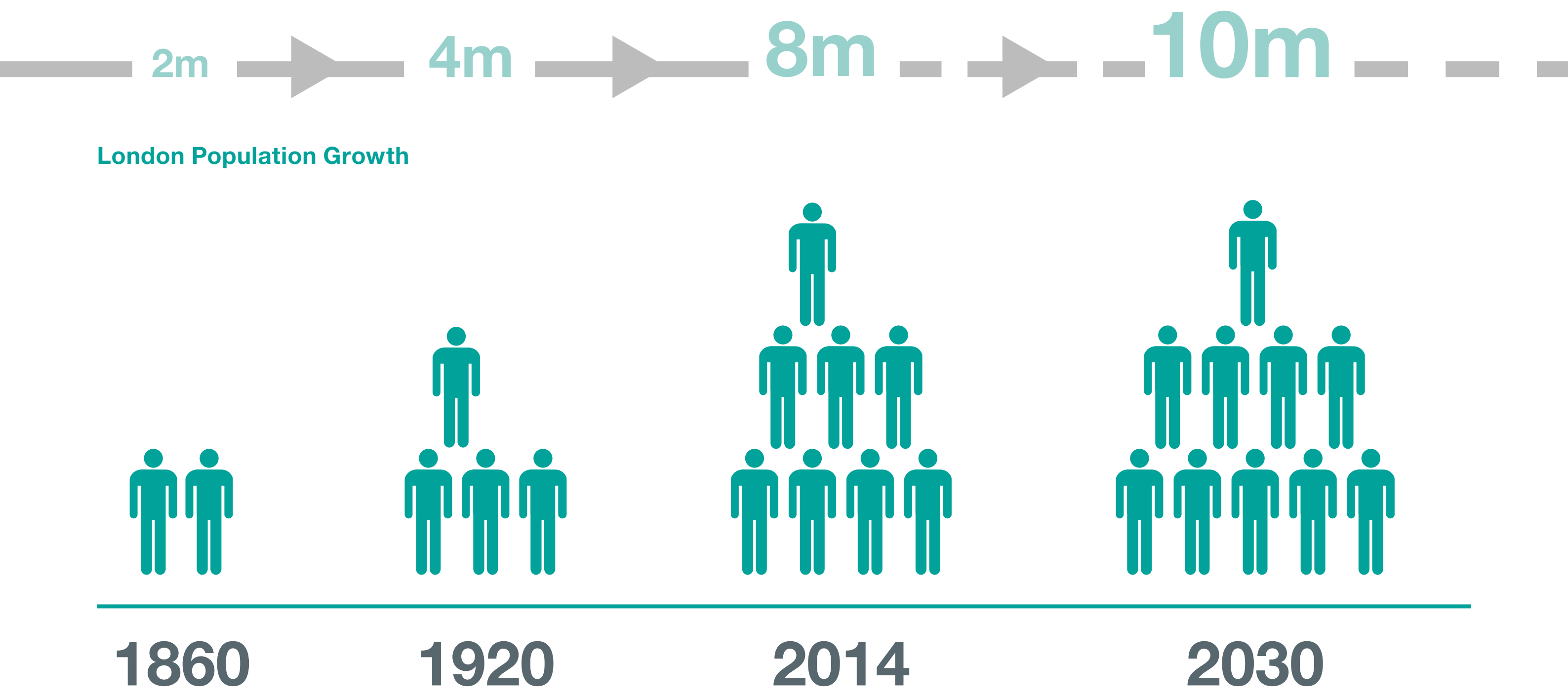
metres wide

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.



Water customers' annual bills is estimated to be around £20-25 per household by the mid-2020s, 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.

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

1.24m

cubic metres capacity

The tunnel will be able to store 1.24m cubic metres of sewage for transfer to treatment. That is the equivalent of 50 Olympic-sized swimming pools.

120

years design life

The design of the tunnel will mean it will last for at least the next 120 years.

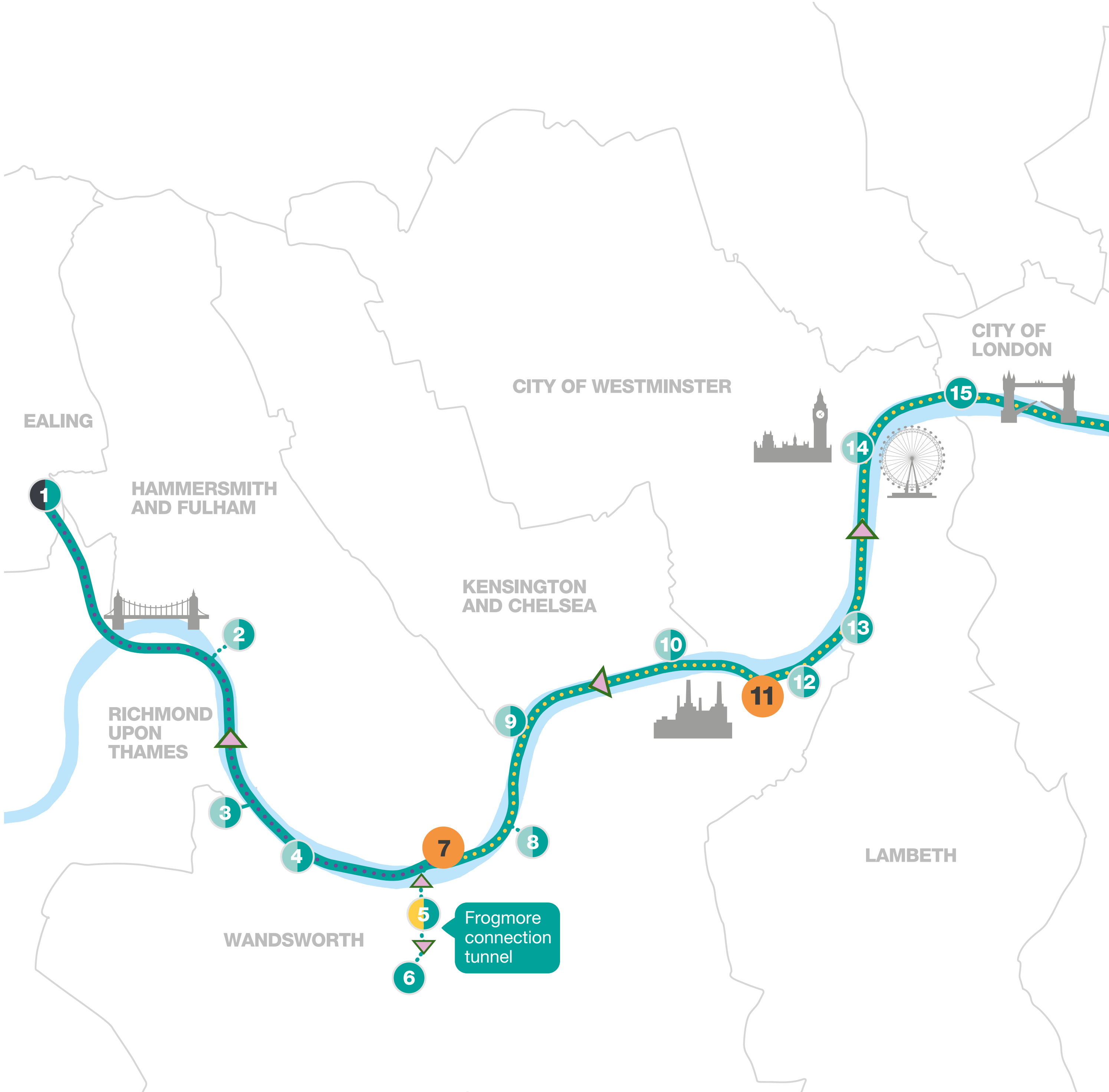
24

construction sites

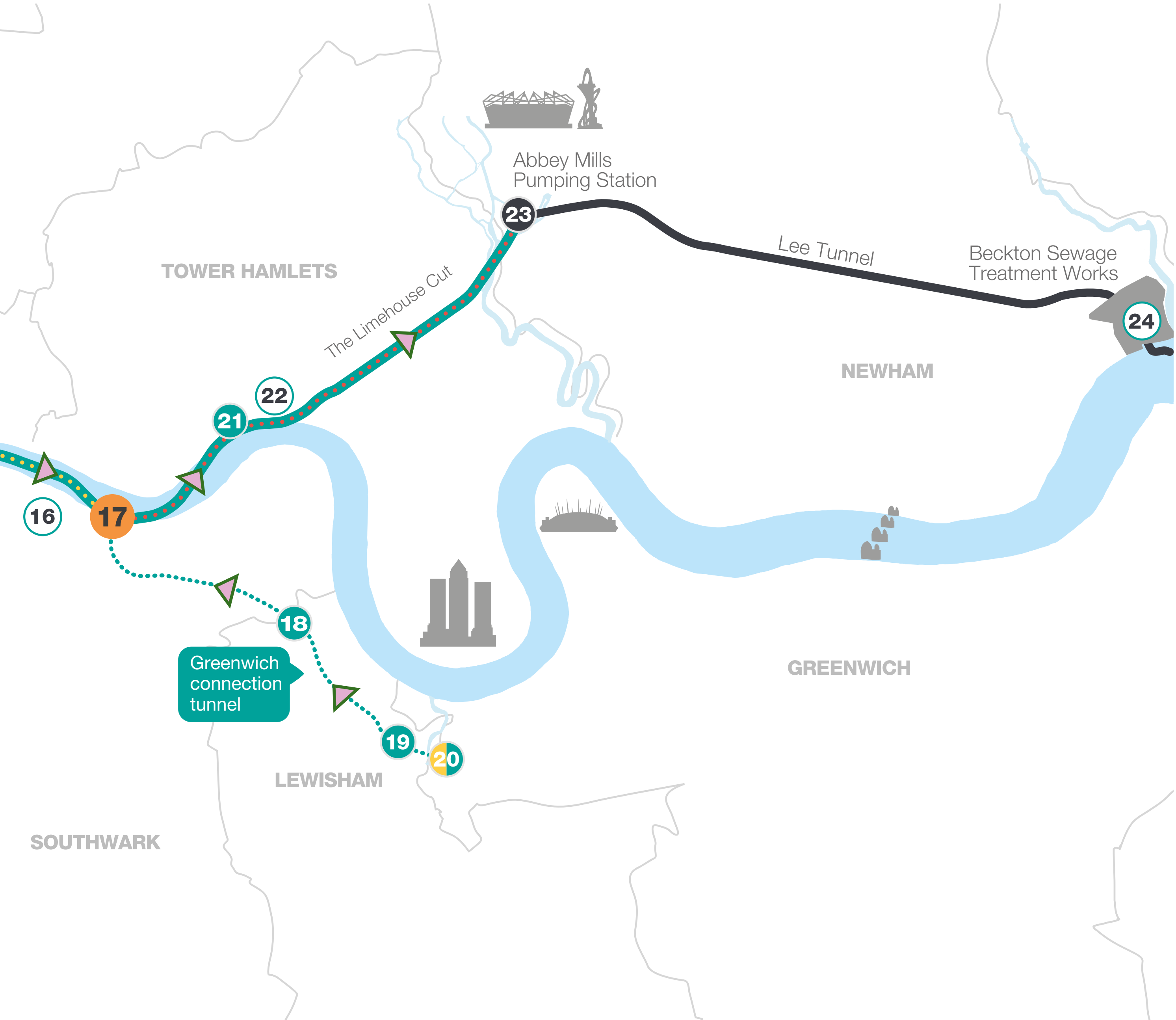
Of the 24 sites, 11 are on the foreshore of the river. Sixteen sites intercept one or more CSOs.

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



Map key

Main tunnel drive site	Main tunnel	1 Acton Storm Tanks
Main tunnel reception site	Connection tunnels	2 Hammersmith Pumping Station
CSO site	Lee Tunnel	3 Barn Elms
Short connection tunnel drive site	Drive direction	4 Putney Embankment Foreshore
Long connection tunnel drive site	West works site	5 Dormay Street
System modifications	Central works sites	6 King George's Park
	East works site	7 Carnwath Road Riverside
		8 Falconbrook Pumping Station

9 Cremorne Wharf Depot	17 Chambers Wharf
10 Chelsea Embankment Foreshore	18 Earl Pumping Station
11 Kirtling Street	19 Deptford Church Street
12 Heathwall Pumping Station	20 Greenwich Pumping Station
13 Albert Embankment Foreshore	21 King Edward Memorial Park Foreshore
14 Victoria Embankment Foreshore	22 Bekesbourne Street
15 Blackfriars Bridge Foreshore	23 Abbey Mills Pumping Station
16 Shad Thames Pumping Station	24 Beckton Sewage Treatment Works

Who We Are and What We Do
Continued

THE TIMELINE

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

The key stages in the schedule include:

- Mobilisation of the Main Works Contractors (MWC). This is initially started off site, with mobilisation of resource, the start of detailed design work, consenting applications and procurement of subcontractors and materials. It then moves on site as these activities progress, construction sequencing is finalised and any applicable enabling Thames Water Works are completed.
- Construction, which includes:
  - General site setup and early construction activity – Includes a variety of tasks prior to shaft construction such as site setup, access road development, site clearance, temporary buildings setup and ground treatment.
  - Shafts – the excavation of deep shafts for both the three main drive sites and the CSO interception shafts.
  - Main Tunnels – Tunnelling begins once the deep shafts have been excavated at the three main drives sites. It encompasses the excavation and primary lining of the main tunnels by Tunnel Boring Machines (TBM) in a well-tested process.
  - Tunnel Secondary Lining – the tunnels will have a secondary lining that in combination with the primary lining provides the required durability to meet our obligations.
  - Finally, the MWC install mechanical and electronical equipment (penstocks, air treatment etc.) to physically integrate the TTT with the Sewer Network. The System Integrator Contractor installs the instrumentation and control systems to provide a supervisory control and data acquisition system integrated with the Sewer Network.
  - Throughout the construction period the MWC undertake architectural and landscaping works at sites.
- Commissioning - will be done in two stages:
  - The first stage is Worksite Testing in which each individual worksite will be tested as stand-alone plant by the contractors. The penstocks, fans, air treatment, monitors and software controlling the site will be dry tested (without sewage).
  - The second stage is System Commissioning in which all the worksites and tunnels, including Thames Water's Lee Tunnel, are connected as one system - the London Tideway Tunnel (LTT) system. The purpose of System Commissioning is to demonstrate the LTT is fit for purpose and can be operated by Thames Water to fulfil the environmental requirements. Tideway, Thames Water, and the contractors will work together to test and commission the LTT system during several storms. The Alliance will ensure the LTT control devices properly open and close the penstocks to control combined sewage overflows and report discharges, and operate the fans and air treatment units to prevent odours from being released.
- Handover (of the TTT Works from the Contractors to Tideway) occurs after System Commissioning has been successfully completed and the contractors have submitted final versions of the construction drawings, commissioning records, asset data, maintenance records, and training materials. At Handover, the MWCs' activities are completed and the contractors demobilised.
- System Acceptance period:
  - The System Acceptance period is an 18 to 36 month proving period in which the LTT will be operated across a variety of storms and conditions to demonstrate it fulfils the project requirements for controlling and reporting on CSO discharges, treating air vented from the tunnel, and can be operated in coordination with the Thames Water sewer network and treatment works and the first 10-year inspection of the tunnel, shafts and near-surface structures.
- System Acceptance:
  - System Acceptance occurs once the tests in a range of storm conditions for System Acceptance have been passed.
  - At Acceptance, Thames Water will take over maintenance responsibilities for the near-ground structures and assets. Tideway will retain responsibilities for the shafts and tunnel structures.

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

DELIVERING FOR OUR STAKEHOLDERS – OUR LEGACY FOR LONDON

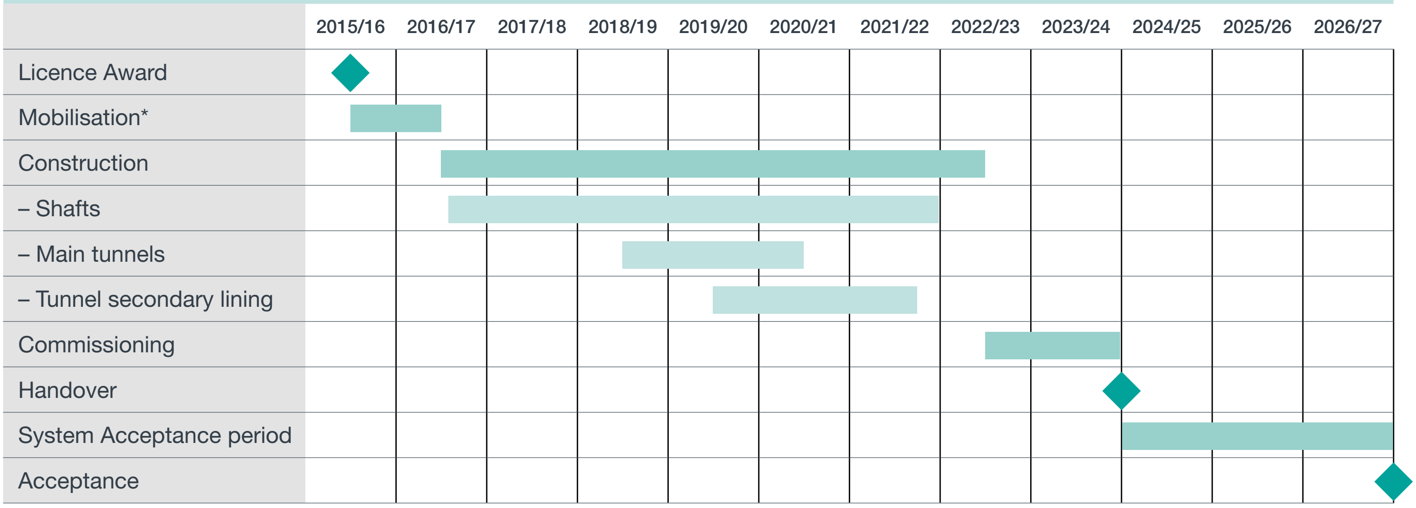
In addition to the benefits that early delivery of the tunnel will bring, we are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a lasting legacy for London.

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

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

Dr Thérèse Coffey making a speech during Tideway's week-long Parliamentary exhibition

Regulatory baseline timeline (FY)



** 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 Next Major Phase In More Detail:
Construction

If the sites are not large enough then new land can be created through the construction and filling of sheet pile cofferdams.

1. Sheetpiles are pushed into the river bed to create a cofferdam around the new area of land.

2. The river water is pumped out to create a dry area to work in.

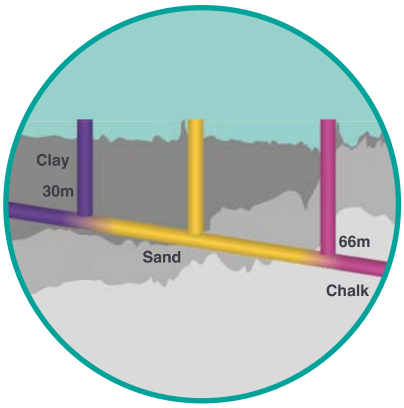
3. New material is placed into the area within the cofferdam to create a solid surface to work from.

The sheetpiles need to be sunk into the river bed and tied together to ensure the cofferdam is stable.

The next stage is the purchase of TBMs to dig the tunnel. These are manufactured and then shipped to site.

4. TBM manufacturers were invited to bid for the five to be procured by Tideway. These are being built in Germany and France.

5. Each TBM has to be built to meet the ground conditions underneath London. In the West it is mostly clay, the Central section is clay and sand, and the East chalk. Each TBM cutter head is designed specifically for the ground it will be boring through.



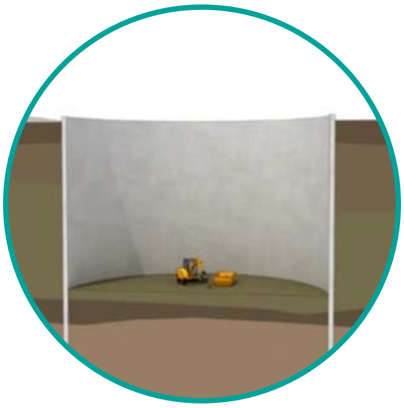
6. Tideway's TBMs are currently being built and will start to arrive later this year. The machines will arrive in pieces to be rebuilt on site.

Our TBMs will drive a total of 25km for the main tunnel and 5.7km for the two connection tunnels, reaching depths of up to 66 metres.

The challenges of building a tunnel up to 66m below one of the busiest cities in the world...

Shafts are excavated to a size large enough to fit the TBM down to tunnelling depth, and strong enough to support the ground.

7. Diaphragm-walling is one example of ground support for the shafts.



8. Concrete is poured into the excavation to create a solid wall around the shaft, before the soil in the middle is dug out to tunnel depth.

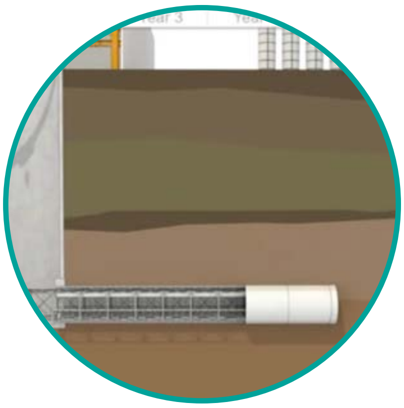
9. When the soil has been removed to the required depth a concrete slab is placed at the bottom for the TBM to be lowered down to.

The largest shaft we are building is at Kirtling St, where the diameter of the shaft is the same size as the dome of St Paul's Cathedral, 30 metres.

Once preparations are complete, tunnelling can begin using laser navigation to keep to the planned route.

10. The TBM will start tunnelling with just the front section. The rest of the 150 metre machine will be built behind it as it launches.

11. As it tunnels through the ground, a ring of concrete segments will be placed to form ground support, known as primary lining.



12. Once the primary lining is complete, the TBMs are removed and a concrete secondary lining is built to complete the tunnel.

We have three sites to build the main tunnels from, reaching across West to East London.

Business Model

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

CHAMBERS WHARF, SOUTHWARK

The construction period

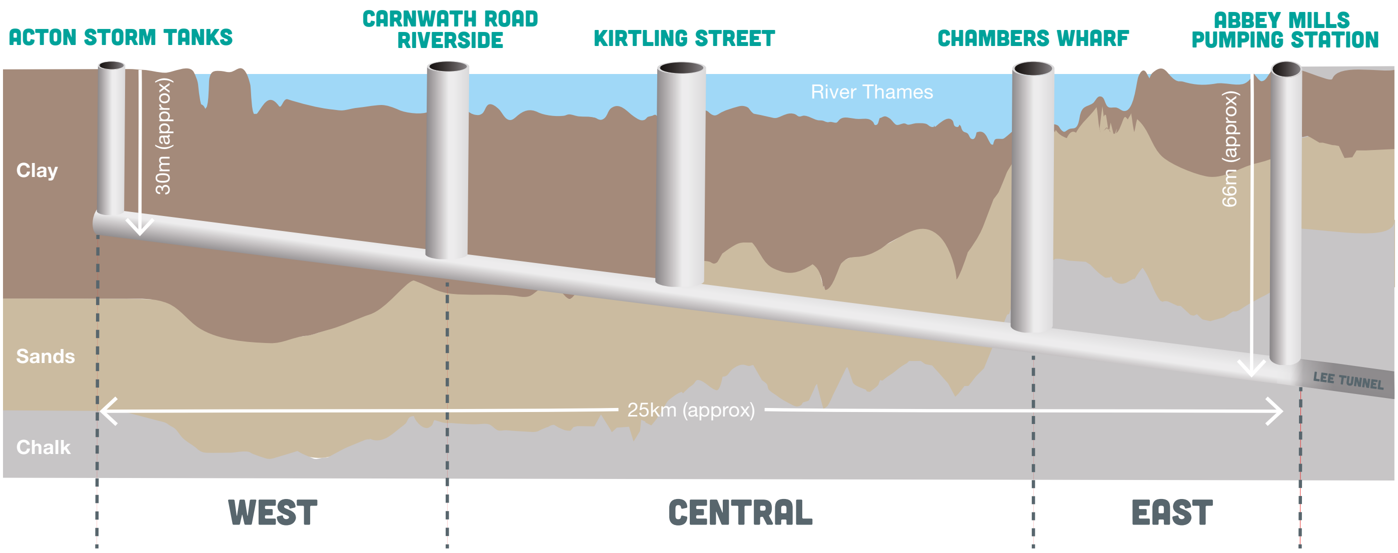
Our key responsibilities during the construction period are:

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

Our delivery partners

To construct the TTT as efficiently as possible, we have divided the tunnel construction into three contracts (West, Central and East), led by different consortia. This spreads delivery risks and enables us to benefit from the combined expertise of the most experienced construction contractors. In addition to the three main works contracts, we have entered into a System Integrator Contract and a project management contract.

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



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

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

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

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

The operational period

Following System Acceptance, we will transfer to Thames Water the above-ground assets, structures and equipment we have constructed. The deep tunnels and shafts and other related non-mechanical assets will remain under our ownership.

During the operational period, we are responsible for ensuring the TTT is available to allow flow to pass through into the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, and performing any maintenance required as a result of the inspections.

Regulatory oversight

Tideway is an independent regulated water company, with a new delivery model designed to attract private sector capital to finance infrastructure and deliver value for money to customers. This will enable us to finance our functions, earn a reasonable return on our investors' capital and maintain an investment grade credit rating. Our bespoke regulatory framework provides a revenue stream in both the construction and operational periods. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers. We received our first revenue in April 2016. In April 2017, Thames Water formally exited the non-household retail market. From that point, Thames Water will receive non-household revenue from the new sewerage licensees and pass the relevant amounts to Tideway.

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

For the period until 2030, revenues are calculated according to the framework set out in our Licence, which is primarily based on a percentage return (2.497 per cent) on the regulatory value of 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.

Business Model
Continued

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

Stakeholder engagement

Part of our legacy will be judged by the overall reputation of the project once it is delivered.

We want to reconnect London with its river and engage with stakeholders at all levels, including politicians, opinion formers, interest groups and local communities, to help achieve this.

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

More widely, we have independently-chaired Community Liaison Working Groups (CLWGs) at some of our live sites and also community information centres at our main drive sites – these are currently open at Chambers Wharf and Carnwath Road with Kirtling Street to follow.

Additionally, there are a variety of independent services available to support stakeholders with disputes, which include:

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

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

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

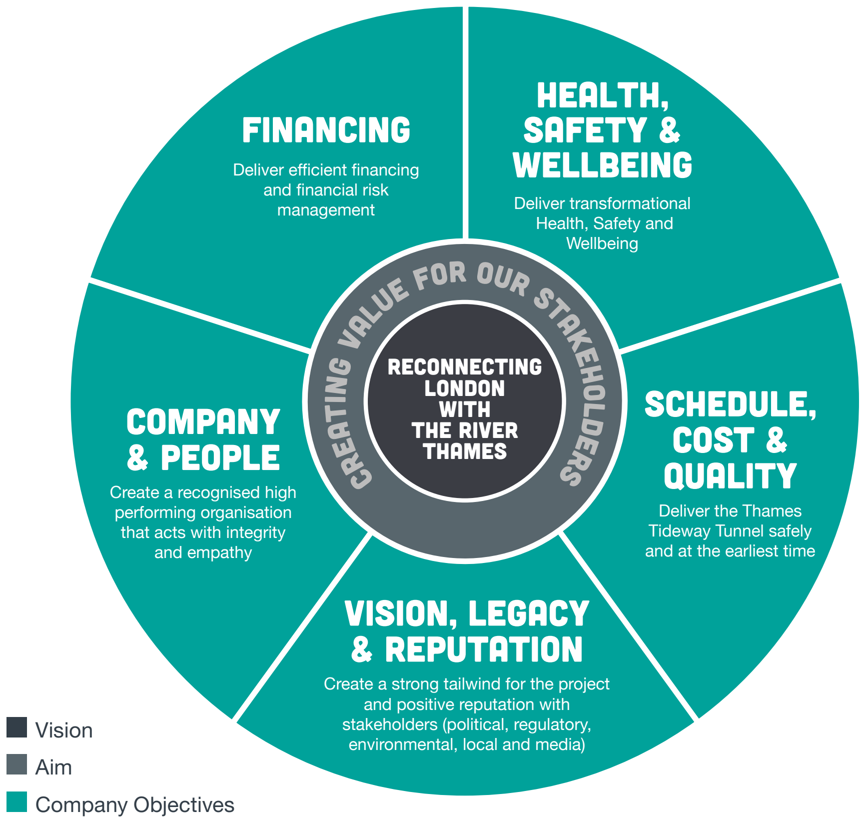
A Tideway volunteer helps clean up the foreshore in Chiswick

Our Vision and Strategy

Our vision

Our vision is to reconnect London with the River Thames.

'We intend to do things safely or not at all'



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

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

The benefits of this approach include:

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

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

OUR VALUES AND BEHAVIOURS

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

We recognise that we will be a distraction for our neighbours and those with whom we come in contact. We want to develop our relationships with our stakeholders

Signage being installed on site

and recognise that we will be more effective and efficient when we treat everyone with respect, empathy and integrity – treating people as we would like to be treated.

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

OUR STRATEGY

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

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

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

This process involved:

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

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

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

Our Vision and Strategy

Our Strategy

Health, Safety and Wellbeing

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

Key Long Term Activities:

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

Priorities for 2017/18:

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

Relevant Principal Risks:

- Health, Safety and Wellbeing.
- High impact, low probability events.

Schedule, Cost and Quality

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

Key Long Term Activities:

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

Priorities for 2017/18:

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

Relevant Principal Risks:

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

Vision, Legacy and Reputation

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

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

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

Relevant Principal Risks:
- High impact, low probability events.
- Reputation.

Company and People

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

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

Priorities for 2017/18:
- Support employee engagement by rewarding our people appropriately, recognising good performance, developing their skills and encouraging retention of staff.
- Improve employee effectiveness by empowering our people to make decisions at the lowest level, ensuring accountability for delivery.
- Make progress towards Tideway's gender diversity goals.
- Enable the organisation to share information to work efficiently.
- Increase stakeholders' confidence in our ability to deliver the project, by enhancing our assurance and audit approach.

Relevant Principal Risks:
- High impact, low probability events.
- Reputation.
- Brexit.

Financing

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

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

Priorities for 2017/18:
- Continue to build shareholder value through efficient financing.
- Continue de-risking shareholder returns by long dated issuance.
- Strengthen stakeholders' confidence in our ability to deliver the investment programme and financing plan, through enhanced reporting.

Relevant Principal Risks:
- Financing.
- Regulation.
- Brexit.

Risk Management

OUR RISK APPETITE

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

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

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

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

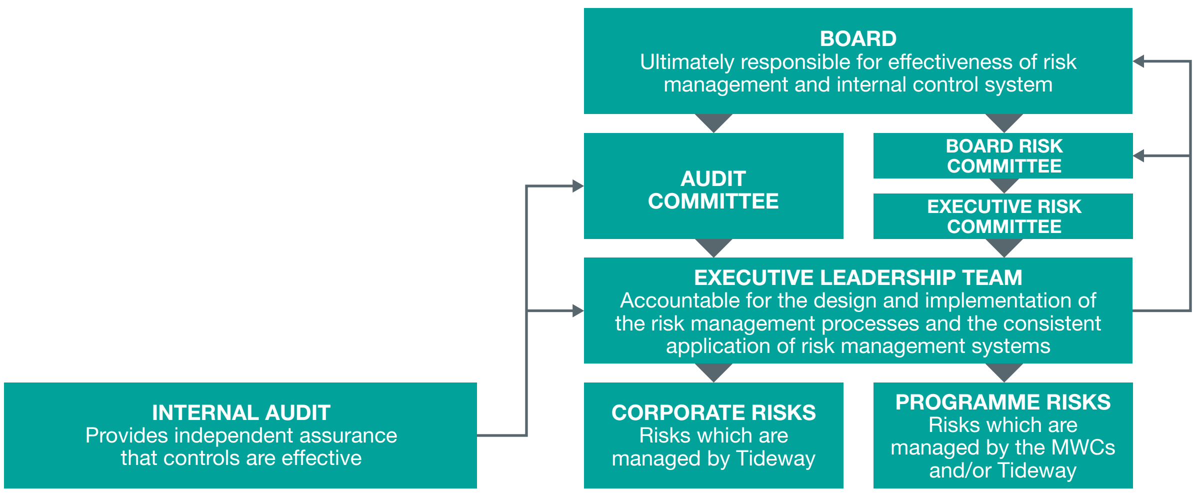
OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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



PRINCIPAL RISKS:

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

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

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

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

Further information is included within the below commentary column.

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

Risk Management
Continued

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

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

Risk Management
Continued

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

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

** Compared to previous year*

Stakeholders visit the Fleet Sewer

Long-Term Viability Statement

The UK Corporate Governance Code requires company directors to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a long term period.

To assess the Company's long-term viability, the Board has:

- identified the most appropriate period over which to make the assessment;
- evaluated the Company'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 still appropriate to assess the Company's viability over the period to 2024, in line with the planned handover of the tunnel to Thames Water under the regulatory baseline schedule. This period aligns with our planning horizon, as well as with the life of most of the risks we face, as by the date of handover we will have retired the majority of the risks relating to constructing and financing the tunnel. 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 the Company 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 made good progress with implementing our financing plan, with £1.15bn of long-dated debt raised in the capital markets (with a further £100m secured after 31 March 2017). The progress means that at 31 March 2017 we would be able to fund our operating activities and fixed charges until 2024, using outstanding equity commitments, the committed and undrawn debt facilities (including the £1bn revolving credit facility), and the revenue we ill generate over the period.

Where appropriate during the year, we conduct sensitivity analysis on our financial model to stress-test the resilience of the Company 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 the Company'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.

The Board confirms that it conducted a robust assessment of the principal risks facing the Company, 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.

We have modelled a number of scenarios to assess the potential impact of the principal risks, with many of the risks modelled as delays to delivery and/or cost overruns. Forecast RPI, financing costs and the speed of revenue collection have been sensitised as appropriate. We have also carried out sensitivity analysis on the execution of our financing plan.

The outcome of the sensitivities has been assessed considering a range of different financial ratios. In all downside scenarios modelled, the ratios are robust and in excess of the minimum requirements under our financing covenants.

In reaching its conclusion, the Board has assumed that there will be no changes to the regulatory framework that will affect the Company's viability. The Board also believes that financing will be available to Tideway over the period covered by the analysis, although given our current liquidity position this assumption is no longer critical to arrive at the conclusion.

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 the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 2024.

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 the Company and Group have sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2017 financial statements.

Performance Review

HEALTH, SAFETY AND WELLBEING

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

Definition:

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

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

Our priorities for the year

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

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

Implementing a transformational HSW programme

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

RightWay

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

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

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

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

- Investigating the use of wireless sensors to reduce risks at people/plant interfaces and improve tallying of operatives once tunnelling starts.
- Improving supervision of lifting operations and mentoring/upskilling of lifting teams.
- Implementing occupational health reviews during design stages.
- Developing temporary works training specific to tunnelling.
- Disseminating of lessons learned from previous projects in relation to tunnelling.
- Implementing agreed minimum standards for plant and reinforcement cages.

RightStart

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

EPIC

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

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

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

HSPI

We introduced the HSPI at the start of quarter three. It has enabled us to develop a balanced scorecard to measure the HSW performance of each MWC across the project.

HSPI uses a set of 14 leading performance indicators which have been developed through analysis of accident and incident data from previous projects.

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

Performance Review
Continued

SCHEDULE, COST AND QUALITY

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

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

Overview

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

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

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

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

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

Tideway's success lies in constructing a sewer that will protect the Thames for generations to come, but our most visible impact will be the new spaces and facilities that we will create. We are proud of the new pier we have created at Blackfriars, which has double the capacity of the one that we removed. It blends modern functionality and design with the historic listed design of Blackfriars road bridge and has set a high bar for the public realm we will deliver in years to come.

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

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

West Area

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

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

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

Tideway's Putney Embankment site from the air

Performance Review
Continued

river transport as part of our enhanced logistics planning.

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

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

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

Central Area

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

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

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

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

During the relocation of the Tattershall Castle vessel at Victoria, an unexploded bomb was discovered in the foreshore. This led to additional site surveys and divers' investigations before site clearance, staff mobilisation and relocation was completed in May 2017.

The planning for the integration of Thames Water's proposed Counters Creek flooding alleviation scheme progressed during the year with an agreed way forward expected by summer 2017.

East Area

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

During the year, we progressed several key activities

Chambers Wharf, Southwark

at Chambers Wharf, including cofferdam construction to increase the size of the site, and ground treatment for tunnel junctions around the shaft area, alongside other critical work.

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

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

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

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

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

We have broad support from key stakeholders and our consenting activities are progressing well.

We awarded critical procurement packages, with the TBMs contract placed during quarter one 2017/18.

VISION, LEGACY AND REPUTATION

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

** Includes Tideway and MWC staff*

*** Commentary on apprentices is within the Company and People performance review section.*

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

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

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

Performance Review
Continued

Charity Partners

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

STEM programme

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

Development

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

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

Environment

Over the past 12 months we have made significant progress on our environmental commitments and initiatives to reduce our impact either during construction or the long-term operation of the tunnel. Our suite of key performance indicators are now fully embedded within the programme reporting cycle. The MWCs have produced their first accurate carbon footprint which shows an approximate five per cent reduction from the 840,000 tonnes predicted within the Energy and Carbon Footprint Report which was submitted as part of the planning DCO. As a project, we continue to report to the Department for Business, Energy & Industrial Strategy on our performance as part of our commitments made to the Infrastructure Carbon Review. To assist the progression towards carbon maturity we launched our first carbon action plan which sets clear targets.

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

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

Stakeholders

With work on site gathering pace this year, we have prioritised engaging communities and stakeholders in our vision by building our reputation and profile both locally and across London.

We established CLWGs with a further seven communities directly affected by our work, bringing the total number of sites supported by a CLWG to 11. Our 24-hour helpline service handled 2,780 enquiries.

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

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

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

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

Innovation

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

With a ‘seed investment fund’ of £250,000 per annum, The Great Think had supported a number of innovative projects during 2016/17 totalling £240,000. This included several ‘Big Bang’ innovations with lifecycle benefits, including autonomous robots for asset inspections, as detailed below.

INNOVATION PROJECT	**Robotics for remote tunnel inspections**
£ INVESTED	**£12,000 Tideway contribution to desktop feasibility study** (Total cost to Alliance £15,500)
CONTEXT	When the tunnel is in operation, it will require a detailed inspection every 10 years. As a hazardous environment, it would be preferable not to place engineers into the tunnel to carry out the inspection. To tackle this challenge, a feasibility study was carried out to consider emerging robotic and drone technologies to inspect the tunnel instead. A dedicated Tunnel Inspection Working Group (TIWG) has been set up for the research, and technology trials of various solutions will take place in 2017. If used, this could have safety, environmental, operational and cost benefits.

Performance Review
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COMPANY & PEOPLE

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

** Includes Tideway employees and our programme manager*

Our priorities for the year

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

People

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

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

The site team at Chambers Wharf

of staff having a good understanding of the Company's strategic priorities and goals, and 86 per cent understanding how their job contributes to them.

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

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

Enablement

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

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

Diversity

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

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

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

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

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

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

Performance Review
Continued

Talent

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

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

We have developed plans to meet these targets.

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

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

Company

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

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

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

Human rights

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

To ensure our MWCs are compliant, their contracts oblige them to follow the principles of the Ethical Trading Initiative Code. This is based on the standards of the International Labour Organisation and covers 10 key areas, such as child labour, living wage, working hours and working conditions. Now the MWCs' supply chains are growing, we will explore how we can assure compliance with this requirement through audits.

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

FINANCING

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

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

Treasury policy

Tideway's treasury policy is to drive shareholder value by financing the Company while minimising our weighted average cost of capital. Our target is to maintain a robust investment grade credit rating at all times. Our financing strategy defines how we implement the policy and key elements of the strategy are detailed in the Our Vision and Strategy section on page 25.

Financing activity

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

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

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

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

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

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

Hedging

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

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

Distributions

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

Liquidity

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

Ratings

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

Investment Management

The disbursement profile of Shareholders' funds led to us benefiting from substantial cash balances during the year, averaging £250m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, whilst prioritising the preservation of principal, ensuring adequate liquidity and striving to 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 2016/17, we generated a total return of around £0.93m on our cash balances, at an average yield of 0.37 per cent per annum for the year. The return averaged 3 basis points above the base rate both before and after the Bank of England interest rate cut to 0.25 per cent per annum in August 2016.

Operations and payments

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

Post year end

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

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

Reporting

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

Financial Performance Review

Accounting basis

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

Non-GAAP measures: reporting of Allowable Project Spend

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

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

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

Income Statement

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

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

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

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

Statement of Financial Position

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

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

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

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

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

The table below analyses Allowable Costs:

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

Direct costs

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

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

Indirect costs

The largest indirect cost is resource costs of £60.3m. This represents the cost to employ the c450 average FTEs (2015/16 c400 average FTEs) either employed or contracted by the Company. The other indirect costs include information systems, insurance, payment for the GSP, office and other running costs.

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

Excluded Costs

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

Financial Performance Review
Continued

Net Cash & Financing

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

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

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

[1] *See cross ref*

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

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

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

Regulatory Financial Reporting

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

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

Revenue

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

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

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.

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:

a) **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.

b) **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.

c) **Transparency:** We support measures that build greater transparency, increase understanding of tax systems and build public trust.

d) **Tax risk management:** We identify, assess and manage tax risks and accounts for them appropriately. Risk management measures are implemented including controls over compliance processes and monitoring of effectiveness.

e) **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 15 June 2017 and was signed on its behalf by:

Andy Mitchell

Andy Mitchell CBE,
Chief Executive Officer

Governance

Workers gathered on the outline of the shaft at Kirtling Street in Battersea


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Chairman's Introduction

SIR NEVILLE SIMMS
INDEPENDENT NON-EXECUTIVE CHAIRMAN

I am pleased to introduce the Corporate Governance Report, which presents information on the Board of Tideway, what it has done during the year and the activities of the various Board committees. It also sets out how the Board demonstrates its leadership and effectiveness and is accountable to Tideway's stakeholders. Licence Award was more than a year ago and throughout the year the Board and its committees have become fully established. Reports from each of the Committee chairs about their work can be found on pages 72 to 90.

The Board determines and approves Tideway's strategy and ensures that management operates the business in accordance with that strategy, to safeguard Tideway's long-term success, protect customers' interests and create shareholder value. Information on our strategy, risk appetite, vision and values is included in the Strategic Report on pages 22 to 26

Tideway remains committed to achieving the highest standards of corporate governance and this report details how the Board has applied the principles in the UK Corporate Governance Code 2014 (the Code) and Ofwat's guidance. I am pleased to say that we continued to comply fully with Ofwat's guidance, including the requirement that the Independent Non-Executive Directors, including the Chairman, are the largest single group on the Board. We are also fully compliant with the Code, except in respect of the requirement that at least half the Board, excluding the Chairman, should comprise Independent Non-Executive Directors. However, the Nomination Committee is in the final stages of recruiting an additional Independent Non-Executive Director, to enhance the Board's existing competence.

As Tideway is owned by private investors, we continue to have regard to the relevant sections of the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) for portfolio companies and the work of the Guidelines Monitoring Group. To aid transparency, our holding companies also comply with Ofwat's Holding Company Principles.

Tideway was awarded the Institute of Chartered Secretaries and Administrators Governance Project of the Year award for 2016, for its exemplary achievement in governance. This shows that we are intent on setting high standards, despite being a relatively new company.

Reflecting the Board's commitment to strong governance, we continue to monitor our performance, and review and amend our procedures as required, to ensure we remain at the forefront of UK corporate governance best practice. Now more than ever, companies' reputations hinge on this area. It is clear that these matters remain high on the political and regulatory agenda and we will continue to play a leading role in sponsoring best practice.

Finally, I would like to thank our Board members, including those who have stepped down during the year, for their dedicated contribution to the Board of Tideway and its sub-Committees.

Sir Neville Simms
Chairman

Board Leadership, Transparency and Governance

The Board

NON-EXECUTIVE DIRECTORS

Sir Neville Simms FREng

Non-Executive Chairman, (Chair of Nomination Committee)

Appointed August 2015

Sir Neville is a Chartered Civil Engineer. He was previously Chairman of International Power plc and of Carillion plc, following its demerger from Tarmac plc, where he was Group CEO. He was joint Chairman of TML, the Channel Tunnel contractors' consortium, for the final three years of the Channel Tunnel project.

Sir Neville chaired a number of construction industry bodies and the regional leadership teams for Business in the Community in the West Midlands and the Solent Regions. He was a founder member of the government's Private Finance Panel, Chairman of the government's Sustainable Procurement Task Force, Deputy Chairman of Ashridge Management College and Chairman of the Building Research Establishment Trust. He was also a member of the President's Committee of the CBI for 12 years and served for seven years on the Court of the Bank of England.

Sir Neville met the independence criteria set out in the Code when he was appointed as Chairman.

Richard Morse

Deputy Chairman and Independent Non-Executive Director (Chair of the Audit Committee)

Appointed August 2015

Richard is an investment banker with more than 30 years' experience of infrastructure and energy transactions, having been head of energy and infrastructure corporate advisory teams at Dresdner Kleinwort Wasserstein, Goldman Sachs International and Greenhill International (1990-2001). He has also been Deputy Director of Ofgem (1999-2001). Richard joined the board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013, to assist in the set-up of Tideway. He chairs Tideway's Audit Committee, and is also a partner at Opus Corporate Finance, Chairman of John Laing Environmental Assets Group, Chairman of Woodard Corporation and a Non-Executive Director of Heathrow Southern Rail Limited.

Anne Baldock

Independent Non-Executive Director (Chair of the Remuneration Committee)

Appointed August 2015

Anne is a lawyer by background, having been a partner at international law firm Allen & Overy LLP for 25 years, where she was the head of the global projects, energy and infrastructure group and helped to structure many innovative infrastructure and energy deals. Anne joined the Board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013 to assist in the set-up of Tideway. She chairs Tideway's Remuneration Committee. Anne is also a Non-Executive Director of the Low Carbon Contracts Company and the Electricity Settlements Company Limited.

Mark Fairbairn OBE

Independent Non-Executive Director (Chair of the Risk and HSSE Committees)

Appointed August 2015

Mark has significant experience running regulated gas and electricity utilities, both in the UK and USA. He joined the board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013 to assist in the set-up of Tideway. He chairs Tideway's Health, Safety, Security & Environment (HSSE) and Risk Committees and has also served as a Non-Executive Director of the Office of Rail and Road.

Michael Queen

Independent Non-Executive Director (Chair of the Treasury Committee)

Appointed August 2015

Michael is a chartered accountant and has spent 30 years in the alternative finance sector, having previously been CEO of 3i Group plc. He chairs Tideway's Treasury Committee.

Michael joined the Board in 2015. He is currently a Non-Executive Director of Coller Capital, a member of the Advisory Board of CKGSB (a Beijing-based business school) and a Member of the Council at the University of Surrey, where he is also President of Surrey 100, a business angel group. He has also served as a Non-Executive Director and Chairman of the Audit Committee of PA Consulting Group and was a member of the Prime Minister's Business Advisory Group.

Board Leadership, Transparency and Governance

The Board

NON-EXECUTIVE SHAREHOLDER DIRECTORS

Gavin Tait

Amber Infrastructure

Appointed May 2015

Gavin has 20 years' experience of developing and investing in global infrastructure and utility assets. He joined the Tideway Board in August 2015, representing Amber Infrastructure as a Shareholder Director. He is one of founding members of Amber Infrastructure, where he sits on the executive and investment committees. He has considerable infrastructure experience built-up over the last 20 years, including most recently leading the Amber team investing in National Grid Gas Distribution (2017), and building a portfolio of six UK transmission assets (2011-2016). He joined Amber from Babcock & Brown and prior to that worked at ABN AMRO.

Jaroslava Korpanec

Allianz

Appointed May 2015

Jaroslava is a member of the New York bar and a solicitor of the Supreme Court of England and Wales. She joined the Tideway Board in August 2015. Prior to joining Allianz Capital Partners in 2008, she worked on a number of debt and equity investments in the infrastructure sector – including most recently the acquisition of a stake in the gas distribution business of National Grid, acquisition of Affinity water, as well as a number of other transactions in the gas and transport sectors. Jaroslava also worked at AIG Financial Products in the principal finance group, where she made several investments in the infrastructure sector. Prior to her position at AIG Financial Products, Jaroslava was a senior attorney with the US law firm of Simpson Thacher and Bartlett LLB, where she spent six years. Jaroslava was awarded a Masters and a Master of Arts degree in Law from Cambridge University.

Angela Roshier

DIF

Appointed September 2016

Angela is Partner and Head of Asset Management at DIF, which she joined in 2010. She oversees the asset management of DIF's portfolio of 140 mainly PPP and renewable energy assets. Prior to DIF, Angela was a member of the infrastructure teams at 3i Plc and Actis. Over the past 19 years, she has contributed to the origination and asset management of a wide variety of infrastructure assets in the public private partnership, water, oil tanking and railway sectors, both in Europe and emerging markets. She holds an MBA from London Business School and an MA from the University of Cambridge.

Alistair Ray
Dalmore Capital
Appointed May 2015

Alistair has worked in the infrastructure investment business for 19 years, including at Edison Capital, Noble Group, Merrill Lynch and 3i Infrastructure plc, where he was one of the founding members of the infrastructure team and involved in a number of transactions, including the acquisition of Anglian Water and purchase of stakes in Oiltanking GMBH.

Alistair joined the Board in August 2015. He is currently the Chief Investment Officer of Dalmore Capital and also holds a Non-Executive Director role with CAF Bank.

COMPANY SECRETARY

Tracey Lee-Lewis
Company Secretary
Appointed August 2015

Tracey was appointed Company Secretary and Senior Legal Counsel of Tideway in November 2014, having advised Thames Water on developing the legal agreements and procuring and negotiating the main works contracts since February 2014. Prior to this, she was involved in the development and delivery of infrastructure projects in the United Kingdom and Canada. Tracey is a Fellow Associate Chartered Accountant and a Solicitor of the High Court of New Zealand.

Board Leadership, Transparency and Governance
The Board

EXECUTIVE DIRECTORS (ALSO PART OF EXECUTIVE COMMITTEE)

Andy Mitchell CBE, FREng
Chief Executive Officer
Appointed August 2015

Andy was appointed CEO after leaving Crossrail in 2014, where he was Programme Director and a member of the Board. Andy has managed a number of high-profile projects in the UK and overseas. After 12 years working in the United Arab Emirates, France and South Africa, and on major developments such as Hong Kong Airport and the Hong Kong West Rail, he joined Network Rail in 2001. He was Project Director for Network Rail's Southern Power Upgrade project and the Senior Programme Director of the Thameslink Programme.
Andy is a Fellow of both the Royal Academy of Engineering and the Institute of Civil Engineers and Chairman of the Infrastructure Client Group. He holds a degree in Civil Engineering from Imperial and an MBA in Project Management from Henley.

Mark Corben
Chief Financial Officer
Appointed August 2015

Mark joined Tideway in February 2014 and was appointed Chief Financial Officer (CFO) in July 2014. He has 17 years' investment banking experience in corporate finance, mergers and acquisitions and capital raising. Prior to joining Tideway, he advised Thames Water on the development of the delivery model for Tideway. He qualified as a Chartered Accountant with Price Waterhouse in 1996.

Mark Sneesby
Chief Operating Officer
Appointed August 2015

Mark joined Tideway as Chief Operating Officer (COO) in May 2014. He is a Chartered Engineer with extensive experience in delivering major infrastructure in the water industry. He was formerly Head of Major Projects at Thames Water, which included the Lee Tunnel project, one of the largest contracts ever awarded in the UK water industry.

EXECUTIVE COMMITTEE

Operating under the direction of the CEO, the Executive Committee has 10 members and is responsible for overseeing the day-to-day management of Tideway, recommending business development strategies to the Board and implementing the Board's strategy.

The Executive Committee members have also been assigned responsibility for each of the measures outlined in the Strategic Report on pages 34 to 47.

In addition to the Executive Directors, the Executive Committee comprises the following individuals:

Peter Shipley
Programme Delivery Director

Peter is a Chartered Civil Engineer with 35 years' experience. He has worked for CH2M for 18 years and held a key role in delivering the infrastructure for the London 2012 Olympics and the Lee Tunnel.

Roger Bailey
Asset Management Director

Roger is a Fellow of the Institution of Civil Engineers, with more than 30 years' experience in the planning, design and construction of complex infrastructure projects in the UK and internationally.

Julie Thornton
Head of Human Resources

Julie joined the project in October 2013. Her corporate career started over 25 years ago with IBM, where she was Head of HR for Global Services in the UK, before moving to Citibank Private Bank, where she was VP for HR in EMEA in Geneva and London.

Lucy Webster
External Affairs Director

Lucy has held a number of senior communications roles in the transport, housing and regeneration sectors. She spent six years at Transport for London and also worked on the preparation phases for the London 2012 Olympic Games, including planning and land assembly. Lucy joined Tideway in September 2016 from Metropolitan, a large housing provider.

Phil Stride
Strategic Projects Director

Phil is a Fellow of both the Institution of Civil Engineers and the Royal Institution of Chartered Surveyors. He worked for Thames Water for 41 years, where he was Head of Thames Tideway Tunnel for seven years. He had previously been Head of Capital Delivery.

Steve Hails
Health, Safety and Wellbeing Director

Steve has over 20 years' experience working in the construction, engineering and manufacturing sectors. He joined Tideway at the beginning of June 2016 as the Director of Health, Safety and Wellbeing, having previously worked as Director of Health and Safety on Crossrail. He is a Chartered Member of IOSH and a Practitioner Associate Member of IEMA.

Celia Carlisle
General Counsel

Celia joined the project in September 2013, having previously held the role of General Counsel at the Olympic Delivery Authority. She has over 20 years' experience advising on major infrastructure projects and their financing. Celia is also a Non-Executive Director for the Government Legal Department and a council member of the London Board of the CBI.

Board Leadership, Transparency and Governance

The Role and Responsibilities of the Board

THE ROLE OF THE BOARD

The Board's role is to govern Tideway so it delivers on its strategy and objectives, in particular the successful delivery of the TTT. The Board is collectively responsible for Tideway's long-term success and for delivering sustainable value to Shareholders, customers and other stakeholders. It sets Tideway's strategy and risk appetite in all significant areas of Tideway's operations and approves and monitors management's plans for achieving Tideway's strategic objectives and targets, including risk mitigation.

Important aspects of Tideway's business are subject to scrutiny by the Board committees: Audit, Treasury, HSSE, Nomination, Remuneration and Risk. Further descriptions of the terms of reference and activities of these committees are set out on pages 72 to 90 of this report.

The Board has approved a schedule of delegated authority (SoDA), which defines the levels of authorisation required for key decisions in relation to funding and investment, contractual commitment and change, invoicing and payments, procurement, recruitment, treasury, the discharge of consents and claim settlement. The SoDA authorises management to approve decisions up to specified limits, beyond which the Board's approval must be obtained. The Board reviews the SoDA each year and by exception.

Certain decisions are reserved to the Shareholders for ultimate approval and these are set out on pages 94 and 95 of this report. Nevertheless, the Board considers all such issues and advises the Shareholders as appropriate.

The Board retains responsibility for Tideway's overall direction, supervision and management.

The following matters are reserved to be decided by a simple majority of the Board:

- **Significant risks:** determining the nature and extent of the significant risks the Board is willing to take in achieving Tideway's strategic objectives.
- **Chairman and Chief Executive Officer:** the division of responsibility between the Chairman and the CEO.
- **Directors' remuneration:** approval of the Directors' remuneration.
- **Director and executive training:** approval of induction training and development programmes for Directors and senior employees.
- **Reporting:** approval of interim and annual reports and accounts.
- **Accounting policies and practices:** approval of accounting policies and practices and any changes to them.
- **External auditors:** approval of the Audit Committee's strategy for maintaining appropriate relationships with external auditors.
- **Risk and internal control policies:** setting the approach to risk management and internal control policies.
- **Risk and internal control review:** reviewing the effectiveness of risk management and internal control systems.
- **Policies:** setting the policy on business conduct, ethics, human rights, anti-bribery and corruption, corporate responsibility and health and safety.
- **Insurance:** setting and monitoring the overall levels of insurance.
- **Shareholder general meeting:** approval of resolutions and related documentation to be put to Shareholders at a general meeting.
- **Shareholder communications:** approval of any circulars, prospectuses and other documents to be sent to Shareholders.
- **Political and charitable donations:** approval of all spend relating to political and charitable donations.
- **Related party transactions:** approval of the entry into, amendment to, or a step to resolve any dispute in relation to a related party transaction.

During the year, the Board has focused on operational delivery, succession planning, risk management and financing. The Board's key activities for 2016/17 are set out in the table below:

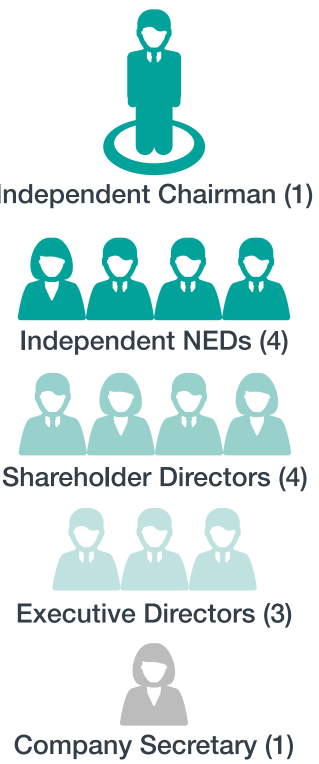
Board activity in 2016/17	Cross reference to Strategic Report
Leadership and employees • Reviewed and discussed the health, safety and wellbeing of employees • Reviewed the composition of the Board and its committees and considered succession planning and the appointment of a new Non-Executive Director • Reviewed and discussed executive succession plans • Discussed employee engagement, reward and pensions	Company and People See pages 42 to 44
Strategy and performance • Reviewed and approved Tideway's vision and values • Reviewed and approved the Annual Business Plan and Budget • Discussed strategic priorities, including the target programme • Reviewed and discussed monthly performance reports produced by management, covering operational performance	Vision and Strategy See pages 22 to 25
Governance • Reviewed and debated the Board's risk appetite and, in particular, the principal risks • Reviewed and discussed the effectiveness of the risk management and internal control systems • Reviewed and approved the schedule of delegated authorities • Reviewed the terms of reference for the Audit, Remuneration, Risk, Treasury and HSSE committees • Received post-meeting reports from the chairs of each committee, summarising discussions and actions • Reviewed updates on changes and developments in corporate governance and the implementation of any changes required, including changes to disclosure requirements • Developed and implemented a Compliance, Assurance and Review Group to review compliance and assurance matters across Tideway • Reviewed and discussed the evaluation of the Board, its committees and individual directors • Reviewed and discussed conflicts of interest	
Regulation • Reviewed and discussed regulatory developments, strategy and consultation responses • Reviewed and approved the Regulatory Report and Accounts and the Revenue Statement, prior to submission to Ofwat • Reviewed and discussed Licence compliance	Regulatory Reporting See pages 125 to 152
Financing • Reviewed and approved the Financing Plan • Reviewed and approved the establishment of Tideway's multi-currency programme for bond issuance • Reviewed and approved a £700m loan from the European Investment Bank • Reviewed and approved the Distribution Policy • Reviewed and approved the Treasury Policy	Financing See pages 45 to 47
Financial reporting and taxation • Reviewed and approved the Annual Budget • Reviewed and approved the half and full-year financial statements • Reviewed the monthly management accounts • Reviewed and approved the Tax Policy	Financial Statements See pages 99 to 122

Board Leadership, Transparency and Governance

Board Composition

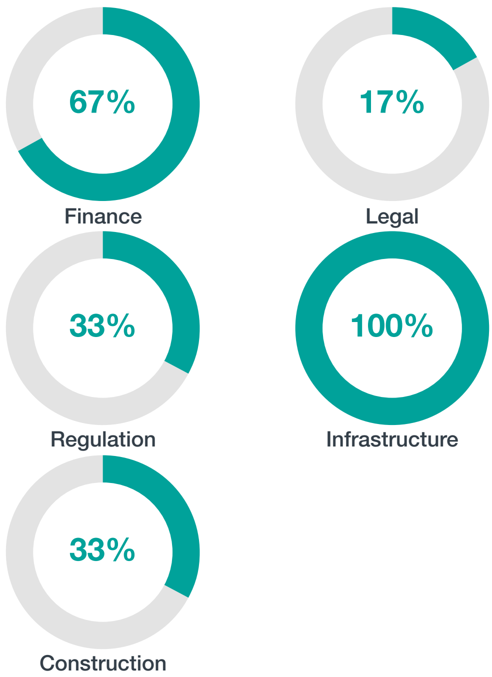
The Board has 12 Directors, nine of whom are Non-Executive. Five of the Non-Executives are independent, in compliance with Ofwat's requirement that the Independent Directors (including an independent Chair) be the largest single group on the Board. The Chairman of the Board, Sir Neville Simms, is one of the Independent Non-Executives. Following the 2015/16 Board evaluation process last year, the Nomination Committee is now in the final stages of recruiting an additional Independent Non-Executive Director with construction experience, to enhance the Board's existing competence and ensure full compliance with the Code.

THE BOARDROOM TABLE



The Board as a whole has a wide range of substantial experience, including finance, legal, regulation, infrastructure and construction sectors.

SECTOR EXPERIENCE



The Shareholders' Agreement entered into at Licence Award contains legally binding commitments to maintain an independent board and ensure Tideway can make strategic and risk management decisions. The Board considers that the Independent Non-Executive Directors are independent in character and judgement and is satisfied that there are no relationships or circumstances which are likely to affect, or could appear to affect, the Independent Non-Executive Directors' independence.

The Board believes that it has the right combination of Executive Directors, Shareholder Directors and Independent Non-Executive Directors, to ensure that no individual or group can dominate the Board's decision making.

Appointments

There was one resignation and one appointment during 2016/17, as set out below. The experience of all the Directors in place at the year-end can be found on pages 56 to 61.

Director	Role	Appointment	Resignation
Sir Neville Simms	Independent Non-Executive Director	19/08/2015	
Richard Morse	Independent Non-Executive Director	19/08/2015	
Anne Baldock	Independent Non-Executive Director	19/08/2015	
Mark Fairbairn	Independent Non-Executive Director	19/08/2015	
Michael Queen	Independent Non-Executive Director	19/08/2015	
Jaroslava Korpanec	Non-Executive Shareholder Director	01/05/2015	
Alistair Ray	Non-Executive Shareholder Director	01/05/2015	
Angela Roshier	Non-Executive Shareholder Director	02/09/2016	
Gavin Tait	Non-Executive Shareholder Director	01/05/2015	
Moira Turnbull-Fox	Non-Executive Shareholder Director	17/03/2016	02/09/2016
Andy Mitchell	Executive Director	19/08/2015	
Mark Corben	Executive Director	19/08/2015	
Mark Sneesby	Executive Director	19/08/2015	

The Nomination Committee considers the desired experience and competencies of new Non-Executive Directors and reports these criteria to the Board before a decision is taken. During the year, the Board appointed one Non-Executive Director, Angela Roshier, to replace Moira Turnbull-Fox as the DIF Shareholder Director.

All of the Independent Non-Executive Directors have letters of appointment and they have one to three year terms. Each has confirmed that they are able to allocate sufficient time to Tideway to discharge their responsibilities effectively. The Independent Non-Executive Directors' terms and conditions of appointment are available for inspection upon request to the Company Secretary.

The Board (including the Company Secretary) has four women (from a total of 13), representing 31 per cent of the total. The Executive Committee has three women from a total of 10 members, representing 30 per cent of the total.

Board Leadership, Transparency and Governance

Board Composition

DIVISION OF RESPONSIBILITIES WITHIN THE BOARD

The roles of Chairman and CEO are separate and clearly defined. The Chairman's primary role is to provide independent oversight and governance as leader of the Board, while the CEO is responsible for all of Tideway's operations, as leader of the Executive Committee. The Non-Executive Directors and Executive Directors also have clearly defined roles, as described below.

The Role of the Chairman

The Chairman is the most senior leader of the business and guardian of the interests of all Shareholders and stakeholders. The Chairman is responsible for leadership of the Board and ensuring its effectiveness. It is important that the Chairman and CEO work well together, to provide effective and complementary stewardship. The Chairman takes overall responsibility for the Board's composition, capability and performance evaluation. He consults regularly with the CEO and is also available to provide the CEO with advice and support. The Chairman's key functions are to:

- manage the Board and run Board meetings;
- take responsibility, with the Board, for agreeing and monitoring Tideway's strategy and its delivery through the Annual Business Plan;
- ensure good corporate governance is maintained, in the interests of all stakeholders;
- discuss with the CEO any recommendations from the Remuneration Committee;
- agree with the CEO all key external communications;
- represent Tideway externally at the most senior level;
- determine with the CEO which matters require Board approval; and
- determine with the Company Secretary which decisions are reserved to the Shareholders.

The Role of the Chief Executive Officer

The CEO is responsible for Tideway's leadership and operational management, within the Annual Business Plan approved by the Board. He is supported by the CFO, COO, and seven other direct reports on the Executive Committee. The CEO's key functions are to:

- develop Tideway's vision and values;
- manage the Executive Committee and Tideway's day-to-day activities;
- set the operating plans and budgets required to deliver the agreed Company strategy;
- ensure that Tideway has appropriate risk management and control mechanisms;
- develop the necessary performance objectives and non-financial programmes required to enhance and develop Tideway's culture;
- determine, strengthen and develop the senior management team; and
- share with the Chairman the external representation duties for Tideway.

The role of Non-Executive Directors

The Board includes nine Non-Executive Directors, four of whom represent the current Shareholders and five of whom are independent.

Non-Executive Directors use their breadth of knowledge and experience to challenge, monitor and approve the strategy and policies recommended by the Executive Directors. The Independent Non-Executive Directors each chair Board committees relevant to their skills and experience. The strong independent representation on the Board helps ensure that the Board is able to make decisions that are in the interests of Tideway, independent of other objectives.

The role of the Senior Independent Non-Executive Director

The Board has appointed Richard Morse as its Deputy Chairman, in which role he fulfils the functions of the Senior Independent Non-Executive Director. He provides a sounding board for the Chairman and serves as an intermediary for other Directors, when necessary or appropriate.

The Deputy Chairman is also available to Shareholders and other stakeholders if they have concerns which it would be inappropriate to raise through the conventional channels of Chairman, CEO or the other Executive Directors. The Deputy Chairman led the performance evaluation of the Chairman and the results are set out overleaf.

The role of Executive Directors

The Executive Directors are the CEO, COO and CFO. The role of the CEO is set out above.

The COO is responsible for the delivery of the project through the main works contractors and the Alliance, working closely with the CEO and CFO.

The CFO manages Tideway's finances, including financial and business planning, management, accounting and control processes and treasury, in order to deliver the capital programme effectively, manage ongoing operations and ultimately protect shareholder value. The CFO is also responsible for Tideway's strategy and regulation team and information systems strategy.

BOARD DEVELOPMENT, CONFLICTS AND EVALUATION

Development

On appointment to the Board and committees, all Directors receive an induction tailored to their individual requirements. The induction, which is designed and arranged by the Head of Human Resources in consultation with the Chairman, includes meetings with Directors, senior management and key external advisors, to assist Directors in building a detailed understanding of how Tideway works and the key issues it faces. Directors are also encouraged to visit construction/work sites, to see Tideway's operations first hand.

The Chairman periodically reviews and agrees training and development needs with each Director. During the year, the Board received regular detailed presentations and updates from both staff and external advisors on specific topics, including health and safety legislation, main works contracts, external affairs, the role of the project and programme manager, and key construction sites. These sessions ensure that Non-Executive Directors know and understand the business and the external legal and regulatory environment relevant to Tideway, so they can contribute effectively at Board meetings. All Board members participate in company-wide HSSE training, as well as suitable training for and completion of site visits.

Information and Support

The Executive Directors regularly update the Board and Shareholders on key matters. Both the Board and its committees have access to independent professional advice at Tideway's expense, where it is necessary to discharge their responsibilities as Directors.

The Company Secretary advises the Chairman on all corporate governance matters.

Conflicts of Interest

The Shareholders' Agreement and Tideway's Articles of Association set out a process for identifying and managing actual or perceived conflicts of interest. The Company Secretary requests that all Directors complete a Declaration of Interest Form every six months and Directors are expected to raise any potential, actual or perceived conflicts as soon as they arise, so the Board can consider them at the next available opportunity. The Company Secretary holds a register of all declared interests and conflicts.

Board Leadership, Transparency and Governance

Board Composition

Board Evaluation

The Chairman holds periodic meetings to discuss the performance of management and the Board. These meetings are held with all the Non-Executive Directors without the Executive Directors present and with the Independent Non-Executive Directors without the Shareholder Directors present.

At the end of the financial year, the Chairman, Deputy Chairman and the Company Secretary conducted an annual review of the performance of the Board and its committees. The Deputy Chairman also completed a separate annual review of the Chairman's performance. This process involved Directors completing two questionnaires. Responses remained anonymous throughout the process, to encourage an open and frank exchange of views. The Company Secretary reviewed and recorded the feedback from the questionnaires and the Chairman reported the key findings to the Board. The evaluation process captured the following areas of focus:

- overall effectiveness of the Board;
- effectiveness of Board meetings;
- decision making;
- boardroom behaviours;
- strategic evaluation;
- composition and skills;
- information;
- training and development;
- access to the Company's stakeholders and advisers;
- Board's relationship with its committees; and
- compliance.

There were no major areas of concern raised but a number of actions were identified for continuing improvement, including:

- more regular in-depth sessions on key project areas as part of the Directors' continuing training programme;
- continued work to refine and enhance the induction process for new Directors; and
- more events to broaden the relationship between Tideway and some of its key stakeholders, building on a successful event held between the Boards of the Port of London Authority and Tideway.

The Chairman, Deputy Chairman and the Company Secretary will continue to implement the agreed actions. Where appropriate, the Chairman provided specific feedback to individual members of the Board.

The Deputy Chairman completed a separate review of the Chairman, circulated the feedback and discussed it, as required, with Board members. There were no specific actions arising.

Next year, it is intended that the annual review of Board and committee performance will be externally facilitated, in compliance with the Code requirement that Board evaluation is externally facilitated at least every three years.

Board Leadership, Transparency and Governance
Board Committees

The Board has established six Board committees, which are described in more detail in this section. The committees meet regularly during the year, in accordance with an agreed schedule. All Non-Executive Directors are permitted to attend committee meetings, in addition to the committee members. While the Executive Directors are not formal members of the Board committees, they are invited to attend the majority of meetings.

Each of the committees has terms of reference, which have been approved by the Board and are described in the following sections of this report. Each committee's terms of reference and performance are reviewed by the Board each year, to ensure that the committees operate effectively. The Board approves any changes to the terms of reference.

The Chairs of each committee provide regular updates to the Board on the committee's work. Minutes of the committee meetings are available to all Directors on a secure electronic portal.

Directors' attendance at the scheduled Board and committee meetings for the period is summarised in the table overleaf. A number of other Board meetings and telephone conferences were also held during the year as required, including dinners to informally share views and consider issues impacting Tideway.

In September 2016, the Board carried out a site visit to Kirtling Street, one of the main drive sites located in the Central portion of the project.

Carnwath Road in Fulham

Board Leadership, Transparency and Governance

Board Committees

	Board	Audit Committee	HSSE Committee	Nomination Committee	Remuneration Committee	Risk Committee	Treasury Committee
Total meetings held in period:	**11**	**3**	**1**	**1**	**3**	**3**	**3**
Attendance by Director appointed during the period:							
Sir Neville Simms	11	3	1	1	3	1	–
Richard Morse	11	3	–	–	3	3	1
Anne Baldock	9	3	–	1	3	–	3
Mark Fairbairn	11	–	1	1	2	3	3
Michael Queen	11	3	–	1	–	3	3
Jaroslava Korpanec	10	3	–	1	3	2	3
Alistair Ray	11	1	–	1	3	3	2
Gavin Tait	10	1	–	–	1	–	3
Andy Mitchell	10	3	1	1	3	2	3
Mark Corben	11	3	1	–	–	3	3
Mark Sneesby	11	3	1	–	–	3	–
Attendance by Director appointed during the period:							
Angela Roshier	4	–	1	1	1	–	2
Attendance by Director who resigned during the period:							
Moira Turnbull-Fox	5	1	–	–	–	–	–

Board Leadership, Transparency and Governance

Board Committees

RISK COMMITTEE

Introduction by Mark Fairbairn OBE, Risk Committee Chairman

The Risk Committee is currently made up of three Independent Non-Executive Directors and two Shareholder Directors. I have chaired the Committee since Tideway was established. Together, the Committee members have an appropriate balance of risk management experience and a deep understanding of Tideway's business and the infrastructure sector, including my own experience running regulated gas and electricity utilities, both in the UK and USA.

All members of the Board are entitled to attend our meetings, and we invite the Head of Internal Audit to attend our scheduled meetings. In a full financial year, the Risk Committee is expected to meet at least three times or otherwise as required.

In 2016/17, the Committee scheduled three meetings to assist the Board in its oversight of risk, by reviewing the Tideway's risk appetite and risk profile, and the effectiveness of its risk management framework. The scheduled meetings are aligned to Tideway's risk reporting schedule and allow sufficient time for full discussion of key topics, enabling early identification and resolution of risks and issues that could arise.

Membership of the Risk Committee 2016/17
Mark Fairbairn (Chair)
Jaroslava Korpanec
Richard Morse
Michael Queen
Alistair Ray

Role of the Risk Committee

The Risk Committee reviews and reports to the Board on risk management (including mitigation) and internal control. This includes determining the nature and extent of the principal risks Tideway faces. Details of our principal risks can be found in the Risk Management section of the Strategic Report. Tideway also has an executive-level risk committee (the Executive Risk Committee), chaired by the CFO, which considers risk management matters in detail on a monthly basis.

The terms of reference for the Risk Committee are available on Tideway's website.

Main activities of the Risk Committee during the year

The Committee's work followed an agreed annual plan, which evolved throughout the year in response to the commencement of work on site. The CFO and the Company Secretary assisted the Committee Chairman in planning the Committee's work and ensured that the Committee received information and papers in a timely manner.

During the year, the Committee focused on the following key areas:

- **Risk appetite monitoring** – The Committee received regular detailed reports on key risk exposures, emerging and potential risks, and the drivers of risk throughout Tideway. It assessed and challenged the appropriateness of Tideway's overall risk appetite and approved the principal risks described on pages 26 to 31 of this Annual Report.
- **Risk management and governance** – The Committee received an ongoing series of reports from the Executive Risk Committee, covering the risk environment and the issues arising in the three main construction areas. The Committee also received quarterly risk reports presented by Tideway's Head of Risk Management. These included the principal and corporate risks, including the potential impact on cost and schedule and the mitigations in place. In addition, the Committee considered the risk retirement profile presented by management.
- **Internal controls** – Working with the Audit Committee, the Committee monitored the adequacy of the risk management framework, including internal control.
- **Risk Reviews** – A deep dive of the key programme areas (East, West and Central) is presented at each Committee meeting by the relevant Delivery Manager and Project Sponsor, to allow the Committee to challenge and discuss key risk and mitigation strategies in place.
- **Long-Term Viability Statement** – The Committee considered management's approach and recommendations relating to the Long-Term Viability Statement, for adoption by the Board and inclusion in the Annual Report and Accounts.

Review of the Risk Committee's effectiveness

The independent Board evaluation exercise undertaken in 2016/17 confirmed that the Risk Committee was working effectively. It was agreed that future meetings should allow more time for consideration of key risks and issues.

Board Leadership, Transparency and Governance
Board Committees

NOMINATION COMMITTEE

Introduction by Sir Neville Simms FREng, Chair of Nomination Committee

The Nomination Committee is currently made up of four Independent Non-Executive Directors and three Shareholder Directors. A majority of members of the Nomination Committee are therefore independent Non-Executive Directors. I have been the Committee Chairman since Tideway was established. I have chaired a number of construction industry bodies and along with the other members of the Committee, we have an appropriate balance of experience and a deep understanding of Tideway's business and the infrastructure sector.

All Shareholder Directors and Independent Non-Executive Directors are entitled to attend our meetings.

In a full financial year, the Nomination Committee would be expected to meet at least once or otherwise as required. In 2016/17, the Committee scheduled two meetings to assist the Board by reviewing the Board's composition and conducting a rigorous and transparent process when recommending or renewing the appointment of Directors to the Board.

Membership of the Nomination Committee 2016/17
Sir Neville Simms (Chair)
Anne Baldock
Jaroslava Korpanec
Richard Morse
Michael Queen (appointed March 2016)
Alistair Ray
Angela Roshier (appointed September 2016)
Moira Turnbull-Fox (resigned September 2016)

Role of the Nomination Committee
The Nomination Committee, led by the Chairman of the Board, is predominantly responsible for:

- regularly reviewing the Board's structure, size and composition, including the balance of skills, knowledge, experience and diversity, and making recommendations to the Board with regard to any changes;
- considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing Tideway, and the skills and expertise needed on the Board in the future; and
- evaluating, before the Board makes any appointment, the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment.

The terms of reference for the Nomination Committee are available on Tideway's website.

Main activities of the Nomination Committee during the year
During 2016/17, the Committee was principally focused on Board succession, renewing the Independent Non-Executive Director appointments and recruiting a new Non-Executive Director, as part of the continual cycle of refreshing the Board. These matters are discussed below.

- Board succession and the retention and development of staff;
- renewing Independent Non-Executive Director appointments;
- Non-Executive Director appointment;
- diversity; and
- other activities.

Review of the Nomination Committee's effectiveness
The independent Board evaluation exercise undertaken in 2016/17 confirmed that the Nomination Committee was working effectively.

TREASURY COMMITTEE

Introduction by Michael Queen, Chair of the Treasury Committee

The Treasury Committee is currently made up of four Independent Non-Executive Directors and four Shareholder Directors. I have been the Committee Chairman since Tideway was established. The members of the Committee have an appropriate balance of financing and treasury experience, with a deep understanding of Tideway's business and the infrastructure sector. This includes my own experience as a chartered accountant with 30 years in the alternative finance sector.

All members of the Board are entitled to attend our meetings and we invite the members of the Treasury function of the business to attend our scheduled meetings.

In a full calendar year, the Treasure Committee is expected to meet at least three times, with additional ad hoc meeting as required. In 2016/17, the Committee held three planned meetings and several ad hoc meetings. The ad hoc meetings related to the significant financing activities undertaken by the business throughout the year.

Membership of the Treasury Committee 2016/17
Michael Queen (Chair)
Anne Baldock
Mark Fairbairn
Richard Morse
Jaroslava Korpanec
Alistair Ray
Angela Roshier (appointed September 2016)
Moira Turnbull-Fox (resigned September 2016)
Gavin Tait

Role of the Treasury Committee

The Treasury Committee reviews and reports to the Board on Tideway's treasury policy, treasury strategies and financial strategy. Tideway 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 terms of reference for the Treasury Committee are available on Tideway's website.

Main activities of the Treasury Committee during the year

The Treasury Committee meetings held in 2016/17 considered the following key areas:

- completion of the EIB loan;
- establishment of Tideway's multi-currency programme for the issuance of bonds;
- consideration of distribution payments to Shareholders;
- investor relations and reporting;
- a regular review of financing market conditions;
- counterparty exposure limits; and
- future cash flow and liquidity requirements.

Review of the effectiveness of the Treasury Committee

The independent Board evaluation exercise undertaken in 2016/17 confirmed that the Treasury Committee was working effectively.

Board Leadership, Transparency and Governance
Board Committees

HEALTH, SAFETY, SECURITY AND ENVIRONMENT COMMITTEE

Introduction by Mark Fairbairn OBE, HSSE Committee Chairman

The HSSE Committee is currently made up of two Independent Non-Executive Directors and two Shareholder Directors. I have chaired the Committee since Tideway was established. I have significant experience running regulated gas and electricity utilities, both in the UK and USA, and taken together the Committee's members have an appropriate balance of health, safety, security and environment experience, along with a deep understanding of Tideway's business and the infrastructure sector.

All members of the Board are entitled to attend our meetings and we invite the Asset Management Director and Health, Safety and Wellbeing Director to attend our scheduled meetings.

In 2016/17, the Committee scheduled one meeting, to assist the Board in its oversight by reviewing the HSSE performance of Tideway and its key contractors. In a full financial year, the HSSE Committee is expected to meet at least twice or otherwise as required. Going forward, it is intended that scheduled meetings will align to Tideway's reporting schedule and allow sufficient time for full discussion of key topics, enabling early identification and resolution of risks and issues that could arise. It is also intended that the HSSE Committee will meet on site at least once a year.

Membership of the HSSE Committee 2016/17
Mark Fairbairn (Chair)
Jaroslava Korpanec
Angela Roshier (appointed September 2016)
Sir Neville Simms
Gavin Tait

Role of the HSSE Committee

Tideway is committed to achieving the highest HSSE standards and to using best practice. Tideway acknowledges that effective HSSE performance comes from the top and that members of the Board have both collective and individual responsibility for HSSE. Accordingly, the Board has established the HSSE Committee to regularly review, develop and oversee consistent policy, standards and procedures for managing the HSSE risks to Tideway's business.

Tideway also has two executive-level committees that report to the HSSE Committee. These are a Health, Safety and Wellbeing Committee chaired by the COO, and a Vision, Legacy and Reputation Committee, jointly chaired by the Asset Management Director and External Affairs Director, whose remit includes environmental matters. Each meet once a month.

The HSSE Committee is responsible for reviewing Tideway's HSSE strategy and objectives, Tideway's significant actions relating to HSSE, and incident investigation reports and the close out of resulting actions for all incidents involving fatalities, and any other serious incident as the Committee sees fit.

The terms of reference for the HSSE Committee are available on Tideway's website.

Main activities of the HSSE Committee during the year

The Committee meeting held in December considered the following key areas:

- **Terms of Reference** – The Committee reviewed and approved its terms of reference.
- **HSW Strategy** – The Committee reviewed the HS&W Strategy and recommended that the Board approve it.
- **HSW Governance** – The Committee reviewed the corporate governance for HSW.
- **HSW Performance Indicators** – The Committee reviewed the indicators which contribute to the evaluation of the MWC's HSW performance.
- **HSW Current Performance Overview** – The Committee reviewed the HSW performance of MWCs and Tideway during the first six months of 2016/2017.
- **Environmental Overview** – The Committee reviewed the environmental performance of the MWCs and Tideway during 2016/2017.

Review of the HSSE Committee's effectiveness

The independent Board evaluation exercise undertaken in 2016/17 confirmed that the HSSE Committee was working effectively.

Audit Committee Report

PURPOSE OF THE COMMITTEE

Introduction by Richard Morse, Chair of the Audit Committee

Role of the Audit Committee

The Audit Committee reviews and reports to the Board on all matters relating to financial reporting, including Tideway's published financial and regulatory statements, interim reports and related documents. It also reviews the role and independence of the auditor, the Internal Audit function and Tideway's overall compliance record.

The Audit Committee is currently made up of three Independent Non-Executive Directors and two Shareholder Directors, which means that the majority of the Committee's members are independent. I have chaired the Committee since Tideway was established. The Committee members combine an appropriate balance of financial and accounting experience with a deep understanding of Tideway's business and the infrastructure sector, including my own 30 years' experience of infrastructure and energy transactions as an investment banker. Michael Queen and I are the Independent Non-Executive Director members of the Audit Committee with recent and relevant financial experience.

All members of the Board are entitled to attend our meetings and we invite the Head of Internal Audit to attend our scheduled meetings.

In 2016/17, the Committee scheduled three meetings and held several ad hoc informal meetings. The informal meetings related to the annual budget and business planning process and the procurement of the external auditor. The scheduled meetings are aligned to the financial reporting timetable and allow sufficient time for full discussion of key topics, enabling early identification and resolution of risks and issues that could arise.

The Audit Committee's (the Committee) terms of reference include all matters covered by the Code.

The Committee's main responsibilities are to:

- Review the half-year and annual financial and regulatory statements, including reporting to the Board on the significant issues considered by the Committee and how these were addressed.
- Review the scope, planning and effectiveness of the Internal Audit function and Tideway's internal control and risk management systems.
- Review Tideway's procedures for whistleblowing, identifying and reporting fraud and other inappropriate behaviour, including the outcomes from any significant matters identified.
- Make a recommendation to the Board for the appointment or reappointment of the external auditor, including overseeing and owning the audit tender process.
- Review the scope and results of the annual audit and to report to the Board on the effectiveness of the audit process and how the auditor's independence and objectivity have been safeguarded.
- Review Tideway's process for ensuring compliance with its obligations and considerations for any breaches and the adequacy of any actions taken as a result of a breach.

The Committee's terms of reference are reviewed at least annually and referred to the Board for approval. A copy is available on Tideway's website.

REVIEW OF THE YEAR

The Committee met three times in the year to 31 March 2017 and reported all of its activities to the Board.

During the year, the Audit Committee considered the following:

- the Audit Committee's Terms of Reference;
- the procurement process and appointment of the external auditor;
- the activities and effectiveness of the Internal Audit function;
- the appropriateness of the accounting policies;
- the significant issues in respect of the 2016/17 financial statements;
- the issues arising from the statutory and regulatory audits;
- the approach to compliance and assurance; and
- the approach to annual reporting.

Membership and attendance

The Committee is chaired by Richard Morse, who is an Independent Non-Executive Director, and comprises two additional Independent Non-Executive Directors (Michael Queen and Anne Baldock) and two Shareholder Directors (Jaroslava Korpanec and Gavin Tait). The Company Secretary is the secretary to the Audit Committee.

Details of the Committee members' experience can be found in their biographies on pages 56 to 59.

All members of the Board have the right to attend the Committee meetings. Tideway's Head of Internal Audit attends all meetings. The external auditor, KPMG, attended parts of meetings, to present the approach to the annual audit and the overall audit findings.

Membership of the Audit Committee 2016/17
Richard Morse (Chair)
Anne Baldock
Jaroslava Korpanec
Michael Queen
Gavin Tait (appointed September 2016)
Moira Turnbull-Fox (resigned September 2016)

Review of the Audit Committee's effectiveness

The Board evaluation exercise undertaken in 2016/17 confirmed that the Audit Committee was working effectively. It was agreed that future meetings should allow more time for consideration of key risks and issues.

Significant matters considered by the Committee in respect of the 2017 financial statements

The Audit Committee considered a range of significant issues in relation to the financial statements. These issues tended to relate to judgements and accounting estimates that management made in preparing the financial statements and regulatory accounts. In addition, the Committee reconsidered the appropriateness of the accounting policies adopted, including changes from the prior period, for the year to 31 March 2017. For the year ended 31 March 2017, the Committee reviewed the following key areas:

- Analysis of accounting and tax considerations in relation to Tideway's evolving status, as it moves into construction, including substantial capitalisation of assets under construction and the the current and deferred tax treatment in the period.
- Fraud risks related to management controls.
- The valuation and disclosure of financial instrument arrangements in the period.
- The evidence that supports the assumption that the accounts can be prepared on a going concern basis. This included a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks.
- The evidence and assumptions that support the Long-Term Viability Statement and the Directors' view of Tideway. This included a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks.
- Compliance with accounting standards and other legal requirements.

Audit Committee Report
Continued

Internal control, risk and compliance

Tideway has established an independent Internal Audit function that reviews the effectiveness of Tideway's risk management and internal control system throughout the year, to ensure its adequacy. The Committee ensures that Tideway achieves this through internal review and challenge and by considering the following:

- The reports received from Internal Audit, management's response to the issues raised and their timely resolution.
- The control-related findings presented by the external auditor during its audit of the financial statements.
- Tideway's approach to assurance, with its main requirements such as its Licence, consents, financial obligations and other legal requirements.
- The review of minutes from the Compliance Assurance and Review Group (CARG), which is chaired by the CEO and challenges relevant staff on compliance and assurance matters across Tideway.
- The review of the report from CARG's Independent Observer. This role is carried out by the Head of Internal Audit and covers management's approach to the process.
- Tideway's approach and underlying process to assure the Board in relation to the Risk and Compliance Statement which is required in the Annual Report, under the Licence granted by Ofwat.
- The policies and procedures in place to prevent, detect and investigate fraud.

Confidential reporting procedures and whistleblowing

Tideway continues to promote a culture of transparency and has developed a confidential whistleblowing policy and procedure for all staff. This has been widely advertised throughout Tideway. It covers a wide range of areas where malpractice could occur, such as health and safety, fraud, bribery, money laundering and other human resource related matters. Staff are encouraged to deal with any matters of concern with line management first. Where this is not appropriate, Tideway has set up a confidential whistleblowing reporting process with Crimestoppers.

The Head of Internal Audit acts as the Whistleblowing Officer, to monitor, investigate and report to the Committee on any concerns raised and the resulting outcome.

Internal Audit

As noted above, Tideway employs an independent Internal Audit team to carry out risk-based reviews, giving the Committee assurance on the adequacy of the internal controls. The Head of Internal Audit is independent and reports functionally to the CFO but directly to the Chairman of the Audit Committee. The Head of Internal Audit regularly meets the Chairman of the Audit Committee without executive management being present. Following a review, the Audit Committee and the Board agreed to expand the role of Internal Audit from 1 April 2017 to cover all controls and systems across Tideway.

To ensure Internal Audit's independence and effectiveness, the Committee reviewed, challenged and approved:

- the Internal Audit function's policy and strategy;
- the programme of work;
- the adequacy of the team's resources and skills;
- the reports received from the Head of Internal Audit outlining areas of weakness, including the adequacy of management's responses and the actions undertaken; and
- progress against the approved programme of work.

Through this monitoring and an internal management assessment of the function, the Committee considers that Internal Audit is independent and effective.

The Committee has considered the need for an external effectiveness review of Internal Audit and has requested that a review is carried out in 2018.

Auditor appointment, independence and objectivity

Auditor procurement

During the year, the Board requested that the statutory and regulatory audits and related services be tendered. Due to the aggregated value of the services to be provided, a public procurement process was carried out via the Official Journal of the European Union, with support from a number of teams within the business. The Audit Committee reviewed and approved the process, which included an assessment of the tenderers' technical competencies and commercial proposals. Members of the Audit Committee were involved in the evaluations, moderation and clarification meetings.

The process concluded that the current external auditor should be reappointed for the year ended 31 March 2017 and thereafter, subject to the requirements of the Companies Act. This would be the second year of their tenure. The Audit Committee and Board reviewed and agreed with the outcome of the procurement process and the resulting reappointment of KPMG as external auditor for the Tideway group of companies.

Statutory and regulatory audits

During the period, the Committee considered:

- KPMG's planned approach to the audit of the financial statements, including planning materiality;
- KPMG's execution of the audit approach, including its assessment of key accounting issues, audit judgements and audit adjustments required;
- KPMG's arrangements to identify, manage and report its own conflicts of interest;
- KPMG's independence and objectivity;
- the extent of, approval for and quality of the current and future non-audit services carried out by KPMG, and their impact on KPMG's independence; and
- the arrangements for the day-to-day management of the audit relationship.

The Committee considered and approved the fees and activities for non-audit services carried out by KPMG. For the year ended 31 March 2017, the fees for non-audit services paid to KPMG are reported in the table below.

The Chairman of the Audit Committee met the KPMG engagement partner, to discuss matters without executive management being present. The Committee concluded that it is satisfied with the independence of the auditor and the overall quality and effectiveness of the external audit process. The effectiveness of the external auditor in the year has been considered both through the external audit tender process run in the financial year and taking into account the experience of the audit committee.

The Committee has considered and has satisfied itself that KPMG's independence when providing non-audit services over the coming years will not be compromised. The Committee also considered the new EU Audit Regulations relating to non-audit services and concluded the same. This area will continue to be monitored by management and the Audit Committee. The Committee further concluded that KPMG would not be appointed to provide tax advice in order to preserve KPMG's independence.

This report was approved by the Board of Directors on 15 June 2017.

Richard Morse
Chairman of the Audit Committee

	2017 £000	11 month period ended 31 March 2016 £000
Non-audit services		
Review of interim financial information	8	–
Tax advisory	68	60
Other regulatory assurance services	42	27
	118	**87**

Remuneration Committee Report

STATEMENT BY THE CHAIR OF THE REMUNERATION COMMITTEE

This was an important year for the Company, as we mobilised on to the three main construction sites and construction work began at a number of key locations. Therefore while the principles of the compensation policy have not changed from last year, we set milestones and KPIs against which individual and Company performance are measured, to reflect the need to deliver project momentum.

I am pleased to report that an important new addition to the overall compensation package has been the introduction of a long-term incentive plan (LTIP) which was introduced in 2016 for the CEO, CFO and COO. This plan (which replaces the deferred bonus scheme from previous years) is a key mechanism in both the reward and retention of the Company's Executive Directors.

The LTIP measurements currently focus on the completion of the Tunnel by achieving milestones, the first of which are starting and completing tunnelling, The aim, to complete construction work on or before our published schedule, is an important target to ensure best value for stakeholders and a reduction of the impact that the project will have on some of our neighbours. Speed of construction will not be undertaken at the expense of our transformational health and safety programme or the quality of construction and such factors are a key over-ride in the making of any bonus award.

Each year, the Committee reviews the overall compensation and benefits for all employees, to ensure that the overall package achieves the Company's principles of reward and recognition and its aim for an engaged workforce. Adjustments have been made this year to reflect external market changes and any underlying increases in inflation. I would like to thank our Shareholders for their views and constructive input in this process.

During 2017/18, the Committee will undertake a review of the Executive remuneration policy and application, to ensure that it still meets the Company's needs. The original policy was approved by the Remuneration Committee in 2015.

The independent Board evaluation exercise undertaken in 2016/17 confirmed that the Remuneration Committee was working effectively.

The Committee's terms of reference were reviewed and approved in the year and can be found on the Company's website.

Membership	Responsibilities
Anne Baldock (chair) **Sir Neville Simms** **Richard Morse** **Jaroslava Korpanec** **Alistair Ray** **Moira Turnbull-Fox** (resigned September 2016) **Mark Fairbairn** (appointed June 2016) **Angela Roshier** (appointed September 2016)	These include: • Set the remuneration policy for all Executive Directors and the Company's Chairman, including pension rights and any compensation payments. • Recommend and monitor the level and structure of remuneration for senior management. • Set and review the ongoing appropriateness and relevance of the remuneration policy. • Commission external benchmarking to obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. • Recommend the design of, and determine targets for, any performance-related pay schemes operated by the Company and recommend the total annual payments made under such schemes. • Recommend the policy for, and scope of, pension arrangements for each Executive Director and other designated senior executives. • Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised. • Oversee any major changes in employee benefits structures throughout the Company.
Attendees	**Terms of reference**
The CEO attends the meetings for all business other than that relating to his own remuneration. Independent advisors attend meetings by invitation. The Head of HR or nominated deputy acts as Secretary to the Committee. Other Non-Executive Directors have the right to attend if they so wish.	The Committee's full terms of reference have been approved by the Board and can be found on the Company's website.

Remuneration Committee Report
Continued

REMUNERATION POLICY REPORT

The Company's remuneration policy reflects the complexity and significance of one of Europe's largest infrastructure projects. Directors' remuneration comprises three elements: base salary; an annual bonus; and a newly introduced LTIP to replace the existing deferred bonus scheme. Base salary is benchmarked each year against other comparable companies. We base annual bonuses on a combination of individual and key project milestones and Company performance, to incentivise and reward success.

In 2016/17 the Committee approved a LTIP for the Executive Directors which is currently geared to key tunnelling milestones, but will extend to the completion of construction and handover phase in due course.

Willis Towers Watson is appointed to provide salary and benefits benchmarking and consultancy to the Company to ensure that salaries and bonuses remain in line with market norms.

Full details of each component of the Executive Directors' remuneration and the way remuneration was calculated, applicable for the period to year ended 31 March 2017, are shown in the tables below.

Base salary	
Purpose and strategy	The overall remuneration package is set at a level designed to attract and retain Directors of the appropriate calibre, to reflect the organisation's size, complexity and external market competition.
Operation	The base salary is reviewed annually in April and normally fixed for 12 months. There is no right to an annual increase. Increases are set by reference to: The base salary of the Executive Directors is reviewed by the Committee annually and is normally fixed for 12 months. There is no right to an annual increase. Increases are set by reference to: • Individual performance; • internal and external comparators; and • market conditions.
Opportunity	Base salary increases are reviewed in the context of increases across the Company and will usually be in line with market increases. The Remuneration Committee will consider differences to this for the following reasons: • increase in scope or responsibility, including a promotion; • external market data showing that the salary is not competitive; and • the Remuneration Committee considering there to be a risk of not attracting or retaining executives.
Performance metrics	The individual's performance, external market and internal relativities will determine the salary level. Salary levels for the Executive Directors for 2016/17 are set out on page 89 of this report.

Annual bonus

Purpose and strategy	Incentivises and rewards performance against annual targets, which support the Company's strategic direction.
Operation	Annual targets included Health, Safety and Wellbeing, project milestones, public perception, employee engagement, Shareholder return and Company credit rating, as well as individual personal targets. Targets are set annually by the Remuneration Committee and notified to the Board. The Committee approves the assessment of achievement and recommends it to the Board. The maximum bonus opportunity was increased by 10% for the year 2016/17, following a market review compiled for the Remuneration Committee by Willis Towers Watson. All bonuses are discretionary and can be removed or adjusted at the Committee's discretion.
Opportunity	Maximum bonus opportunities are: CEO – 80% CFO – 60% COO – 60% Awards for 2016/17 were: CEO – 66% CFO – 58% COO – 49.5% All elements were equally weighted.

Performance metrics

		Requirement	2016/17 minimum	2016/17 stretch	Achievement
Overall Company objectives 50%	Health Safety and Wellbeing	Delivery of transformational HSW	Safety record better than other recent major projects	Good/outstanding compared to other major projects	Minimum Achieved
	Schedule cost and change	Achieve Alliance Tideway Target Milestone dates[1]	80%	100%	100% achieved
		Risk retirement[2]	>£25m risk retired	Better than target	£25m risk retired
	Vision Legacy and reputation	Public perception	Neutral media coverage	Good media campaigns with minimal negative coverage with media being actively managed	Mostly neutral
	Company and People	Employee engagement	62% positive	Higher percentage	63% positive
	Financing	Shareholder return	In line with financing plan	Better than financing plan	Stretch achieved
		Company credit rating	Baa1/BB+	N/A	Achieved
Personal objectives 50%	Personal objectives	Achievement of personal objectives	As per individual plan	As per individual plan	Dependent on Individual performance

Each of the requirements listed above are equally weighted. The Committee has assessed that the Company achieved overall 90 per cent of its goals.

[1] *The Alliance milestones are linked to key project deliverables. The finance plan details operational delivery of the financing plan*

[2] *Risk retirement relates to reserves held against potential project risks. Risk retirement recognises the reduction or elimination of project risks*

Remuneration Committee Report
Continued

Annual bonus	
Performance metrics *Continued*	Each of the requirements listed in the table above: Health Safety and Wellbeing, Schedule, Cost and Quality, Vision, Legacy and Reputation; Company and People; and Financing are equally weighted and these targets are shared with all staff. The Remuneration Committee has discretion to reduce the bonus to zero if there is a significant health and safety or regulatory breach. Personal objectives were a combination of strategic, project and development measures to support the delivery of project milestones and Company priorities.

In-service benefits	
Purpose and strategy	Ensures the overall package is competitive and supports the recruitment and retention of Directors.
Operation	Executive Directors receive benefits in line with market practice, which include car allowance, medical insurance and life insurance. Other benefits, dependent on individual circumstances, could include travel, accommodation or relocation allowances.
Opportunity	Benefits are determined at an appropriate level based on external market data and, in the case of other benefits, personal circumstances.
Performance metrics	Not applicable.

Retirement benefits (defined contribution scheme)	
Purpose and strategy	Ensures the overall package is competitive, within current pensions and taxation parameters, to provide post-employment benefits.
Operation	Executive Directors receive a Company contribution of £10,000 per annum in line with current government taper tax relief limits.
Opportunity	The Executive Directors have a fully portable self-invested personal pensions.
Performance metrics	Not applicable.

The company may terminate the contract of any executive director in line with their contract of employment, which includes provision for payment in lieu of notice. Employment contracts may be terminated without payment in circumstances of gross misconduct.

Termination Policy	
Base salary + benefits	Payment made up to termination date.
Annual bonus	No contractual entitlement to a bonus payment. If the director is under notice or left employment at the time of payment, the committee may use its discretion to make a bonus award, typically pro-rated for time and based on the performance assessed at the end of the bonus year.
Long-term incentive plan	Treatment would be in line with plan rules.

EXPLANATION OF PERFORMANCE METRICS CHOSEN

This was the year of mobilising on to our three main drive sites and the commencement of construction, in line with agreed project milestones. The metrics chosen were designed to ensure that all staff members remain engaged on the key drivers for the year. All targets are always underpinned by the core value of transformational health and safety. Company targets for Directors are 50 per cent of the bonus opportunity, with individual targets making up the other 50 per cent. Individual targets focus on all areas of the Company and project delivery, including community and stakeholder engagement, personal development, leadership, delivery, governance and employee engagement and development.

LTIP	
Purpose and strategy	To reward performance and delivery and retain Directors over the life of the project through to final commissioning and handover of the tunnel at completion.
Operation	The LTIP is split into three Tranches. Each Tranche is designed to try to encourage completion of the project as swiftly as possible, within budget and without compromising health and safety, or quality.
Opportunity	The LTIP is split into three Tranches. Tranche 1 is awarded on the Tunnelling Start Date (broadly defined as commencement of tunnelling at each of the three main drive sites, demonstrated by the achievement of a certain distance of tunnelling) and is payable over a three-year period. The maximum amount that may be paid under Tranche 1 of the LTIP is 225 per cent of 2016/17 base salary in the first available payroll occurring after its award and 112.5 per cent of 2016 base salary in each of the following two years. Tranche 2 is awarded on the Tunnelling Completion Date (broadly defined as the date upon which all secondary lining is installed in the main tunnel and no further significant remedial works are required) and is payable over a two-year period. The maximum amount that may be paid under Tranche 2 of the LTIP is 150 per cent of base salary pertaining at the Tunneling Start Date on the first available payroll occurring after award and 150 per cent (subject as set out below) of such base salary in the next following year. Tranche 3 is yet to be determined but will be designed to reward good management of the completion and handover of the tunnel.
Performance metrics	100 per cent of the Tranche 1 LTIP will be awarded if the Remuneration Committee is satisfied that the Tunnelling Start Date has occurred before a specified date occurring ahead of the date scheduled when the Company's Licence was awarded. The award will reduce to nil if the Tunnelling Start Date has not occurred by the date scheduled at Licence Award and will reduce on a straight-line basis if the Tunnelling Start Date occurs between these two dates.[1] 100 per cent of the Tranche 2 LTIP will be awarded if the Remuneration Committee is satisfied that the Tunnelling Completion Date has occurred on or before a specified dated falling ahead of the date scheduled when the Company's Licence was awarded. The award will reduce to nil if the Tunnelling Completion Date has not occurred by the date scheduled as at Licence Award date and will reduce on a straight-line basis if the Tunnelling Completion Date occurs between those two dates. The second tranche payment of the Tranche 2 award will be doubled to 300 per cent of the base salary pertaining at the Tunnelling Start Date if a specified percentage of IRR is determined to be payable at project completion. The Remuneration Committee has discretion to reduce the LTIP to zero for, inter alia, health and safety or regulatory breaches or malus.

[1] *Details of the dates will be disclosed retrospectively in the appropriate annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.*

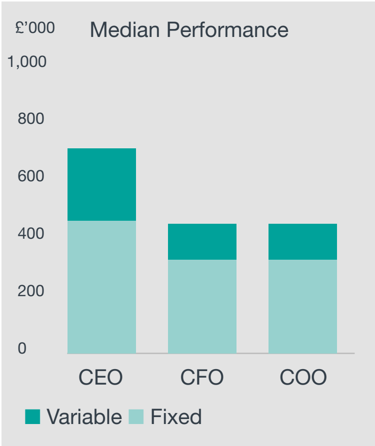
Remuneration Committee Report
Continued

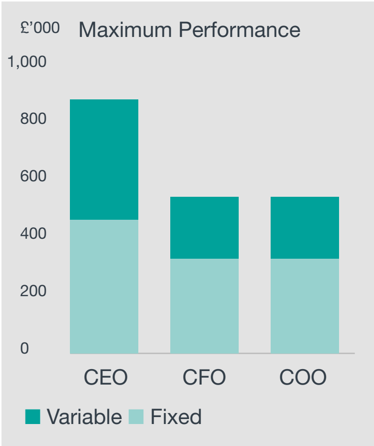
POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

In producing the chart below, we have assumed the percentage achievement of bonus awards set out in the table below. As any LTIP payment will not be awarded in the next financial year, this has been excluded from the table.

	Fixed pay	Annual bonus
Minimum performance	Fixed elements of remuneration are base salary, benefits and pensions.	30 per cent of potential annual bonus achieved.
Median performance	Individual performance would be expected to have a positive impact on base salary – see pay and conditions for Executive Directors.	70 per cent of potential annual bonus achieved.
Maximum performance		120 per cent of potential annual bonus achieved.

The charts below show the relative split of remuneration between fixed (base salary, benefits and pensions) and variable elements (annual and deferred bonus) for the Executive Directors under the three scenarios described above.





Non-Executive Directors fees	
Purpose and strategy	Non-Executive Directors receive only a fee, which is set at a level that reflects market conditions and is sufficient to attract individuals with appropriate skills, knowledge and experience. The Chairman and Deputy Chairman receive enhanced fees for additional responsibilities. Non-Executive Directors representing Shareholders do not receive fees from the Company.
Operation	Fees are reviewed either every year, on the change of responsibilities or the appointment of new Non-Executive Directors. The Board determines the remuneration of the Non-Executive Directors within the limits set in the Articles of Association.
Opportunity	Non-Executive Directors do not receive annual bonuses, benefits or pension contributions. Fees are based on the level of fees paid to Non-Executive Directors on the boards of comparable companies and the time commitment expected.

CONTRACTS

The Executive Directors have employment contracts with six months' notice on either side. The Directors who held office during the period are listed on page 46 of the Corporate Governance Report.

The Independent Non-Executive Directors have service contracts with three months' notice on either side. Details of their appointment to the Board can be found on page 46 of the Corporate Governance Report.

REMUNERATION

Year ended 31 March 2017	Base salary & fees £'000	Taxable benefits £'000	Annual bonus £'000	Deferred bonus £'000	Pension contribution £'000	Total £'000
Andy Mitchell (CEO)	425	13	281	0	10	729
Mark Corben (CFO)	293	11	170	0	10	484
Mark Sneesby (COO)	293	11	145	0	10	459
Sir Neville Simms	275					275
Richard Morse	90					90
Anne Baldock	54					54
Mark Fairbairn	54					54
Michael Queen	54					54

The CEO's base salary for the year ended 31 March 2017 included an annual increase pay award of 2.16 per cent. There was no change to the CEO's taxable benefits.

Period ended 31 March 2016[1]	Base salary & fees £'000	Taxable benefits £'000	Annual bonus £'000	Deferred bonus £'000	Pension contribution £'000[2]	Total £'000
Andy Mitchell	215	8	138	80	43	484
Mark Corben	157	6	72	44	24	303
Mark Sneesby	157	7	72	44	5	285
Sir Neville Simms	166					166
Richard Morse	56					56
Anne Baldock	33					33
Mark Fairbairn	33					33
Michael Queen	33					33

The tables show the total remuneration earned by each Director in 2016/17 and 2015/16.

Fees for the Independent Non-Executive Directors have been set in line with the policy described, and were last reviewed in March 2016 and agreed that no changes were required in the next financial year.

[1] *Directors pay presented in this table covers the period from licence award on 24 August 2015 to the 31 March 2016*

[2] *Pensions include cash allowances paid in lieu of company contributions to the following directors: Andy Mitchell (£32,167), Mark Corben (£23,219)*

Remuneration Committee Report

Continued

PAY AND CONDITIONS FOR OTHER EMPLOYEES

While Tideway is a regulated independent water company, we recognise that a number of unique characteristics influence our remuneration strategy, not least that we are implementing one of Europe's largest infrastructure projects. We therefore recognise this within the overall compensation structure, which is designed to ensure that the Company attracts and retains appropriate skills, experience and talent. In certain areas this is a very competitive labour market and it is important for the project's success that we offer an attractive overall compensation package.

We apply this compensation strategy consistently across all employees, from junior members of staff through to the senior management team, with the same principles of fairness and equity, as detailed below:

- Remuneration packages reflect the complexity and significance of one of Europe's largest infrastructure projects.
- Reward is based on total compensation, meaning base pay, bonus and benefits.
- Future increases in base pay are merit based, with no right to annual increases – although an annual review will take place.
- Bonuses are discretionary, based on a combination of individual and Company performance, and are a key part of the package to incentivise and reward project success.
- Pensions are contributory into a defined contribution scheme, with contributions in line with market practice.
- All employees have a base level benefits package (covering holidays, pension, life insurance and private medical cover). Additional benefits are provided based on job level (such as car allowances and enhanced pension) or personal circumstances (such as relocation allowance).
- There were no other changes to the compensation and benefits package in 2016/17.

Tideway has no collective agreements in place and salary increases are determined based on an individual's performance and internal and external relativities. We carry out external benchmarking each year, to review market changes in remuneration. The overall salary increase pot was 2 per cent in 2016/17. Future individual annual increase reviews will take place in April each year.

The Remuneration Committee takes into account the same criteria for the annual pay award for employees when considering any increase to base pay for Executive Directors. All employees who are eligible for an annual bonus share the same Company-wide targets and have individual objectives set in the same way as those of the Executive Directors.

RECRUITMENT REMUNERATION POLICY

We use the policy detailed above when deciding on the overall remuneration package for externally-recruited Directors. If necessary, to facilitate the hiring of individuals of the right calibre and experience, the Committee has the discretion to include other components outside of the policy. This report was approved by the Board of Directors on 15 June 2017.

Anne Baldock
Chair of the Remuneration Committee

Board Leadership, Transparency and Governance

Relationship with Shareholders

OUR OWNERS

Tideway is owned by a consortium of investors. Further information on our equity investors and their equity interests as at July 2017 is shown in the table below.

Table 1

Shareholder and Shareholding	Description
Allianz Infrastructure Luxembourg I S.a.r.l. 34.26%	The Allianz Group is a leading global financial services group, active in insurance and asset management. It has assets under management in excess of €1.3 trillion and a market capitalisation of over €65bn. The investment in Tideway is funded from the balance sheets of various Allianz Group insurance companies, with over 60% coming from the German life insurance business.
Dalmore Capital 14 GP Limited 33.76%	Dalmore is an independent fund manager based in London, with over £2.1bn of investors' funds under management and a sole focus on the infrastructure sector. For its investment in Tideway, Dalmore established a single purpose fund which has secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors.
IPP (Bazalgette) Limited 15.99% Bazalgette (Investments) Limited 5.33% (Both Amber related entities)	Amber is a developer, financial adviser and manager of infrastructure projects. It looks after funds for more than 2,000 public and private sector investors, and has assets under management of c£7bn. It manages four infrastructure funds, including International Public Partnerships Limited (IPP), which is listed on the London Stock Exchange and has a market capitalisation of over £2bn. Amber manages the IPP and Swiss Life Holding AG (Swiss Life) investments in Tideway, which are respectively held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited. Swiss Life is the largest life insurance company in Switzerland, with a market capitalisation of cCHF 10bn.
DIF Bid Co Limited (UK) 10.66%	DIF is an independent fund management company with c€3.7bn of funds raised. Through five investment funds, DIF invests in high-quality infrastructure assets that generate long-term, stable cash-flows, including Public Private Partnership projects (PPP/PFI/P3), renewable energy projects and other core infrastructure projects in Europe, North America and Australia. DIF Management Holding BV directly or indirectly owns and/or manages all of the DIF entities in the corporate structure above Bazalgette Equity Limited. DIF Management UK Limited is the topmost UK company in the DIF corporate structure. The source of DIF's share of equity funding for the project comprises long term pension fund, insurance and fund of funds investors.

The Shareholders' Agreement entered into on licence award contains legally binding commitments to maintain an independent Board and ensure Tideway can make strategic and risk management decisions. Tideway's Board includes five independent Non-Executive Directors (including the Chairman), which means that independent Directors are the largest single group on the Board. These appointments, together with the reserved matters requiring Board approval (see pages 94 and 95), help ensure that the Board is independent, in control of its business and able to operate sustainably. The Shareholder Directors are the primary conduit by which the Board interacts with the Shareholders and understands their views, both individually and collectively.

Board Leadership, Transparency and Governance
Relationship with Shareholders

TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is Bazalgette Holdings Limited, which is in turn wholly owned by Bazalgette Ventures Limited, and its ultimate holding company is Bazalgette Equity Limited. The structure of the Tideway group of companies is shown in Figure 1 and the role of each company is described in Table 2.

Figure 1:
Structure of the Tideway group of companies.

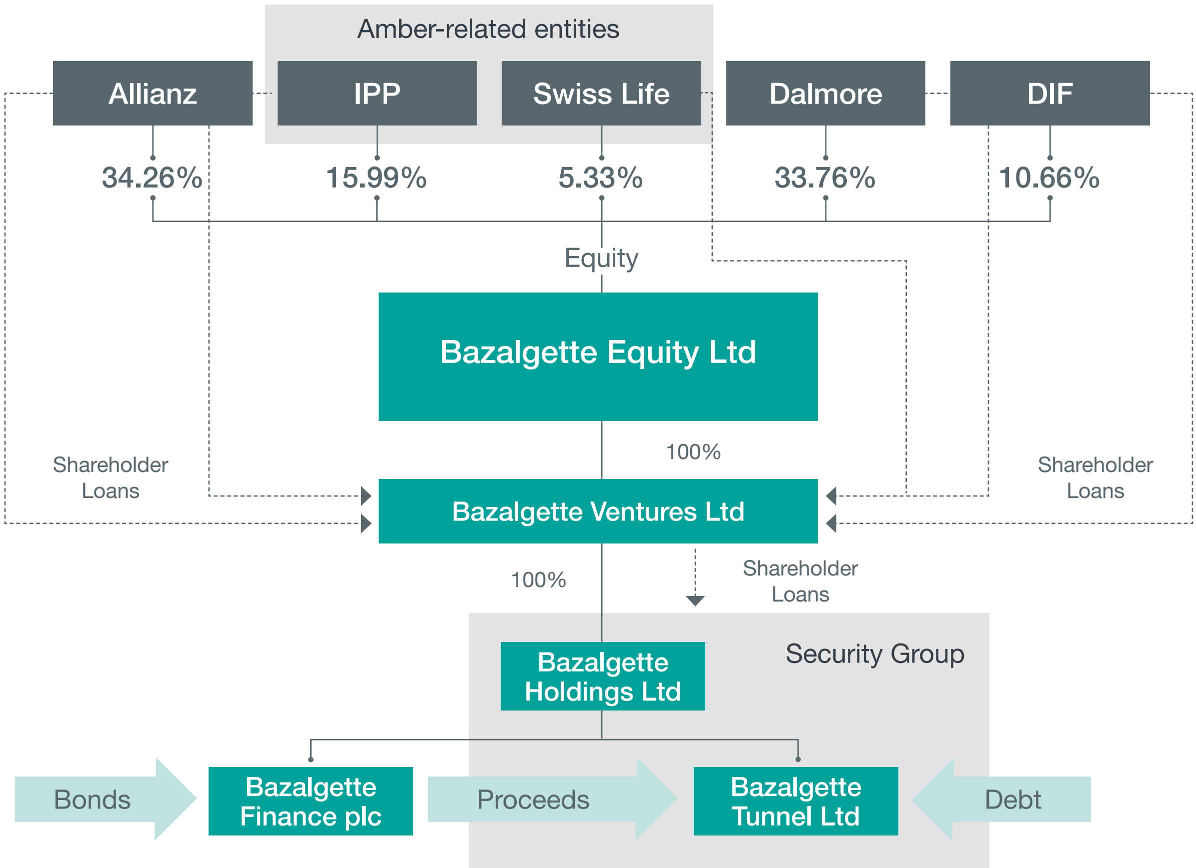


Table 2

Name	Registration Number	Place of Registration	Description
Bazalgette Tunnel Limited	9553573	England and Wales	The infrastructure Provider entity licensed by Ofwat to design, build, commission and maintain the regulated assets of the Thames Tideway Tunnel. It lies within the security ring-fence.
Bazalgette Holdings Limited	9553510	England and Wales	Bazalgette Tunnel Limited's immediate holding company, established to act as the vehicle where the Secretary of State would inject funds if required. It lies within the security ring-fence.
Bazalgette Ventures Limited	9553461	England and Wales	The holding company of Bazalgette Holdings Limited. It was established to act as the vehicle for shareholder loan funding.
Bazalgette Equity Limited	9553394	England and Wales	The ultimate holding company of the group. It was established to act as the vehicle for shareholder share capital funding.
Bazalgette Finance plc	09698014	England and Wales	A sister company of Bazalgette Tunnel Limited and financing subsidiary of Bazalgette Holdings Limited established to be the issuer of public market bonds. It will on-lend the proceeds of any bond issuance to Bazalgette Tunnel Limited. It lies within the security ring-fence.
Thames Tideway Tunnel Limited	08751040	England and Wales	All of the employees, contracts and assets were transferred from Thames Tideway Tunnel Limited to Bazalgette Tunnel Limited by 31 March 2017 and Tideway is now dormant.

Board Leadership, Transparency and Governance

Relationship with Shareholders

Each shareholder controlling 10 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Director to the Boards of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. Each shareholder controlling 20 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Director to the Boards of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.

Each shareholder controlling 20 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Observer to the Board of Bazalgette Tunnel Limited. Each shareholder controlling 30 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Observer to the Board of Bazalgette Tunnel Limited. The Observers are entitled to attend Board and Committee meetings and to speak with the permission of the Chairman of the Board, but are not entitled to vote.

SHAREHOLDER RESERVED MATTERS

There are a limited number of matters reserved by the Board for approval by Shareholders. As set out in the tables below, these matters require the approval of Shareholders holding either 75 per cent or 90 per cent of Tideway's equity. Although these matters are reserved to the Shareholders, the Board would expect to express a view to the Shareholders before any decisions were taken.

Shareholder and Shareholding	Description
General corporate	General corporate matters relating to the issue of any shares in any Tideway group company.
Incurring of commitments, liabilities etc.	Incurring of commitments, liabilities etc. unless contemplated by the annual Business Plan or Budget.
Acquisitions or disposals	Disposals, acquisitions and capital expenditure over £50m or not contemplated by the annual Business Plan or Budget.
Accounts, auditor	The change of Tideway's accounting reference date, the removal or appointment of the auditor and any change to the accounting policies, except where required as a consequence of a change in IFRS, GAAP or law.
Manner of carrying on business	Entering into or materially changing a material contract to the extent not contemplated by the annual Business Plan or Budget. Substantial alteration in the nature of the business or cessation of the business. Approval of or making amendments to the Project Licence, Business Plan or Budget, which would result in additional expenditure or indebtedness over £50m. Entering into any guarantee in excess of £50m. The appointment to the Board or removal of an Executive Director, as recommended by the Nominations Committee. The conduct of litigation and claims involving any Tideway group company, where the potential liability may exceed £50m. Any material submission or application to Ofwat, whether pursuant to the licence or otherwise. Any request that Ofwat refer a matter to the Competition and Markets Authority. The submission of any material tax claim, disclaimer, election or consent.

Shareholder and Shareholding	Description
Manner of carrying on business	The issuances or withdrawal of notices pursuant to the Government Support Package. The replacement of a Main Works Contractor, System Integrator or Project Manager during the construction period. The appointment of a Tideway representative to the Liaison Committee (refer to Business Model on page 20) and any voting in relation to material variations to the scope of the project. The approval of or entry into a related party transaction.
Partnership, joint venture or other agreement	Entering into any partnership, JV or other profit sharing agreement in excess of a materiality threshold.
Articles and Board composition	A change to the articles, acting contrary to the articles or a change to the Board composition requirements in the Shareholders' Agreement.
Share denomination	Any consolidation or re-denomination of any shares.
Share redemptions or buybacks	The redemption or purchase by Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited of any share or the reduction of its share capital or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account.
Winding-up or liquidation	Any proposal for the winding-up or liquidation of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited.
Control of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited	Any arrangement whereby the Directors no longer determine the general policy, scope of activity and operation or major decisions of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.
Paying up of share capital or debentures	The paying up of any share capital or debenture or debenture stock of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited by way of capitalisation or application of any profits or reserves.
Schemes or arrangement and demergers	The proposal of any compromise or arrangement within the meaning of section 895 of the Companies Act 2006 or any arrangement pursuant to which Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010.

Directors' Report

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

The registered company number is 09553573.

Ownership and relationship with associated Companies

Bazalgette Tunnel Limited is owned by a consortium of investors. These investors are Dalmore Capital 14 GP Limited, Allianz Infrastructure Luxembourg I S.a.r.l IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK). Further information on our equity investors and their equity interests are set out on page 91 of the Corporate Governance Report.

Principal activities

The Group's business is to design, build and maintain the Thames Tideway Tunnel. A full explanation of the Group's principal activities is set out on pages 9 to 15 of the Strategic Report.

Corporate Governance

Full disclosure on the Group's Corporate Governance activities is set out on pages 55 to 96 of the Corporate Governance Report and is incorporated by reference into this Directors' Report. This report can also be found online at www.tideway.london

Financial results and dividends

Following the Group's accounting policies, all costs that meet the capitalisation criteria are capitalised and all revenue received is currently recognised as deferred revenue. This accounting treatment is expected to continue throughout the construction phase of the project. The accounting policies are set out on pages 108 to 111 of the financial statements.

The Company and the Group recorded a £34.2m loss for the year ended 31 March 2017 (11-month period ended 31 March 2016, here after referred to as "2016": £nil). This is due to fair value movements on 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 48 to 51.

The Company did not pay any dividends in the year (2016: £nil).

During the year, £29.3m (2016: £8.3m) of shareholder loan interest was accrued on the shareholder loan notes. At 31 March 2017, £29.3m (2016: £7.4m) of the accrued shareholder loan interest had been paid and £nil (2016: £0.9m) 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 10 of the financial statements.

Financial risk management

Full disclosure on the Group's financial risk management is set out on pages 119 to 120 of the financial statements.

Directors

The Directors who held office during the year, and thereafter, are listed on pages 119 to 120 of the Corporate Governance Report.

Directors' Indemnities

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

Employees

The average number of people employed by the Group (including Directors) during the year was 148 (2016: 87). During the year, these were all employed by Thames Tideway Tunnel Ltd until 31 March 2017 when they were transferred to the Company.

Details relating to the Group's employment policies and values are set out on pages 42 to 44 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 40.

Charitable and political donations

The Group made charitable donations totalling £51,356 during the year (2016: £500). Details of the Group's charitable partnerships are set out on page 40 of the Strategic Report.

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

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the 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 MWCs, 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 ended 31 March 2017 were approximately 17 days (2016: 18 days).

Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 19 of the financial statements.

Disclosure of information to the 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 on page 47.

Auditor

Having carried out a review of their effectiveness during the year, and following the audit tender process described in the Audit Committee Report on pages 80 to 81, the auditor, pursuant to Section 487 of the Companies Act 2006, will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

The directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company. The directors have also decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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

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

On behalf of the Board

Andy Mitchell
Chief Executive Officer

The Point
37 North Wharf Road
London
W2 1AF

15 June 2017

Financial Statements

For the year ended 31 March 2017
Registered number 09553573

Kirtling Street, Tideway's Central main drive site in Battersea

Financial Statements
Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAZALGETTE TUNNEL LIMITED

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Bazalgette Tunnel Limited for the year ended 31 March 2017 set out on pages 104 to 122. In our opinion:

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

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

2. Our assessment of risks of material misstatement

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

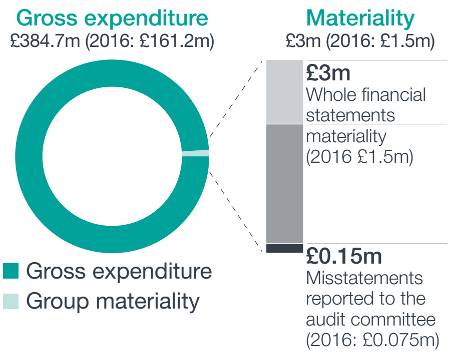
	The risk	Our response
Completeness and existence of capitalised costs and creditors Costs: (£384.7m; 2016: £161.2m) Creditors: (£20.0m; 2016: £28.4m) Refer to page 79 (Audit Committee Report), page 109 (accounting policy) and page 114 (financial disclosures).	**2016/2017 costs** The Group incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalised costs and creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: • **Control design:** Testing controls over the analysis, challenge and discussion of the cost verification process and applications for payment from the main works contractors as well as other purchase invoices, which included observing for a sample that amounts per the agreed payment certificate matched the invoices received and inspecting that payments were authorised. • **Tests of detail:** Inspecting the content of a sample of invoices before and subsequent to the year end to consider the timing of work performed and therefore appropriate recognition relating to costs and creditors in the year. • **Tests of detail:** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred.
Current and deferred tax charges (£nil; 2016: £nil) Refer to page 79 (Audit Committee Report), page 111 (accounting policy) and page 113 (financial disclosures).	**Accounting treatment** The current and deferred tax treatment is primarily dependent on the classification of the wastewater infrastructure asset's lease, upon its completion, for tax purposes. The terms of the lease have already been set and judgment is required to determine if the lease will be classified as a finance lease or not. Judgment is also required as to the classification of the entity as 'trading' or 'non-trading', and these judgments may be open to challenge by the tax authorities.	Our procedures included: • **Accounting analysis:** Considering the continued appropriateness of the expected future accounting treatment as a finance lease, in line with the current accounting requirements and any expected future changes to those requirements. • **Own tax expertise:** With assistance from our tax specialists, critically assessing the Group's judgements in relation to the resultant tax consequences with reference to the relevant tax law.

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

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

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

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



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

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

In our opinion:

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

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

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

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

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

- the directors' statement of long-term viability statement on page 33, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the seven years to 2024; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

In particular, we are required to report to you if:

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

Financial Statements
Independent Auditor's Report
Continued

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

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

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the directors' statements, set out on pages 33 and 109, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement in the Annual Report relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 97, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

Financial Statements

GROUP INCOME STATEMENT

For the year ended 31 March 2017

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

GROUP STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

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

GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

		Group		Company	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets					
Property, plant and equipment	*6*	545.9	161.2	545.9	161.2
Trade and other receivables	*7*	54.8	54.9	54.8	54.9
		600.7	216.1	600.7	216.1
Current assets					
Trade and other receivables	*7*	29.8	25.3	29.8	25.3
Cash and cash equivalents	*8*	315.9	112.9	315.9	112.9
Short-term deposits	*8*	–	17.5	–	17.5
		345.7	155.7	345.7	155.7
Total assets		**946.4**	**371.8**	**946.4**	**371.8**
Current liabilities					
Trade and other payables	*9*	(20.0)	(28.4)	(20.0)	(28.4)
		(20.0)	(28.4)	(20.0)	(28.4)
Non-current liabilities					
Advance payment liability	*9*	(26.7)	–	(26.7)	–
Borrowings	*10*	(529.3)	(205.1)	(529.3)	(205.1)
Derivative financial instruments	*11*	(34.2)	–	(34.2)	–
		(590.2)	(205.1)	(590.2)	(205.1)
Total liabilities		**(610.2)**	**(233.5)**	**(610.2)**	**(233.5)**
Net assets		**336.2**	**138.3**	**336.2**	**138.3**
Equity					
Share capital	*13*	370.4	138.3	370.4	138.3
Retained earnings	*13*	(34.2)	–	(34.2)	–
Total equity		**336.2**	**138.3**	**336.2**	**138.3**

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

Mark Corben, Director
Company registered number: 09553573

Notes 1 to 19 form an integral part of these financial statements.

Financial Statements
Continued

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

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

GROUP AND COMPANY CASH FLOW STATEMENTS

For the year ended 31 March 2017

		Group		Company	
	Note	2017 £m	11 month period ended 31 March 2016 £m	2017 £m	11 month period ended 31 March 2016 £m
Cash flows from operating activities before working capital movements					
Increase in trade and other receivables	*7*	(4.4)	(80.2)	(4.4)	(80.2)
(Decrease)/increase in trade and other payables	*9*	(8.4)	28.4	(8.4)	28.4
Increase in advance payment liability	*9*	26.7	–	26.7	–
Cash flows from operations		**13.9**	**(51.8)**	**13.9**	**(51.8)**
Net cash flows from operating activities		**13.9**	**(51.8)**	**13.9**	**(51.8)**
Cash flows used in investing activities					
Construction of infrastructure asset	*6*	(384.7)	(160.3)	(384.7)	(160.3)
Short-term deposits	*8*	17.5	(17.5)	17.5	(17.5)
Net cash flows from investing activities		**(367.2)**	**(177.8)**	**(367.2)**	**(177.8)**
Cash flows from financing activities					
Proceeds from the issue of share capital	*13*	232.1	138.3	232.1	138.3
Proceeds from shareholder loans		348.3	207.4	348.3	207.4
Repayment of shareholders loan principal		(24.1)	(3.2)	(24.1)	(3.2)
Net cash flows from financing activities		**556.3**	**342.5**	**556.3**	**342.5**
Net increase in cash and cash equivalents during the period		**203.0**	**112.9**	**203.0**	**112.9**
Cash and cash equivalents at the start of the year/period	*8*	112.9	–	112.9	–
Cash and cash equivalents at the end of the year/period	*8*	**315.9**	**112.9**	**315.9**	**112.9**

Financial Statements

Notes to the Financial Statements

1 ACCOUNTING POLICIES

Basis of preparation

Bazalgette Tunnel Limited (the Company) is a private company incorporated, domiciled and registered in the UK. The registered number is 09553573 and the registered address is The Point, 37 North Wharf Road, London, W2 1AF. The accounting policies set out below have been applied consistently to all periods presented in these group and parent company financial statements.

The Bazalgette Tunnel Group, comprises the Company and Thames Tideway Tunnel Limited (TTT Ltd). The group financial statements consolidate those of the Company and its subsidiary (together referred to as the Group).

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

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

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

Impairment – In assessing the recoverable value of the 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 Company's regulated capital value (RCV). This is because the asset carrying value includes all attributable costs that are capitalised whereas the RCV, which is the driver of economic return for 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 Company's business plans as well as assumptions included for RCV performance through to System Acceptance. The indexation of RCV via RPI performance is a key estimate and this calculation is based on an average of independent forecasts provided via HM Treasury.

Derivative financial instruments – A net present value model is used to estimate the fair value of the Group's derivative financial instruments which are all Index-linked swaps. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Group's credit risk. This estimate of the Group's credit risk is considered to be an unobservable input and sensitivities with regards to the impact of this adjustment are disclosed in note 11.

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

The tax treatment in the year is an area of judgement and is based on the accounting treatment that the Thames Tideway Tunnel asset will be leased at System Acceptance. There is a risk that the tax authorities will challenge the tax consequences of that accounting treatment and consequently the tax accounting in the current year may be inappropriate.

1 ACCOUNTING POLICIES (CONTINUED)

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 33.

Property, plant and equipment

Recognition and measurement

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

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

The construction phase of the 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. Fair value movement from derivative financial instruments reported directly in the Income Statement are not capitalised. The Directors consider that the Group is constructing one asset, that being the Thames Tideway Tunnel and do not consider there to be other individual assets under construction.

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

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

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

Depreciation

Assets under construction are not depreciated. Fixtures and fittings are depreciated over five years.

Borrowing costs

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

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 that the asset is impaired. The Directors consider the assetto be impaired if the forecast carrying value of the asset at System Acceptance exceeds the forecast recoverable value of the asset at System Acceptance.

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

Impairment losses are recognised in the Income Statement.

1 ACCOUNTING POLICIES (CONTINUED)

Revenue and bad debt risk

The Group's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Company's RCV. The Company's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Company. 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 Company to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

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

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

Employee benefits

Defined contribution plans

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

Other employee benefits

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

Provisions

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

Operating leases

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

Financial instruments

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

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

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

1 ACCOUNTING POLICIES (CONTINUED)

Interest-bearing borrowings

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

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 11.

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 Company has the right of set off.

Recently issued accounting standards

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases are subject to endorsement by the EU.

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

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

2 AUDITOR'S REMUNERATION

	2017 £000	11 month period ended 31 March 2016 £000
Audit Services		
Statutory audit – Group and the Company	81	55
Statutory audit – subsidiaries	2	2
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	9	10
Other non-audit services		
Review of interim financial information	8	–
Tax advisory	68	60
Other regulatory assurance services	42	27
	210	**154**

All of these fees have been capitalised.

3 EMPLOYEE COSTS

The average number of persons employed by the Group (including Directors) during the year was 148 (11-month period ended 31 March 2016: 87).

The aggregate payroll costs of these persons were as follows:

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

Director's remuneration is disclosed within the Remuneration Report section of this Annual Report. The Group operates a single defined contribution pension plan which is open to all employees of the Group.

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

4 FINANCE INCOME AND EXPENSE

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

5 TAXATION

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

Reconciliation of effective tax rate

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

Unrecognised deferred tax assets

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

6 PROPERTY, PLANT AND EQUIPMENT

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

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

Asset under construction

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

7 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	2.2	1.7	2.2	1.7
Loans to related parties	0.1	–	0.1	–
Accrued income	–	8.6	–	8.6
Other receivables	17.7	5.5	17.7	5.5
Prepayments	64.6	64.4	64.6	64.4
	84.6	**80.2**	**84.6**	**80.2**
Non-current assets	**54.8**	**54.9**	**54.8**	**54.9**
Current assets	**29.8**	**25.3**	**29.8**	**25.3**

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

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

Loans to related parties comprise a £50,000 loan made by Bazalgette Tunnel Limited to Bazalgette Holdings Limited which carries an effective interest rate of Libor + 85bp with a maturity date of May 2020.

8 CASH AND CASH EQUIVALENTS

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

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

Restricted Cash:

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

9 TRADE AND OTHER PAYABLES

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

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

10 BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see note 12.

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current liabilities				
Shareholder loan notes	529.3	205.1	529.3	205.1
	529.3	**205.1**	**529.3**	**205.1**

The principal economic terms and conditions of outstanding borrowings are:

	Currency	Nominal interest rate	Maturity date	Carrying value 2017 £m	Carrying value 2016 £m
Borrowings measured at amortised cost					
Shareholder loan notes (principal):	GBP	8%	2064	529.3	205.1

10 BORROWINGS (CONTINUED)

Deferred purchase bonds

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

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

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

The Company does not issue any bonds directly to the public markets.

11 FINANCIAL INSTRUMENTS

Categories of financial instruments:

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

Financial Assets:

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

Financial Liabilities:

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

11 FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Measurements:

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. During the year ended 31 March 2017, the Group entered into long-term index-linked swaps to hedge the interest rate of the first eight tranches of the EIB loan. The valuation techniques that the Group employs in determining the fair value for these are outlined below. The Group did not have any derivative financial instruments for the 11 month period ended 31 March 2016.

Index-linked Swaps:

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

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

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

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

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

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

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

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

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

The fair value estimate of the credit risk of the Group is calculated using several data points, including analysis of market data for similar corporate entities, which is 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.

11 FINANCIAL INSTRUMENTS (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.

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

12 CAPITAL AND FINANCIAL RISK MANAGEMENT

The Group's principal objectives in managing capital are to:

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

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

During the year the Group secured a further £700m of undrawn loans via the EIB. This is in addition to the £1.0bn revolving credit facility (RCF) the Company had in place in the prior period. This facility was undrawn at the Statement of Financial Position date (2016: £nil draw down). The Group's sister company Bazalgette Finance plc raised £450m of deferred bond issuances via multiple counterparties. The bonds have deferred purchase dates of between two and five years and maturities beyond 2040. Bazalgette Finance plc will on-lend the proceeds of the deferred purchase bonds issuance to the Company when it receives the relevant proceeds from the bond purchasers on the future dates. This will be through a series of IBLAs, which Bazalgette Finance plc has entered into with Bazalgette Tunnel Limited.

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

Liquidity risk

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

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

Interest rate risk

The Group currently has minimum exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed rate shareholder loan notes. The effective interest rate of these borrowings are disclosed in note 10.

12 CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Group has raised and locked in the cost of £700m of long dated debt with a further £450m locked in by Bazalgette Finance plc. This means that the cost of a significant percentage of the Group's total requirements for external debt is now fixed and moving forward the Group can be more selective as to when to raise debt to lock in the best-possible cost. Additionally, the Financing Cost Adjustment in the regulatory revenue calculation provides partial protection against market movements in the costs of debt above certain thresholds.

During the year ended 31 March 2017, the Group entered into index-linked swaps to hedge the interest rate of the first eight tranches of the EIB loan, with a notional value of £620m. The fair value measurement of these derivative financial instruments is disclosed in note 11.

Inflation risk

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

Credit risk

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

13 CAPITAL AND RESERVES

Called-up share capital

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

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

13 CAPITAL AND RESERVES (CONTINUED)

Retained earnings

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

14 OPERATING LEASES

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

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

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 consolidated 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.

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Holdings Limited are disclosed in note 12.

Amounts outstanding on loans to the immediate parent company, Bazalgette Holdings Limited are disclosed in note 7.

Key management personnel

Key management personnel comprise the Directors of the Group. The remuneration of the Directors is provided in the audited part of the Remuneration Report on page 89.

17 ACQUISITIONS

Acquisitions in the prior period

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

Financial Statements
Notes continued

18 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

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

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

Investments in subsidiaries

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

	Country of incorporation	Class of shares held	Ownership 2017
Company			
Thames Tideway Tunnel Limited	UK	Ordinary	100%

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company, which is shown above.

19 SUBSEQUENT EVENTS OCCURRING AFTER THE REPORTING DATE

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

Tideway staff at a Parliamentary Exhibition in March 2017


Tideway
GOING WITH THE FLOW
1.6 CUBIC METRES PEAK CAPACITY

Regulatory Reporting

View of central London from our Chambers Wharf site in Bermondsey

Regulatory Reporting
Introduction

INTRODUCTION

Tideway's work affects a wide range of stakeholders, and we recognise the importance of providing them with robust, accessible information about our structure and activities. This approach aligns with Ofwat's vision for the water and sewerage sector, which emphasises companies taking a reporting approach in which stakeholders can have trust and confidence. Alongside this broad ambition, Ofwat requires regulated companies to make a number of specific disclosures each year, for example to aid comparability between companies and to help the regulator check that the sector remains financially resilient. These specific requirements are summarised in Ofwat's Information Notice 17/03, Expectations for monopoly company annual performance reporting 2016-17,[1] and are set out in more detail in Ofwat's Regulatory Accounting Guidelines (RAGs) and Tideway's Licence. As shown in the table below, some of these required disclosures are included in the most relevant section of this report, while the remainder can be found in this section.

Tideway is a wholesale-only company, with specific regulatory arrangements. This means that in some areas the standard reporting requirements are not relevant. We have worked closely with Ofwat to agree a scope for our regulatory reporting that will enable Ofwat and stakeholders to scrutinise the Company's performance. The table below sets out Tideway's regulatory reporting requirements and shows where in this document they can be found.

Required disclosure	Source of requirement	Location in report	Notes
Annual performance report	Regulatory Accounting Guideline 3.09 and Tideway's Licence, Condition F	This section, pages 128 to 142	Also referred to as regulatory accounts. Companies must provide certain information on their performance, as specified by Ofwat
Statement on transfer pricing	Regulatory Accounting Guideline 3.09	This section, page 143	
Risk and compliance statement	Ofwat Information Notice 17/03	This section, page 144	This statement is the main means by which companies annually certify compliance with their licences and relevant legislation
Data assurance summary	Information Notice 17/03	This section, pages 146 to 148	
Description of the link between Directors' pay and standards of performance	Section 35A of the Water Industry Act 1991	Remuneration Committee report, pages 82 to 90	
Statement on disclosure of information to the auditor	Regulatory Accounting Guideline 3.09	This section, page 142	
Statement on dividend policy for the appointed business (value and basis of dividend/ distribution)	Regulatory Accounting Guideline 3.09	Directors' report, page 96	Tideway did not pay any dividends in 2016/17, though distributions were made under shareholder loan arrangements, in line with Tideway's distribution policy. Information on the distributions made is provided in the Directors' Report
Accounting policy note for price control units; accounting methodology statement	Regulatory Accounting Guideline 3.09	N/A	As Tideway operates only within the sewerage segment, this requirement does not apply
Note on revenue recognition	Regulatory Accounting Guideline 3.09	N/A	Section 3.6 of RAG 3.09 requires companies to report on revenue recognition. This requirement does not apply to Tideway,as none of the items contained within this requirement are relevant. Tideway has not reported any income statement revenue in 2016/17, either in the statutory accounts or regulatory annual performance report, and does not bill customers directly

[1] *http://www.ofwat.gov.uk/wp-content/uploads/2017/02/Information-notice-for-2016-17-Annual-Performance-Report.pdf*

Required disclosure	Source of requirement	Location in report	Notes
Note on capitalisation policy	Regulatory Accounting Guideline 3.09	Financial statements: contained within note 1 under "Property, plant and equipment: Recognition and measurement" (page 109)	Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entires in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A, in this section)
Note on bad debt policy	Regulatory Accounting Guideline 3.09	Financial statements: contained within note 1 (accounting policies) under "Revenue and bad debt risk" (page 110)	Tideway collects its revenue via Thames Water and does not bill customers directly, so its bad debt policies are different to those of other water and sewerage companies. Note 1 to the financial statements contains more information on the arrangements in place
Statement on Condition K compliance	Tideway's Licence, condition M5.1 and Regulatory Accounting Guideline 3.09	This section, page 145	Tideway is required to confirm that (as far as reasonably practicable) it has sufficient non-financial rights and resources to enable a special administrator to carry out its licensed activities
Statement on diversification and protection of the core business ('Condition K certificate')	Tideway's Licence, condition M5.2-M5.6 and Regulatory Accounting Guideline 3.09	This section, page 145	Tideway is required to confirm that it has sufficient rights and resources (financial and non-financial) to enable it to carry out its licensed activities for at least the next year, and make a statement of the main factors that the Board has taken into account in endorsing the certificate
Tax strategy	Regulatory Accounting Guideline 3.09	Strategic report, page 51	
Statement on differences between statutory and RAG definitions	Regulatory Accounting Guideline 3.09	This section, see notes to table 1A (page 129)	Only difference relates to capitalisation of interest.
Long-Term Viability Statement	Regulatory Accounting Guideline 3.09	Strategic Report, page 33	The Company believes that this statement is appropriate for both its statutory and regulatory accounts
Statement explaining out/under performance of the return on regulated equity (RORE)	Regulatory Accounting Guidelines 3.09	N/A	The Company was not part of the PR14 process and does not have a base RORE set at Final Determination, so the concept of out/under performance is not relevant
Narrative disclosures on performance	Regulatory Accounting Guideline 3.09	N/A	Outcome performance and totex (total expenditure, a concept combining capital expenditure and operating expenditure) are not part of the bespoke regulatory regime applying to Tideway Tideway does not operate in the retail sector, so does not report retail performance figures Tideway was not subject to the 2014 price review and does not complete table 2I, so does not report a wholesale revenue control reconciliation Current tax reconciliation is not relevant as Tideway did not pay any corporation tax in 2016/17
Audit reports	Report on regulatory accounts and condition K certificate required by Tideway's Licence, condition F4.1	This section, pages 148 to 152	

Regulatory Annual Performance Report

REGULATORY ANNUAL PERFORMANCE REPORT

This section contains information on Tideway's financial position and performance in 2016/17 that is relevant from a regulatory perspective.

Tideway has agreed with Ofwat that it will publish a set of tables, including some standard tables (1A-1E, 2D, 4H and 4I) and some that are unique to the Company (5A-5C). For ease of reference, the standard tables are given the same numbering in this report as in the relevant RAG.[2]

As well as the difference in the suite of tables, the numbers within this Regulatory Annual Performance Report look different in many ways from those reported by other water companies. Features of the data reported below include the following:

- Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A). Allowed Revenue is reported in Table 5A.
- In 2016/17, Tideway did not have any drawn down third-party debt. It does, however, have shareholder loans. In line with the RAGs, the shareholder loans are reported as debt within the net debt metric in tables 1E and 4H. Tideway has a separate net debt definition in its Licence, which is used in calculating its revenue (see 'Financing cost adjustment' section below) and excludes shareholder loans.
- Tideway's regulatory capital value, which is calculated on a cash basis, was zero at Licence Award. On 31 March 2017, it was £502.1m (expressed in March 2017 prices).

[2] *http://www.ofwat.gov.uk/wp-content/uploads/2017/01/RAG-3.09-Guideline-for-the-format-and-disclosures-for-the-annual-performance-report.pdf*

REGULATORY ACCOUNTS

1A – Income Statement

For the 12 months ended 31 March 2017

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Revenue	£m	0.000	0.000	0.000	0.000	0.000
2	Operating costs	£m	0.000	0.000	0.000	0.000	0.000
3	Other operating income	£m	0.000	0.000	0.000	0.000	0.000
4	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
5	Other income	£m	0.000	0.000	0.000	0.000	0.000
6	Interest income	£m	0.000	0.964	0.000	0.964	0.964
7	Interest expense	£m	0.000	-29.267	0.000	-29.267	-29.267
8	Other interest expense	£m	0.000	0.000	0.000	0.000	0.000
9	Profit before tax and fair value movements	£m	0.000	-28.303	0.000	-28.303	-28.303
10	Fair value gains/(losses) on financial instruments	£m	-34.160	0.000	0.000	0.000	-34.160
11	Profit before tax	£m	-34.160	-28.303	0.000	-28.303	-62.463
12	UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
13	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
14	Profit for the year	£m	-34.160	-28.303	0.000	-28.303	-62.463
15	Dividends	£m	0.000	0.000	0.000	0.000	0.000

Notes to line items:

Line	Note
1	Revenue that the Company receives from Thames Water (see Table 5A for analysis) is deferred onto the Statement of Financial Position as the associated services will not be delivered until System Acceptance. This is consistent with the accounting policies that are disclosed in note 1 to the statutory financial statements.
6 & 7	Differences between statutory and RAG definitions relate to interest capitalised under IAS 23 'Borrowing Costs' in the statutory financial statements. These are required to be shown in the Income Statement for regulatory reporting.
14	The difference between the statutory accounts profit and the regulatory accounts profit relates to the net interest expense of -£28.303m.

Regulatory Annual Performance Report
Continued

1B – Statement of comprehensive income
For the 12 months ended 31 March 2017

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Profit for the year	£m	-34.160	-28.303	0.000	-28.303	-62.463
2	Actuarial gains/(losses) on post employment plans	£m	0.000	0.000	0.000	0.000	0.000
3	Other comprehensive income	£m	0.000	0.000	0.000	0.000	0.000
4	Total comprehensive income for the year	£m	-34.160	-28.303	0.000	-28.303	-62.463

For details on the adjustment between statutory and RAG definitions see notes to Table 1A

1C – Statement of financial position
For the 12 months ended 31 March 2017

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	A Non-current assets						
1	Fixed assets	£m	545.863	-36.179	0.000	-36.179	509.684
2	Intangible assets	£m	0.000	0.000	0.000	0.000	0.000
3	Investments – loans to group companies	£m	0.050	0.000	0.000	0.000	0.050
4	Investments – other	£m	0.000	0.000	0.000	0.000	0.000
5	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
6	Retirement benefit assets	£m	0.000	0.000	0.000	0.000	0.000
7	Total non-current assets	£m	545.913	-36.179	0.000	-36.179	509.734

Line description		Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
B Current assets							
8	Inventories	£m	0.000	0.000	0.000	0.000	0.000
9	Trade & other receivables	£m	84.602	0.000	0.000	0.000	84.602
10	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
11	Cash & cash equivalents	£m	315.870	0.000	0.000	0.000	315.870
12	Total current assets	£m	400.472	0.000	0.000	0.000	400.472
C Current liabilities							
13	Trade & other payables	£m	0.000	0.000	0.000	0.000	0.000
14	Capex creditor	£m	-19.954	0.000	0.000	0.000	-19.954
15	Borrowings	£m	0.000	0.000	0.000	0.000	0.000
16	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
17	Current tax liabilities	£m	0.000	0.000	0.000	0.000	0.000
18	Provisions	£m	0.000	0.000	0.000	0.000	0.000
19	Total current liabilities	£m	-19.954	0.000	0.000	0.000	-19.954
20	Net current assets/(liabilities)	£m	380.518	0.000	0.000	0.000	380.518
D Non-Current liabilities							
21	Trade & other payables	£m	-26.722	0.000	0.000	0.000	-26.722
22	Borrowings	£m	-529.301	0.000	0.000	0.000	-529.301
23	Financial instruments	£m	-34.160	0.000	0.000	0.000	-34.160
24	Retirement benefit obligations	£m	0.000	0.000	0.000	0.000	0.000
25	Provisions	£m	0.000	0.000	0.000	0.000	0.000
26	Deferred income – G&C's	£m	0.000	0.000	0.000	0.000	0.000
27	Preference share capital	£m	0.000	0.000	0.000	0.000	0.000
28	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
29	Total non-current liabilities	£m	-590.183	0.000	0.000	0.000	-590.183
30	Net assets	£m	336.248	-36.179	0.000	-36.179	300.069

Regulatory Annual Performance Report
Continued

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	E Equity						
31	Called up share capital	£m	370.408	0.000	0.000	0.000	370.408
32	Retained earnings & other reserves	£m	-34.160	-36.179	0.000	-36.179	-70.339
33	Total Equity	£m	336.248	-36.179	0.000	-36.179	300.069

Notes to line items:

Line	Note
1	All costs included within fixed assets are on an accruals basis. This differs from the Annual Actual Project Spend in Table 5B, which is on a cash basis.
9	The regulatory accounts include £84.602 of trade and other receivables. This included current and non-current trade debtors, prepayments and other receivables. Under IFRS, the Statement of Financial Position splits these between £54.774 non-current and £29.828 current.
21	Trade and other payables represent the cash amounts received from Thames Water in relation to the Company's revenue, which is deferred onto the Statement of Financial Position until system acceptance. The revenue is deferred as the associated services will not be delivered until system acceptance.

1D – Statement of cash flows

For the 12 months ended 31 March 2017

				Adjustments			
	Line description	Units	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	A Statement of cashflows						
1	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
2	Other income	£m	0.000	0.000	0.000	0.000	0.000
3	Depreciation	£m	0.000	0.000	0.000	0.000	0.000
4	Amortisation – G&C's	£m	0.000	0.000	0.000	0.000	0.000
5	Changes in working capital	£m	13.857	0.000	0.000	0.000	13.857
6	Pension contributions	£m	0.000	0.000	0.000	0.000	0.000
7	Movement in provisions	£m	0.000	0.000	0.000	0.000	0.000
8	Profit on sale of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
9	Cash generated from operations	£m	13.857	0.000	0.000	0.000	13.857
	B						
10	Net interest paid	£m	0.000	-28.390	0.000	-28.390	-28.390
11	Tax paid	£m	0.000	0.000	0.000	0.000	0.000
12	Net cash generated from operating activities	£m	13.857	-28.390	0.000	-28.390	-14.533
	C Investing activities						
13	Capital expenditure	£m	-384.654	28.390	0.000	28.390	-356.264
14	Grants & Contributions	£m	0.000	0.000	0.000	0.000	0.000
15	Disposal of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
16	Other	£m	17.500	0.000	0.000	0.000	17.500
17	Net cash used in investing activities	£m	-367.154	28.390	0.000	28.390	-338.764
18	Net cash generated before financing activities	£m	-353.297	0.000	0.000	0.000	-353.297

Regulatory Annual Performance Report

Continued

Line description		Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
D Cashflows from financing activities							
19	Equity dividends paid	£m	0.000	0.000	0.000	0.000	0.000
20	Net loans received	£m	324.170	0.000	0.000	0.000	324.170
21	Cash inflow from equity financing	£m	232.149	0.000	0.000	0.000	232.149
22	Net cash generated from financing activities	£m	556.319	0.000	0.000	0.000	556.319
23	Increase (decrease) in net cash	£m	203.022	0.000	0.000	0.000	203.022

Notes to line items:

Line	Note
10	The net interest paid includes £29.267m of interest paid, partly offset by £0.877m of interest received. The difference of £0.087m between the interest income in Table 1A and the interest received in this table is due to accrued interest not received at 31 March 2017.
13	The £384.654m of capital expenditure represents cash outflows for the asset under construction.

1E – Net debt analysis at 31 March 2017

For the 12 months ended 31 March 2017

	Line description	Units	Interest rate risk profile			
			Fixed rate	Floating rate	Index-linked	Total
1	Borrowings (excluding preference shares)	£m	-529.301	0.000	0.000	-529.301
2	Preference share capital	£m				0.000
3	Total borrowings	£m				-529.301
4	Cash	£m				315.870
5	Short term deposits	£m				0.000
6	Net Debt	£m				-213.431
7	Gearing	%				-42.51%
8	Adjusted gearing	%				0.00%
9	Full year equivalent nominal interest cost	£m	-42.344	0.000	0.000	-42.344
10	Full year equivalent cash interest payment	£m	-42.344	0.000	0.000	-42.344
	Indicative interest rates					
11	Indicative weighted average nominal interest rate	%	8.00%	0.00%	0.00%	8.00%
12	Indicative weighted average cash interest rate	%	8.00%	0.00%	0.00%	8.00%
13	Weighted average years to maturity	nr	47.000	0.000	0.000	47.000

Notes to line items:

Line	Note
3	The borrowings of £529.301m represent shareholder loans.
7	As the Company was not part of the 2014 Periodic Review process, it does not have an RCV determined at the Final Determination. Therefore the gearing is based on the RCV at 31 March 2017 (as per table 5B).
8	Adjusted gearing is the ratio of senior indebtedness to RCV. The Company has no outstanding senior net indebtedness. As it has cash and cash equivalents, the senior net indebtedness figure, and hence adjusted gearing, would in principle be negative. However, for the purposes of its reporting in relation to its financial covenants, as per the terms of its financing documents, the Company reports gearing of zero.

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2D – Historic cost analysis of fixed assets – wholesale & retail

For the 12 months ended 31 March 2017

			Wholesale				Retail		
	Line description	**Units**	**Water Resources**	**Water Network+**	**Waste-water Network+**	**Sludge**	**Household**	**Non-Household**	**Total**
	A Cost								
1	At 1 April 2016	£m	0.000	0.000	153.447	0.000	0.000	0.000	153.447
2	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3	Additions	£m	0.000	0.000	356.331	0.000	0.000	0.000	356.331
4	Assets adopted at nil cost	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	At 31 March 2017	£m	0.000	0.000	509.778	0.000	0.000	0.000	509.778
	B Depreciation								
6	At 1 April 2015	£m	0.000	0.000	-0.094	0.000	0.000	0.000	-0.094
7	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
8	Charge for the year	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	At 31 March 2017	£m	0.000	0.000	-0.094	0.000	0.000	0.000	-0.094
	C								
10	Net book amount at 31 March 2017	£m	0.000	0.000	509.684	0.000	0.000	0.000	509.684
11	Net book amount at 1 April 2016	£m	0.000	0.000	153.353	0.000	0.000	0.000	153.353
	D Depreciation charge for year								
12	Principal services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
13	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
14	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Notes to line items:

Line	Note
All	For the purposes of completing table 2D, Tideway has classified all of its activities as falling within the wholesale wastewater segment. This approach reflects that Tideway is constructing a single asset, the Thames Tideway Tunnel, which will be used solely for sewage collection activities. The Company has no direct relationship with customers and carries out no activities that could be classified as retail. The approach to this table therefore aligns both to the general principles set out in Regulatory Accounting Guideline 2.05, including those of transparency and causality, and with the definitions of wholesale activities set out in Regulatory Accounting Guideline 4.05.
3	All additions in the year were to assets under construction.

4H – Financial metrics

For the 12 months ended 31 March 2017

	Line description	Units	Fixed rate
	A Financial indicators		
1	Net debt	£m	-213.431
2	Regulated equity	£m	288.656
3	Regulated gearing	%	-42.51%
4	Post tax return on regulated equity	%	-15.50%
5	RORE (return on regulated equity)	%	n/a
6	Dividend yield	%	n/a
7	Retail profit margin – Household	%	n/a
8	Retail profit margin – Non household	%	n/a
9	Credit rating	n/a	Baa1
10	Return on RCV	%	0.00%
11	Dividend cover	dec	n/a
12	Funds from operations (FFO)	£m	-28.390
13	Interest cover (cash)	dec	0.03
14	Adjusted interest cover (cash)	dec	0.03
15	FFO/Debt	dec	0.13
16	Effective tax rate	%	0.00%
17	RCF	£m	-28.390
18	RCF/capex	dec	-0.08

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	Line description	Units	Fixed rate
	B Revenue and earnings		
19	Revenue (actual)	£m	0.000
20	EBITDA (actual)	£m	0.000
	C Borrowings		
21	Proportion of borrowings which are fixed rate	%	100.00%
22	Proportion of borrowings which are floating rate	%	0.00%
23	Proportion of borrowings which are index-linked	%	0.00%
24	Proportion of borrowings due within 1 year or less	%	0.00%
25	Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%
26	Proportion of borrowings due in more than 2 years but no more than 5 years	%	0.00%
27	Proportion of borrowings due in more than 5 years but no more than 20 years	%	0.00%
28	Proportion of borrowings due in more than 20 years	%	100.00%

Notes to line items:

Line	**Note**
1 & 3	As shown in table 1E, Tideway's borrowings, which are shareholder loans only, exceed its cash and cash equivalents and hence it has a net debt position. Applying the line definitions specified by Ofwat results in negative figures for the net debt on line 1 (which is directly taken from table 1E) and consequently regulated gearing in line 3.
2, 3 & 4	As the Company was not part of the 2014 Periodic Review (PR14) process, it does not have an RCV determined at Final Determination. Therefore the regulated equity, regulated gearing and post-tax return on regulated gearing are calculated based on the RCV at 31 March 2017 (in table 5B).
5	The calculation of RORE is not applicable as the Company was not part of the PR14 process and does not have a base RORE set at Final Determination.
6 & 11	As explained in the Financial Performance Review, there were no dividends paid or proposed during the period. Therefore all the dividend-based financial metrics are reported as not applicable.
7 & 8	The retail profit margins are not applicable as Tideway has no retail business.
9	The Company has been assigned a corporate credit rating of Baa1 by Moody's.
12-15 & 17-18	The ratios presented in this table are calculated in line with the RAG methodology. As Tideway has £nil operating profit (Table 1A, line 4) due to its accounting policies, this creates some distortion in the ratios linked to funds from operations (FFO) as required by the RAG methodology. These ratios are not considered to reflect business performance.
16	The effective tax rate of 0.00% is a result of the Company having no taxable profits in the year.
19	Revenue the Company receives from Thames Water is deferred onto the Statement of Financial Position until system acceptance. This is consistent with Table 1A line 1.

4I – Financial derivatives

For the 12 months ended 31 March 2017

	Line description	Units	Nominal value by maturity (net) 1 to 2 years	2 to 5 years	Over 5 years	Total value Nominal value (net)	Mark to Market	Total accretion £m	Units	Interest rate (weighted average) Payable	Receiv-able
A Interest rate swap (sterling)											
1	Floating to fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
2	Floating from fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
3	Floating to index-linked	£m	0.000	0.000	620.000	620.000	-34.160	0.000	%	RPI -0.838	6M Libor +0.36
4	Floating from index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
5	Fixed to index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
6	Fixed from index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
7	Total	£m	0.000	0.000	620.000	620.000	-34.160	0.000			
B Foreign Exchange											
8	Cross currency swap USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
9	Cross currency swap EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
10	Cross currency swap YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
11	Cross currency swap Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
12	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
C Currency interest rate											
13	Currency interest rate swaps USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
14	Currency interest rate swaps EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
15	Currency interest rate swaps YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
16	Currency interest rate swaps Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
17	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
D Forward currency contracts											
18	Forward currency contracts USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.000	0.000
19	Forward currency contracts EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.000	0.000
20	Forward currency contracts YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.000	0.000
21	Forward currency contracts Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.000	0.000
22	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
E Other financial derivatives											
23	Other financial derivatives	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
F Total											
24	Total financial derivatives	£m	0.000	0.000	620.000	620.000	-34.160	0.000			

Regulatory Annual Performance Report
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5A – Revenue analysis

			£m	
			Payment from TWUL received in period	
	Year	Allowed revenue	2016/17	
			Apr-Sep	Oct-Mar
1	2015/16	11.164	12.121	14.626
2	2016/17	22.439		

Notes to line items:

1 Tideway's allowed revenue is calculated in respect of each charging year (equal to the financial year in 2016/17 and beyond) using the methodology set out in its Licence. The allowed revenue is notified to Thames Water (TWUL), which bills and collects this revenue from its wastewater customers and as it is collected passes it through to Tideway, which may be during or after the relevant charging year. This table records the cash amounts received from TWUL during the periods shown.

2 As explained in the notes to Table 1A, the Company will recognise all revenue as deferred income during the construction phase.

3 Tideway's allowed revenue was first billed by Thames Water for the 2016/17 charging year, as this could only be calculated following the award of Tideway's Licence in August 2015. Tideway did not receive any payments from Thames Water in 2015/16. As both 2015/16 and 2016/17 allowed revenue were billed together in 2016/17, these amounts are collected together and are not recorded separately in the table above.

5B – Expenditure analysis

		£m, 2014/15 prices			£m, outturn prices	
		2016/17	2015/16	Total since Licence Award	2016/17	2015/16
1	Annual base case forecast	385.264	234.640	619.904	397.760	237.169
2	Total expenditure	416.771	212.974	629.745	430.289	215.270
3	Excluded Project Spend	84.863	63.707	148.571	87.616	64.395
4	Non-regulated expenditure	2.116	0.525	2.640	2.184	0.530
5	Annual Actual Project Spend	329.792	148.742	478.534	340.489	150.345
6	Variance from base case	-55.472	-85.898	-141.370	-57.271	-86.824
7	Variance (%)	-14.4%	-36.6%	-22.8%	-14.4%	-36.6%
	As at 31 March					
8	RCV	478.534	148.742	N/A	502.087	151.311

Notes to line items

1 Tideway's Annual Base Case Forecast, its annually profiled regulatory baseline, is included in its Licence. The figure reported for each financial year is subject to defined inflationary adjustments, as set out in Appendix 1 of Tideway's Licence. For the purpose of this report, the adjustments for 2015/16 and 2016/17 have been applied using the inflation data at 28 April 2017. For this reason, the figures reported above differ from the £237.8m and £389.8m set out in the Licence. The 2015/16 figure also differs slightly from the £234.7m reported in the last annual report as certain construction indices which were provisional at the time of calculation have now been finalised.

2 Total expenditure is equal to the figure reported on page 49 in the Financial Performance Review. The prior year total expenditure of £215.3m is £3.2m higher than the reported figure in the 2015/16 regulatory accounts of £212.1m. The analysis of total expenditure now includes repayments of shareholder loans which totalled £3.2m in 2015/16 and £24.1m in 2016/17. These cash outflows are treated as Excluded Project Spend.

3 Excluded Project Spend is defined in Tideway's licence and includes certain specified categories of spending that are not included in Tideway's RCV. In 2016/17, Excluded Project Spend related primarily to VAT and financing costs.

4 Non-regulated expenditure relates to activity that is neither Allowable nor Excluded Project Spend, for example office facilities and software for Thames Water staff working on the interface between the two companies' systems. To avoid customers paying twice for the same expenditure, such spending is removed from Tideway's Regulatory Capital Value and recorded as non-regulated expenditure at the point the money is recovered from Thames Water, and Annual Actual Project Spend for the year is correspondingly lower. In 2016/17, non-regulated expenditure relates to the £2.2m expenditure by the Company on behalf of Thames Water noted in Table 1D.

5 Annual Actual Project Spend, defined in Tideway's Licence, is the total of Allowable Project Spend incurred by Tideway and verified by the Independent Technical Assessor (ITA) during the reporting period. This amount becomes part of Tideway's RCV, which drives its revenues.

6 & 7 In 2016/17, Annual Actual Project Spend was below the Annual Base Case Forecast due to timing differences both in respect of re-profiling of the risk contingency from a proportional distribution at Licence Award to a more back-ended profile in line with the Company's updated risk modelling, and also deferral of some expected spending. The Financial Performance Review sets out the 2016/17 expenditure (on an accruals basis) in more detail.

1-7 The tables above report expenditure in both outturn and 2014/15 prices. Except for RCV, figures in outturn prices are deflated to 2014/15 prices using financial year average RPI, consistent with Tideway's Licence.

8 The tables above report RCV in 2014/15 prices and March 2017 prices. The outturn RCV differs from the sum of outturn Annual Actual Project Spend as both 2015/16 and 2016/17 figures are inflated to year-end prices.

Regulatory Annual Performance Report
Continued

5C – Alliance Agreement payments

		£m, 2014/15 prices			£m, outturn prices	
		2016/17	2015/16	Total since Licence Award	2016/17	2015/16
1	Alliance Agreement payments received	0.0	0.0	0.0	0.0	0.0
2	Alliance Agreement payments made	9.382	0.0	9.382	9.686	0.0

Notes to line items:

1 Expenditure funded by Alliance Agreement payments received will be Excluded Project Spend and therefore excluded from the RCV.

2 This figure includes all Alliance Agreement payments verified by the Independent Technical Assessor.

Financing cost adjustment

Tideway is required by Part A of Appendix 1 of its Licence to report on:

- Net debt (as defined by the Licence). In 2016/17 this was -£315.9m. This figure was calculated by taking Tideway's net debt figure of £213.4m and removing the £529.3m of shareholder loans, leaving a net cash figure. Shareholder loans are included in Tideway's net debt using the definitions in the Regulatory Accounting Guidelines but are not included in the net debt figure calculated in accordance with Tideway's licence.
- The basis of the calculation of the Financing Cost Adjustment and its component parts: this is included in Tideway's annual Revenue Statement (see https://www.tideway.london/media/2873/tideway-2016-updated-revised-revenue-statement-submission131216.pdf)

Disclosure of information to the auditor[3]

As set out in the Directors' Report, the Directors who held office at the date of approval of that 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.

[3] *This information is included in the Directors' Report for statutory purposes and is repeated here in line with Ofwat's requirement that companies make this statement within their annual performance reports.*

Transfer Pricing Information

TRANSFER PRICING INFORMATION

To demonstrate that it is operating at arm's length from other companies in the same group and that no cross-subsidies exist, Tideway is required by Regulatory Accounting Guideline 3.09 to disclose details of transactions with associated companies. The Tideway group structure is shown on page 92.

Service	Company	Turnover of associate	Terms of supply	Value
Shareholder loans	Bazalgette Holdings Ltd	–	The shareholder loans were included in the financing plan that was part of the bid Tideway's owners made for the company. Bids were evaluated as part of the procurement process for the infrastructure provider, against criteria that included the rate of return required by bidders and the financial resilience of the proposed financing structure. The Government and Ofwat were given sight of documents relating to the shareholder loans during the procurement process run by Thames Water. Ofwat's scrutiny of these documents informed its judgement that Tideway was fit and proper to hold a licence.	£529.301 outstanding
Intercompany loan	Bazalgette Holdings Ltd	–	Tideway has a £0.050m loan receivable with its immediate parent Bazalgette Holdings Limited for the purposes of Bazalgette Holdings Limited's capitalisation of Bazalgette Finance plc during 2016/17. The loan is on arm's-length commercial terms, bearing an annual interest rate of Libor+85bp and a maturity date of 2020.	£0.050m outstanding

Tideway's shareholder loans are made by an associated company, Bazalgette Holdings Limited, and are therefore a relevant transaction. The loan arrangement meets all regulatory requirements for transactions with associated companies. The information in the form required by Ofwat is shown above.

Other than arrangements listed above the only transactions within the Tideway group were between Tideway and its subsidiary, Thames Tideway Tunnel Ltd (TTTCo). These transactions result from an administrative arrangement put in place at Licence Award to allow for the provision of resources (including employees) from TTTCo to Tideway. From an operational perspective, there has been no distinction between Tideway and TTTCo. As a result, Ofwat has agreed that Tideway and TTTCo accounts can be reported on a consolidated basis. This means that there are no relevant transactions to be reported in relation to TTTCo. The administrative arrangement concluded on 31 March 2017 when all resources were transferred from TTTCo to Tideway.

Risk and Compliance Statement

RISK AND COMPLIANCE STATEMENT

This section relates to Tideway's compliance with its statutory, licence and regulatory obligations. For the purpose of the statements set out on this page, Tideway has identified four sources of obligations, capturing the major regulatory and legal obligations applicable to Tideway that are specific to the Thames Tideway Tunnel or to the water industry. These are:

- the project Licence;
- a modified version of the Water Industry Act 1991, as amended;
- the "SIP Regulations";[4] and
- Project Specification Notice.

The risk and compliance statement complements a number of other Tideway reporting practices, such as detailed quarterly reporting of project information to a Liaison Committee attended by representatives from Ofwat and Defra, and regular information sharing with the ITA, Environment Agency and other sources of scrutiny. Collectively, these practices help to ensure transparency and accountability regarding Tideway's compliance with its statutory, licence and regulatory obligations.

With regard to the above obligations, Tideway's Board confirms that:[5]

- The Company has a full understanding of, and is meeting, its obligations. Under the umbrella of its assurance policy, strategy and plan, Tideway has a range of processes for ensuring compliance. In relation to Tideway's Licence obligations, each obligation is allocated to the owner within Tideway with the most relevant expertise. These owners are responsible for ensuring compliance and putting in place appropriate processes and first line assurance (see the data assurance summary). The Regulation team regularly reviews compliance throughout the year. The assurances given in this statement are underpinned by a risk-based review, in which the degree of scrutiny applied and evidence requested in relation to each obligation reflects the likelihood and potential severity of breach, as assessed using a common set of standards. This approach is supplemented by quarterly management reviews and further review by a broader compliance and assurance group, led by the CEO; details of this group are provided in the data assurance summary. Tideway's internal audit function carried out two reviews of Licence compliance in relation to 2016/17 and concluded that the controls in place were effective. Tideway's legal team manages compliance with our legal obligations. The team monitors and supports compliance on an ongoing basis and undertakes periodic audits. It also scrutinises procurements, particularly those of high value, to ensure compliance with the procurement regime applicable to Tideway. During the reporting year, an updated contracts database and contracts approval form were introduced to support this framework.
- The Company has satisfied itself that it has sufficient processes and internal systems of control (summarised in the previous bullet) to fully meet its obligations. Tideway is committed to continual improvement and as such we will continue to refine our processes to support ongoing compliance.
- The Company has appropriate systems and processes in place to allow it to identify, manage and review its risks. The steps being taken to manage or mitigate material identified risks are covered in the Risk Management section of the Strategic Report.

[4] The Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) Regulations 2013 (as amended by the Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) (Amendment) Regulations 2015) (the "SIP Regulations").

[5] Statements in relation to customers and outputs required by Ofwat's risk and compliance statement guidance are not included here as they are not relevant to Tideway.

Condition K Reporting

CONDITION K STATEMENT

Condition M 5.1 of Tideway's Licence requires it to make an annual statement regarding the sufficiency of its non-financial resources, in case of special administration. The Board confirms that as at 31 March 2017, as far as reasonably practicable, Tideway had available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage Tideway's affairs, business and property in accordance with the purposes of the special administration order.

INFORMATION ON THE CONDITION K CERTIFICATE

Tideway has submitted a Condition K Certificate to Ofwat stating that in the opinion of its Board:

- Tideway will have available to it sufficient financial resources and facilities to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- Tideway will have available to it sufficient management resources and systems of planning and internal control to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- All contracts entered into between Tideway and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to Tideway, to ensure that it is able to carry on the Licensed Activities.

Tideway has a range of processes that enable its Board to make the above statements. These include:

- Tideway's Financing Plan, Annual Budget, Annual Business Plan and resource planners;
- Board oversight of these processes, in particular via Tideway's Audit Committee, which oversees systems of planning and internal control and overall regulatory compliance. The Board reviews financial resources and facilities and management resources on a monthly basis. A summary of the quarterly Licence compliance review is provided to the Board through the monthly reporting process. A quarterly financing update is provided to the Board and Treasury Committee, reporting on key parameters such as liquidity;
- scrutiny by Tideway's external auditor, KPMG, which is required to confirm that Tideway is a going concern and which reviews the Condition K Certificate;
- reviews by Tideway's legal team of all significant proposals for new or modified contracts, with reference to regulatory obligations and the need to ensure appropriate standards of service. During the year, additional controls were put in place to support this system, including an updated contracts database and contract approval form; and
- a strong data assurance policy, strategy and plan based around the concept of 'three lines of defence' (see data assurance summary on pages 146 to 148).

The outputs of the process underlying the Long Term Viability Statement (see page 33) give further comfort in relation to the above statements, by demonstrating Tideway's financial viability up to Handover (2024).

Board endorsement

All disclosures in this regulatory report, including the Risk and Compliance Statement, were approved by the Board on the 15 June 2017 and the report was signed on their behalf by:

Andy Mitchell
Chief Executive Officer

Sir Neville Simms,
Chairman

Richard Morse
Deputy Chairman and Independent Non-Executive Director (Chair of the Audit Committee)

Data Assurance Summary

DATA ASSURANCE SUMMARY

Introduction

Tideway recognises the importance of providing accurate information to its stakeholders, and explaining how the information has been assured in order for stakeholders to trust it. We developed an assurance methodology for our 2016/17 Annual Report consistent with our assurance policy, strategy and plan. The approach builds on that followed for our 2015/16 Annual Report, and was developed with the intention of following best practice in the water industry. It is also consistent with Ofwat's vision for trust and confidence in the water sector.

To ensure continuous improvement, we are reviewing the lessons learned from the assurance of the 2016/17 Annual Report, and will ensure these lessons are used to improve our assurance approach for future annual reports.

Overview of assurance approach

Tideway's Board, supported by the Audit Committee, places a high level of importance on assurance of Company information. The Audit Committee and Board have overseen and endorsed the development of the Company's assurance policy and strategy, which has embedded the 'three lines of defence' approach. The first line of defence relates to business operations; the second line to oversight functions; and the third to independent audit.

Tideway has an integrated assurance framework, which maps the first, second and third lines of defence across the whole of Tideway's business. The mapping of the first and second line assurance informs the development of Tideway's internal audit plan. The data assurance carried out for the 2016/17 Annual Report was underpinned by Tideway's ongoing assurance activities and controls, as reflected in the integrated assurance framework.

Tideway has a Compliance and Assurance Review Group (CARG) to oversee its compliance and assurance practices, which shares its findings with the Audit Committee and the Board. The CARG covers assurance Company-wide, including but not limited to regulation, financing documentation, tax, insurance, planning and corporate and commercial requirements.

As well as the internal assurance activities overseen by the CARG, there are a number of sources of independent (third line) assurance through the year. Our Internal Audit function undertakes audits of processes across the business including key financial processes. Our external auditors carry out a series of agreed checks (known as 'agreed upon procedures') on our Revenue Statement submissions to Ofwat and may carry out reviews in relation to the half year statutory accounts as instructed by management. The ITA reviews a wide variety of information on the progress of the project, and verifies Tideway's regulatory expenditure.

Assurance of 2016/17 Annual Report

Introduction

The approach to assurance for the 2016/17 Annual Report has been developed within the context of Tideway's overall approach to assurance as described above. The methodology has been reviewed by our Internal Audit team, which has provided a written opinion on the approach, and reviewed and approved at the executive level by our Funding and Financing Committee.

The first line of defence was provided within the functional areas responsible for different sections of the report. It covered all sections of the report and consisted of the following activities:

- section owners provided sources for all data items and described relevant assurance activities through the reporting year;
- a peer review 'sense check' was carried out for each section within the relevant business function; and
- certification of the accuracy, reliability and completeness of the section by the section owner, their head of department, and the appropriate Executive Director.

Oversight provided by the wider business formed the second line of defence. This included a verification of the report by an independent central team comprising representatives from a range of Tideway functions. The objective of this review was to test the robustness of the first line of defence, and provide an overarching consistency check between sections of the report.

The central team checked the accuracy of the data presented in the report using the source and assurance information provided by the section owners. These checks were carried out on a risk basis based on likelihood of error and likely impact, with data items assessed by the central team at the start of the review. This assessment determined the depth and breadth of assurance, with all high-risk data items checked back to an assured source. Lower risk items were subject to spot checks.

Other activities in the second line of defence included:

- executive management review of each section;
- review of relevant sections of the Corporate Governance report by Board committee chairs;
- review of the Annual Report by the Board as a whole in a workshop held in advance of finalisation of the report; and
- review of the Annual Report by the Audit Committee.

The verification was successfully completed in line with the approach set out above. Any comments or concerns identified as part of the second line of defence were fed back to section owners and addressed.

The third line of defence consisted of independent assurance provided by our auditor KPMG and our Internal Audit team. The scope of KPMG's assurance is set out in the table below. Internal Audit reviewed the data assurance methodology and whether it was followed, and completed an audit of the year-end Licence compliance process which underpins the risk and compliance statement. These activities were completed as planned with no significant issues identified requiring resolution.

KPMG assurance

Section/table	KPMG assurance
Strategic Report	Consistency with the accounts
Corporate Governance Report	Within scope of statutory audit opinion where the Corporate Governance Code has been adopted and the element forms one of the 11 provisions of the Code
Financial statements	Companies Act/Statutory Audit
Directors Report	Statutory audit opinion covers preparation in accordance with the requirements of the Companies Act 2006
Regulatory reporting – tables in sections 1 and 2	Regulatory Audit (in line with Ofwat guidance)
Regulatory reporting – tables in sections 4 and 5	A set of specific tests on the calculations to verify their accuracy (known as agreed upon procedures)
Condition K certificate	Review in line with Licence requirement
Regulatory reporting – narrative	Consistency with the accounts

Data Assurance Summary
Continued

The results of KPMG's two audits are covered by opinions in the Annual Report and Accounts.

Board oversight

The Board and its committees have had oversight of the Annual Report and assurance activities carried out to ensure its accuracy.

The outcome of the assurance activities described above were shared with the Audit Committee. This enabled the Audit Committee to assure the Board, in line with the UK Corporate Governance Code requirements, that the 'Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.'

On the basis of this assurance, the Audit Committee recommended the Annual Report to the Board for its approval and signoff.

Board endorsement

This data assurance summary was approved by the Board on the 15 June 2017 and the report was signed on their behalf by:

R. M.

Richard Morse
Deputy Chairman and Independent Non-Executive Director (Chair of the Audit Committee)

INDEPENDENT AUDITOR'S REPORT (REGULATORY ANNUAL PERFORMANCE REPORT – SECTION 1 AND 2 TABLES)

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Bazalgette Tunnel Limited.

Opinion on Annual Performance Report

In our opinion, Bazalgette Tunnel Limited's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies, set out on pages 108 to 111.

Emphasis of matter – basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 129 to 137 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

Auditor's Report

What we have audited

The tables within Bazalgette Tunnel Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the historical cost analysis of fixed assets for wholesale and retail (table 2D). In line with the Ofwat guidance issued on 31 May 2017, other section 2 tables have neither been presented nor audited.

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the additional regulatory information in tables 4H and 4I or the bespoke information in tables 5A to 5C.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Project Licence granted by the WSRA to the Company as infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the sections of the Annual Performance Report that we have audited, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

- **Completeness and existence of capitalised costs and creditors – capitalised costs: (£384.7m; 2016: £161.2m); capital creditors: (£20.0m; 2016: £28.4m).**

  Refer to page 79 (Audit Committee Report), and pages 129 to 137 of sections 1 and 2 of the Annual Performance Report (regulatory accounting policy and disclosures).

  The risk – 2016/2017 costs – the Group incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalised costs and creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

  Our response – our procedures included:

  - Control design: Testing controls over the analysis, challenge and discussion of the cost verification process and applications for payment from the main works contractors as well as other purchase invoices, which included observing for a sample that amounts per the agreed payment certificate matched the invoices received and inspecting that payments were authorised.
  - Tests of detail: Inspecting the content of a sample of invoices before and subsequent to the year end to consider the timing of work performed and therefore appropriate recognition relating to costs and creditors in the year.
  - Tests of detail: For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred.
- **Current and deferred tax charges** (£nil; 2016: £nil) Refer to page 79 (Audit Committee Report), and pages 129 to 135 of section 1 of the Annual Performance Report (regulatory accounting policy and disclosures).

Auditor’s Report
Continued

The risk – Accounting treatment

The current and deferred tax treatment is primarily dependent on the classification of the wastewater infrastructure asset’s lease, upon its completion, for tax purposes. The terms of the lease have already been set and judgment is required to determine if the lease will be classified as a finance lease or not. Judgment is also required as to the classification of the entity as ‘trading’ or ‘non-trading’, and these judgments may be open to challenge by the tax authorities.

Our response – our procedures included:

- Accounting analysis: Considering the continued appropriateness of the expected future accounting treatment as a finance lease, in line with the current accounting requirements and any expected future changes to those requirements.
- Own tax expertise – With assistance from our tax specialists, critically assessing the Group’s judgements in relation to the resultant tax consequences with reference to the relevant tax law.

Our application of materiality

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

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

An overview of the scope of our audit

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

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors’ Responsibilities set out in the Regulatory Report (see table on pages 126-127) and in the Director’s Report, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company’s accounting policies.

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”), except as stated in the section on ‘What an audit of the Annual Performance report involves’ below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF ‘Reporting to Regulators on Regulatory Accounts’ issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual

Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 1.1 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Regulatory accounts within the Annual Report is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Regulatory accounts within the Annual Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 15 June 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
15 June 2017

Auditor's Report
Continued

INDEPENDENT AUDITOR'S REPORT (CONDITION K CERTIFICATE)

Report of KPMG LLP to Bazalgette Tunnel Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition F4.1

In accordance with the terms of our engagement letter dated 13 June 2017, we have examined the Company Condition K Certificate as defined in the Licence dated 15 June 2017 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Annual Performance Report of the Company for the year ended 31 March 2017.

Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Condition K Certificate – in accordance with Condition M5 of the Licence. The Certificate is presented as set out in the Project Licence by the WSRA of the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")".

As specified in our engagement letter dated 13 June 2017, it is our responsibility to review the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Annual Performance Report of the Company for the year ended 31 March 2017 was and is not directed towards meeting the requirements of the Company or the directors under the terms of the Condition. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to review the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 15 June 2017, the date of our audit opinion on the Annual Performance Report of the Company for the year ended 31 March 2017.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our 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 as a body, and the WSRA, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

This report has been released to the Company and to the WSRA on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Company's or the WSRA's own internal purposes) or in part, without our prior written consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract.

Basis of our review

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Annual Performance Report and any information which we obtained in the course of our work as Company's Auditors.

Findings

In our opinion, nothing has come to our attention during the course of our audit work on the Annual Performance Report of the Company for the year ended 31 March 2017 that would indicate any inconsistencies, in all material respects, between the Certificate and the Annual Performance Report and any information which we obtained in the course of our audit work on the Annual Performance Report of the Company for the year ended 31 March 2017.

KPMG LLP
Chartered Accountants
15 Canada Square
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15 June 2017

Glossary

Term	Definition
Community Liaison Working Groups	Stakeholder groups that Tideway has set up near the active construction sites, to engage and share information with local residents
Consents	The permissions required from third parties (e.g. local authorities) for Tideway to deliver the project
Employer Project Induction Centre programme	Tideway's compulsory Health Safety and Wellbeing training programme for every person working on the project
Encompass diversity programme	The Project's diversity forum, open to all working on Tideway
Handover	The point at which the tunnel is integrated into the wider sewer network, commissioning tests have been successfully completed and Thames Water has issued a handover certificate
Licence	The licence granted to Tideway by Ofwat on 24 August 2015
Main Works Contracts	The contracts between Tideway and the main works contractors to engineer, procure, construct and commission the three sections (West, Central and East) of the Thames Tideway Tunnel
More by River	Tideway's strategy to enhance the use of the River Thames for logistics
Regulatory Baseline	The baseline cost of £3.1bn in 2014/15 prices, of delivering the elements of the tunnel within Tideway's scope, as set out in Tideway's Licence
Regulatory Capital Value (RCV)	The value of Tideway's capital base. Tideway's RCV is calculated on a cash basis using a methodology set out in the Company's licence. It comprises project-related expenditure that does not fall into specified excluded categories, and that has been verified by the Independent Technical Assessor
Revenue Agreement	The agreement under which Thames Water collects revenue from its wastewater customers on Tideway's behalf
RightWay	Tideway's approach to introducing transformational Health, Safety and Wellbeing
RightStart	This is about getting the Health, Safety and Wellbeing basics right from the very start to help us avoid incident spikes often seen at the start of major projects
System Acceptance	The point at which the entire Thames Tideway Tunnel system is accepted to serve as part of Thames Water's sewer network
Thames Water Works	Thames Water's activities, including enabling and interface works, which are necessary for the development and connection of the Thames Tideway Tunnel to the sewer network
The Alliance	The alliance between Tideway, Thames Water, the main works contractors and the system integrator, designed to incentivise collaborative working, realise synergies and share best practice

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