Bazalgette Holdings Group

Interim Report and Financial Statements for the six months ended

30 September 2018

Interim Operational Review

The Group

The Directors present the Interim Operational Review for Bazalgette Holdings Group (the Group) for the six months ended 30 September 2018.

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

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

Overview

In the past six months Tideway has made good progress towards its ambition to safely deliver the TTT at the right quality and to best value. We continue to develop our approach to health, safety and wellbeing and are pleased to report that we have had no life changing injuries to date. We have mobilised on 20 of our 21 sites (with the final one due to start in 2019), taken delivery of three out of the total six Tunnel Boring Machines (TBM's) and tunnelling operations have now commenced. Total project costs for the six months to 30 September were £325.3m which brings the total cumulative cost to £1,480.2m.

Tideway continues to make good progress managing financial risk and during the period an additional £325m of new term debt was raised making Tideway the largest corporate issuer of sterling green bonds on the London Stock Exchange. The debt issue means Tideway has now reached a point of financial resilience where sufficient funding has been secured to cover construction costs. Tideway's continued commitment to deliver efficient financing has been reflected by the reaffirmation of its credit ratings (Moody's and Fitch Baa1 and BBB+) during the period.

On 1 August 2018, Tideway announced that Mathew Duncan will be joining the Board as the Chief Financial Officer. Mathew has since joined Tideway on 19 November 2018 from Crossrail, where he had been Finance Director since 2015. He brings with him a strong track record in major projects. After playing an important part in Tideway's successful delivery programme Mark Corben, the Chief Financial Officer for Tideway, stepped down on 22 November 2018.

Mark Fairbairn who chaired Tideway's HSSE and Risk Committees since 2015 stepped down as an Independent Non-Executive Director effective 30 September 2018. On 16 July 2018, Tideway announced the appointment to the Tideway Board of Mike Putnam as a new Independent Non-Executive Director. Mike brings with him significant experience in the construction, engineering and utility sectors and complements the experience of Tideway's Non-Executive Board as the project matures.

Health, Safety and Wellbeing (HSW)

Objective:

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

2018/19 Priorities:

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

Tideway has committed to targeting zero fatalities or serious injuries by setting new standards of Health, Safety and Wellbeing. We are pleased to report that there were no major (life-changing) injuries during the six-month period ended 30 September 2018. However, there were nine lost-time injuries during the 2.4 million hours worked in the period, five of which resulted in over seven days lost time. Accident Frequency Rates (measuring lost-time injuries per 100,000 hours worked over a 12-month rolling period) have therefore increased over the period. Tideway remain focused on improving industry standards for Health, Safety and Wellbeing and in response to the increase in lost-time injuries we have implemented targeted stand downs across the project, undertaken reviews into the higher risk activities and implemented the appropriate organisational changes.

20 of the 21 sites have been mobilised and our RightStart programme, which aims to reduce the number of incidents in the first six months on-site has been essential in setting expectations for our workforce and inducting new starters to the Tideway HSW culture.

The Main Works Contractors (MWCs) continue to show improvement against the leading indicators established through our Health and Safety Performance Index (HSPI). A regular quarterly review of measures, undertaken at the end of quarter 2, has identified amendments to the current set of measures to ensure all leading indicators remain challenging and relevant to current and forthcoming programme risks.

Tideway continues to look at ways of improving health and wellbeing and has embraced the 'Mates in Mind' charity to develop a mental health and wellbeing programme specific to construction. The programme launched in February 2018 and 80 mental health first aiders have since been trained to start productive mental health conversations and play a part in ending the stigma and discrimination around mental health in the workplace. All Main Works Contractors have committed to providing mental health first aider training for operatives on their sites in addition to setting up a networking group to provide support for trained mental health first aiders on the programme.

Schedule, Cost and Quality (SCQ)

Objective:

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

2018/19 Priorities:

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

We have now successfully mobilised on 20 of our 21 sites (with the final one not due to start until 2019) and have ordered all six of our Tunnel Boring Machines (TBMs). We have taken delivery of two of the TBMs in the Central area for driving from Kirtling Street to Chambers Wharf and from Kirtling Street to Carnwath Road, and one in the West area driving from Carnwath Road to Acton Storm Tanks. The TBM for the Frogmore Connection Tunnel in the West has passed factory acceptance testing and is due for delivery in 2018. The remaining two TBM's for the main tunnel from Chambers Wharf to Abbey Mills Pumping Station and for the Greenwich Connection Tunnel in the East are due for delivery in early 2020.

In the West area, all seven site works are progressing well. The second TBM (Charlotte), has passed the factory acceptance testing and is due for delivery towards the end of 2018. At the Carnwath Road Riverside main drive site, the main shaft excavation is complete to base depth and the base plug poured. In addition, the river wall strengthening and site infrastructure, including piling and construction of the conveyor foundations to support spoil removal from the tunnel excavations, are also complete. At Hammersmith Pumping Station, shaft excavation and the inlet channel flume installation works are complete with the flume having commenced operations in July 2018. At Dormay Street, the breaking out of the shaft guide walls and the shaft excavation works have commenced whilst the strengthening of the river walls is progressing well.

In the Central area, the team have made significant progress across all eight sites. At the Kirtling Street main drive site, both TBMs (Millicent and Ursula) were received onsite, assembled and lowered into the shaft adits and tunnelling has now commenced. The site now has a shaft 55m deep and 32m in diameter with an acoustic enclosure constructed above the shaft to protect our neighbours from noise arising from the works inside.

At Blackfriars, works have progressed to overcome significant engineering challenges caused by the proximity to two large Victorian gas mains. We have been working very closely with Cadent, to investigate the need to divert these gas lines and ensure that the lines are not damaged. The initial results from the damage assessment conducted, suggest that the gas main line may not require diversion. Final damage assessment results are expected by end of the year. At Victoria Embankment, we have completed the sheet pile cofferdam to facilitate the construction of the drop shaft associated structures. In addition, the existing gas mains found within the embankment following initial damage assessments have been decommissioned with the reinstatement and commissioning of the new main line planned for completion in 2018. At Albert Embankment, the construction of a sheet piled cofferdam was completed along with works to divert several important utilities at the site.

In the East area, five of six sites have been mobilised with works progressing well. At Chambers Wharf, the main drive site, the cofferdam and diaphragm walls were completed. The shaft excavation and the installation of the acoustic enclosure commenced following the completion of remediation and archaeological works. The cofferdam construction at King Edward Memorial Park Foreshore is taking longer than planned, due to unexpected ground conditions which requires additional piles. This has resulted in the planned resequencing of works to alleviate the programme impact. At Greenwich Pumping Station, the construction of the shaft and acoustic enclosure has commenced and work on the Combined Sewer Outflow (CSO) diaphragm wall is progressing well. Additionally, the houseboats within the jetty area have been relocated allowing the river works to progress with marine pile installation ongoing. At Deptford Church Street, a major milestone was achieved with completion of the shaft diaphragm wall ahead of forecast. At Earl Pumping Station, works for the shaft diaphragm wall have commenced with construction of the cut-off wall. Tideway expects to mobilise on the Abby Mills Pumping Station site in 2019. The design and manufacture of the two east TBMs, Selina and Annie, is currently under way in Germany and they are due for delivery in early 2020.

Tideway continues to prioritise quality throughout the construction programme and has undertaken a significant number of quality assurance inspections during the six-month period. Where non-compliance is found Tideway provides robust challenge and works with our supply chain to address the underlying issues.

Marine logistics are increasingly important for Tideway's delivery programme. In recognition of this a navigational risk assessment has been undertaken and a marine logistics working group established to coordinate activities between sites. In addition, targeted workshops are held to drive continuous improvement in our marine capability.

Tideway's commercial strategy continues to focus on driving schedule performance and cost efficiency through leveraging the MWC contracts, the Alliance and existing strategic schedule incentives. The CEO Forum brings together senior executives from Tideway, Jacobs and the MWCs and is proving beneficial by endorsing the approach to Health, Safety and Wellbeing and reviewing the cost efficiencies necessary to achieve the best value for money delivery possible.

Tideway continue to engage with Thames Water on PR19 performance commitments for the period 2020-25. Tideway and Thames Water as part of our joint approach to commissioning, handover and acceptance have now defined a set of assurance workstreams focused on the operational readiness tasks necessary for commissioning, handover and acceptance. In addition, Tideway and Thames Water have jointly developed improvements to existing sewer entry requirements to facilitate the joint work required under the programme.

Following significant progress on the project and now having mobilised on 20 of our 21 sites, Tideway has identified several cost pressures in the programme. The most significant of these are the previously reported engineering challenges at Blackfriars; the cofferdam construction at King Edward Memorial Park, together with the associated programme prolongation at that site; cofferdam construction at Albert Embankment and various challenges at our shafts across the East area sites. Taken together with general cost pressure across the programme this has substantially eroded available contingency.

To mitigate the cost pressures Tideway has begun to implement cost saving measures in partnership with our contractors and remains focussed on achieving the baseline target. These cost saving measures include working with our MWCs to eliminate overlap, taking measures to increase productivity, undertaking value engineering and delivering overhead savings. It is too early to conclude the extent to which these measures will mitigate the cost pressures, and an update will be provided on these and the cost savings programme in Tideway's March 2019 Annual Report and Accounts.

Total project costs for the six-month period were £325.3m which brings the total cumulative cost to £1,480.2m.

Vision, Legacy and Reputation (VLR)

Objective:

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

2018/19 Priorities:

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

Tideway recognises that to deliver the project efficiently it must engage with a range of stakeholders. Our aim is to communicate the need for the project, its benefits and our progress in delivering it whilst dealing with specific local issues quickly and effectively.

Tideway and its contractors continue to engage with communities surrounding our construction sites. Increasing site activity has given rise to a corresponding increase in enquires to our 24-hour Helpdesk with 2,500 contacts in the first half of the year. We held 29 community liaison working groups, as well as weekly information centre sessions at Chambers Wharf and monthly sessions at Carnwath Road.

In May, the Mayor of London launched his new workplace inclusivity network at our Chambers Wharf site, underlining our commitment to diversity within our own workforce.

We are making strong progress in delivering our legacy commitments with one of the success stories being the training of new apprentices. At 30 September a total of 113 apprenticeships had been created across the Tideway Alliance. The Thames Skills Academy training body, of which Tideway is a founding partner, is launching new apprenticeships and training programmes which will help the project's apprentice targets and support our aims for a river skills legacy. Recent developments include: the first maritime engineering apprenticeship available on the Thames, which launches in Autumn; a 'Trailblazer' Master Boat Licence apprenticeship which will launch in 2019; the introduction of a CPD programme for key river workers; the extension of the Thames Skills Academy (TSA) riverside safety course beyond TSA members; and an annual #CareersOnTheThames event to raise awareness of opportunities. The TSA aims to offer more courses, dates and locations as it works towards gaining Construction Industry Training Board accreditation.

In the first half of the year our local community investment programme supported numerous community organisations close to our sites, directly benefiting almost 2,000 people. Thames River Watch, our collaboration with the Thames21 charity, engaged over 600 volunteers in 40 clean-up and monitoring events along the river. At the Evening Standard Business Awards in June we were delighted to win the Corporate Citizen of the Year award in recognition of our sustainability work, notably our partnership with Thames21.

Tideway collaborated with the BBC to document the first three years of the project (including the construction of the Lee Tunnel), resulting in a successful three-part BBC2 documentary series 'The Five Billion Pound Super Sewer', which aired in July and August 2018, reaching audiences of around 1.9m people.

We continued to increase content on our online platforms, recognising the potential to reach a wider audience. Partly due to the documentary we saw a significant increase in social media and other online engagement, with a significant increase in Twitter impressions and new users to the Tideway website.

Company and People

Objective:

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

2018/19 Priorities:

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

During the year Tideway has continued to focus on supporting and developing our people's engagement and effectiveness. Our aim to improve delegation and decision making has been supported through Tideway values workshops and the introduction of practical support. The first half of the year has also seen a refresh of the Tideway operating model in line with the organisational changes made to realign the project to support effective delivery.

In a continuation of our support for individual development Tideway launched an online learning portal in 2018. The portal offers wide ranging content from Ashridge Business School including on-line training activities and suggested reading lists. By 30 September 2018, 55% of the project has signed up to the portal and are using a range of content which supplements formal classroom based training and in-house workshops.

Tideway are developing a strategy to ensure that the accumulated apprentice levy is being effectively used and will support individual professional learning requirements as well as company succession planning activity.

Gender diversity continues to be a key performance indicator for Tideway and female staff currently represent 34% of headcount. This year we are giving increased focus on improving the number of females in more senior positions within the company, through training, coaching and mentoring.

Financing

Objective:

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

2018/19 Priorities:

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

We have reached a point of financial resilience where we have secured sufficient funding to cover our construction costs, having raised an additional £325m of new term debt during the period. These issuances further lock-in our financing costs and continue the innovative strategy of pricing bonds with long deferral periods to match our investment profile. We have also continued the implementation of our green bond strategy, with Tideway now being the largest corporate issuer of sterling green bonds with £775m of bonds listed on the London Stock Exchange.

As at 30 September 2018, we had received £1,274m from shareholders, which was the full commitment at Licence Award, in line with our equity-first approach to financing. This was in the form of £509.7m in equity and £764.5m of shareholder loans. Part of the shareholder loans has since been repaid and the balance at 30 September 2018 was £713m. A distribution of £30m was paid in September, comprising £28.7m interest and £1.3m repayment of the shareholders' loan.

At 30 September 2018, we had total liquidity of £3.1bn, comprising £833m of cash, the £750m undrawn RCF, £620m undrawn under the EIB loan, £800m of bonds and a £100m loan. This, combined with expected revenue collection, provides liquidity significantly in excess of our 18-month target, including all debt requirements to System Acceptance.

We raised £325m of new term debt in the first six months of the year, via four bond issuances under our multi-currency bond programme and placed with several major institutional investors:

- A £150m deferred draw index-linked (RPI) green bond was closed in April. The bond has a deferral period of four years and final maturity is 2032

- A £75m deferred draw index-linked (CPI) green bond was closed in May. The bond has a deferral period of four years and final maturity is 2052

- Two £50m deferred draw index-linked (RPI) green bonds were closed in May. The bonds have deferral periods of four and five years and final maturity is 2049

Further to the issuance of the first Green Bond in November 2017, Tideway undertook to report annually on the allocation of proceeds and on the impact of the project. This is done through Tideway's Green Bond Report 2018, published on our website.

Both Moody's and Fitch investment grade credit ratings of Baa1 and BBB+ were affirmed during the period.

The disbursement profile of shareholders' funds and the circa £1bn of new debt issued and/or drawn over the past 12 months led us to benefit from substantial cash balances. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield. During the year, we held cash in three types of instrument: bank accounts with our main bankers, Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds with immediate or very short availability, held with selected institutions.

Additionally, during the period we revised and reinforced the investment management strategy and procedures (including the monitoring of counterparty risk) and updated and strengthened our debt settlement and accounting processes and controls.

Risk Management

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

Tideway's principal risks, which could have a material, adverse impact on the business, reputation and/or financial condition, are the same as those reported in the Annual Report and Financial Statements for the period ended 31 March 2018.

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

During the period Tideway's risk focus remains broadly unchanged and the above principal risks remain the management teams key risk focus.

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

Further detail on these risks can be found in the Annual Report and Financial Statements for the year ended 31 March 2018, which can be found on the Tideway website at www.tideway.london.

Interim Financial Performance Review

Accounting Basis

Our condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Group's accounting policies are consistent with those disclosed in the Group's Annual Report for the period ended 31 March 2018, except for new standards and interpretations effective for the first time from 1 April 2018. These include IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) which are explained further within note 1 of the consolidated interim financial statements.

During the construction phase of the project, expenditure which is directly attributable to bringing the Thames Tideway Tunnel (TTT) asset into its intended use will be capitalised as an asset under construction. Regulated revenue received from Thames Water is recognised as deferred revenue within the Statement of Financial Position.

Non-GAAP Measures: Reporting of Allowable Project Spend

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

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

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

For the purpose of calculating Net (Debt)/Cash, Borrowings include third-party borrowings with the exclusion of shareholder loan notes.

Income Statement

During the six month period ended 30 September 2018, the Group reported a profit of £3.2m (2017: £13.7m profit) with no dividends paid or proposed (2017: £nil).

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

We did not recognise any taxable profits in the period (2017: £nil) and the estimated current tax charge for the period is £nil (2017: £nil).

Statement of Financial Position

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

	Six months ended 30 September 2018			Six months ended 30 September 2017		
Analysis of Costs and Cash Outflows (£m)	Costs	Timing Differences	Cash Outflows	Costs	Timing Differences	Cash Outflows
Direct Costs	240.8	(44.7)	196.1	208.1	(42.4)	165.7
Indirect Costs	42.3	0.3	42.6	48.0	(0.5)	47.5
Allowable	283.1	(44.4)	238.7	256.1	(42.9)	213.2
Excluded	42.2	(4.9)	37.3	26.5	24.3	50.8
Total	325.3	(49.3)	276.0	282.6	(18.6)	264.0
B/Fwd 31 Mar 2018	1,154.9					
Capitalised Costs *	1,480.2					

** Capitalised Costs is the GAAP measure and aligns with the property, plant and equipment on the Statement of Financial Position.*

For the six month period ended 30 September 2018, our Allowable Project Spend is lower than the Allowable Costs as our Allowable Costs includes the timing of accruals and the unwinding of prepayments of items including insurance contracts and the Government Support Package. The direct costs variance of £44.7m mainly represents the September 2018 accrued Allowable Costs that were paid after the period end.

At 30 September 2018, costs of £1,480.2m were capitalised within the asset under construction in the Statement of Financial Position. This represents £325.3m of costs during the period and £1,154.9m brought forward from prior periods.

The table below analyses Allowable Costs:

Allowable Costs (£m)	Six months ended 30 September 2018	Six months ended 30 September 2017
Direct Costs	240.8	208.1
Resource Costs	31.6	32.3
Other Indirect Costs	10.7	15.7
Indirect Costs	42.3	48.0
Total	283.1	256.1

Direct costs:

Direct costs are primarily the Main Works Contractor (MWC) costs and the System Integrator contract.

The direct costs incurred in the period have increased compared with 2017, reflecting the increased level of construction as we have now successfully mobilised on 20 of our 21 sites and have ordered all six of our tunnel boring machines.

Indirect costs:

The largest indirect costs are resource costs of £31.6m. This represents the cost to employ the c439 average Full Time Equivalents (2017: c482 average FTEs) either employed or contracted by the Group. The other indirect costs include non-resource costs such as information systems, office, insurance, GSP and other running costs.

Indirect costs have reduced compared with 2017, reflecting cost savings from lower FTEs and exceptional office move costs in the previous period.

Excluded Costs:

Excluded Costs (on an accruals basis) for the six month period to 30 September 2018 were £42.2m (2017: £26.5m). These comprise £41.7m of interest payable (including shareholder loans), £3.2m of costs which mainly relate to financing, partly offset by £2.7m interest receivable.

Net (Debt)/Cash and Financing

The net debt at 30 September 2018 was £288.2m, which has moved by £658.1m from the £369.9m net cash at 30 September 2017. The table below shows the movement between cash and borrowings:

Net (Debt)/Cash (£m)	Six months ended 30 September 2018	Six months ended 30 September 2017
Cash *	723.8	745.1
Borrowings **	(1,012.0)	(375.2)
Net (Debt)/Cash	**(288.2)**	**369.9**

* ***Cash*** *excludes short term deposits.*

** ***Borrowings*** *excludes the shareholder loans.*

At 30 September 2018, the Group's borrowings were £1,725.0m being £713.0m shareholder loans and £1,012m of other borrowings. These were in the form of £1,095.9m fixed and floating rate loans and £629.1m of fixed rate and index linked bonds.

In addition, at 30 September 2018 the Group had the following undrawn debt facilities: £750m Revolving Credit Facility (RCF), £620m Loan with the EIB, and £900m of deferred bonds/loans.

Cash

The cash at 30 September 2018 was £723.8m, which was £21.3m lower than the £745.1m cash at 30 September 2017.

The tables below show the movements in cash.

Cash (£m)	Six months ended 30 September 2018	Six months ended 30 September 2017	Ref. [1]
Opening Balance	846.4	315.9	
Proceeds from shareholder loans	0.0	179.2	d
Proceeds from Equity	0.0	119.4	d
Proceeds from Borrowings	180.0	375.0	d
Deferred revenue	22.8	16.2	a
Transfer to Short Term Deposits	(51.5)	0.0	c
Other	2.1	3.4	a
Cash Inflows	153.4	693.2	
Construction of the infrastructure asset	(319.3)	(282.4)	b
Working capital movement	44.6	32.6	a
Repayment of shareholder loan	(1.3)	(14.2)	d
Cash Outflows	(276.0)	(264.0)	
Closing Balance	723.8	745.1	

[1] *See cross ref.*

Reconciliation to the Group Cash Flow Statement (£m)	Six months ended 30 September 2018	Six months ended 30 September 2017	Ref. [1]
Net cash used in operations	69.5	52.2	a
Net cash used in investing activities - Infrastructure asset	(319.3)	(282.4)	b
Net cash used in investing activities - Short term deposits	(51.5)	0.0	c
Net cash from financing activities	178.7	659.4	d
Net increase in cash and cash equivalents	(122.6)	429.2	
Cash and cash equivalents at the start of the period	846.4	315.9	
Cash and cash equivalents at the end of the period	723.8	745.1	

The cash inflows of £153.4m (2017: £693.2m) includes financing cash flows of £180.0m (2017: £375.0m) from proceeds from new borrowings. The £180.0m (2017: £375.0m) proceeds from new borrowings represent draw downs on a £100m index linked bond and £80m of the EIB loan. There were no shareholder injections during the period (2017: £119.4m of shareholder equity and £179.2m proceeds from shareholder loans). The working capital inflows include £22.8m (2017: £16.2m) regulated deferred revenue received from Thames Water and £2.1m (2017: £3.4m) of other inflows including interest and other services provided to Thames Water as part of the project.

The cash outflows of £276.0m (2017: £264.0m) include £319.3m (2017: £282.4m) of investment in the construction of the TTT and £1.3m (2017: £14.2m) repayment of shareholder loan.

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

We confirm that to the best of our knowledge:

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

The Directors of Bazalgette Holdings Limited are as listed on page 43 in the Bazalgette Holdings Annual Report for the year ended 31 March 2018. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london

The above statement of Directors responsibilities was approved by the Board of Directors on 22 November 2018 and signed on its behalf by:

Andrew Cox

Andrew Cox

Director

22 November 2018

Consolidated Income Statement

	Note	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited £m	Year ended 31 March 2018 Audited £m
Net operating costs		-	-	-
Operating result		-	-	-
Net finance income	2	3.2	13.7	9.5
Profit before tax		**3.2**	**13.7**	**9.5**
Taxation	3	-	-	-
Profit for the period		**3.2**	**13.7**	**9.5**

Consolidated Statement of Other Comprehensive Income

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited £m	Year ended 31 March 2018 Audited £m
Profit for the period	3.2	13.7	9.5
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	**3.2**	**13.7**	**9.5**

Consolidated Statement of Financial Position

	Note	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m	31 March 2018 Audited £m
Non-current assets				
Property, plant and equipment	4	1,480.2	828.5	1,154.9
Trade and other receivables		52.0	53.3	54.5
		1,532.2	881.8	1,209.4
Current assets				
Trade and other receivables		35.6	38.5	32.8
Cash and cash equivalents	5	723.8	745.1	846.4
Short-term cash deposits		109.0	-	57.5
		868.4	783.6	936.7
Total assets		**2,400.6**	**1,665.4**	**2,146.1**
Current liabilities				
Trade and other payables		(89.1)	(65.8)	(39.1)
		(89.1)	(65.8)	(39.1)
Non-current liabilities				
Other payables		(4.2)	-	(3.5)
Advance payment liability		(72.6)	(40.3)	(53.5)
Borrowings	6	(1,725.0)	(1,069.5)	(1,540.3)
Derivative financial instruments	7	(21.5)	(20.5)	(24.7)
		(1,823.3)	(1,130.3)	(1,622.0)
Total liabilities		**(1,912.4)**	**(1,196.1)**	**(1,661.1)**
Net assets		**488.2**	**469.3**	**485.0**
Equity				
Share capital		509.7	489.8	509.7
Retained earnings		(21.5)	(20.5)	(24.7)
Total equity		**488.2**	**469.3**	**485.0**

The above condensed consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 21 to 26 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018	509.7	(24.7)	485.0
Profit for the period	-	3.2	3.2
Total comprehensive income for the period	**-**	**3.2**	**3.2**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	-	-	-
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**
Balance at 30 September 2018 (unaudited)	**509.7**	**(21.5)**	**488.2**

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

Consolidated Statement of Changes in Equity (continued)

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2017	370.4	(34.2)	336.2
Profit for the year	-	9.5	9.5
Total comprehensive income for the period	**-**	**9.5**	**9.5**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	139.3	-	139.3
Total contributions by and distributions to owners of the parent	**139.3**	**-**	**139.3**
Balance at 31 March 2018 (audited)	**509.7**	**(24.7)**	**485.0**

Consolidated Cash Flow Statement

	Six months ended 30 September 2018 Unaudited £m	Six months ended 30 September 2017 Unaudited £m	Year ended 31 March 2018 Audited £m
Cash generated from operations before changes in working capital	-	-	-
Increase in trade and other receivables	(0.3)	(7.2)	(2.7)
Increase in trade and other payables	50.7	45.8	22.6
Increase in advance payment liability	19.1	13.6	26.8
Cash from operations	**69.5**	**52.2**	**46.7**
Net cash from operating activities	**69.5**	**52.2**	**46.7**
Cash flows used in investing activities			
Construction of infrastructure asset	(319.3)	(282.4)	(605.2)
Short-term cash deposits	(51.5)	-	(57.5)
Net cash used in investing activities	**(370.8)**	**(282.4)**	**(662.7)**
Cash flows from financing activities			
Proceeds from the issue of share capital	-	119.4	139.3
Proceeds from shareholder loans	-	179.2	208.9
Proceeds from loan from new borrowings	180.0	375.0	822.1
Repayment of shareholders loan principal	(1.3)	(14.2)	(23.8)
Net cash from financing activities	**178.7**	**659.4**	**1,146.5**
Net (decrease)/increase in cash and cash equivalents during the period	**(122.6)**	**429.2**	**530.5**
Cash and cash equivalents at the start of the period	846.4	315.9	315.9
Cash and cash equivalents at the end of the period	**723.8**	**745.1**	**846.4**

Notes to the condensed consolidated interim financial statements

1. General Information

Basis of preparation

The Bazalgette Holdings Group comprises Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited, and Bazalgette Finance plc.

These condensed interim financial statements consolidate those of BHL and its subsidiaries (together referred to as the "Group") and comprise the unaudited financial statements for the six months to 30 September 2018.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Transparency Rules issued by the Financial Conduct Authority and they should be read in conjunction with the Group's last audited consolidated financial statements for the year ended 31 March 2018. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

Significant accounting policies

These condensed consolidated interim financial statements have been prepared on a basis consistent with the IFRS accounting policies as set out in the Group's Annual Report for the year ended 31 March 2018, with the exception of new standards and interpretations effective for the first time from 1 April 2018.

With effect from 1 April 2018, the Group has adopted IFRS 9 (Financial Instruments). The Group has completed an impact assessment of the adoption of IFRS 9 and has concluded that on adoption of the new standard, impairment losses against financial assets under the twelve-month expected credit loss (ECL) model and those under the simplified ECL model are immaterial and no adjustment was required to opening retained earnings.

In addition, with effect from 1 April 2018, the Group has adopted IFRS 15 (Revenue from Contracts with Customers). There has been no change to the Group's treatment of revenue which is deferred during the construction phase of the project.

Use of judgements and estimates

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

The significant judgements made by the directors in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2018.

Going concern

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

Notes to the condensed consolidated interim financial statements

2. Finance income and costs

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Finance income			
Interest income	(2.7)	(0.5)	(2.3)
Finance costs			
Interest expense on borrowings	41.7	23.5	61.5
Financing fees	2.3	2.4	5.2
Financial instruments at fair value through profit or loss:			
- Index-linked swaps (gain)/loss	(3.2)	(13.7)	(9.5)
Capitalised finance income and costs into asset under construction	(41.3)	(25.4)	(64.4)
Net finance (income)/costs	**(3.2)**	**(13.7)**	**(9.5)**

3. Taxation

Income tax expense is recognised based on management's estimate of the weighted average effective annual corporation tax rate expected for the full financial year. The Group capitalises all costs incurred in relation to its tunnel asset and fair value gains and losses are disregarded for current tax purposes. As a result, the calculated profits attributable to corporation tax are £nil (2017: £nil) and therefore the estimated average effective annual tax rate used for the six months to 30 September 2018 is 0% (2017: 0%).

As at the Statement of Financial Position date, unrecognised deferred tax assets of £26.4m have been calculated with regards to the Group's carried forward trading losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

4. Property, plant and equipment

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the six months ended 30 September 2018. The amount of net borrowing costs capitalised during the period was £39.0m with a capitalisation rate of 100% (2017: £23.0m).

Notes to the condensed consolidated interim financial statements

5. Cash and cash equivalents

	30 September 2018 £m	30 September 2017 £m	31 March 2018 £m
Cash and bank balances	32.8	95.1	84.9
Cash equivalents	691.0	650.0	761.5
Cash and cash equivalents per cash flow statement	**723.8**	**745.1**	**846.4**

Cash equivalents comprise 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 £109.0m (2017: £nil).

6. Borrowings

The Group raises finance under a multi-currency financing platform in both a loan and bond format. Most of the finance raised by the Group is in a deferred format which means that the proceeds from the borrowing are not received until a future settlement date so as to align when funds are raised with the construction expenditure profile of the project. Where bonds are issued with deferred draw dates, the proceeds from these bonds are only received from the bond purchaser on the future settlement dates.

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

	30 September 2018 £m	30 September 2017 £m	31 March 2018 £m
£250m 2.375% fixed-rate bond 2027	247.3	-	247.2
£75m 0.828% index-linked bond 2047 [a, b]	77.0	75.2	76.1
£200m 0.740% index-linked bond 2042 [a, c]	203.8	-	201.1
£100m 0.688% index-linked bond 2050 [d]	101.0	-	-
£300m 2.860% fixed-rate loan 2032	302.4	300.0	301.5
£80m Libor+0.360% floating-rate loan 2051	80.5	-	-
Shareholder loan notes 8.000 % fixed-rate 2064 [e]	713.0	694.3	714.4
Total borrowings	**1,725.0**	**1,069.5**	**1,540.3**
Current liabilities	-	-	-
Non-current liabilities	**1,725.0**	**1,069.5**	**1,540.3**

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

b) This debt amortises from 2038

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

d) The value of the capital and interest elements of these index-linked bonds are linked to movements in Retail Price Index (RPI)

e) Borrowing from the Company's immediate parent Bazalgette Ventures Limited

Notes to the condensed consolidated interim financial statements

Deferred purchase bonds

The Group placed £325m of deferred purchase bonds during the six-month period ended 30 September 2018.

These deferred purchased bonds were as follows:

- A £150m deferred draw RPI linked bond was priced in April 2018. The bond has a deferred period of four years, with a maturity of 2032;
- A £75m deferred draw CPI linked bond was priced in May 2018. The bond has a deferred period of four years, with a maturity of 2032;
- A £50m deferred draw RPI linked bond was priced in May 2018. The bond has a deferred period of four years, with a maturity of 2049; and
- A £50m deferred draw RPI linked bond was priced in May 2018. The bond has a deferred period of five years, with a maturity of 2049.

7. Fair value of financial instruments

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

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

	30 September 2018		30 September 2017		31 March 2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial liabilities at amortised cost						
Non-current						
Borrowings – Fixed-rate sterling loans	1,015.4	1,031.7	994.3	1,022.1	1,015.9	1,065.4
Borrowings – Fixed-rate sterling bonds	247.3	244.2	-	-	247.2	246.1
Borrowings – Index-linked sterling bonds	381.8	423.3	75.2	77.2	277.2	294.5
Borrowings – Floating-rate sterling loans	80.5	74.3	-	-	-	-
Financial liabilities at fair value through profit and loss						
Non-current						
Derivatives – Index-linked swaps	21.5	21.5	20.5	20.5	24.7	24.7
Total	**1,746.5**	**1,795.0**	**1,090.0**	**1,119.8**	**1,565.0**	**1,630.7**

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

Notes to the condensed consolidated interim financial statements

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

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

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

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

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

	30 September 2018 Level 3 £m	30 September 2017 Level 3 £m	31 March 2018 Level 3 £m
Financial instruments at fair value			
Derivative financial liabilities			
Index-linked swaps	21.5	20.5	24.7
	21.5	**20.5**	**24.7**

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

Notes to the condensed consolidated interim financial statements

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
Opening liability at 1 April 2018	24.7
Profit recognised in net finance costs	
- Net change in fair value (unrealised)	(3.2)
Closing liability at 30 September 2018	**21.5**

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 debt issuances. Having considered all available information, the directors believe that the risk adjustment applied in the fair value estimate reflects the Group's current credit risk.

Level 3 fair values sensitivity

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

	30 September 2018 Impact on profit for the period	
	Increase	**(Decrease)**
Risk-adjusted discount rate (+/- 100bps movement)	£10.9m	(£13.7m)

8. Related party transactions

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

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited were £713.0m at 30 September 2018 (2017: £694.3m).

During the six-month period ended 30 September 2018, interest totalling £28.3m (2017: £23.2m) was paid on these borrowings and £1.3m (2017: £14.2m) of principal repayments were made.