Bazalgette Holdings Limited

Annual report and financial statements

For the year ended 31 March 2019

Registered number 09553510

Contents

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Strategic report

The Directors present their Strategic report for Bazalgette Holdings Group (the Group) and Bazalgette Holdings Limited (the Company) for the year ended 31 March 2019.

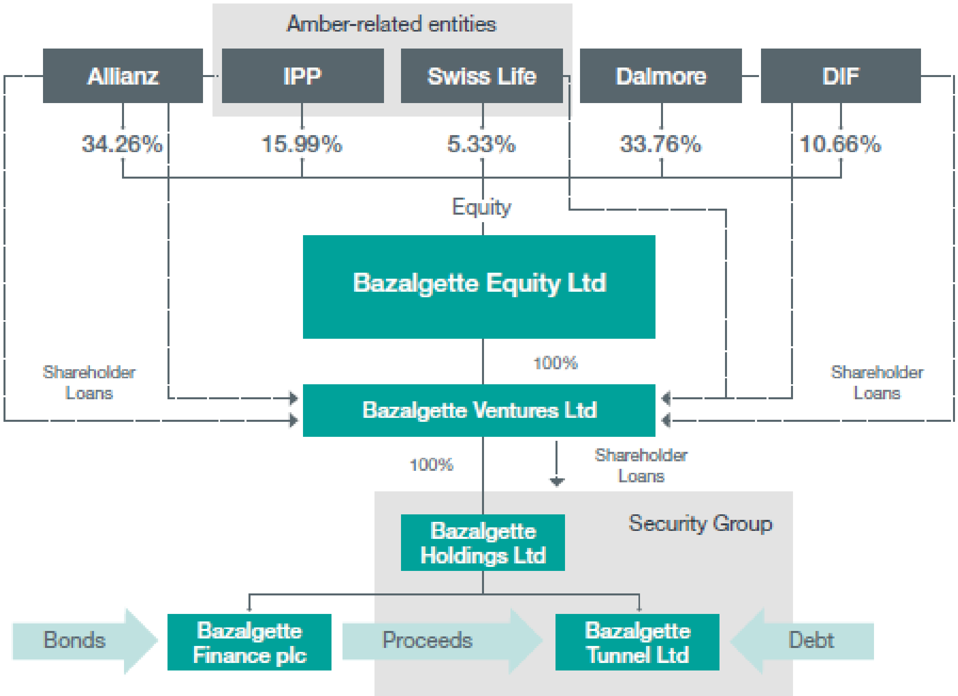
Introduction

The Bazalgette Holdings Limited is an intermediate holding company in the Bazalgette Equity group of companies. The Company is a subsidiary of Bazalgette Ventures Limited (BVL) which itself is a subsidiary of the ultimate holding company, Bazalgette Equity Limited (BEL).

As at the 31 March 2019, the Group comprised the Company, Bazalgette Tunnel Limited (BTL) and Bazalgette Finance plc (BF). BTL, trading under Tideway, is an independent regulated water company which was awarded a licence by Ofwat in August 2015. The emphasis given to BTL, which trades under the name 'Tideway', throughout this report reflects its importance to the overall performance of the Group.

The principal activity of the Company is to act as an intermediate holding company. It does not carry out any activities beyond this role.

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



Holding company governance

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

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

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

Business review

Our Vision

Reconnecting London with the River Thames.

Tideway is a privately financed company responsible for building, commissioning, financing and maintaining the Thames Tideway Tunnel. However, our ambition for this engineering endeavour goes beyond just building a tunnel. We want to transform the River Thames, leaving it cleaner and changing how Londoners use it. We want people to enjoy the Thames in their leisure time, participating in water sports and appreciating the foreshores, views and walks. The joy and prosperity a cleaner river will provide for Londoners will be our legacy once the project is complete.

Our Purpose

Tideway is building the Thames Tideway Tunnel under the River Thames to give London the sewer capacity it needs now and for the future. The 25km 'super sewer' will stop tens of millions of tonnes of raw sewage polluting the Thames every year - cleaning up our city's greatest natural asset and creating a healthier environment for London.

Our Values

It is not just what we do that is important to us, but how we do it. With a greater commitment to sustainability, innovation and safety, our aim is to transform the way the industry operates. In particular we want to see a step change in the health and wellbeing of everyone working on the project, as well as our partners and stakeholders.

OUR VALUES ARE:

SAFETY
Transform the health, safety and wellbeing of all

RESPECT
For people, places and resources

COLLABORATION
Work together as an effective team

INNOVATION
Strive for excellence in project delivery

LEGACY
Create a healthier future for London

We have set out in this report examples of how our work reflects our values.

See our **Performance section** to find out more

"Something which is great to see is the focus on mental health, no other project has taken this as seriously or tried to make as tangible a difference as Tideway is."

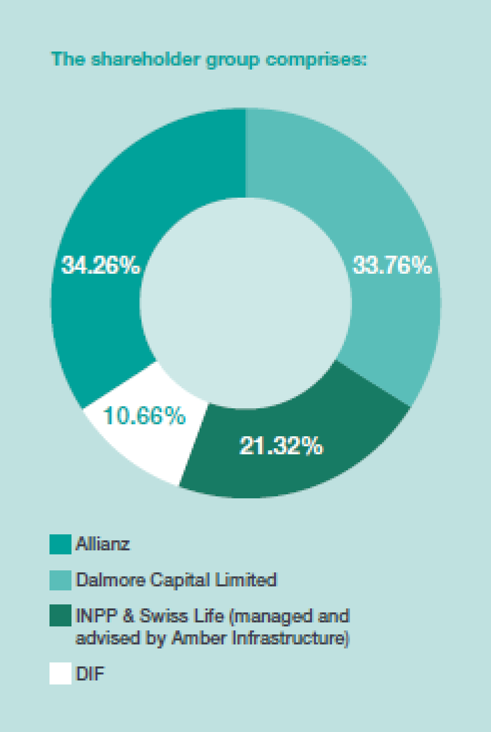
Staff survey 2018

WE DO THINGS SAFELY OR NOT AT ALL

Living Our Values

We bring our values to life every day, whether that is through our focus on safety and wellbeing in the workplace, volunteering with our charity partners, engaging local residents on what we are doing or supporting people to develop skills and find employment. The respect we have for our work and each other has been recognised during the year through our staff survey, our stakeholder survey and external awards.

Our Shareholders



Our shareholder groups are represented on our Board, enabling them to support decision making and provide important project oversight and governance. They bring with them extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas, knowledge that supports us in the delivery of the project.

Since Licence Award, our Shareholders have invested £1.3bn. Close to half the total equity has come from UK investors, including many pension funds, giving over 2.9 million of UK pension holders a stake in Tideway.

Delivering With Partners

Our delivery partners include our Programme Manager (PM), three consortia known as the Main Works Contractors (MWCs), who are delivering the works in the West, Central and East areas, and our System Integrator. We worked with the PM during the development of the project and in the procurement of the MWCs. Together we all focus on safely delivering the project, to the best value and best schedule. We have an experienced and competitive supply chain with the right incentives in place and strong information links, so we can share lessons learned that enable us to best deliver the project.

Role	Contractors
Programme Manager	• Jacobs
West Contract BMB Joint Venture	• Bam Nuttall Ltd • Morgan Sindall Plc • Balfour Beatty Group Ltd
Central Contract FLO Joint Venture	• Ferrovial Agroman UK Ltd • Laing O'Rourke Construction Ltd
East Contract CVB Joint Venture	• Costain Ltd • Vinci Construction Grands Projects • Bachy Soletanche Ltd
System Integrator	• Amey OWR Ltd

We also work closely with Thames Water which is responsible for important elements of the overall project and which will ultimately operate the system in conjunction with its network. Thames Water has a team co-located with us.

Furthermore, Tideway has established an alliance comprising Tideway, Thames Water, the MWCs and the System Integrator and is governed by an Alliance Agreement. This incentivises collaboration towards achieving the construction aims, milestones and outcomes, including the objective of meeting overall cost challenges.

Engaging With Our External Partners

Engaging with our stakeholders is a critical part of our work to construct the tunnel to deliver a cleaner, healthier River Thames. We are committed to ensuring that our stakeholders are fully engaged in our work and that they are confident that their views will be listened to and taken into account.

Our stakeholders range from the residents and businesses based close to our construction sites; local councillors, MPs and Members of the London Assembly; and a range of organisations including local authorities, the Greater London Authority, the Environment Agency, Defra, and the Port of London Authority.

At a local level, our engagement includes collaborative working with our MWCs to ensure that the communities we are working in are kept informed and up to date on the works taking place, progress being made and potential impacts. There are dedicated community relations teams in each of the three delivery areas, with Community Information Centres at the three main drive sites. These spaces allow us to engage with the community via informal drop ins, formal meetings and presentations, school visits and employment opportunity workshops. Our site-based community relations team and 24-hour helpdesk mean that we are always accessible to our neighbours.

In delivering a major infrastructure project across London we recognise the importance of engagement, transparency and trust. To support the project we have established a range of independent parties and roles for each of our primary groups of stakeholders outlined here. These include independent assessors of project information, independent Chairs for stakeholder groups and independent bodies for advice, complaints and compensation.

We engage with our other key stakeholders including local authorities and other consent granting bodies. The independently chaired Thames Tideway Tunnel Forum meets quarterly with attendees from local authorities and other statutory organisations.

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

The Delivery Model

The Thames Tideway Tunnel is being delivered using an innovative delivery model. The model was established to attract private sector capital to finance infrastructure and deliver value for money to customers.

The delivery model includes a bespoke regulatory framework, including contingent Government Support Package, which recognises the unique nature of Tideway's business. This framework provides a revenue stream during both the construction and operational periods. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers and passed to Tideway. Tideway is regulated by Ofwat.

For the period until 2030, our 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.

The Tunnel Route

The 25km tunnel beneath London, which has been dubbed the 'super sewer', will run from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, with most of the tunnel being under the River Thames. The flow from over 30 combined sewer overflows (CSOs) will be diverted from the 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 uses Tunnel Boring Machines (TBMs) in four drives from three main sites, Fulham in the West, Battersea in the Central section and Bermondsey in the East, with two additional connection tunnel-drive sites. Additional works will intercept the CSOs and connect them to the main tunnel.

The Timeline

After we were awarded our Licence, we agreed a baseline schedule with our MWCs that met the Licence date for completing the project, which we call the Current Regulatory Baseline. There are four main stages.

Mobilisation of the MWCs

This started off site, with mobilisation of people, the start of detailed design work, consenting applications and procurement of subcontractors and materials. Moving on site as these activities progressed, construction sequencing was finalised, and the enabling Thames Water Works were completed.

Construction

This includes excavating deep shafts for the three drive sites and each CSO interception shaft, followed by tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.

Commissioning

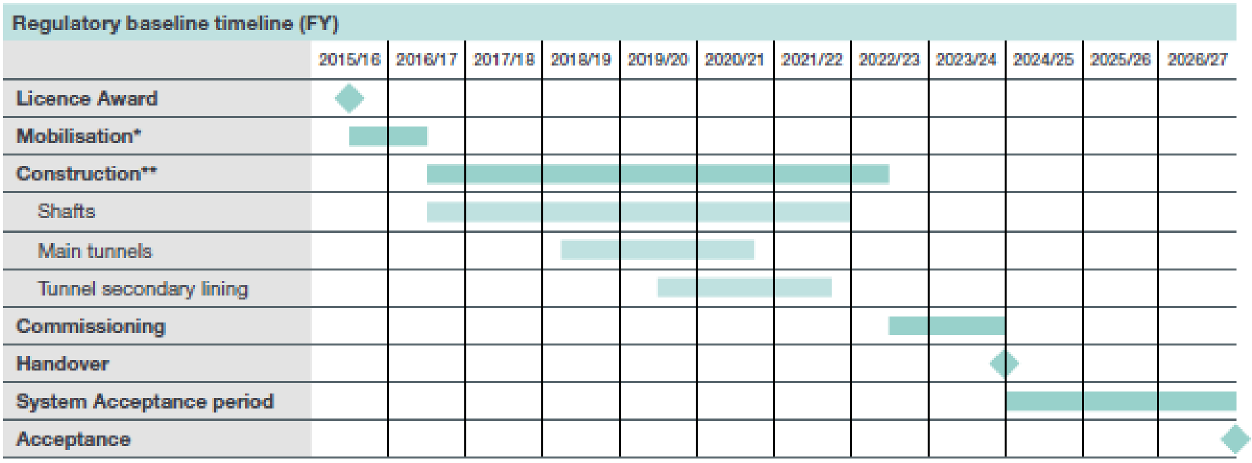
Each worksite will be tested and all the worksites and tunnels will be connected to the London Tideway Tunnels (LTT) system and tested. Once this is complete, the MWCs hand over the Thames Tideway Tunnel (TTT) Works to Tideway. At this stage, the MWCs' activities will be complete and the contractors will be demobilised.

System Acceptance Period

This will be an 18 to 36 month proving period. The LTT will be operated across a variety of storm conditions, to demonstrate that it fulfils the project requirements. Once this is complete, Thames Water will become responsible for maintaining the near-ground structures and assets. Tideway will retain responsibility for the shafts and tunnel structures and ensure the TTT is available to allow flow to pass to the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, performing any maintenance as required.

Current Regulatory Baseline

As we are now present on 20 of our 21 sites, this outline schedule remains broadly representative of the project and its overall progress, although as we deliver the project we have made and will continue to make changes to specific site schedules.



* *Mobilisation activities shown from Licence Award to the start of Construction at the three main drive sites. Additional Mobilisation activities continue throughout construction (i.e. consents, procurement).*

** *The gap between shafts and commissioning reflects the need to complete additional construction activities after shafts are complete, prior to the start of commissioning (i.e. air management systems, structures, landscaping).*

Our Business Model

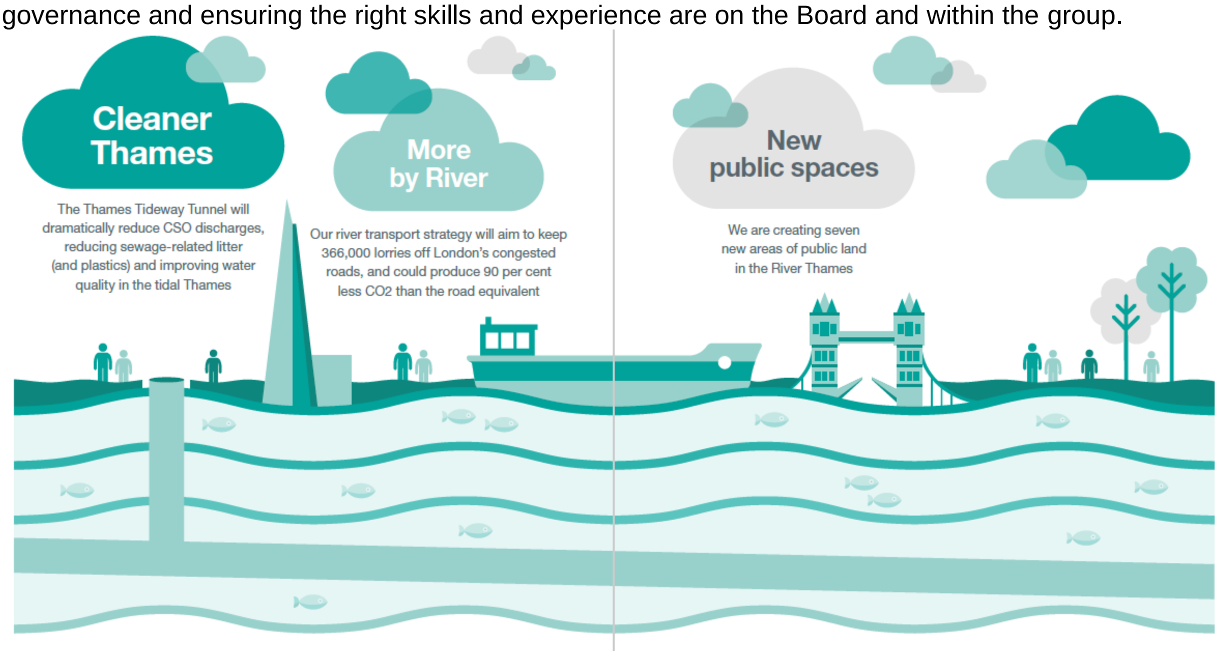
The Value We Add

We are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a positive legacy for London. We set out here the value we aim to deliver to London, our people, the environment, communities, billpayers, investors, and the supply chain.

We aim to transform the way in which infrastructure is delivered. From the very beginning, we have been seeking much higher levels of health, safety and wellbeing, investing in our people and ensuring we achieve high levels of engagement with stakeholders to engender their support for the project.

Our aims can only be achieved through successful relationships with our delivery partners and Thames Water. Through a new delivery model for infrastructure and the efforts of our team we are also focused on ensuring the project is financed efficiently.

The Group's Board recognises the importance of maintaining the highest standards of corporate governance and ensuring the right skills and experience are on the Board and within the group.



STAKEHOLDER VALUE

LONDON

- Reconnecting London with the River Thames
- Ensuring that we leave a positive legacy for London
- Developing the river economy

OUR PEOPLE

- A unique and innovative project with a focus on learning and development
- A safe and inclusive workplace
- A competitive and fair compensation package that incentivises delivery and rewards success

ENVIRONMENT

- A positive impact on the tidal River Thames
- Ensuring, where we can, that we reduce our environmental impact

COMMUNITIES

- Providing a river that locals deserve and can use
- Enhanced local landscapes for reclaimed land and public art

BILL PAYERS

- Finance the project efficiently, minimising impact on Thames Water bill payers

INVESTORS

- An appropriate return on investment

SUPPLY CHAIN

- Industry and supply chain with the right incentives across each of our three contract areas
- Providing opportunities for companies and for workers to develop skills and gain experience
- Industry leading innovations that are shared via i3P

Our Strategy

Tideway has made significant progress to deliver the Thames Tideway Tunnel in line with its vision, values and group objectives to deliver for all our stakeholders.

Looking ahead to 2019/20, the Executive Team and Board have reviewed and developed targets and aspirations for the year. We have assessed our performance during the year including stakeholder feedback, considered the external environment and the phase of the project and observed that the external environment has changed quite significantly, particularly relating to the political and supply chain spaces.

Our review resulted in refinements to our long-term objectives and priorities. The notable change was the addition of a priority to 'be in a position to hand back sites or parts of sites on completion of construction (including architecture and landscaping) and worksite testing. This will support the efficient close down of our sites post construction.

By the end of March 2020, we aim to be in a position that tunnelling will be substantially complete in both the West and Central areas and for three quarters of shaft excavations to be complete. Building on the lessons we have learnt so far and staying true to our values, we will:

- retain our focus on safety and continue to work towards our ambition to safely deliver the Thames Tideway Tunnel and in doing so reconnect London with the River Thames;
- maintain high-performing tunnelling and marine operations, learning lessons quickly and ensuring they are shared across the project;
- continue to drive all reasonable cost efficiencies across the project and safely deliver the best value for money schedule;
- develop a steady state operating model for the Post Acceptance period and a transition plan from 2020 onwards; and
- maintain the current positive stakeholder environment.

HEALTH, SAFETY AND WELLBEING

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.

Key Long Term Activities

A HSW programme which is recognised as transformational in comparison to previous projects

Delivering HSW the 'RightWay', in line with the delivery programme, verified by appropriate assurance

Maintain a focus on Health & Wellbeing to achieve relative parity with Safety

Drive for an equivalent high level of HSW performance in the marine environment

Priorities for 2019/20

- ◊ Reinforce HSW performance in the construction phase which shows improvement in comparison to previous projects
- ◊ Ensure the MWCs' marine operations (including other safety critical operations) are in line with our requirements

Relevant Principal Risks:

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

◊ Denotes amendment from 2018/19 to 2019/20

SCHEDULE, COST AND QUALITY

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 and reduce disruption to local residents.

Key Long Term Activities

Enabling all our delivery partners to safely deliver the project more efficiently and at lower cost, and using the Alliance to best effect

Maintaining our focus on delivering a high-quality, fit for purpose asset and its integration into the widersewer network

Priorities for 2019/20

- Working with the Programme Manager to deliver the best value for money schedule possible
- ◊ Be in a position to handback sites or parts of sites on completion of construction including architecture and landscaping and worksite testing
- ◊ Develop our relationship with TWUL to support efficient delivery and deliver to the joint plan for commissioning and handover
- Seeking and implementing all appropriate opportunities to increase efficiency
- Ensuring that the asset being delivered is of the right quality

Relevant Principal Risks:

• Programme delivery • Supply chain failure • High impact, low probability events • Interfaces with Thames Water infrastructure • Regulatory and political • Brexit

VISION, LEGACY AND REPUTATION

Objective

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

Key Long Term Activities

To ensure continued good relations with stakeholders including the consent granting bodies

Protect and promote the reputation of Tideway

Address the needs and concerns of our neighbours

Delivering on all our legacy commitments under the DCO

Priority for 2019/20

Refine our stakeholder engagement programme in a structured and targeted way to support efficient delivery of tunneling operations and handover

Relevant Principal Risks:

- High impact, low probability events
- Reputation

COMPANY AND PEOPLE

Objective

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

Key Long Term Activities

Reinforcing values and behaviours

Providing training and development, and succession planning

Offering competitive terms and conditions, benefits and incentives

Maintaining our commitment to diversity

Delivering systems, processes and tools to support an effective organisation

Priority for 2019/20

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

Relevant Principal Risks:

- High impact, low probability events
- Reputation

FINANCING

Objective

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

Key Long Term Activities

Maintaining a low risk financing position by preserving our Baa1/BBB+ credit ratings

Maintaining appropriate levels of liquidity

Optimise our cost of finance in order to increase our return to shareholders

To continue to build trust and confidence with our stakeholders through high quality reporting, engagement and assurance

Priorities for 2019/20

- Support the organisation to deliver the best result for bill payers and shareholders
- Funding – opportunistic issuance across formats
- Investment management – continue focus on capital preservation and liquidity and seek to optimise returns

Relevant Principal Risks:

• Programme delivery • High impact, low probability events • Credit risk rating • Inflation • Regulatory and political • Brexit

Our Performance

We are now 40% through the project and in peak construction. We have made significant progress and met some important milestones, our work has included building shafts, tunnelling, establishing marine operations and delivering our More by River strategy. We continue to maintain our schedule date for Handover in March 2024.

In April 2019, we announced that with the first and most unpredictable phase of the project now complete we were updating our estimate of overall costs based on work left to do. The revised estimate is £3.8bn compared to a £3.5bn regulatory baseline which represents an eight per cent increase.

The principal drivers for the change are due to unforeseen issues at Blackfriars Bridge Foreshore and King Edward Memorial Park sites as well as the impact of our commitment to a More by River strategy for the benefit of London and Londoners.

We announced that there will be no change to the estimated range of £20-25 annual cost (14/15 prices) for Thames Water bill payers, as costs remain well within the original possible projections for customer charges. Furthermore, the group has sufficient liquidity to complete the project and there is no impact on the contingent Government Support Package.

In terms of our specific targets for 2018/19, our achievements included:

- Maintaining discipline on our transformational Health, Safety and Wellbeing ambitions
- Starting tunnelling operations, with four of six now underground
- Substantially completing the bulk of design and consents
- Fostering excellent stakeholder relations, to mitigate delays
- Mobilising 20 out of 21 sites
- Continuing to de-risk our financing, raising a further £325m during the year and reducing the revolving credit facility (RCF) by £250m

The 2018 Employee Survey results have again shown a positive response, with ten of the 14 categories showing improvements year on year and results higher than industry averages across a range of responses.

Our stakeholder survey of 500 London residents and 41 influential stakeholders confirmed that Tideway continues to benefit from stakeholder approval, with 92% of stakeholders describing themselves as ‘positive’, and 72% were ‘very positive’.

To ensure shared awareness of, and commitment to, our objectives to successfully deliver the project for all our stakeholders we use the most important performance indicators in designing group incentives for all staff and personal financial incentives for the Executive Directors.

Health, Safety and Wellbeing

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.

Priority for 2018/19

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

2018/19 Measure

Maintain strong HSW Performance

Target	Actual
Safety record better than recent major projects/industry leading	On Track

Number of major injuries

Target	Actual
0	0

Marine Operations Significant incidents

Target	Actual
0	0

Number of reportable accidents*

Accident Frequency Rate 3

Target	Actual
0.00	0.16

Accident Frequency Rate 7

Target	Actual
0.00	0.12

* *Definition:*

Major Injuries: *any serious injury that results in permanent disability, long-term medical problems or shortened life expectancy (i.e. life changing).*

AFR-3: *12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than three days lost time for the individual involved. Injuries included in AFR 7 will automatically be included in AFR 3.*

AFR-7: *as above, for seven days lost time for the individual involved. Injuries included in AFR 7 will automatically be included in AFR 3.*

Performance

Tideway continues to embed its transformational approach to health, safety and wellbeing, and we are pleased to report that we have had no major injuries or significant incidents relating to marine operations to date. Overall, the programme Accident Frequency Rates have remained below other large infrastructure projects working at similar phases of construction. However, we did have a number of lost time incidents, including six injuries which resulted in over-seven-day absences. We are committed to doing things better and we have investigated these lost time incidents and implemented the lessons learned. We continue to strive to improve on both our leading and lagging indicators.

To reinforce HSW performance in the construction phase, we identified three key activities:

- delivering HSW the 'RightWay', in line with the delivery programme and verified by appropriate assurance;
- driving for an equivalent high level of HSW performance in the marine environment; and
- focusing on health and wellbeing, so they achieve relative parity with safety.

Our programme-wide initiatives helped us realise these priorities in 2018/19 and were instrumental in embedding a good HSW culture across the programme. While the overall objectives were achieved, we identified some issues that required a diligent response.

In the Central section of the Programme there were a number of incidents in the middle of the year. The Central Team (including the Programme Manager and Main Works Contractor) agreed that a contract-wide stand-down was required to assess the incidents and the working culture. Discussions were held with the entire workforce, to reaffirm the RightWay ethos and to better instil Tideway's health and safety values. This consultation led to a detailed corrective action plan being established, which resulted in an improvement in performance for the remainder of the year.

RightWay

RightWay is our approach which underpins the fulfilment of the HSW strategy. The RightWay is all about establishing a working environment that allows individuals to plan ahead, to challenge, to continually strive to do things better and to reinforce a positive HSW culture through effective leadership.

We have continued to conduct RightStart Reviews across the programme, before the start of any significant phase of construction, to ensure HSW has been adequately considered.

RightStart reviews are undertaken in collaboration with the Programme Manager and our MWCs to ensure appropriate input and assurance and ensure that activities are planned effectively. Involving the contractor workforce in the RightStart process enables those conducting the work to raise concerns and suggest alternative methods. It also ensures sufficient understanding of each task and the risks and mitigations which need to be considered when performing it.

Employers Project Induction Centre (EPIC)

We established our innovative and interactive induction programme, EPIC, in 2015/16 and it has been widely recognised as industry leading. EPIC 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 15,500 people have attended the programme, including approximately 3,300 in 2018/19. This includes people working on Tideway and from other interested companies, which supports our aim of being transformational and further improving health and safety in the wider construction industry.

Tideway, in partnership with Active Training Team (ATT), received the following accolades for the EPIC induction programme in 2018/19:

- winner of the Training Excellence Category at the 2018 Construction News Awards;
- winner of the Health, Safety and Wellbeing Initiative of the year at the British Construction Industry Awards 2018; and
- winner of the Health and Safety Award and Editor's Choice Award at the Ground Engineering Awards 2018.

While More by River has significantly reduced vehicle movements across the programme, the residual risks associated with vehicle movements have not been ignored. EPIC Logistics, launched in 2017/18 was Highly Commended at the Constructing Excellence Awards in 2018. Similar to EPIC, it is an induction course designed to provide a visceral experience of a fatal incident, highlighting the impact that a chain of poor decisions can have on health and safety and showing the consequences of such an incident for those not directly involved in it. To date, EPIC Logistics has been undertaken by 581 drivers, with 446 in 2018/19.

Transforming Health and Safety

The Transforming Health and Safety Working Group (THSG) was established to look at how we can make a difference to on-site activities, such as the 'I'm in a safe place' initiative from the lifting group. It does this by the people involved leading day-to-day HSW across the Alliance. During the year, the THSG involved a broader range of stakeholders and improved the structure of its meetings, to ensure more transparency of sub-group activities and greater visibility of actions and best practices raised in the group.

Health and Safety Performance Index

We introduced the Health and Safety Performance Index (HSPI) in 2016/17 as part of our push to be transformational in construction. It enables us to develop a balanced scorecard in order to measure the HSW performance of our contractors. HSPI comprises a set of leading performance indicators, developed by analysing accident and incident data from previous projects and considering future risk profiles.

Each performance indicator is scored either:

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

The overall HSPI score improved from 2.00 at the beginning of 2018/19 to 2.44 at the end of March 2019, with nine of the 11 measures meeting or exceeding a score of two.

A collaborative annual review of indicators takes place in the last quarter of the year. An additional review was also undertaken in 2018/19, in response to an increasing number of incidents in the second quarter. This ensured the indicators remained challenging and relevant to current and future works and support our approach to transformational HSW.

Marine 'EPIC Refresher'

Tideway has established a Marine 'EPIC Refresher', which is an interactive learning experience aiming to instil an intelligent and respectful wariness of the dangers of the marine industry and the need for vigilance. It also aims to demonstrate the need for a culture of open and active safety leadership that welcomes the opportunity to challenge and to be challenged over health and safety.

In addition to the Marine EPIC refresher, Tideway is actively working with its whole supply chain to ensure marine risks are adequately considered. We also continue to record and review marine risks in the risk register. These risks are conveyed to the Executive Team and the Tideway Board via the six-monthly HSSE Committee.

Focus on Health and Wellbeing

Tideway excelled in the medium-sized business category at VitalityHealth's 'Britain's Healthiest Workplace' winning the award for 'Most Improved Workplace' as well as achieving third place overall in the category.

There were some notable successes recorded in the VitalityHealth survey report, including the positive impact of our managers and leaders on supporting their colleagues' wellbeing, which was significantly higher than our industry benchmark. The number of people who said that our mental health and sleep initiatives had made a positive improvement in their lives was significantly higher than for the top five organisations that participated. There were also a number of areas for improvement, including nutrition and achieving a balanced diet. The findings from this report will be used to determine our health and wellbeing programme for the year ahead.

Mini Health Checks

During the year, 2,668 Mini Health Checks (MHCs) were delivered. The checks identify, assess and raise awareness of cardio-vascular risk factors amongst employees. We offer frequent drop in clinics and pre-arranged health check days across the project, with health promotion and lifestyle advice provided by occupational health nurses. Almost 50% of MHCs identified no risk factors and the remaining participants were given up-to-date, evidence-based materials to help improve reversible health risks. The MHCs identified that circa 50% of the workforce have one or more reversible health risks associated with illness and premature morbidity, with the number of risk types increasing with age. The key health risks identified for 2018/19 were obesity, high blood pressure, elevated cholesterol and high blood sugar.

Fatigue research

Tideway commissioned an independent scoping study from Loughborough University to improve the construction industry's understanding of the nature of fatigue and sleepiness. The study focused specifically on shift patterns, non-work activities and how the industry can better manage the risks involved. The research showed an opportunity for the industry to improve fatigue management, but this will require a change of culture and a multi-stranded approach. The report will be shared across the Alliance and the industry and a workshop is planned for June 2019 to agree how best to take it forward.

Development of the Tideway Occupational Health Inspections

The Occupational Health Inspection (OHI) is a tool for measuring occupational health risk management. An occupational hygienist visits sites and counts examples of good and poor practices, using a standard score sheet. The OHI score for the project is high, at 92% for West and Central, and 93% for East.

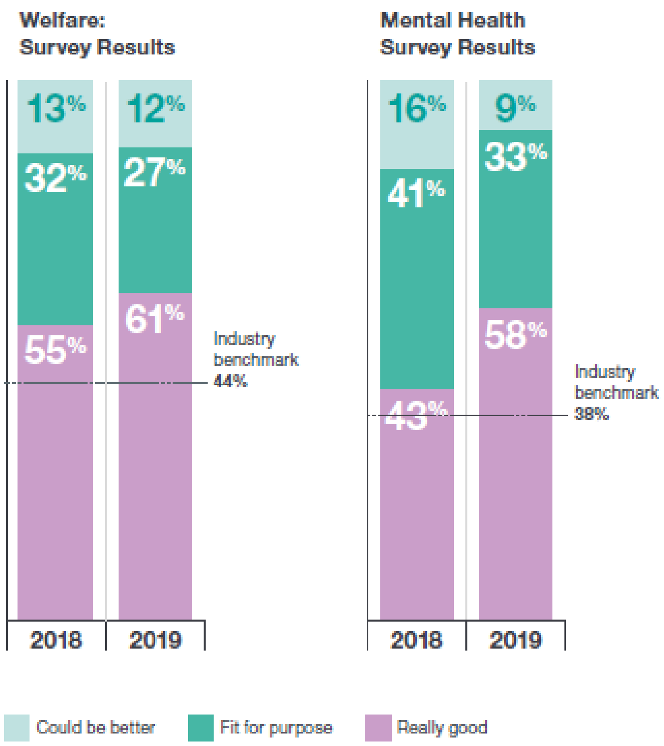
Scores highlight health risks or work areas where intervention is needed. The OHI was featured in the Tideway Technical Conference, an event organised to share examples of best practice and innovation with the industry. The OHI will continue to be developed to provide a useful assessment and validation tool for the industry.

Health, Safety and Wellbeing Culture

We encourage our staff to raise any safety concerns and also conduct a number of initiatives during the year to support their wellbeing and mental health. We use our annual HSW survey to help us understand our progress. In December 2018 1,450 personnel took part in our survey from across the Alliance. Empowering those working on the project to act is important and we were pleased that 39% of those surveyed confirmed that they had stopped someone else working for safety reasons. A full report of the survey outputs has been made available across the Alliance. In addition, our delivery areas have been provided with area-specific results and action plans, which they have considered while compiling their annual HSW strategies.

Mental Health

We continued to support Mates in Mind, a charity which raises awareness and understanding of mental health and mental ill-health in construction, helping people to understand how, when and where to get support and breaking through silence and stigma by promoting a culture of positive wellbeing throughout the industry. Our results for how well we care for people's welfare and mental health both improved from previous years and were above industry benchmarks.



Start the Conversation

In February 2018 we launched the Mates in Mind ‘Start the Conversation’ programme, which aims to create general awareness and understanding of mental health and its biggest barriers, particularly in the workplace. To date, 176 Tideway employees have attended sessions, with more being rolled out on sites across the programme.

Mental Health First Aiders

We have 56 trained mental health first aiders between Tideway and our Programme Manager, 167 in total across the whole project. In addition we host a bi-annual Mental Health First Aiders Networking Group. The group provides a support network for all trained mental health first aiders on the programme and aims to refresh attendees on key topics they were taught in training.

Mental Health Working Group

The Mental Health Working Group is a subgroup of THSG, created to obtain insights from the business to inform the actions we need to take to improve mental health in Tideway, across the industry and among family and friends. The group comprises representatives from Tideway and the Alliance, with guest speakers attending meetings to present what they have been doing in their workplaces.

The group has developed and introduced a mental health maturity matrix across the programme, with the aim of evaluating our performance regarding mental health within the workplace. Tideway, the Programme Manager and the MWCs are scoring themselves against the matrix, which will provide a baseline capturing the positives and highlighting opportunities for improvement, with clear action plans being developed.

Security and Incident and Crisis Management

To support our security, incident and crisis management arrangements, Tideway continues to engage with emergency services. The Metropolitan Police Service Liaison Officer, working on behalf of Tideway meets with Counter Terrorist Security Advisors and sits on the Thames Protect forum, the counter terrorist forum for the River Thames. We also work with London Resilience, and successfully delivered three crisis management exercises during the year. The lessons learned from these exercises have been embedded into Tideway’s Incident and Crisis Management Procedures.

Schedule, Cost and Quality

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 and reduce disruption to local residents.

Priorities for 2018/19

- Working with the Programme Manager to deliver the best value for money schedule possible
- Working with the Programme Manager to ensure the MWCs' marine operations are in line with our requirements
- Seeking all appropriate opportunities to reduce cost
- Ensuring that the asset being delivered is of the right quality
- Developing our relationship with TWUL as interfaces evolve at all levels to support efficient delivery

2018/19 Measure

Delivery against the regulatory baseline – schedule

Target	Forecast
Handover by quarter one 2024	Handover by quarter one 2024

Delivery against the regulatory baseline – cost*

Target	Forecast
£3.5bn	£3.8bn

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

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

Performance

Our performance is broadly in line with the challenging targets we set ourselves to deliver the project. The last year has built a solid foundation on which we can achieve Handover by quarter one 2024. Our cost estimate has been revised upwards from £3.5bn to £3.8bn, largely due to unforeseen conditions at Blackfriars and King Edward Memorial Foreshore sites and our continued commitment to our More by River strategy. These two sites are discussed in the Commercial and Area sections below.

In terms of progress, we are now fully active on 20 of our 21 sites and have started the construction of permanent works on 15 of our 21 sites. We have completed construction on four shafts and have three TBMs actively tunnelling (two in our main tunnel and one in a connection tunnel).

We have made significant progress at our three main drive sites. At Carnwath Road in the West, the acoustic enclosure and shaft are complete, and we have lowered the TBM into the shaft ahead of starting tunnelling. At Kirtling Street in our Central section, the site has been set up to support tunnelling and we have successfully launched two TBMs. The West bound machine was first to launch and has achieved over 1km of tunnelling, with production rates in line with those used to derive the schedule. The East bound machine launched in March. At our Chambers Wharf site in the East, we have completed the shaft wall and installed an acoustic enclosure over the shaft to minimise any impact on residents. We have completed over 50% of the shaft excavation in readiness for the TBM which is due in 2020.

We have completed the installation of the temporary cofferdams which establish our site. This is an unusual feature of the project which we must complete before we can start construction of the tunnel. The project has been very visible from the river with a large fleet of marine construction equipment mobilised to undertake the works. Our strategy to use the river for both plant and materials has reduced our impact on some of the most congested areas of London. This continuing progress, while keeping our people as safe as possible, has increased our confidence about meeting our schedule.

Tideway ICE Technical Conference

In March 2019 over 200 delegates from Tideway and across the wider industry gathered at the Institute of Civil Engineers to celebrate Tideway's technical achievements to date across the project. Six of the best innovations were presented to delegates in the morning, with the afternoon dedicated to looking ahead to see what Tideway could focus on in the areas of ICE's four knowledge campaign themes of Productivity; Energy, Resilience and Climate Change; Skills and Employment and Digital Transformation. Some of the key ideas put forward by delegates during the day are now being developed, including the proposal that Tideway move at least one site to being powered entirely by electric plant. The conference was followed by an awards ceremony celebrating both individual and team achievements across the Tideway Alliance.

Construction Quality

In general, the level of non-conformance and re-work on the project during the year has been at a satisfactory level. Construction quality is the responsibility of the Main Works Contractors who self-certify their works. This self-certification is overseen through regular surveillance by the Programme Manager with further technical assurance provided by inspections from Tideway's NEC Supervisor team who report independently to the Chief Technical Officer. All aspects of Tideway's Quality Management System are subject to regular Executive review and internal audit and are certified through external accreditation to International Standards: ISO 9001 Quality Management, ISO 14001:2015 Environmental Management, OHSAS 18001: 2007 Health and Safety.

These multiple levels of assurance provide the project with a very robust framework to drive construction quality compliance and enable an integrated approach for dealing with quality related issues to be maintained.

Commercial

Since entering into the Main Works Contracts (MWCs), certain risks retained by Tideway have materialised. In addition to some initiatives such as More by River, the combination of these factors has resulted in an increase to each of the MWCs target prices since Licence Award. Consequently, Tideway announced in April an increase of £280 million in the cost estimate.

There are three particular areas which have impacted the MWCs' target prices. First, a redesign and reprogramming of the works at Blackfriars Bridge Foreshore to address unforeseen technical issues associated with the gas main under the Embankment and to mitigate programme impact. The associated redesign and reprogramming led to an increase of £140 million in 2018/19 prices against the original contract price of the works. Second, unforeseen ground condition issues at King Edward Memorial Park Foreshore site resulted in significant redesign and re-programming of the works at this and associated sites. The cost estimate is an additional £120m for the East MWC. In addition, our More by River strategy commitments equated to c£54m. These estimated revised total costs are included in the current cost estimate together with a number of other changes and efficiencies.

The MWCs have applied to have certain other matters designated as the Group retained risks. The Project Manager has assessed the cost applications from the MWCs for these events and its view of the impact of these events is reflected in the Group's current cost estimate.

The combination of these factors has resulted in an increase to each of the MWCs' target prices. Due to this and in line with normal practice, we have allocated contingency to reflect the increase in target prices. The revised cost estimate for the project incorporates appropriate contingency for the remaining expected risk on the project.

Working with stakeholders

During the past year securing the required consents has been key to allowing works to continue on all sites. We have worked closely with all of the consent granting bodies (CGBs): Transport for London (TfL), the Port of London Authority (PLA), the Marine Maritime Organisation (MMO), the Environment Agency (EA) and local authorities.

We have maintained positive working relationships with the CGBs, many of which have been co-located in our local offices. We receive good support from all CGBs in processing our applications within agreed timescales.

More by River

Tideway is investing £54m in its More by River strategy, which has been developed to reduce the number of HGVs needed to deliver the project. More by River delivers numerous benefits - we are reducing our impact on the road network, on vulnerable road users, and London's air quality. We are also playing a part in rejuvenating the river economy. Compared to original estimates of HGV movements needed for the project, we have reduced the number by an estimated 72 per cent.

This year, by using the river to transport materials we avoided 68,000 lorry movements, an average of almost 200 lorry movements a day. To date, the project has moved approximately 935,000 tonnes of material by river saving around 114,800 HGV movements.

Tideway is the first infrastructure project to develop comprehensive data on the air quality benefits of a river strategy compared to the road equivalent. We found that there was a 54 per cent reduction in NOx, an 86 per cent reduction in NO2 and a 90 per cent reduction in CO2. The research was based on a comparison with modern standard HGVs. We will continue to evaluate the benefits of our approach and share the results.

Progress by Area

West Area

In the West area we are working on all seven construction sites. We have completed the excavation of three shafts and have started construction of the shafts on all the other sites.

The West team will construct 8.5km of tunnel, which comprises 6.5km of main tunnel and a 2km connection tunnel from King Georges Park to Carnwath Road.

In the West section we made significant progress with two TBMs successfully lowered at Dormay Street and Carnwath Road.

At our main drive site at Carnwath Road, we excavated a 49m deep shaft. In September, we completed a continuous concrete pour in just over 60 hours to construct the base of the shaft. This was successfully carried out with high levels of community engagement in the build-up, with the team running a number of drop-in sessions so local residents could ask questions and find out more. Early engagement meant the community was reassured that the work would be completed efficiently, with minimum disruption. March 2019 saw TBM Rachel successfully lowered in advance of tunnelling. towards Acton. At the Acton site, we started sheet piling for the shaft in March 2019 and once complete will begin excavating the shaft, ready to receive Rachel.

At our site at Dormay Street we lowered TBM Charlotte, which will construct the 1.1km Frogmore connection tunnel. In March 2019, Charlotte started tunnelling towards King George's Park. Once this section is complete, she will be removed from the shaft and transported back to Dormay Street to complete the drive to Carnwath Road.

Alongside our construction works we built new changing rooms at Barn Elms, which were handed over to Wandsworth Council in April 2019 to provide high-quality facilities for local residents. It is important to us that, where we can, we create facilities for residents that they can continue to enjoy long after we have completed our works.

Further milestones achieved include:

- completing the construction of the 300m connection tunnel lining at Hammersmith;

- completing the sheet piling for the cofferdam construction at Putney. Sheet piling involves driving a series of steel sheets into the ground, to form a continuous steel wall. Our More by River approach means the spoil produced was taken away from site by barge; and
- Commenced excavation of the 30m deep shaft at Acton.

Local Engagement

We ensure that people are well informed of our progress through formal meetings, drop ins, and presentations. For example, at our Carnwath Road site we have hosted guests ranging from students to international visitors from India and China. By engaging with a range of stakeholders we have been able to show the scale of the project and our progress. The team is also committed to showing the opportunities a career in engineering can provide to young people, by carrying out school visits and hosting site visits.

Central Area

In the Central area, we are working on all eight construction sites, recognising one of our sites has two shafts. We have completed the excavation of the shaft at Kirtling Street and have launched two TBMs from its base. Construction of shafts has commenced on three other sites. The remaining sites are preparing to commence shaft construction during 2019/20.

The Central team will construct 12.6km of tunnel in two drives from Kirtling Street one to Carnwath Road in the West and the other to Chambers Wharf in the East.

In the Central section both TBMs were launched from the main drive site at Kirtling Street in Battersea. Millicent was the first TBM to start her journey west towards our site at Carnwath Road in late 2018. As of the end of March 2019, TBM Millicent had tunnelled over 1000m west, past Chelsea Bridge and the Chelsea Embankment Foreshore site. Ursula, which will tunnel east towards Chambers Wharf in Bermondsey, followed in March 2019.

Prior to launching the TBMs, we installed the conveyor system, muck storage area, segment handling equipment, grout plants and water treatment facilities to support tunnelling operations. We also carried out the largest concrete pour on the project, involving 3,400m3 of concrete, to construct the base slab of the shaft.

We completed the construction of cofferdams at five sites. The cofferdams increase the footprint of our sites and enable progress with shaft construction at key sites including Blackfriars and Albert Embankment.

Further milestones achieved include:

- installing and occupying welfare facilities at Falconbrook, Cremorne Wharf, Albert Embankment, Victoria and Chelsea, which completed full mobilisation on the central sites. The welfare facilities combine offices, toilets, changing rooms and dining areas, to allow our staff to effectively work on a site;
- completing land-side piling and the cofferdam and starting backfilling at the Heathwall pumping station site;
- removing obstructions at the Falconbrook site, part of an existing Thames Water pumping station, in advance of constructing the 9m wide and 45m deep shaft. At our Cremorne site, next to an existing pumping station, we removed obstructions for the shaft and interception chamber;
- completing marine works at Chelsea Embankment in March 2019, including the construction of the cofferdam, and continuing sewer lining work;
- completing the cofferdam at Blackfriars, enabling us to begin work on constructing the first section of the shaft, formed by secant piles; and
- starting work at Victoria Embankment, prior to excavating the 51m deep shaft.

Joint Problem Solving at Blackfriars

At our Blackfriars site, we avoided the need to divert the Victorian gas main. This meant that it was not necessary to close the road along the Embankment, preventing considerable disruption to Londoners. The assessment of the gas main was a significant piece of engineering by the team, requiring close working with key stakeholders including Cadent Gas. The team continues to engage closely with other vital stakeholders, such as the City of London and TfL, as works progress. The team recently received a licence from the Environment Agency to de-water at Blackfriars. This is a major achievement, as de-watering will facilitate the construction of the shaft. De-watering reduces the level of ground water around our sites, which makes construction safer. Without de-watering we would have to contend with high water pressure in the ground. The challenges we faced and solutions implemented have impacted on our current cost estimate as discussed earlier.

Local Engagement

Some of our most visible sites are in our Central Section in the heart of central London. We continue to engage closely with our local stakeholders, who range from residents to the National Theatre and the Chelsea Flower Show. Over an open weekend we welcomed more than 400 members of the public to see the TBMs up close while they were above ground before they started their journey underneath London.

East Area

In the East area we are working on five of the six construction sites. We have commenced shaft excavation on three sites and are constructing the shaft wall on one other site. At King Edward Memorial Park, we are stabilising the ground prior to starting shaft construction next year. The remaining site is Abbey Mills, where we do not start construction until 2022.

The East team will construct 10.1km of tunnel, which comprises 5.5km of main tunnel and a 4.6km connection tunnel from Greenwich to Chambers Wharf.

Our main drive site, Chambers Wharf, saw many visible changes. We installed our acoustic enclosure, which reduced noise and shows our commitment to being considerate to our neighbours. It enabled us to start 24-hour working on shaft excavation, five days a week. We are now over half-way through completing the shaft. We completed diaphragm walling and installed much of the slurry treatment plant, which will separate the water and chalk from the slurry before it is taken away from site by barge. Later this year will see the arrival of our TBM Selina, with tunnelling due to start in 2020.

Archaeological investigations by The Museum of London Archaeology, discovered ‘The booted man’, a 500-year-old skeleton with knee-high boots, alongside a range of other interesting artefacts. Archaeology took place on site for almost two months and during this time the team worked collaboratively, to ensure that the interface between the construction team and archaeologists minimised any risk to the programme. Through safe and collaborative working, the team was able to construct the capping beam for the shaft, alongside the archaeologists.

Further milestones achieved include:

- undertaking remedial works to the cofferdam and hinterland at King Edward Memorial Park, dictated by the discovery of unexpected soft ground. The remedial works to the temporary cofferdam have been completed and the deep soil mixing of the hinterland has started. Deep soil mixing strengthens the weak layer of alluvium, to reduce long-term settlement and allow construction of the diaphragm walls. We also completed sheet piling works, ready for the archaeological investigations phase of works;
- completing diaphragm walling at Deptford Church Street and excavating over half of the 28m deep shaft. We liaised closely with the 18th century St Paul’s church, which is one of our nearest neighbours;
- almost completing diaphragm walling at Earl Pumping Station, one of our most constrained sites, with the next phase being the shaft capping beam and excavation of the 54m deep shaft; and
- completing the diaphragm walls for the shaft at the Greenwich pumping station site. The majority of the walls for the sewage interception chamber, which connects the shaft to the pumping station have also been completed. The acoustic enclosure has been substantially completed, to enable us to continue excavating the shaft. The acoustic enclosure has been constructed in an operational Thames Water site and immediately adjacent to the Docklands Light Railway (DLR), which has made this a challenging piece of work and required the team to work closely with Thames Water and DLR. We are currently at a depth of approximately 8 metres. At the Phoenix wharf side of the site, we started installing the foundations for the slurry treatment plant.

Local Engagement

Due to the proximity of the DLR and Network Rail at Greenwich, we were required to carry out some works at night when the trains were not running. The team ensured that residents were kept informed on progress by sending out regular information sheets and email updates. Our staff attend the Community Liaison Working Group and provide residents with current information on progress, answer questions and explain the project. Our community information centre is open every week at Chambers Wharf and we have welcomed visitors ranging from local residents and schools, to the Mayor of London.

Vision, Legacy and Reputation

Objective

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

Priority for 2018/19

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

2018/19 Measure

Evidence of support from the majority of stakeholders surveyed

Target	Actual
>50%	92% positive 72% very positive

No material schedule impact due to stakeholders (including Neighbours)

Target	Actual
No material schedule impact	No impact

Percent of live legacy commitments on track

Target	Actual
75%	90% Monthly Average

Apprentices per project staff

Target FTE	Actual FTE
1 in 50	1 in 49 Monthly Average

STEM* volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	4.7 hours 3254 hours in total

Community volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	10 hours 7182 hours in total

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

Engagement

Tideway's stakeholder and public engagement is about maintaining trust in the project and ensuring we are publicly transparent and accountable for all of our activities. Our stakeholder research in Autumn 2018 showed strongly positive attitudes towards Tideway and the project from stakeholders and the public. Positive sentiment among stakeholders was at 92% of those surveyed, with 72% "very positive", compared with 80% and 51% respectively in 2017. Among the general public, awareness of the project increased in the year by 5% to 49% and was up by 8% to 59% in the boroughs we are working in. Positive sentiment among the public was also higher, at 73% of those aware of the project (65% in 2017). The research provided useful feedback about the way that we communicate and engage with stakeholders and this feedback will continue to inform our strategy.

Awareness of the project was significantly boosted by a BBC2 documentary, 'The Five Billion Pound Super Sewer', which aired in July and August 2018. Based on the first three years of the project (including the construction of the Lee Tunnel) the documentary reached an audience of around 1.9m people. We also saw increased interaction through social media and other online engagement, with a 26 per cent increase in visitors to our website and a 28 per cent increase in Twitter followers.

We continued to build relationships with communities close to our sites. Our helpdesk, which operates 24 hours a day, seven days a week, dealt with nearly 5,000 contacts during the year, which included 1,488 general inquiries (up 119 per cent) showing an increasing interest in the project. We also held 46 Community Liaison Working Group meetings, as well as weekly information centre sessions at Chambers Wharf and monthly sessions at Carnwath Road, the two sites with the greatest level of interest from neighbours.

Our engagement with other stakeholders included shared initiatives with the Mayor of London. In May 2018, Sadiq Khan launched his new workplace inclusivity network at our Chambers Wharf site, underlining our commitment to diversity within our own workforce, and in February 2019 our low-entry HGVs were used to showcase his pledge to make London the first city in the world to remove the most unsafe lorries from its roads.

We continued to use site visits and river boat tours to engage with stakeholders, hosting some 15 site visits and 45 boat tours.

Legacy

Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to reducing our carbon emissions. This year our aim was to exceed our ambitious target of 75 percent of live legacy commitments being on track. At March 2019, 90 percent were on track, which meant we exceeded our target when averaged across the year.

We have 54 Legacy Commitments, of which 39 are live. These include:

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

We have mapped our Legacy commitments against the UN Sustainable Development Goals (SDGs). Below are the SDGs where we expect to make a significant contribution during and/or after construction. These are detailed in our Green Bond Framework that supports Tideway's sustainable financing strategy and progress is reported to our debt investors through our Green Bond Report on our website.

Carbon

We are committed to minimise the carbon footprint of our project. We are now able to align ourselves to the World Resources Institute and the World Business Council for Sustainable Development definitions of Scope 2 and 3 emissions. To help us deliver this commitment we have developed a Carbon Action Plan which we have delivered 8 of the 12 targets within this financial year, with 3 of the remaining completed by April 2019 with a plan in place to complete the final one by Summer 2019.

The totals for 2018 calendar year were:

- Scope 2: 134 tonnes CO_2e
- Scope 3: 78,243 tonnes CO_2e

As tunnelling works continue to increase, the Scope 3 totals will rise however it is anticipated that initiatives such as the use of telematic data from plant that records fuel consumption and operator behaviour on a single platform will reduce the total against those forecast in the original baseline.

Initiatives such as the smart use of telematic data, that records plant idling time, is now fully implemented, and a platform has been developed for all plant operators to feed in their data, which is collated by dedicated analysts within each of the MWCs' environment team. The data is then used to train operatives on how to maximise efficiency of plant and subsequently reduce emissions.

The air quality benefits gained through the implementation of our river strategy can be seen in the More by River case study in Schedule, Cost and Quality.

Community Investment and Charitable Giving

A key part of Tideway's legacy and community engagement is to support charities near our sites in delivering long-lasting benefits to the communities we work in as well as supporting London-wide charities which focus on improving the River Thames. Tideway's community investment programme benefited a total of 210 organisations and c9,000 people in the year.

Thames21

Thames River Watch, Tideway's partnership with environmental charity Thames21 saw 839 people 'reconnect with the River Thames' at 175 foreshore clean-ups. The 'citizen science' programme also trained 90 people to run their own clean-ups or carry out surveys, compiling data which is used to create reports that help Thames21 influence policy change.

The programme collected more than 33,000 plastic bottles in the year, including 3,249 at a 'Big Count' event across multiple sites on the same day (40% were water bottles). A 'Big Count' for wet wipes in March found more than 23,000 in just one stretch of foreshore at Hammersmith Bridge.

Active Row with London Youth Rowing

Tideway's Active Row partnership with youth engagement charity London Youth Rowing (LYR) aims to get 8,000 young people – 50% of them female and 60% from minorities - active through indoor and on-water rowing within four years. By the end of 2018/19 Active Row was well ahead of its target, with 4,889 young people engaged in its first 18 months.

Giving back – Community volunteering

Alliance staff volunteered a total of 7,182 hours in the year. This included 4,019 hours volunteered by MWC staff and 3,163 by Tideway (including the PM).

Our community volunteering helped our partners to deliver benefits to people across London. This included the engagement on the Thames River Watch and Active Row programme mentioned above, as well as helping the RNLI speak to 1,260 young people about river safety through its Respect the Water campaign. Our teams also gave their time and skills to deliver smaller but still vital community impacts, including: interior and exterior improvements at the Penfold Community Centre in Wandsworth by our Hammersmith and Dormay Street teams, garden makeovers at two Single Homeless Project hostels in Wandsworth and internal renovation at one of its Lambeth hostels, to give residents better outdoor and indoor spaces; and 141 older neighbours getting some much-needed company and fun at a monthly social club run by South London Cares in Blackfriars, funded by Tideway.

Oarsome Challenge and Race the Thames

We raised significant sums through charity fundraising. In May 2018 we held the 'Oarsome Challenge', which involved 16 crews from across the Alliance rowing ten miles along the Thames through central London. The event raised more than £35,000 to fund a new fundraising post at Shadwell Basin Outdoor Activity Centre, in Tower Hamlets. This was followed in March by 'Race the Thames', a 72km team indoor rowing challenge which raised almost £13,000 for London Youth Rowing. In total, staff across the Alliance raised £66,609 for charity in the year. Tideway itself gave a total of £53,340 in charitable donations in 2018/19, in addition to its community investments and partnerships.

Educational Outreach

Our education programme is in its sixth successful year.

This year Tideway has:
170 STEM volunteers

Who delivered:
465 hours of STEM activities

To over:
3000 young people

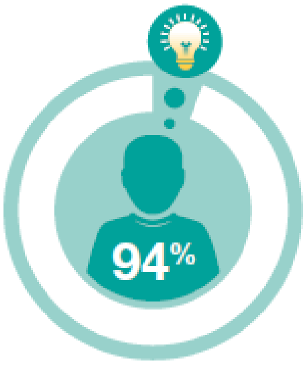
Our education programme works with young people to promote STEM (Science, Technology, Engineering and Maths) and construction careers. Throughout the year we trained STEM volunteers to better equip them to engage with young people. Our volunteers helped deliver events that have become commonplace in our school engagement calendar, such as Tomorrow's Engineers Week, and supported the development of free educational resources for teachers that link the national curriculum with real life scenarios and careers.

We supported our apprenticeship programme with an assessment day that helped shortlist suitable Civil Engineer apprentices, and by consistently engaging the students in our work experience placements with apprenticeship opportunities. One of these students is now a Civil Engineer apprentice in our workforce. Find out more about apprenticeships in Company and People.

We also reached a milestone when we welcomed our 100th apprentice. Callum Davis, 18 started his civil engineering apprenticeship at Chambers Wharf in Bermondsey.

We have partnered with Construction Youth Trust (CYT), a charity that inspires and supports young people to achieve their full career potential in the construction industry, especially those who are disadvantaged or facing significant barriers to working life. CYT has engaged with around 7,000 young people in London schools, with large cohorts of young people underrepresented in construction.

IN 2018 CYT IMPACT REPORT SHOWED THAT:



94% OF STUDENTS SAID THEY INCREASED THEIR KNOWLEDGE OF CAREERS WITHIN THE SECTOR.

75% OF STUDENTS SAID THEY WERE MORE INTERESTED IN A CAREER IN CONSTRUCTION AFTER THE ACTIVITY.

Ethical Supply chain

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

- full-time site and office-based employees on Tideway to be paid at least the London Living Wage, with robust assurance processes in place to identify and address any non-compliance;
- Fair Payment Charter, which supports BEIS's ambition to ensure the construction industry has standard 30 day payment terms. The Fair Payment Charter has been issued to our MWCs and Joint Venture Partners as part of their contractual obligations and we monitor their compliance;
- responsible sourcing, which requires all of our key building materials, principally steel, cement, aggregates and timber, to be certified to either Building Research Establishment's (BRE) responsible sourcing standard BES 6001 'very good or above', CARES Sustainable

Constructional Steel (SCS), Eco-Reinforcement or FSC or PEFC timber, as applicable;

- a sector-leading approach to preventing bribery, corruption and modern slavery through contract terms with our delivery partners, close monitoring of our supply chain, our Modern Slavery Statement and Anti-Bribery and Corruption procedures, and staff training to raise awareness of the complexities of human rights and ethics in the supply chain; and
- compliance with the Ethical Trading Initiative Base Code.

Our supply chain spend to date has reached:

c1400 Companies

12 UK regions

19 London Boroughs

Since Licence Award c90% of our supply chain spend has been within the UK.

We had our first BRE BES 6002, Ethical Labour Sourcing Standard (ELS) assessment in 2018, in which we achieved the baseline criteria. We were the fourth company and first client organisation to complete the assessment.

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

Company and People

Our priorities

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

Priority for 2018/19
- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

2018/19 Measure

Employee engagement

This represents the percentage of employees committed to the organisation and willing to apply discretionary effort in their work – it is based on answers to several questions.

Target	Actual
63%	64%
	63% previous year

Employee enablement

This represents the percentage of employees well matched to their role and who experience job conditions that support them to perform to their full potential – it is based on answers to several questions.

Target	Actual
74%	71%
	67% previous year

Employee diversity*

Percentage of women within Tideway at 31 March 2019

Target	Actual
40%	34%
	36% previous year

** Includes Tideway employees and our programme manager. 84% of those eligible took part.*

Performance

Tideway believes that getting the fundamentals right for employees supports their engagement. We therefore promote flexible working, encourage individuals to take up to five days volunteering activity a year and ensure that training and development opportunities are available to support individuals in their current and future career. Go to www.tideway.london/careers/ to find out what people think about working at Tideway.

We were pleased to see that for the third year running our employee survey has shown improving results for our key measures of engagement (64%) and enablement (71%). We continue to perform well against external benchmarks and we have seen positive improvement in responses to 54 out of 74 questions with the others either stable or showing a slight decline.

A theme for this year was to target personal and professional development. We focused on supporting improved levels of delegation and empowerment, as it was an area we had identified for improvement based on the previous year's survey. It is pleasing to report that our engagement survey scores show progress in this area. There was a significant increase in the favourable scores for "decisions made at the lowest level" (up 7% to 35% favourable), and a positive increase in the favourable scores for "timeliness of decisions" (up 2% to 43%). For the first time comments in the survey referenced positive changes to how decisions are made. We will build on these results and make further improvements in the coming year.

We are supporting our people to be as effective as possible with improvements to our existing office technology. Our continuous improvement teams work across Tideway to identify and share good practice to improve process efficiency.

We maintained compliance with the following international quality standards which enable us to operate efficiently and identify improvements to how we work:

- ISO 9001 Quality Management
- ISO 14001:2015 Environmental Management
- OHSAS 18001: 2007 Health and Safety

Diversity and Inclusivity

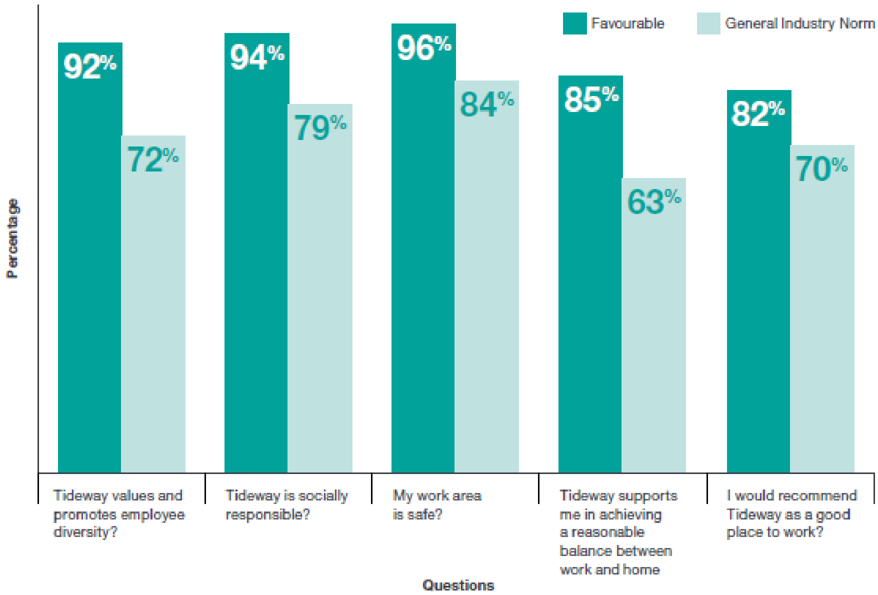
To support our inclusivity and diversity activities we ran Allies training with the charity Stonewall, which was well received by participants. Fifty-six members of staff (13%) have completed the Mental Health First Aid Course, including Directors and members of the Executive Management Team. Our front-line staff have also been trained by the Business Disability Forum in welcoming disabled staff and guests to our locations.

To support our aim of helping people back into work, we ran training sessions on "Employing Individuals with Convictions" in partnership with Nacro, as well as inclusive recruitment sessions to help managers understand and address potential unconscious bias.

We also offer a rich virtual learning resource, which has a wide range of training topics across multiple formats so our people can access the right learning and development to support their aspirations.

Our employee-led diversity forum, Encompass, focuses on all aspects of diversity. Some of its achievements included:

- achieving Disability Confident status;
- completing our second Stonewall LGBT+ survey, achieving 106th out of 460. This was up 121 places from last year. We continue with an action plan for improvement;
- receiving recognition for our LGBTQ+ Executive Sponsor, Steve Hails, Health and Safety Director, who was shortlisted by Stonewall for his work promoting diversity and inclusivity, and being named as a Top 10 Corporate Ally in the British LGBT Awards, which celebrate the achievements of the LGBT community along with innovators and companies whose work supports inclusion; and
- continuing to outperform external benchmarks when employees are asked whether the company values and promotes diversity. Our score was 92% favourable (up two percentage points) and 18% above the UK average.



We recognise the importance of diversity and its positive impact on Company performance. Gender diversity is a key performance indicator for us and we finished the financial year with 34 per cent female staff. This is below our end of year target of 40 per cent and down two percentage points on last year. We continue to seek ways to achieve our aim of gender parity by the end of construction. On a more positive note, we increased the proportion of female managers by four percentage points in the year to 31 per cent.

Headcount (as at 31 March 2018)*	Female 31 March 2019	Male 31 March 2019	Total 31 March 2019	Female 31 March 2018	Male 31 March 2018	Total 31 March 2018
Board**	2	11	13	2	11	13
Senior Management	18	22	40	20	33	53
Other Employees	128	250	378	153	271	424
Total *	**148**	**283**	**431**	**175**	**315**	**490**

* *Includes Tideway employees and our Programme Manager (Jacobs)*
** *Includes shareholder Directors*

Talent

As part of our structured performance management process, we reviewed our talent management and succession planning during the year. This is a regular health check of the business to ensure we have appropriate plans for key roles. Tideway's structure will continue to evolve over the life of the project and our approach ensures that individuals are supported in their career within the project, as well as their potential external roles in the future. The next couple of years may be their last on the project for some individuals. In recognition of this, we have changed the focus of our appraisal process to focus on development and long-term aspirations and goals, which may be achieved ultimately with their next employer.

The CEO and Director of Human Resources launched and hosted "Lean in Circles". We started with small groups of women, to focus on their career aspirations and to encourage and support them to have "Your Best Year Yet". This initiative again recognises that most roles will cease to exist beyond the construction and commissioning phase. Initially, we are inviting all Tideway women to attend sessions with plans for men later in 2019.

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

The proportion of ex-offenders employed on the project is 1 in 124, below our target of 1 in 100. Tideway has offered its network and knowledge to support MWCs and is engaging with the Mind the Gap project, which is creating employment pathways into the construction industry for people with convictions by embedding ex-offender recruitment with our local recruitment strategy.

One of our commitments is to target employment in the boroughs affected by our works. At the end of 2018/19, 21% of Tideway's MWC workforce resides locally, within the 14 boroughs affected by our works.

Our Apprentice programme has been extended from new entrants to include individuals currently working on Tideway, to enhance their skills and provide a recognised qualification. We are currently exploring executive-level apprenticeships with some of our senior management team. We continue to work with external organisations to support individuals who are ex-offenders or currently not in work, by providing training, work experience placements or permanent roles. Our efforts in this area were recognised by the Employers Forum for Reducing Reoffending with the Business Working with Local Communities award in 2018.

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

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.

Priorities for 2018/19

- Support the organisation to deliver the best result for bill payers and shareholders
- Funding – opportunistic issuance across formats
- Reduce the revolving credit facility
- Investment management – continue focus on capital preservation and liquidity and seek to optimise returns

2018/19 Measure

Priority 1 Support the organisation to deliver the best result for bill payers and shareholders

Company credit rating

	Target	Actual
Company credit rating	Baa1/BBB+	Baa1/BBB+
Distribution	Achieve 18/19 Financing plan	In Line

Priority 2 Funding – opportunistic issuance across formats

	Target	Actual
Debt raised	Subjective	£325m Index linked

Priority 3 Reduce the RCF

	Target	Actual
Reduce the Revolving Credit Facility (RCF)	£250m	£250m reduction by December

Priority 4 Maintain strong liquidity position

	Target	Actual
Liquidity	18 months liquidity	> 4 years

Our performance

We successfully achieved all of our financing priorities for the year. We continued to monitor the market to identify opportunities for further debt issuance and implementation of the green financing strategy, allowing us to raise £325m of additional debt at attractive terms, which further de-risked the financing plan. This enabled us to reduce the Revolving Credit Facility to £500m. Cash and liquidity continued to be managed effectively and prudently, in accordance with our Investment Management Strategy, while achieving improved returns above the target Bank of England rate.

To help manage the growing debt portfolio we focused on strengthening internal controls and procedures during the year.

Treasury Policy

Tideway's treasury policy incorporates the corporate objective to finance the Company while minimising risk. Our target is always to maintain a robust investment grade credit rating.

We manage our financing activities in compliance with the constraints imposed by the Government Support Package, the financing documents and the Licence.

Financing activity

Following Licence Award, our shareholders injected £1,274m, in line with the equity-first approach to financing. This was in the form of £509.7m of equity and £764.5m of shareholder loans. Part of the shareholder loans has been repaid in line with the approved distribution policy in the licence and GSP and the outstanding balance at 31 March 2019 was £711m.

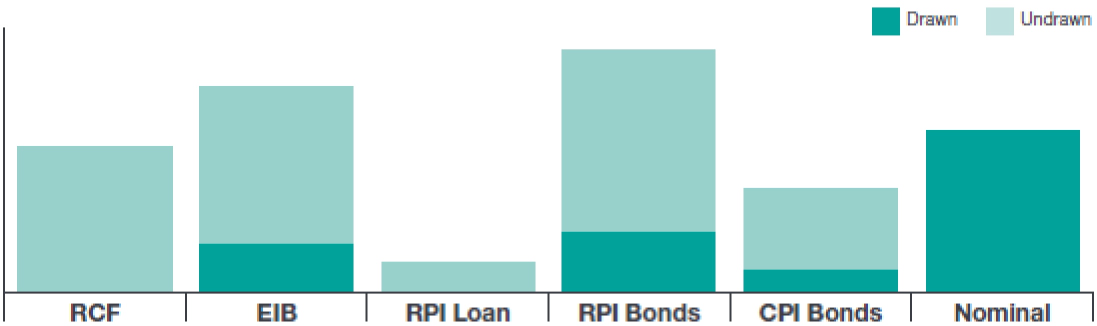
The RCF remained undrawn during the period and the commitment at the year end stood at £500m, after the cancellation of £250m in December 2018 in accordance with planned reductions.

In April 2018, we issued a £150m long-term inflation linked deferred green bond and in May 2018 we completed three bond issuances totalling £175m which were also linked to inflation, with deferred drawing, and in green bond format. These issuances further lock-in our financing costs and continue the innovative strategy of pricing bonds with long deferral periods to match our investment profile. The deferred draw down issuance enables us to de-risk our financing plan and secure the best possible borrowing terms, by locking in committed debt funding at current market rates and effectively managing the negative carry costs associated with pre-funding.

These transactions meant that at 31 March 2019, the Group had secured total committed debt funding of £3,025m. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover construction costs.

The revised cost estimate announced in April 2019 adds less than £100m to the long-term financing needs at current gearing targets, which is well within the available £500m RCF.

Debt £MM	RCF	EIB	RPI Loan	RPI Bonds	CPI Bonds	Nominal	Totals
Drawn	-	160	-	200	275	550	1185
Undrawn	500	540	100	625	75	-	1840



Of the £3,025m of committed debt facilities, £1,185m has been settled and the funds have been received and £1,840m is still undrawn. The first of our deferred purchase bonds, the £100m 0.688% index-linked bond due 2050 was funded in June 2018 and was followed by the £100m 0.249% index-linked bonds due 2040, which settled in December 2018. The first two tranches of the EIB loan, totalling £160m, were drawn in July 2018 and January 2019.

Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated market of the London Stock Exchange. Tideway's prospectus for the listing was last updated in July 2018.

Green Bonds

Green bonds are debt instruments whose proceeds are used to fund projects with environmental benefits, such as the Thames Tideway Tunnel. During the year, Tideway continued the successful implementation of its green bond strategy. At the beginning of the year we issued £325m of new green bonds to three different investors, under our multicurrency bond programme.

These new bonds took Tideway's green bond issuance to £775m. All six green bonds issued to date are listed in the London Stock Exchange Green Segment.

Our Green Bond Framework, which is aligned with the four core components of the International Capital Markets Association (ICMA) Green Bond Principles, was published in 2017/18 and is available on our website. We have aligned our legacy commitments to the UN Sustainable Development Goals (SDGs).

The Green Evaluation we obtained from S&P Global Ratings in 2017/18 was updated in June 2019. It covers the bond programme and the bond series issued under it and is also published on our website. The evaluation produces a relative green impact score for debt instruments financing environmentally beneficial projects and is a second opinion aligned with the Green Bond Principles. This was S&P's first public green evaluation in the UK and it is still the highest S&P mitigation score to date and the joint-highest overall score of E1 - 95/100. The green evaluation is being updated in June 2019.

We published our first annual Green Bond Report to investors in 2018/19. The report confirmed that Tideway is a 'pure-player issuer' and the bond proceeds are used entirely to finance the construction of the tunnel, which will tackle sewage pollution in the River Thames. The report also discusses the project's environmental and economic performance, as well as our legacy commitments.

We are one of two UK corporates among the 16 founding members of the Corporate Forum on Sustainable Finance, which launched on 15 January 2019. The forum aims to advance the development of sustainable finance. It regards sustainable finance instruments as efficient market-based tools that allocate economic resources where they are most needed in sustainable investments. The forum plans to work with rating agencies, investors and other national and international forums, as well as leveraging the members' mutual expertise to drive the sustainable finance agenda.

Treasury4Good

We have been awarded two Treasury4Good awards by Treasury Management International (TMI), which recognises organisations and individuals who are leading the way in supporting Corporate Social Responsibility, Environmental Social Governance and Diversity & Inclusion initiatives. We won the Best Corporate Sustainable Finance Solution and the Best Corporate: Clean and Green Treasury awards.

We were also shortlisted for the Treasurer's Deals of the Year Awards in the Sustainable Finance category, celebrating the outstanding achievements of corporate treasurers and their teams who have shown innovation and excellence.

Hedging

Tideway has entered into long-term swaps with commercial banks, to hedge the interest rate for tranches one to eight of the £700m EIB loan secured in May 2016 and £70m of the £300m US Private Placement notes secured in September 2017. These transactions were completed in previous financial years and no swaps were executed in 2018/19.

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

Distributions

At Licence Award our shareholders committed a total of £1,274m in the form of equity and shareholder loans. This amount has been fully injected into Tideway and investments are being debt financed now. As a result, our gearing is increasing to our target capital structure as we deliver our investment programme and risks are gradually retired.

Prior to System Acceptance, Tideway will not generate distributable profits and as such it will not be able to pay dividends to its shareholders. As a result, during construction Tideway's shareholders will receive a cash return on their investment through a combination of payments of interest on the loans and partial repayments of those loans. This mechanism was put in place during the Infrastructure Provider (IP) equity procurement process run by Thames Water and overseen by Ofwat and the UK Government and was key to achieving the low cost of capital bid by our shareholders. Ultimately, Thames Water's wastewater customers benefit from the low cost of capital achieved through the procurement through a lower charge in their bills. In 2018/19, we made distributions totalling £60.5m through payments of interest and repayments of principal on our shareholder loans.

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

Liquidity

At 31 March 2019, we had total liquidity of £2.5bn, comprising £655m of cash, the £500m undrawn RCF, the £540m undrawn part of the EIB loan, £700m of bonds and a loan for £100m. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity required to the end of construction.

Ratings

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

Fitch published a full rating report on the Group, covering the key rating driver assessments and confirming the rationale for its BBB+ rating. Fitch has since applied ESG relevance scores to all infrastructure issuers.

Investment Management

The amount of shareholders' funds paid in and the £1,185m of debt drawn to date, including the £360m drawn during 2018/19, led to us benefiting from substantial cash balances throughout the period, averaging £839.8m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield.

During the year, we held cash in three types of instruments: bank accounts with our main bank, Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds held with selected institutions.

In 2018/19, we generated a total return of around £5.9m on our cash balances, at an average yield of 0.71% per annum for the year. The return is four basis points above our target, the weighted average Bank of England base rate.

Reporting

We regularly update our main stakeholders on the progress with our financing through the half-year Investor Report and a Debt Summary published on our website, and delivery plans, through the quarterly Liaison Committee meetings attended by Thames Water, Defra, Ofwat and the Environment Agency. We also report regularly to our lender investors, in compliance with the terms of our financing documents and the Government Support Package.

Financial Performance Review

Accounting basis

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

Non-GAAP measures:

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. We believe these measures are valuable to the users of the accounts in helping them understand our underlying business performance. Our principal 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 Allowable costs are costs stated on an accruals basis, which form part of the Allowable Project Spend (and are added to our RCV) when the underlying assets or liabilities are cash settled. Excluded costs are costs stated on an accruals basis which will be Excluded Project Spend (and not added to our RCV) when the underlying assets or liabilities are cash settled.

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

Income Statement

During the year ended 31 March 2019, Tideway reported a loss of £31.0m (2017/18: £9.5m profit), with no dividends paid or proposed (2017/18: £nil). We did not recognise any taxable profits in the period (2017/18: £nil) and therefore have no corporation tax charges (2017/18: £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 economically hedge the interest costs of the Group's debt. The swaps fix finance costs for the Group's regulatory period and ensure that we benefit from low-cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because, under IAS 23, these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 12 to the financial statements provides more detail on the financial instruments.

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

Statement of Financial Position

At 31 March 2019, costs of £1,828.8m were capitalised within the asset under construction in the Statement of Financial Position. This represents £673.9m costs during the year and £1,154.9m for the prior periods to 31 March 2018.

Further details on how this expenditure is analysed into Allowable Project Spend and Excluded Project Spend can be found in the Bazalgette Tunnel Limited Annual Report available at www.tideway.london.

Net Debt and Financing

Cash and cash equivalents at 31 March 2019 was £564.5m, which was £281.9m lower than the £846.4m cash at 31 March 2018.

Net debt at 31 March 2019 was £634.3m, which was £654.8m lower than the £20.5m net cash at 31 March 2018.

At 31 March 2019, the Group's borrowings were £1,909.8m being £711.0m of shareholder loans and £1,198.8m of other borrowings. These were in the form of £1,176.4m of fixed and floating rate loans and £733.4m of fixed rate and index linked bonds.

In addition, the Group has secured deferred loans of £640m and deferred bond issuances of £700.0m which will be reflected in the financial statements when they are drawn down in the future. The Revolving Credit facility remained undrawn during the period and the commitment at the year end stood at £500.0m.

Financial KPIs

Under it's Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (RAR) and Funds from Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The two ratios for 2018/19 are provided in Tideway's Annual Report within the Financial Performance Review.

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 £48.3m is reported for the year, based on the latest actual and forecast allowable project spend. During the year, we received cash inflows of £38.4m from revenue which includes some revenue from prior years.

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 within the scope of corporation, employment, VAT and other taxes related to our project activities. Consequently, the Directors are responsible for ensuring that we calculate, collect and pay the appropriate taxes to HM Revenue & Customs and as a result the taxes we 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 Company 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:

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

Risk Management

Our ability to deliver the positive outcomes we want for all our stakeholders depends on our ability to manage risk. Risk management is embedded in our culture and is central to achieving our objectives and priorities.

We have developed and implemented a framework which gives us a clearly defined process for identifying, analysing and controlling both corporate and project delivery risks. Our approach includes actively monitoring risks, which are maintained on our 'Active Risk Manager' database. This includes quantification of project risks, and the potential cost and impact to the schedule and allows us to challenge the effectiveness of our mitigating actions.

Risk Management Framework

Our Risk Management approach ensures that we continually monitor and review the external environment. We monitor our risks closely and mitigate them where we can. It is linked into our annual business planning, when we consider the emerging issues that may impact the project in the future. We monitor the uncertainties we face to ensure that we can respond appropriately to external changes and keep our project on track.

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

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Group's activities, both as the client or through the PM and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities. During the year, the Board agreed a change to the oversight of risks. The Executive Risk Committee remains focused on programme risks and a new Corporate Risk Committee was established to focus on corporate risks, on a six-monthly cycle. Health and Safety risks continue to be considered by the Board Health, Safety, Security and Environment Committee.

- Corporate risks are those that might impact on the financial and reputational viability of the group.
- Programme risks impact the physical delivery of the tunnel and associated works.
- Principal risks bring together the corporate and programme risks that are considered to have the potential for the most material impact on the business.

The focus of the Corporate Risk Committee has been to better understand corporate risks and ensure that adequate mitigations are in place. It also discusses the overall corporate risks, their potential interactions and Tideway's resilience across the full breadth of risks.

Principal Risks

Tideway has ten principal risks. There were no new or removed principal risks during the year. However, under our existing HSW risk we have separately recognised marine risk. While we have always ensured marine risks have been fully considered we now separately identify it in recognition of the increasingly important part it has to play now that construction has progressed.

We assessed these risks regularly and the risk exposure due to external factors that could impact Tideway as we move into peak delivery year. We continued to update our mitigations throughout the year and implement changes to manage our risk exposure. We considered whether there were sufficient material changes to increase or decrease our risk exposure across the ten principal risks and the Board agreed that the risk levels should remain unchanged.

Our Risk Appetite

Tideway`s risk appetite remains unchanged since last year. To manage the risks we face, we define our risk appetite, which is the level of residual risk that we are ready to take. Although this appetite recognises the agreements that underpin our delivery model, such as our Licence and the Government Support Package, 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 and the importance of resilience. 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 RightStart 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; and
- 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.

Principal Risk Table

	1 Health, Safety and Wellbeing (includes marine)		2 Programme Delivery
Description	The health, safety and wellbeing of our employees and the public is paramount. There is a risk that incidents could cause harm to individuals and delay progress.	There is a risk that a single marine incident could lead to multiple persons being affected or harmed and delay progress.	We are delivering a capital investment programme of £3.8bn. While there is experience of delivering similar projects in London, it is possible that the construction could take longer than planned and/or cost more.
Effect	A safety failure could cause injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.	A safety failure could cause damage to third party assets, injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.	A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement. Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water, increase financing requirements and reduce returns for our shareholders.
Mitigation	We are implementing our RightWay programme, which is aligned to the delivery programme. It includes the RightStart approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites. We monitor both leading and lagging metrics and intervene if performance does not meet the standards expected.	Tideway continues to monitor marine risks and has implemented a Marine Assurance Plan and marine safety action plan. Tideway has also established a 'marine refresher' EPIC course.	Our approach to selecting and working with our contractors will help us to deliver the programme on time and to budget. This includes: • World-class contractors, with experience of tunnelling in London. • Contracts that transfer certain risks to our contractors that they are better placed to manage. • Establishment of the Alliance, to encourage co-operation and support across the project. • An integrated, proactive approach to risk management.
Relevant Objective	• Health, Safety and Wellbeing	• Health, Safety and Wellbeing	• Schedule, Cost and Quality • Financing
Commentary	**No change in risk level*** We have actively reviewed this risk during the year, particularly as we have mobilised on the majority of our sites and started tunnelling.	**New** (Risk remains under HSW but is now separately reported under Principal Risks)	**No change in risk level*** Overal, our assessment of the risk for the schedule and costs remains the same. We announced in April 2019 a revised project cost estimate reflecting conditons at two sites and More by River.

	3 Supply Chain Failure	4 High impact, low probability (HILP) events	5 Credit Rating risks
Description	Our delivery strategy is based on outsourcing works. Our ability to deliver therefore depends on our contractors' performance. Our contractors operate in a very competitive environment and may experience financial difficulties through the delivery of the project.	Major investment programmes are complex and challenging, and we could suffer incidents that were highly unlikely but have a significant impact. These could affect the tunnel or assets belonging to others.	Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.
Effect	If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on budget.	HILP events could have a significant 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.	The loss of an investment grade credit rating would affect our ability to raise debt.
Mitigation	The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. The contracts contain step-in rights, whereby one contractor could replace another, which would help mitigate against financial failure. The members of all three consortia are joint and severally liable.	We minimise the chance of these events occurring by using best-in-class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and we mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.	We have a robust delivery model, within a regulated framework, and a GSP. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.
Relevant Objective	• Schedule, Cost and Quality	• Health, Safety and Wellbeing • Company and People • Schedule, Cost and Quality • Financing • Vision, Legacy and Reputation	• Financing
Commentary	**No change in risk level*** We continue to monitor the supply chain closely and have undertaken appropriate contingency planning.	**No change in risk level*** We view the risk as broadly unchanged.	**No change in risk level***

** Compared to previous year*

	6 Inflation Risk	7 Reputation Risk	8 Thames Water Performance
Description	There is a risk of inflation that is lower than assumed in our business plan.	We are particularly focused on the risk that poor performance on our sites, on the river or with our neighbours could damage our reputation and support.	Thames Water is a key partner for Tideway. We have a number of important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period, the Handover and Acceptance process and in the operational period. Thames Water also passes revenue through to Tideway.
Effect	Our revenues are directly linked to the Retail Price Index (RPI). Lower inflation would therefore reduce our cash flow, unless our costs moved on the same basis. Our RCV is indexed to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.
Mitigation	Tideway has issued RPI and CPI-indexed debt. Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.	We actively develop 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.	Tideway and Thames Water have worked closely together through all key milestones to date and have developed a joint approach to System Commissioning, Handover and Acceptance. 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 also engaged Ofwat and Thames Water on the 2019 Periodic Review and the design of its future regulatory incentives. We have worked with Thames Water to develop and agree arrangements for managing the revenue process.
Relevant Objective	• Financing	• Company and People • Vision, Legacy and Reputation	• Schedule, Cost and Quality
Commentary*	**No change in risk level** We view the risk as broadly unchanged.	**No change in risk level** We continue to conduct a proactive communication strategy, to manage the reputational impact of our works. Tideway's annual stakeholder survey showed high levels of support and improvements from the previous year.	**No change in risk level**

	9 Regulatory and Political Risk		10 Brexit Risk
Description	**Political climate** The political climate appears to be shifting in favour of greater state intervention, illustrated by Labour's manifesto commitment to water renationalisation. This shift could have a range of regulatory, legal and reputational impacts on Tideway.	**Regulation** We operate under a licence granted by Ofwat, which places restrictions and obligations on us. We need to ensure we comply with our licence at all times. Changes to the regulatory framework may affect our performance.	A referendum on the UK's membership of the European Union (EU) was held on 23 June 2016. Following enactment of the European Union (Notification of Withdrawal) Act in March 2017, Article 50 of the Treaty on European Union was invoked on 29 March 2017. On that date, a two-year negotiation period started for the UK and EU to negotiate a post-EU membership settlement. There remains uncertainty on the UK's departure from the EU.
Effect	Direct impacts could include government actions such as renationalisation. Indirect impacts are likely as public bodies react to changing government policy. Ofwat has already signalled that it is willing to intervene in a range of areas. Both direct and indirect impacts may affect investors and increase compliance costs.	If we do not meet Ofwat's requirements, we could face enforcement action which could include financial penalties and, in the worst case scenario, the loss of our licence. A revised regulatory framework could affect our financial performance and investors.	Uncertainty about the final terms of the settlement is likely to have a short to medium-term disruptive impact on a few fronts, such as the Tideway supply chain and the availability of skilled labour. As a result of the de-risking achieved on our financing plan, we are less concerned about impacts on the capital markets.
Mitigation	Tideway has a broad range of mitigation actions sitting across several teams, including information gathering and relationship building, legal horizon scanning, and Defra/ Ofwat engagement.	Our licence sets out a specific framework for revenue until 2030. Ofwat's explanatory memorandum to our licence states that any modification of Appendix 1 of our licence, which considers the period to 2030, is only likely to be made with Tideway's agreement. We focus on being a compliant and high-performing regulated company, with positive regulatory relationships.	We will closely monitor the supply chain and establish a dialogue to address labour issues in a timely manner.
Relevant Objective	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing
Commentary*	**No change in risk level** We note considerable volatility and uncertainty in the political sphere and continuing pressure on the regulation of the water sector.	**No change in risk level**	**No change in risk level** We continue to include this as a principal risk, given the scale of uncertainty and the potential impact on the business.

** Compared to previous year*

Long term viability statement

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

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

- identified the most appropriate period over which to make the assessment;
- evaluated the Group's current position and future prospects;
- considered the potential impact of principal risks (taking into account availability and effectiveness of risk mitigation plans) over the period and where appropriate, analysed the potential financial impact under a suitable set of sensitivities; and
- overseen the governance process, ensuring robust levels of assurance over the analysis, and drawn conclusions regarding the Group's long-term viability.

Appropriate period

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

Current position and future prospects

The viability assessment takes into account our business and financing plan which is prepared as part of our annual planning process. In the period covered by this Annual Report, we continued to implement our financing plan and raised £325m in long-dated bonds and cancelled another £250m of the Revolving Credit Facility. Tideway has now raised £2.5bn of long-term financing since Licence Award and we expect to be able to raise new finance for any additional funding needs in the period to 2030.

Potential impact of principal risks

Where appropriate during the year, we conduct sensitivity analysis on our financial model to stress-test the resilience of the Group 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 Group'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 (considering availability and effectiveness of risk mitigation plans) facing the Group, 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.

Tideway has ten principal risks and the scenario analysis (outlined in the table below) has covered seven of these. The three risks that have been excluded from the analysis are HILP as it is considered too remote for meaningful quantification and substantially covered by commercial insurance and the GSP, Credit Rating Risk which in addition to programme delivery would also be affected by a significant deterioration in the regulatory environment but along with Reputational Risk the financial impact cannot be quantified.

We have assessed the potential impact of the seven relevant principal risks on Tideway's viability by modelling a number of scenarios, which have been discussed and agreed by the Board. We consider there are three key routes through which viability could be impacted: increases in the total costs of the project (including potential delays in the project as ultimately this will translate into a cost increase scenario) is the main area, reduction in outturn inflation and an increase in bad debt to a lesser degree. For each of these routes, we have modelled scenarios representing impacts ranging from plausible to severe, as well as reviewing a 'reasonable' scenario comprising the current central projections considered by the Board.

- Cost increase: On 4 April 2019, we announced a revised estimate of £3.8bn compared to our regulatory baseline of £3.52bn (£3.14bn in 2014 prices) and we consider this is a reasonable estimate. For our plausible scenario, we modelled a 12% increase in the remaining costs to complete, taking the total to £4.0bn. This is consistent with our most recent internal scenarios. We consider a severe case to be a 20% increase in the remaining costs to complete, which equates to a total cost of £4.2bn. This severe case, which we consider unlikely, is still significantly below the Threshold Outturn of circa £4.6bn which would require increased costs to complete of 38% (circa £800m) compared with our current estimate. The Threshold Outturn is the limit up to which the Group will be required to fund expenditure. The GSP provides that the group may request that the Secretary of State provide contingent equity in respect of the cost overrun above the Threshold Outturn.
- For inflation risk we have modelled scenarios where outturn inflation is 1% and 2% lower than current expectations, as well as a scenario of 0% average inflation in the period. We consider this range of scenarios appropriate in view of the Bank of England's policy of managing inflation within 1% of the long-term target.
- As the bad debt impact does not have a material impact on the Group's long term viability, we assumed a conservative 50% lower revenue collection in one, two and four years in the period.
- Finally, we have modelled a combined scenario with 12% cost increase, 2% lower inflation and 50% revenue under recovery for 2 years, which we consider a reasonable composite downside combination of impacts given that we do not believe principal risks are strongly correlated.

The outcome of the sensitivities has been assessed considering a range of different financial ratios. In all downside scenarios modelled, the ratios are robust, above the minimum requirements in our financing covenants, consistent with an investment grade rating and Tideway does not call on the Government Support Package. The same conclusion applies when considering a 'reasonable' scenario comprising Tideway's current cost estimate, no change to currently forecast levels of inflation, and no change to existing levels of bad debt.

The output of this analysis is summarised in the following table:

Scenario Analysis Table:

Principal Risk No.	Principal Risk	Scenario	Assessment
1, 2, 3, 8, 9, 10	**Programme delivery (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory, Brexit risks)**	**Scenario 1.** An increase of 12% (£259m) in the remaining cost to complete the project	Tideway would be able to finance the increase in cost by flexing the amount of distributions to its shareholders and drawing existing available facilities.
		Scenario 2. An increase of 20% (£434m) in the remaining cost to complete the project	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
6	Inflation risk	**Scenario 3.** Outturn inflation 1% lower than current forecast	Over 80 percent of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way.
		Scenario 4. Outturn inflation 2% lower than current forecast	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
		Scenario 5. Average inflation 0% until 2030	

8	Thames Water performance - Revenue collection (Bad debt)	**Scenario 6.** A 50% under recovery in one year	Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary and not material overall. Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
		Scenario 7. A 50% under recovery in two years	
		Scenario 8. A 50% under recovery in four years	
	Combined scenario	**Scenarios 1, 4, and 7.**	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.

Governance, assurance and conclusions

In reaching its conclusion, the Board has taken into account Ofwat's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Group's viability. The Board also believes that financing will be available to Tideway over the period covered by the analysis. In this respect, the Board believes that it is reasonable to assume that the purchasers and lenders of our deferred debts will honour their commitment given the diversification and credit worthiness of the institutions with which Tideway has entered into such agreements.

We have undertaken a range of internal assurance activities, which the Board considers provide a robust degree of assurance over the analysis. The internal assurance activities have included a first and second line of defence review as described in the Data Assurance Summary. 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 Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2030.

The Board has also considered it appropriate to prepare the financial statements on the going concern basis. The Directors believe, after due careful enquiry, that the Group has sufficient resources to continue in operational existence for the foreseeable future and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Group's viability. Therefore, the Directors consider it appropriate to adopt the going concern basis in preparing these financial statements.

The Strategic Report was approved by the Board on 20 June 2019 and was signed on its behalf by:

Valmai Barclay
Company Secretary

Directors' report

The Directors present their report and the audited Group and Company financial statements of Bazalgette Holdings Limited ("the Company") for the year ended 31 March 2019.

The registered company number is 09553510.

Financial results and dividends

The Group recorded a loss of £31.0m for the year (2018: profit of £9.5m). The Directors do not consider that the reported loss in the year reflects the business performance as the loss reflects the fair value movement of the Group's derivative financial instruments. These are long-term swaps which are entered into with commercial banks to economically hedge the interest costs of the Group debt. The swaps fix finance costs for the Group's regulatory period and ensure that it benefits from low-cost financing. The detailed financial results of the Group are set out in the financial performance review within the Strategic report.

During the year, £57.1m (2018: £51.6m) of shareholder loan interest has been received from its subsidiary Bazalgette Tunnel Limited and paid onto its immediate parent Bazalgette Ventures Limited. Furthermore, £3.4m of loan principal was received and repaid in the same manner in the year (2018: £23.8m). Further details of the shareholder loan notes are set out in note 11 of the financial statements.

The Company recorded £nil profit for the year ended 31 March 2019 (2018: £nil) and did not pay any dividends in the year (2018: £nil).

Financial risk management

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

Directors

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

Andrew Cox

Scott McGregor

Joseph Philipsz

Alistair Ray

Angela Roshier

Gavin Tait

Amanda Woods

Directors' Indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors, the Company Secretary and the General Counsel and these remain in force at the date of this report.

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

Employees

The average number of persons employed by the Group (including Directors) during the year was 164 (2018: 179), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

Details relating to the Group's employment policies and values are set out in 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.

Directors' report (continued)

Charitable and political donations

The Group made charitable donations totalling £53,340 during the year (2018: £40,062). Details of the Group's charitable partnerships are set out in the Strategic report.

The Group did not make any political donations or incur any political expenditure during the year (2018: £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 Fair Payment Charter has been issued to our MWC's and JV Partners as part of their contractual obligations and this is monitored to ensure compliance.

The creditor days for the year ending 31 March 2019 are approximately 22 days (2018: 21 days).

Events occurring after the reporting period

There are no events that have occurred after the reporting period that would require disclosure in these financial statements.

Future Outlook

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

Disclosure of information to auditor

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

Other information

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

Auditor

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

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

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

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

The Directors responsibility statement was approved and signed by order of the Board by:

Valmai Barclay
Company Secretary

Cottons Centre
Cottons Lane
London
SE1 2 QG

20 June 2019

KPMG

Independent auditor's report

to the members of Bazalgette Holdings Limited

1. Our opinion is unmodified

We have audited the financial statements of Bazalgette Holdings Limited ("the Company") for the year ended 31 March 2019 which comprise the Group Income Statement, Group Statement of Other Comprehensive Income, Group and Company Statement of Financial Position, Group and Company Statement of Changes in Equity, Group and Company Cash Flow Statements, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 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.

Basis for opinion

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

Overview		
Materiality: group financial statements as a whole	£7.0m (2018:£5.2m) 0.3% (2018: 0.9%) of total assets	
Coverage	100% (2018:100%) of group total assets	
Key audit matters		**vs 2018**
Recurring risks	Completeness and existence of capitalised costs and creditors	◄►
	Recoverability of Parent Company's investment in subsidiary	◄►
	Recoverability of Parent's Company intragroup receivable balance due from subsidiary	◄►
New risk	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going Concern Assessment	◄►

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 43 (strategic report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements, see below. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. **Sensitivity analysis** When addressing the recoverability of intra-group receivables and investments in subsidiaries of the Parent Company, and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency** As well as assessing individual disclosures as part of our procedures on recoverability of Parent Company intra-group receivables and investments in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the recoverability of Parent Company intra-group receivables and investments in subsidiaries, we found the resulting estimates and related disclosures of intra-group receivables and investment in subsidiaries, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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

	The risk	Our response
Going concern assessment *Refer to page 46 (strategic report) and page 63 (basis of preparation).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's available financial resources over this period were: • Significant cost overruns on the Thames Tideway Tunnel project; • The impact of Brexit on the supply chain of Bazalgette Tunnel Limited and its impact on the recovery of intragroup receivables which in turn impacts the ability of the Group to meet its external debt obligations. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Funding assessment** We obtained lending agreements for committed financing, including undrawn amounts to ensure the Group had adequate funding available or to call upon to meet its obligations in the going concern period. Our assessment also included recalculating covenant compliance. **Sensitivity analysis** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; including the possible impact of Brexit, such as increasing supply chain costs and delays, to identify whether reasonably possible adverse scenarios could have an impact on liquidity. We have also considered the ability of Bazalgette Tunnel Limited to generate liquid funds to honour its commitments under the Group's lending agreements. **Assessing transparency** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by ensuring the disclosures are consistent with our understanding of the Group's circumstances and other outcomes of the procedures described above. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.

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

	The risk	Our response
Completeness and existence of capitalised costs and creditors *Capitalised costs:* (£673.9 million; 2018: £609.0 million) *Refer to page 64 (accounting policy) and page 69 (financial disclosures).*	**Capital 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 capitalized costs and capital creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effects on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: **Control design** Testing controls over the payment/ cost verification process which includes observing that for a sample of payments they were agreed to certificates, the amounts matched the invoices received and payments by the Group were authorised. **Test of detail** Inspecting a sample of invoices received before and subsequent to the year end to consider the timing of work performed and therefore whether costs and creditors have been recorded in the correct year. **Test of detail** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred. **Test of detail** Comparing a sample of the claims from the independent project manager's assessment to the claims recorded by the Group to assess completeness. **Involvement of specialists** Involvement of Major Project Advisory (MPA) specialists to review contract positions and the Estimate at Completion (EAC), assess whether compensation events should be included as part of Defined cost, and review of independent project managers assessment of these claims and disallowed costs for reasonableness. **Our results** We consider the recorded balances to acceptable.
Recoverability of Parent Company intra-group receivables balance from Bazalgette Tunnel Limited (£711.0 million; 2017: £714.4 million) *Refer to page 65 (accounting policy) and page 70 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company intra-group debtor balance represents 58% of the Parent Company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Parent Company's financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included: **Tests of detail** Assessing 100% of Parent Company intra-group debtors to identify, with reference to the relevant debtor's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed. **Assessing Bazalgette Tunnel Limited's ability to repay the receivable** Assessing the ability of Bazalgette Tunnel Limited to obtain liquid funds and therefore the ability to fund the repayment of the receivable through reviewing the licence agreement and considering sensitivity analysis on cost overruns on the regulatory capital value (RCV). **Our results** We consider the assessment of the recoverability of intra-group receivables balance in the Parent Company's balance sheet to be acceptable.

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

	The risk	Our response
Recoverability of Parent Company's investment in subsidiary (£509.7 million; 2018: £509.7 million) *Refer to page 64 (accounting policy) and page 70 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company's investments in subsidiaries represents 42% of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included: **Tests of detail** Comparing the carrying amount of 100% of investments representing 100% of the total investment balance with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making or if they have potential to generate returns. **Assessing subsidiary audits** Assessing the work performed by the subsidiary audit team and considering the results of that work, on the subsidiary's profits and net assets. **Our results** We consider the assessment of the recoverability of the Parent Company's investment in subsidiary to be acceptable.

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

Materiality for the group financial statements as a whole was set at £7.0m, determined with reference to a benchmark of group total assets, of which it represents 0.3% (2018: 0.9%).

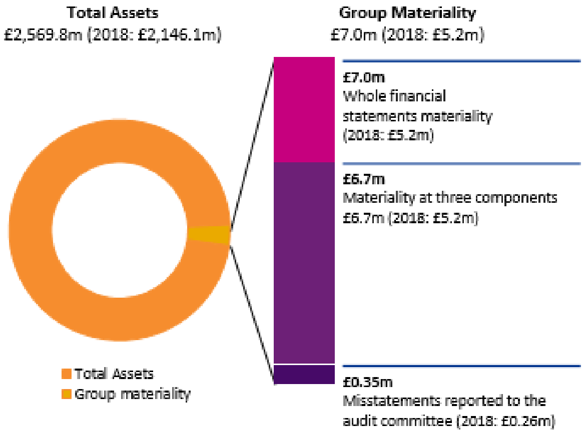
Materiality for the Parent Company financial statements as a whole was set at £6.7m (2018: £5.2m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.5% (2018: 0.4%).

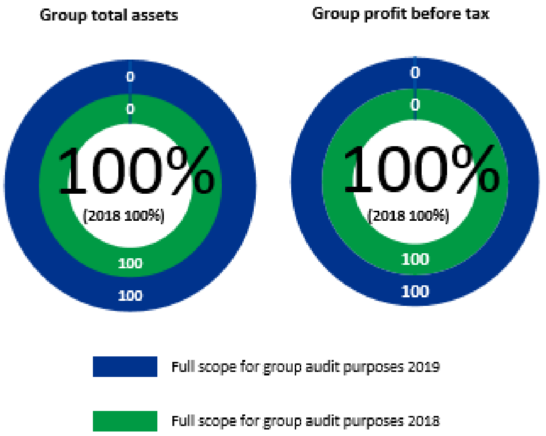
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's three (2018: three) reporting components, we subjected three (2018: three) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team performed work on all three of the components including the Parent Company.





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4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the Parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 49, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

John Luke

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

20 June 2019

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Group Income Statement
For the year ended 31 March 2019

	Note	**2019**	**2018**
		£m	**£m**
Net operating costs	*2, 3*	-	-
Operating result		**-**	**-**
Net finance (costs)/income	*4*	(31.0)	9.5
(Loss)/profit before tax		**(31.0)**	**9.5**
Taxation	*5*	-	-
(Loss)/profit for the year		**(31.0)**	**9.5**

Group Statement of Other Comprehensive Income
For the year ended 31 March 2019

	2019	**2018**
	£m	**£m**
(Loss)/profit for the year	(31.0)	9.5
Other comprehensive income for the year	-	-
Total comprehensive income for the year attributable to owners of the parent	**(31.0)**	**9.5**

Notes 1 to 17 form an integral part of these financial statements.

Group and Company Statement of Financial Position

As at 31 March 2019

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Non-current assets					
Property, plant and equipment	*6*	1,828.8	1,154.9	-	-
Trade and other receivables	*8*	47.3	54.5	711.0	714.4
Investment in subsidiary undertakings	*7*	-	-	509.7	509.7
		1,876.1	1,209.4	1,220.7	1,224.1
Current assets					
Trade and other receivables	*8*	39.2	32.8	-	-
Cash and cash equivalents	*9*	564.5	846.4	-	-
Short-term cash deposits	*9*	90.0	57.5	-	-
		693.7	936.7	-	-
Total assets		**2,569.8**	**2,146.1**	**1,220.7**	**1,224.1**
Current liabilities					
Trade and other payables	*10*	(37.2)	(39.1)	-	-
		(37.2)	(39.1)	-	-
Non-current liabilities					
Other Payables	*10*	(21.2)	(3.5)	-	-
Advance payment liability	*10*	(91.9)	(53.5)	-	-
Borrowings	*11*	(1,909.8)	(1,540.3)	(711.0)	(714.4)
Derivative financial instruments	*12*	(55.7)	(24.7)	-	-
		(2,078.6)	(1,622.0)	(711.0)	(714.4)
Total liabilities		**(2,115.8)**	**(1,661.1)**	**(711.0)**	**(714.4)**
Net assets		**454.0**	**485.0**	**509.7**	**509.7**
Equity					
Share capital	*13*	509.7	509.7	509.7	509.7
Retained earnings	*13*	(55.7)	(24.7)	-	-
Total equity		**454.0**	**485.0**	**509.7**	**509.7**

These financial statements were approved by the board of directors on 20 June 2019 and were signed on its behalf by:

Alistair Ray
Director
Company registered number: 09553510
Notes 1 to 17 form an integral part of these financial statements.

Group and Company Statement of Changes in Equity

	Group			Company		
	Share capital £m	Retained earnings £m	Total equity £m	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2017	370.4	(34.2)	336.2	370.4	-	370.4
Profit for the year	-	9.5	9.5	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**9.5**	**9.5**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:						
Issue of ordinary shares	139.3	-	139.9	139.3	-	139.3
Total contributions by and distributions to owners of the parent	**139.3**	**-**	**139.3**	**139.3**	**-**	**139.3**
Balance at 31 March 2018	**509.7**	**(24.7)**	**485.0**	**509.7**	**-**	**509.7**
Balance at 1 April 2018	509.7	(24.7)	485.0	509.7	-	509.7
Loss for the year	-	(31.0)	(31.0)	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**(31.0)**	**(31.0)**	**-**	**-**	**-**
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2019	**509.7**	**(55.7)**	**454.0**	**509.7**	**-**	**509.7**

Notes 1 to 17 form an integral part of these financial statements.

Group and Company Cash Flow Statements
For the year ended 31 March 2019

	Note	**Group 2019 £m**	**Group 2018 £m**	**Company 2019 £m**	**Company 2018 £m**
Cash flows from operating activities before working capital movements		**-**	**-**	**-**	-
Decrease/(increase) in trade and other receivables	*8*	0.8	(2.7)	3.4	(185.1)
Increase in trade and other payables	*10*	15.8	22.6	-	-
Increase in advance payment liability	*10*	38.4	26.8	-	-
Cash flows from/(used in) operations		**55.0**	**46.7**	**3.4**	**(185.1)**
Net cash flow from/(used in) operating activities		**55.0**	**46.7**	**3.4**	**(185.1)**
Cash flows used in/(from) investing activities					
Construction of infrastructure asset	*6*	(661.0)	(605.2)	-	-
Short-term cash deposits	*9*	(32.5)	(57.5)	-	-
Investment in subsidiary undertaking		-	-	-	(139.3)
Interest received		-	-	57.1	51.6
Net cash flows used in/(from) investing activities		**(693.5)**	**(662.7)**	**57.1**	**(87.7)**
Cash flows from/(used in) financing activities					
Proceeds from the issue of share capital	*13*	-	139.3	-	139.3
Proceeds from shareholder loans		-	208.9	-	208.9
Proceeds from loan from subsidiary undertaking		360.0	822.1	-	-
Repayment of shareholders loan principal		(3.4)	(23.8)	(3.4)	(23.8)
Interest paid				(57.1)	(51.6)
Net cash flows from/(used in) financing activities		**356.6**	**1,146.5**	**(60.5)**	**272.8**
Net (decrease) in cash and cash equivalents during the year		**(281.9)**	**530.5**	**-**	**-**
Cash and cash equivalents at the start of the year	*9*	**846.4**	**315.9**	**-**	**-**
Cash and cash equivalents at the end of the year	*9*	**564.5**	**846.4**	**-**	**-**

Group: Construction of infrastructure asset includes capitalised interest paid of £71.1m (2018: £56.2m) and capitalised interest received of £4.5m (2018: £3.0m)

Notes 1 to 17 form an integral part of these financial statements.

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Notes to the financial statements

1 Significant accounting policies

Basis of preparation

Bazalgette Holdings Limited ("the Company") is domiciled in the United Kingdom. The registered address of the Company is Cottons Centre, Cottons Lane, London, SE1 2QG. The accounting policies set out below have been applied consistently to all periods presented in these group and parent company financial statements.

As at the 31 March 2019, the Bazalgette Holdings Group comprised the Company, Bazalgette Tunnel Limited and Bazalgette Finance plc. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group").

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

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

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.

Judgements and Estimates

In the process of applying the Group's accounting policies, the directors are required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Judgements about how the Group has applied an accounting policy could have a significant effect on amounts recognised in the financial statements. Assumptions or other sources of estimation uncertainty (including judgements about estimations) have a significant risk of a material adjustment to carrying values in the next financial year.

The directors consider the significant judgements made in the application of these accounting policies to be as follows:

Accounting for the Thames Tideway Tunnel as a finance lease – The judgement to account for the Thames Tideway Tunnel as a finance lease means that during the construction period of the project, the tunnel is accounted for as an asset under construction, with expenditure on the asset capitalised in the Statement of Financial Position. Following Systems Acceptance, which is when Thames Water accept the tunnel asset, the asset under construction will be de-recognised and a finance lease receivable will be recognised by the Group. In determining the appropriate accounting treatment one of the key questions was establishing which party has control over the asset. The applicability of both IFRIC 4 'determining whether an arrangement contains a lease' and IFRIC 12 'service concession arrangements' were considered. It was concluded that the tunnel arrangements were outside the scope of IFRIC 12 and as the Group controls the asset the arrangements fall within the scope of IFRIC 4. Consequently, the accounting policies applied to these financial statements reflect this arrangement.

The directors consider the assumptions or other sources of uncertainty with a risk of material adjustment to the carrying amounts in the next year are as follows:

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

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

Derivative financial instruments - A net present value model is used to estimate the fair value of the Group's derivative financial instruments which are all index-linked swaps. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Group's credit risk. This estimate of the Group's credit risk is considered to be an unobservable input. Sensitivity analysis of this credit adjustment and the effect it would have on the profit/loss reported for year has been disclosed in note 11.

Capitalised costs/creditors - The Group has a substantial capital programme and therefore incurs significant annual expenditure in relation to the construction of the Thames Tideway Tunnel asset. All costs incurred are capitalised as assets under construction. Due to the significance of these costs the directors need to ensure their completeness, existence and validity is appropriately monitored and controlled.

Going concern

The Directors believe, after due careful enquiry, that the Company and Group has sufficient resources to continue in operational existence for the foreseeable future and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Group's viability. Therefore, the Directors consider it appropriate to adopt the going concern basis in preparing these financial statements. Further detail is contained in the long-term viability statement included in the Strategic report.

New accounting standards

With effect from 1 April 2018, the Group has adopted IFRS 9. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 replaces the "incurred loss" model in IAS 39 with an "excepted credit loss model" which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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. Therefore, no expected credit loss has been recognised and no adjustment was required to opening retained earnings in the Group and Company financial statements.

There has been no significant impact to the way the Group and Company classifies financial assets as a result of the changes in classification categories. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

In addition, with effect from 1 April 2018, the Group adopted IFRS 15. IFRS 15 replaces previous revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under this standard the Group will apply a five-step revenue recognition model to revenue recognition.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

There has been no change to the Group's treatment of revenue which is deferred during the construction phase of the project, as the Group has not satisfied the performance obligation requirement in the step five revenue recognition model. Revenue can only be recognised at the point that the performance obligation is satisfied. This treatment is consistent with how revenue has been previously recognised by the Group.

Property, plant and equipment

Recognition and measurement

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

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

The construction phase of the Thames Tideway Tunnel project commenced in 2015 and is expected to be completed at System Acceptance. During the construction phase of the project, expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised within assets under construction. The directors consider that the Group is constructing one asset, that being the Thames Tideway Tunnel, and do not consider there to be other individual assets under construction.

The directors consider all expenditure in the year ended 31 March 2019 to have met the capitalisation criteria.

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

Land and property acquired for the Thames Tideway Tunnel project by Thames Water is not included in the Statement of Financial Position because the economic benefit of such assets is retained by Thames Water.

Depreciation

Assets under construction are not depreciated.

Borrowing costs

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

Impairment

The directors consider assets under construction to consist of a single asset, the Thames Tideway Tunnel. As such, impairment is considered in the context of the whole asset under construction as opposed to review of individual components.

The carrying value of the Group's asset under construction is reviewed at each reporting date to determine whether there is objective evidence the asset is impaired. The directors consider the asset to be impaired if the forecast carrying value of the asset at System Acceptance exceeds the forecast recoverable value of the asset at System Acceptance.

For 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.

Financial assets under IFRS 9 are assessed under the forward looking 'expected loss model'.

Any impairment losses are recognised in the Income Statement.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

Revenue

The Group's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Group's RCV. The Group's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Group. Through the construction period, revenue is deferred as the services associated with this revenue have not satisfied all the conditions of the five-step revenue recognition model under IFRS 15. Therefore, revenue will be recognised at the point that all conditions are satisfied which will not be until System Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the Group to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

Invoiced revenues reflect the actual cash collected by Thames Water from its customers.

Employee benefits

Defined contribution pension plans

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

Other employee benefits

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

Provisions

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

Operating leases

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

Financial instruments

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 that do not have a significant financing component are classified as amortised cost under IFRS 9; initially recognised at their transaction price, rather than at fair value. Subsequent to initial recognition they are measured at amortised cost and any expected credit loss impairments or reversals are recognised through profit or loss.

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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

Borrowings

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

Derivative financial instruments

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

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

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

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

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same tax authority and the Group has the right of set off.

Recently issued accounting standards not yet applied by the Group

At the date of authorisation of these financial statements, the Group has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Group as at 31 March 2019 and in some cases are subject still to endorsement by the EU.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures
- Improvements to IFRSs (2015–2017)
- IAS 19 Plan Amendment, Curtailments or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS Practice Statement 2 Making Materiality Judgements
- Conceptual Framework for Financial Reporting

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

The Group has completed its assessment of the impact of applying the single recognition model for lessees and concluded that current operating property leases would fall under the scope of IFRS 16 at the date of transition. This would result in the Group recognising new right-to-use assets and lease liabilities on the Statement of Financial Position which are likely to increase assets and liabilities by approximately £8.6m.

The Group has assessed the two transition alternatives allowed under IFRS 16 and concluded that there would not be any material transition differences between each method in relation to Group's potential IFRS 16 leases.

2 Auditors' remuneration

	2019 £000	2018 £000
Audit services		
Statutory audit – Group and the Company	3	3
Statutory audit - subsidiaries	92	76
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	10	9
Other non-audit services		
Review of interim financial information		8
Other regulatory assurance services	29	61
	135	**157**

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

Notes to the financial statements (continued)

3 Employee costs

The average number of persons employed by the Group (including directors) during the year was 164 (2018: 179).

The aggregate employment costs of these persons were as follows:

	2019 £m	2018 £m
Wages and salaries	15.6	18.9
Social security costs	2.0	2.4
Contributions to defined contribution pension plan	0.6	0.7
Capitalised into asset under construction	(18.2)	(22.0)
	-	-

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

Directors remuneration

The directors of the Company did not receive any payment for their services during the year ended 31 March 2019. Any qualifying services the directors perform in respect of the Company are considered to be incidental and part of the director's overall management responsibilities within the Company.

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

4 Finance income and costs

	Group 2019 £m	Group 2018 £m
Finance income		
Interest income	(6.0)	(2.3)
Finance costs		
Interest expense on borrowings	84.9	61.5
Financing fees	4.3	5.2
Financial instruments at fair value through profit or loss:		
- Index linked swaps	31.0	(9.5)
Capitalised finance interest and expense into asset under construction	(83.2)	(64.4)
Net finance costs/(income)	**31.0**	**(9.5)**

5 Taxation

	Group 2019 £m	Group 2018 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

The Company's current tax charge was £nil (2018: £nil).

Notes to the financial statements (continued)

5 Taxation (continued)

Reconciliation of effective tax rate

	Group 2019 £m	Group 2018 £m
(Loss)/profit before tax	(31.0)	9.5
Expected tax credit/(charge) using UK corporation tax rate of 19% (2018: 19%)	5.9	(1.8)
Items not taxable[1]	(5.9)	1.8
Total Income Statement tax expense	-	-

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

There were no reconciling items between the Company's tax expense of £nil and the expected tax charge.

Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £39.1m (2018: £20.4m) have been calculated with regards to the Group's tax losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

6 Property, plant and equipment

Group property, plant and equipment comprised the following at 31 March 2019:

	Asset under construction £m	Total £m
Cost		
At 1 April 2018	1,154.9	1,154.9
Additions	673.9	673.9
Balance at 31 March 2019	1,828.8	1,828.8
Accumulated depreciation		
At 1 April 2018	-	-
Depreciation charge	-	-
Balance at 31 March 2019	-	-
Net book value at 31 March 2019	**1,828.8**	**1,828.8**
Net book value at 31 March 2018	1,154.9	1,154.9

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the year ended 31 March 2019. The amount of net borrowing costs capitalised during the year was £78.9m (2018: £59.2m) with a capitalisation rate of 100%.

Notes to the financial statements (continued)

7 Investments in subsidiaries

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

	Country of incorporation	Class of shares held	Direct ownership 2019	Direct ownership 2018
Direct subsidiaries				
Bazalgette Tunnel Limited	UK	Ordinary	100%	100%
Bazalgette Finance plc	UK	Ordinary	100%	100%

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

8 Trade and other receivables

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Trade receivables	7.2	1.9	-	-
Accrued Income	8.9	3.3	-	-
Other receivables	13.2	18.8	-	-
Prepayments	57.2	63.3	-	-
Amounts owed by group undertakings (note 16)	-	-	711.0	714.4
	86.5	**87.3**	**711.0**	**714.4**
Non-current assets	**47.3**	**54.5**	**711.0**	**714.4**
Current assets	**39.2**	**32.8**	**-**	**-**

Accrued income of £8.9m (2018: £3.3m) 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 £26.6m (2018: £31.4m) in relation to the Government Support Package and £10.1m (2018: £11.6m) in relation to insurance contracts and £19.3m (2018: £19.1m) financing related costs.

9 Cash and cash equivalents

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash and bank balances	38.0	84.9	-	-
Cash equivalents	526.5	761.5	-	-
Cash and cash equivalents per cash flow statement	**564.5**	**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 3 months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £90.0m (2018: £57.5m).

Restricted Cash

The Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £22.0m at 31 March 2019 (2018: £20.4m).

Notes to the financial statements (continued)

10 Trade and other payables

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Trade payables	1.1	1.9	-	-
Contract retentions payable	16.5	-	-	-
Accrued expenses	26.1	36.0	-	-
Deferred income	14.7	4.7	-	-
Advance payment liability	91.9	53.5	-	-
	150.3	**96.1**	**-**	**-**
Non-current liabilities	**113.1**	**57.0**	**-**	**-**
Current liabilities	**37.2**	**39.1**	**-**	**-**

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £14.7m (2018: £4.7m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

11 Borrowings

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

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

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

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

	2019 £m	2018 £m
Third party borrowings		
£250m 2.375% fixed-rate bond 2027	247.5	247.2
£75m 0.828% index-linked bond 2047 [a, b]	77.9	76.1
£200m 0.740% index-linked bond 2042 [a, c]	205.4	201.1
£100m 0.688% index-linked bond 2050 [a]	102.2	-
£100m 0.249% index-linked bond 2040 [a, d]	100.4	-
£300m 2.860% fixed-rate loan 2032 [e]	303.4	301.5
£160m Libor+0.360% floating-rate loan 2051 [f]	162.0	-
Intra-group borrowings		
Shareholder loan notes 8.000 % fixed rate 2064 [g]	711.0	714.4
Total borrowings	**1,909.8**	**1,540.3**
Current liabilities		-
Non-current liabilities	**1,909.8**	**1,540.3**

Notes to the financial statements (continued)

11 Borrowings (continued)

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

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) This debt amortises from 2036

e) The Company has entered into swap agreements that convert £70.0m of this debt into index-linked debt

f) The Company has entered into swap agreements that convert £160m of this debt into index-linked debt

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

Deferred loans

The Group did not raise any loans during the year with a deferred draw date (2018: £100m).

As at 31 March 2019, a total of £640m (2018: £800m) of third-party loans are still deferred. The loan proceeds will be received over the next three years and these loans have maturities of 2049 to 2051. Proceeds of £160m (2018: £nil) from deferred loans were received during the period.

Deferred purchase bonds

The Group placed £325m of deferred purchase bonds during the year ended 31 March 2019 (2018: £125m).

As at 31 March 2019, a total of £700m (2018: £575m) of bonds are still deferred. The bond proceeds will be received over the next four years and these bonds have maturities of 2032 to 2054. Proceeds of £200m (2018: £nil) from deferred bonds were received during the period.

Company

In addition to the shareholder loan, the Company has a £0.1m (2018: £0.1m) borrowing from its direct subsidiary Bazalgette Tunnel Limited. The borrowing carries a floating interest rate of Libor + 85bps and a maturity of 2027.

12 Financial instruments

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

Financial Assets

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Financial assets:				
Trade and other receivables	29.3	24.0	711.0	714.4
Cash and cash equivalents	564.5	846.4	-	-
Short-term deposits	90.0	57.5	-	-
Total	**683.8**	**927.9**	**711.0**	**714.4**

Trade and other receivables above exclude prepayments. Trade and other receivables are classified and measured at amortised cost under IFRS 9. Impairment of these assets as assessed under the simplified expected credit loss model was immaterial and therefore not recognised within the period.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

Financial Liabilities

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Liabilities at fair value through profit and loss:				
Derivative financial instruments	55.7	24.7	-	-
Other financial liabilities:				
Trade and other payables	150.3	96.1	-	-
Borrowings	1,909.8	1,540.3	711.0	714.4
Total	**2,115.8**	**1,661.1**	**711.0**	**714.4**

Fair value measurements

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

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

	31 March 2019 Book value £m	31 March 2019 Fair value £m	31 March 2018 Book value £m	31 March 2018 Fair value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings – fixed-rate sterling loans	1,014.4	1,072.5	1,015.9	1,065.4
Borrowings – fixed-rate sterling bonds	247.5	254.3	247.2	246.1
Borrowings – index-linked sterling bonds	485.9	579.4	277.2	294.5
Borrowings – floating-rate loans	162.0	145.4		
Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives - index-linked swaps	55.7	55.7	24.7	24.7
Total	**1,965.5**	**2,107.3**	**1,565.0**	**1,630.7**

Financial liabilities at amortised cost

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 cashflows using appropriate available market data and a credit risk adjustment representative of the Group.

Financial instruments at fair value through profit and loss

The Group's index-linked swaps are measured at fair value through profit and loss. 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.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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 Company 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 Company's credit risk. The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2019:

	2019 Level 3 £m	**2018 Level 3 £m**
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps	55.7	24.7
	55.7	**24.7**

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 2018	24.7
Loss recognised in finance costs	
- Net change in fair value (unrealised)	31.0
Balance at 31 March 2019	**55.7**

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

Notes to the financial statements (continued)

12 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 2019	
	Impact on loss for the year	
	Decrease in loss £m	Increase in loss £m
Risk-adjusted discount rate (+/- 100bps movement)	13.6	15.7

The Group's principal objectives in managing capital are:

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

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

The Group maintains access to a £500m revolving credit facility (RCF), following the cancellation of £250m in December 2018. This RCF facility remained undrawn at the Statement of Financial position date (2018: £nil draw down).

The Group's subsidiary Bazalgette Finance plc issued a further £325m (2018: £650m) of bonds via multiple counterparties, taking the total bond issuance to £1.4bn (2018: £1.1bn). The bond issuance includes deferred purchase bonds where bond proceeds will be received over the next four years.

Management of financial risk

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2019, the Group had total liquidity in excess of £2.5bn, comprising £645m of cash and short-term deposits, the £500m undrawn RCF, the £540m undrawn EIB loan, £700m of deferred purchase bonds and £100m of other undrawn loans. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity requirements to the end of construction.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

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

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

	2019 £m	2018 £m
Borrowings		
Within one year	(74.5)	(73.6)
Between one and two years	(74.2)	(73.7)
Between two and five years	(223.7)	(221.4)
After more than 5 years	(4,654.2)	(4,182.1)
Total	**(5,026.6)**	**(4,550.8)**

	2019 £m	2018 £m
Derivative financial instruments		
Within one year	6.7	3.4
Between one and two years	11.4	7.8
Between two and five years	54.2	51.0
After more than 5 years	(141.9)	(98.1)
Total	**(69.6)**	**(35.9)**

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations.

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

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. A treasury policy on investment management strategy provides clear instrument limits for money market funds, liquidity funds and money market deposits. The policy sets counterparty concentration and tenor limits through minimum credit rating requirements (as measured by reputable credit agencies). At the Statement of Financial Position date there were no significant concentrations of credit risk.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

The Group's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2019 was £683.8m (2018: £927.9m). Analysis of this amount can be found in the financial assets section of this note.

Market risk - Interest rate risk

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

The Group's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2019 is either borrowed or hedged via swaps at fixed or index-linked rates. A sensitivity analysis has not been disclosed as the impact from interest rate movements is considered immaterial.

Market risk - Inflation rate risk

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

The Group has recognized Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. It also understands the risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens. As a result, in the year, Bazalgette Finance plc issued long dated index-linked bonds in both formats, CPI and RPI bonds, which the Group receives the proceeds on.

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

The table below summarises the sensitivity at 31 March 2019 of the Group's profit and equity to changes in RPI for the Group's index-linked derivatives only. Due to the adopted accounting policy of capitalising borrowing costs that are directly attributable to the construction of the TTT, the sensitivity analysis excludes the Group's index-linked borrowings. This analysis also excludes any RPI impact on the Group's revenues and RCV. The fair value of the Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an increase or decrease in RPI as shown in the table below. This analysis assumes all other variables remain constant.

	2019 £m +1%	2019 £m -1%	2018 £m +1%	2018 £m -1%
(Loss)/profit	(71.6)	66.2	(69.1)	62.9
Equity	(71.6)	66.2	(69.1)	62.9

13 Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2019 No.	Ordinary shares 2018 No.
At the beginning of the year	509,672,601	370,407,648
Issued for cash	-	139,264,953
At the end of the year	**509,672,601**	**509,672,601**

Notes to the financial statements (continued)

13 Capital and reserves (continued)

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

Retained earnings

	2019 £m	2018 £m
Group		
At the beginning of the year	(24.7)	(34.2)
(Loss)/profit for the year	(31.0)	9.5
At the end of the year	**(55.7)**	**(24.7)**

14 Operating leases

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

	2019 £m	2018 £m
Less than one year	2.1	2.1
Between one and five years	7.2	7.9
More than five years	-	1.4
Total	**9.3**	**11.4**

15 Contingent liabilities

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

16 Related parties

Group

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

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited, are disclosed in note 11.

Key management personnel

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

	2019 £m	2018 £m
Short-term benefits	3.5	2.2
	3.5	**2.2**

Notes to the financial statements (continued)

16 Related parties (continued)

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

Company

Amounts outstanding on borrowings from Bazalgette Tunnel Limited and Bazalgette Ventures Limited, are disclosed in note 11. During the period £57.1m (2018: £51.6m) of interest was paid on this borrowing and £3.4m of principal was repaid (2018: £23.8m).

Amounts outstanding on loans to Bazalgette Tunnel Limited total £711.0m (2017: £714.4m). The loan carries the same terms as the shareholder loans disclosed in note 11. During the period £57.1m (2018: £51.6m) of interest was received on this loan and £3.4m of loan principal repayments were received (2018: £23.8m).

Key management personnel

The directors of the Company are considered to be the key management personnel. They did not receive any payment for their services during the year ended 31 March 2019 (2018: £nil).

17 Ultimate parent company and parent company of larger group

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

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