Tideway - Holdco Group

Investor Report H2 2018/19

July 2019

Notice

IMPORTANT NOTICE

This Investor Report is being distributed by Bazalgette Tunnel Limited (“BTL” or “the Borrower”) (as ‘Holdco Group Agent’) on behalf of each Obligor pursuant to the Common Terms Agreement (CTA). BTL trades as “Tideway”.

This Investor Report contains forward looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management’s assumptions rely on its operational analysis and expectations for the operating performance of each of the Obligor’s assets based on their historical operating performance and management expectations as described herein. Factors beyond management’s control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

BASIS OF PREPARATION

Investor Reports relate to the performance of the Holdco Group which includes Bazalgette Holdings Limited (“BHL” or “Holdco”), Bazalgette Finance plc (“Finco”) and BTL. This Investor Report comments on the historical financial performance of the Holdco Group for the period to 31 March 2019.

Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement unless otherwise stated.

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Overview

This Investor Report provides an update of the Holdco Group's activities for the period to 31 March 2019. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2019.

H2 2018/19 Highlights:

- 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.
- By year end we had three of six tunnel boring machines (TBM) tunnelling (two in our main tunnel and one in a connection tunnel). A fourth TBM has since started tunnelling and we have over 3 km of main tunnel primary lining complete.
- In April, 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 in outturn prices is £3.8bn compared to a £3.5bn regulatory baseline which represents an eight per cent increase.
- We implemented the river strategy to transport equipment, materials and spoil by river – with more than one million tonnes of material transported to date.
- Tideway continues to embed its transformational approach to health, safety and wellbeing (HSW), and we have had no major injuries or significant incidents relating to marine operations in the period.
- We are exceeding our 75% target for live Legacy commitments – including jobs, skills and environment – with 90% on track.
- Regulatory Capital Value at 31 March 2019 stood at £1,655m (£1,490m in 2014/15 prices).
- No further debt was issued in the second half of the year. The Company has 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 Revolving Credit Facility was reduced by a further £250m to £500m.
- Ratings of Baa1 by Moody's and BBB+ by Fitch were maintained in the year and the outlook remains stable.

Business Update

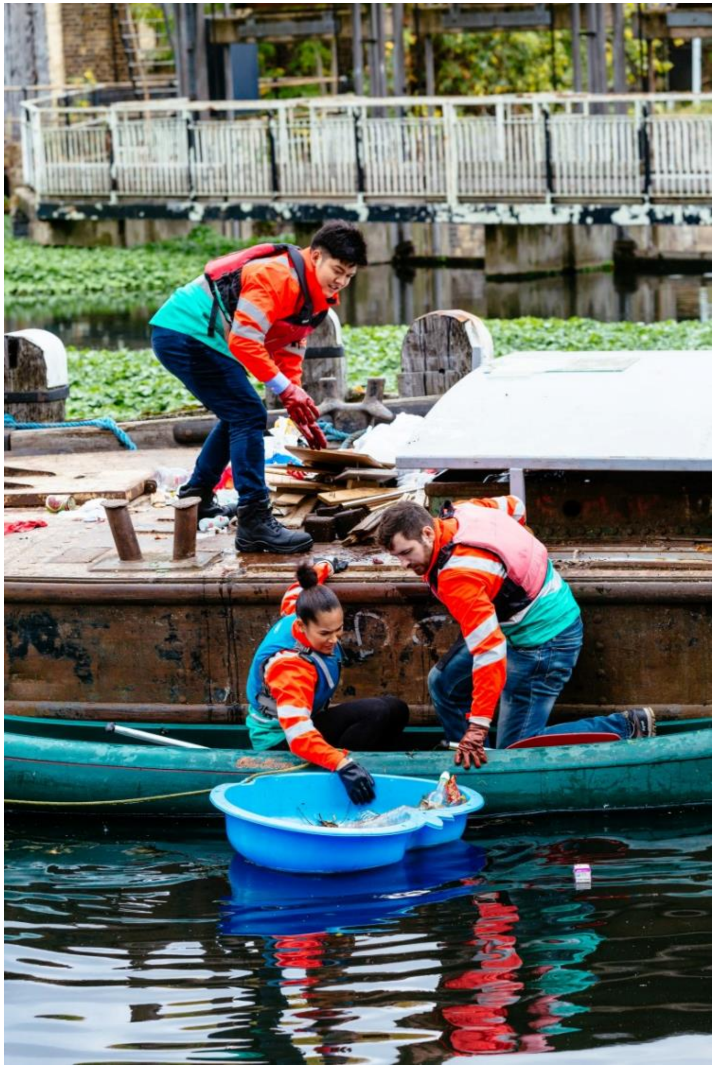
Health, Safety and Wellbeing

- Tideway continues to embed its transformational approach to health, safety and wellbeing, and are pleased to report that we have had no life-changing injuries 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.
- RightWay is our approach which underpins the fulfilment of the HS&W 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 HS&W culture through effective leadership.
- Our innovative and interactive induction programme, EPIC, established in 2015/16 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 how 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. EPIC has since been extended, with new modules developed for road logistics and marine activity.
- A Transforming Health and Safety Working Group (THSG) was established to look at how we can make a difference to on-site activities, through the people involved in leading day-to-day HSW across the Alliance.
- 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.
- We have 167 volunteer mental health first aiders across the entire project.

Business Update (cont.)

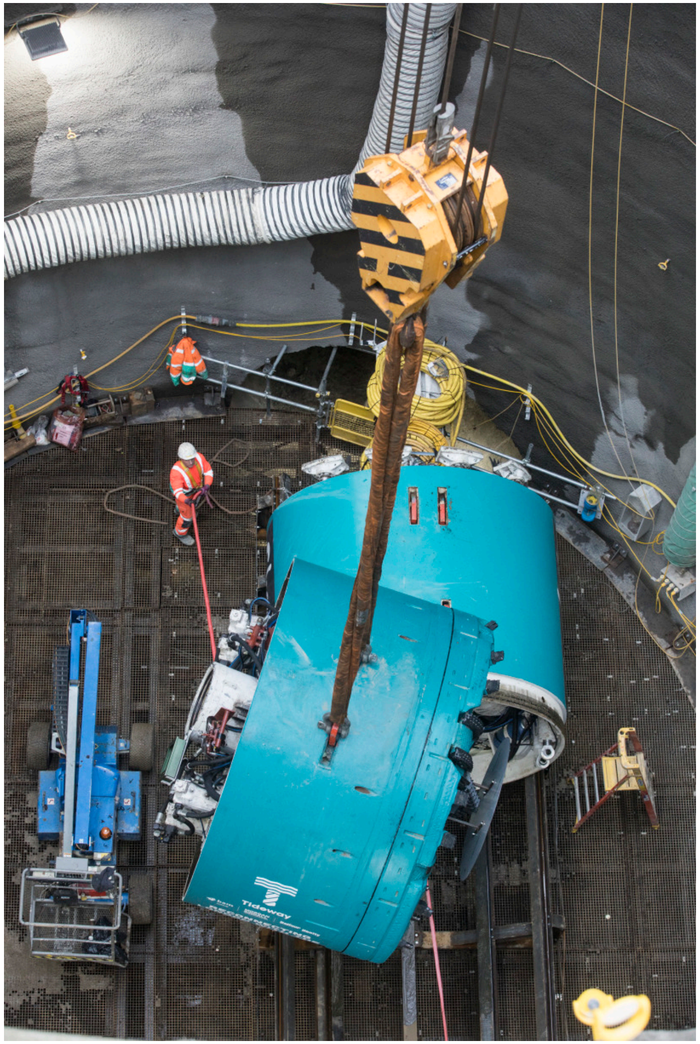
Vision, Legacy and Reputation

- We continue to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders.
- We ensure that people are well informed of our progress through formal meetings, drop ins, and presentations, engage closely with our local stakeholders and keep local residents informed. 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".
- 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 mapped our Legacy commitments against the UN Sustainable Development Goals (SDGs).



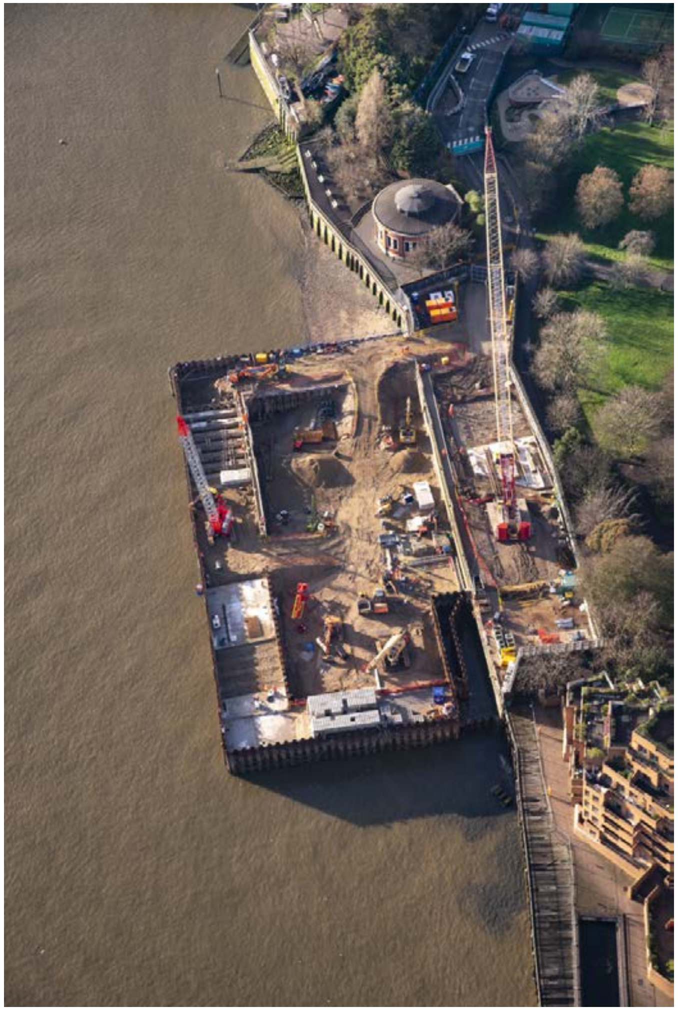
Regulatory Update

- Post period end, on 9 July 2019, Ofwat published its conclusions on strengthening the regulatory ring-fencing framework, following consultation in November 2018. Among other changes, the regulator plans to strengthen the obligation on companies to maintain an investment grade credit rating from a "reasonable" or "best" endeavours obligation to an unconditional obligation, and to introduce a requirement on reporting of material issues. Ofwat has confirmed that the changes will not apply to Tideway.
- A number of licence modifications intended to simplify and clarify certain elements of Tideway’s licence, and to align its Board leadership, transparency and governance obligations to Ofwat's updated expectations, were informally agreed between Tideway and Ofwat in May 2019. Subject to the outcome of Ofwat’s formal consultations, these are expected to come into effect in early August 2019. None of the modifications are expected to have a material effect.



Interface with Thames Water

- Thames Water has completed the part of the Thames Water Works that comprised the enabling works for the Company to mobilise onto its sites and continues with that part of the Thames Water Works to facilitate the connection of the TTT to the Sewer Network.
- The Company and Thames Water are implementing detailed asset protection arrangements for the Sewer Network during the carrying out of the Company's Works.
- In addition, Thames Water and the Company have developed a joint approach which, amongst other things, addresses the requirements and working relationships for the second half of the TTT project including those relating to land and commissioning.
- To support this joint approach, the Company has worked with Thames Water to develop proposed performance commitments and incentives for the 2020-25 regulatory period that align Thames Water's interests more closely with the overall interests of the TTT project. These proposals are being discussed with Ofwat with the aim of securing their inclusion in the final determinations of the 2019 price review for Thames Water.

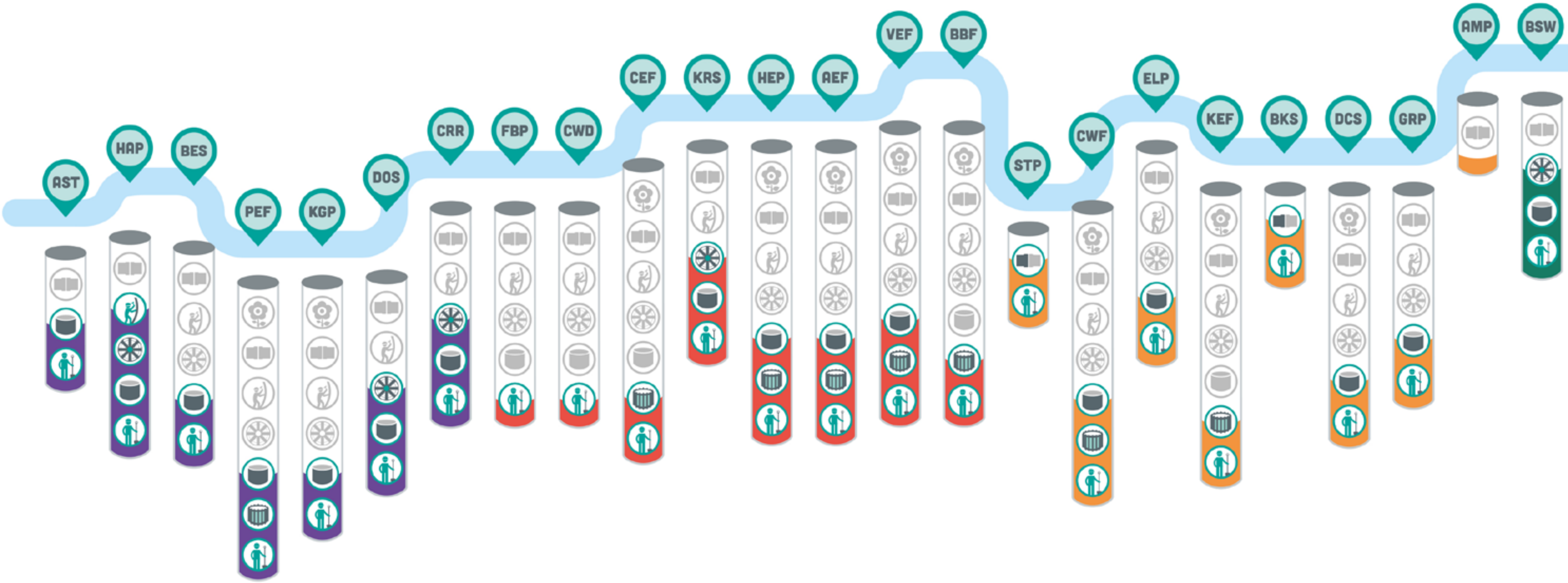


Investment Programme – Overview

- The last year has built a solid foundation on which we can achieve Handover in 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 Park Foreshore sites and our continued commitment to our More by River strategy (see page 11).
- 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.
- Of the total of 21 shafts to be built:
  - 5 are at full depth with base slab poured
  - 10 are under excavation
  - 1 is in walling construction
  - 5 have yet to start
- We have completed the installation of eight temporary cofferdams which establish our sites. This is an unusual feature of the project, which we must complete before starting construction of the tunnel.
- We have four TBMs actively tunnelling (three in our main tunnel and one in a connection tunnel) with total main tunnel primary lining built in excess of 1 km at year end and 3 km in June 2019.
- The More by River strategy has been developed to reduce the number of lorries needed to deliver the project and delivers numerous benefits, 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 lorry movements needed for the project, we have reduced the number by an estimated 72%.
- This year, by using the river to transport materials we avoided 68,000 lorry movements, an average of almost 200 lorry movements a day. The project has moved approximately 935,000 tonnes of material by river saving around 114,800 lorry movements.

BUILDING THE SUPER SEWER

Summer 2019



KEY

Site Preparation
Cofferdam Built
Shaft Built
Tunnelling
Secondary Lining
Sewer Connections
Public Realm

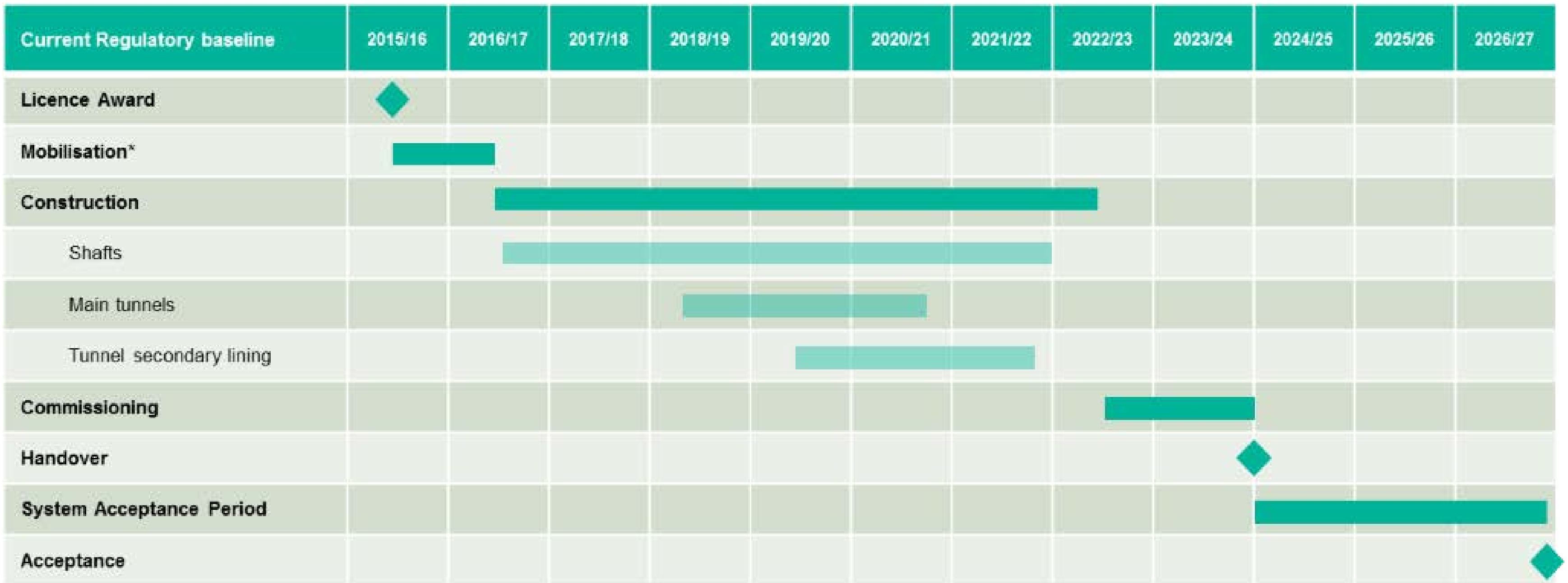
West Sites
Central Sites
East Sites
Beckton Sewage Treatment Works

Investment Programme – Cost and Contingency

- Since entering the Main Works Contracts, 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 £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 Company 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 Company'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 contingency for the remaining expected risk on the project.

Investment Programme – Regulatory Baseline

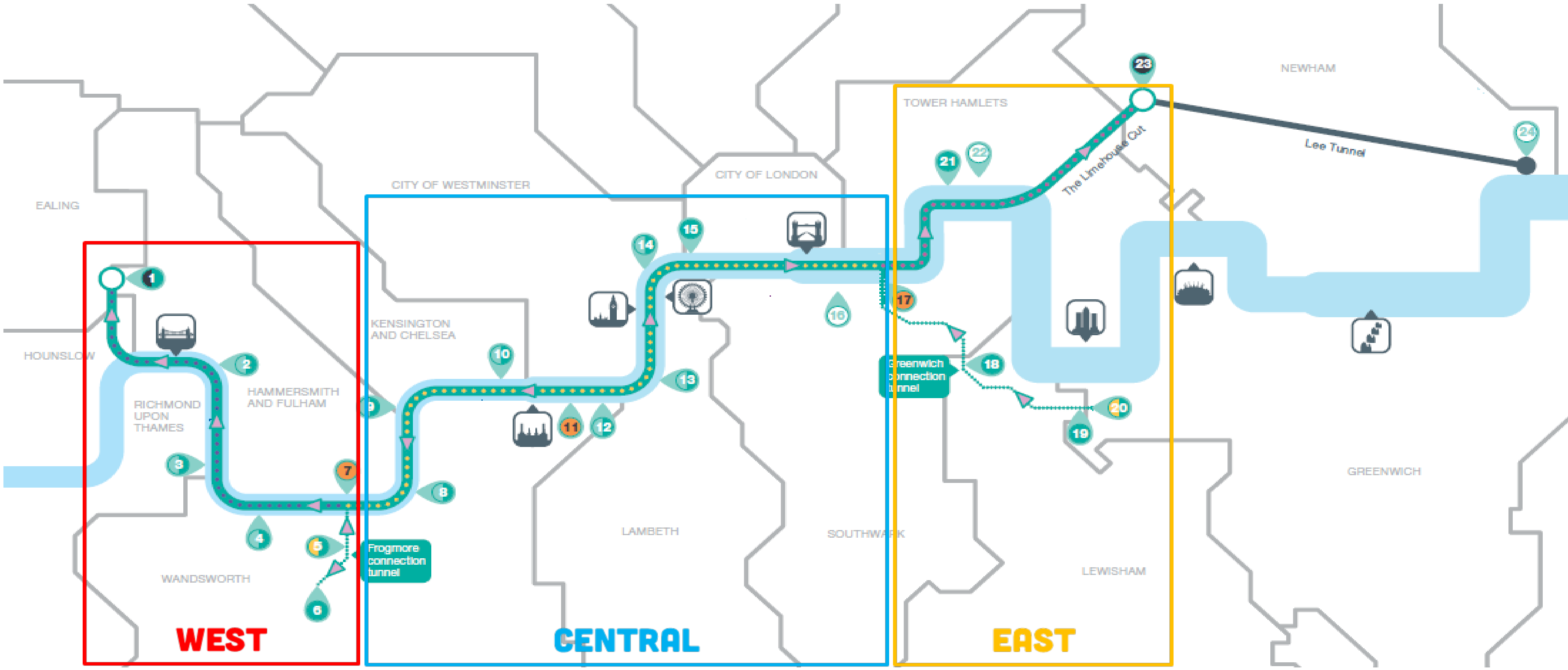
The outline schedule remains broadly representative of the project and its overall progress, although as we deliver the project we have and will make some changes to specific site schedules



* 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).

Investment Programme – Route and Sites



Map key

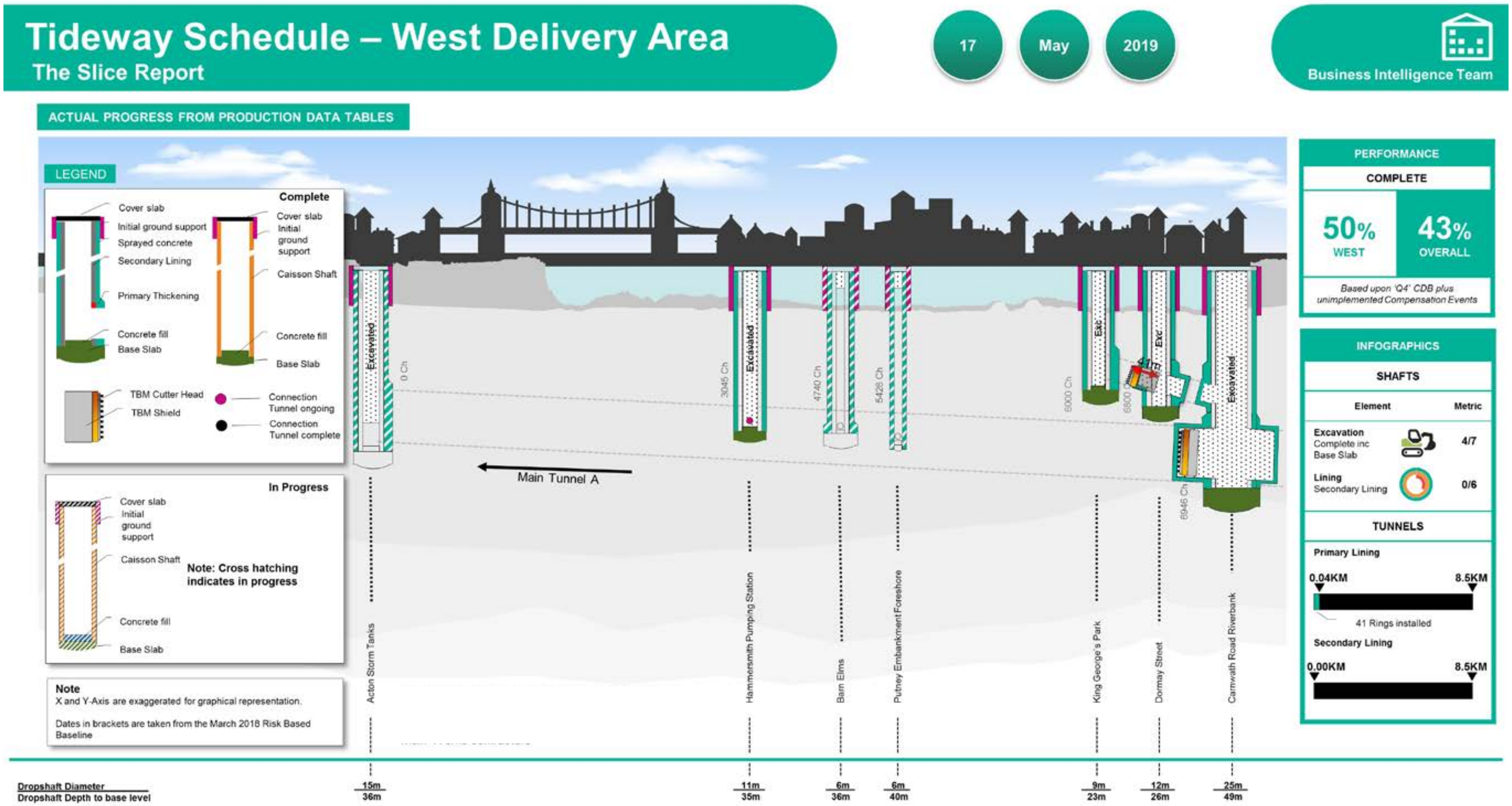
- Main tunnel drive site
- Main tunnel reception site
- CSO site
- Short connection tunnel drive site
- Long connection tunnel drive site
- System modifications
- Main tunnel
- Long connection tunnel
- Lee Tunnel (under construction)
- Proposed drive direction
- West works site
- Central works sites
- East works site

1. Acton Storm Tanks
2. Hammersmith Pumping Station
3. Barn Elms
4. Putney Embankment Foreshore
5. Dormay Street
6. King George's Park
7. Carnwath Road Riverside
8. Falconbrook Pumping Station
9. Cremorne Wharf Depot
10. Chelsea Embankment Foreshore
11. Kirtling Street
12. Heathwall Pumping Station
13. Albert Embankment Foreshore
14. Victoria Embankment Foreshore
15. Blackfriars Bridge Foreshore
16. Shad Thames Pumping Station
17. Chambers Wharf
18. Earl Pumping Station
19. Deptford Church Street
20. Greenwich Pumping Station
21. King Edward Memorial Park Foreshore
22. Bekesbourne Street
23. Abbey Mills Pumping Station
24. Beckton Sewage Treatment Works

Investment Programme - West

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.



Investment Programme – West (cont.)

- 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.
- 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. By June 2019 Charlotte had advanced 45m. 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.

- **Other milestones included:**
  - Completing the primary 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.
  - Excavating the 30m deep shaft at Acton.

TBM Charlotte lowering at Dormay Street

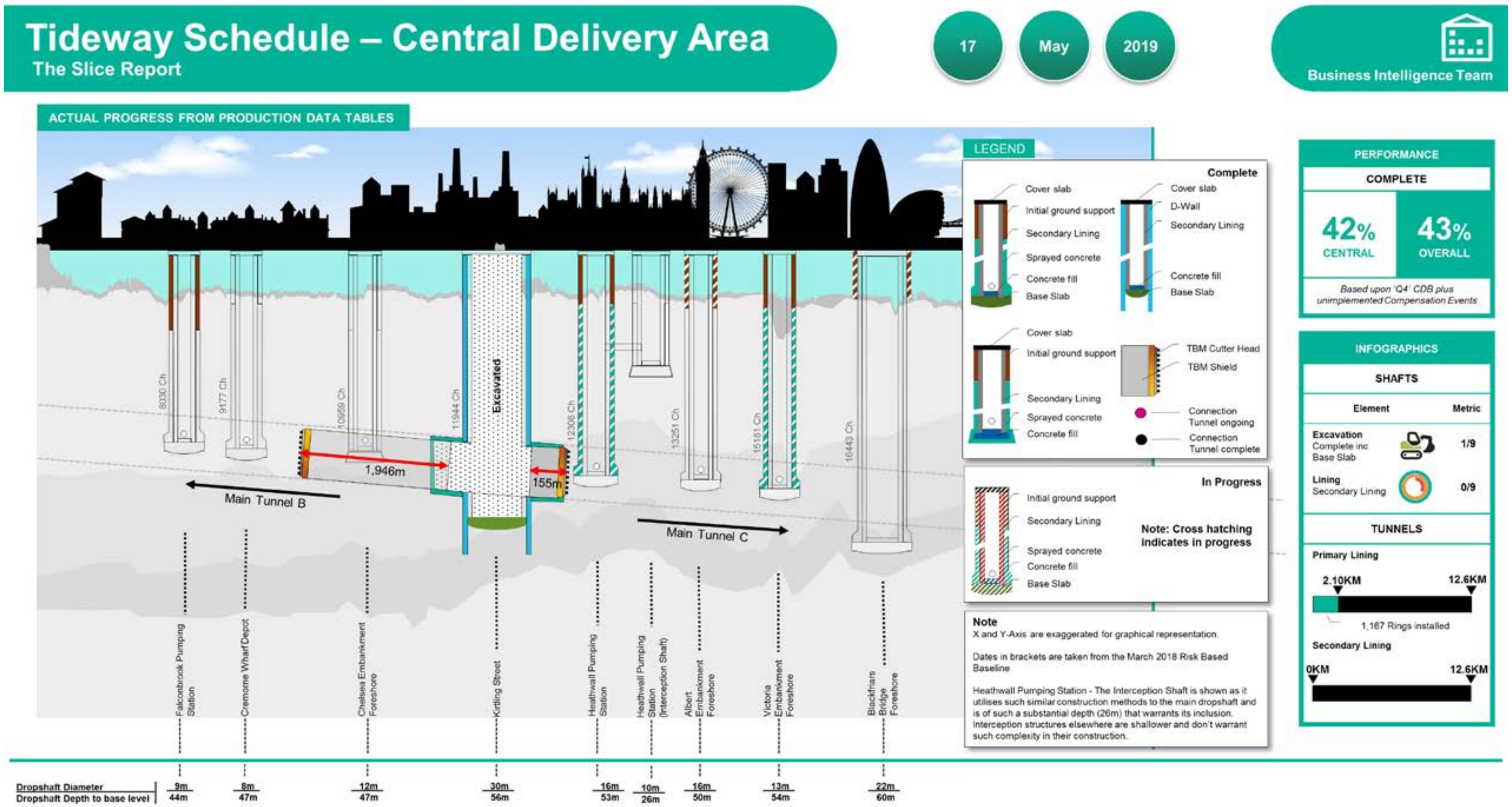
Carnwath Road Riverside

Hammersmith Pumping Station

Investment Programme - Central

In the Central area, we are working on all eight construction sites, with one of our sites having 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.



Investment Programme – Central (cont.)

- 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. At the end of June 2019 Millicent had tunnelled over 2000m. Ursula, which will tunnel east towards Chambers Wharf in Bermondsey, followed in March 2019 and progressed to 266m as of June 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 completed the construction of cofferdams at six sites. The cofferdams increase the footprint of our sites and enable progress with shaft construction at key sites including Blackfriars and Albert Embankment.

- **Other milestones included**:
  - Installing and occupying welfare facilities at five sites which completed full mobilisation on the central sites.
  - Completing land-side piling and the cofferdam and starting backfilling it at the Heathwall pumping station site, close to Kirtling Street.
  - 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.
  - Completing two cofferdams at Albert Embankment and starting piling and work towards the construction of the 49m deep shaft.
  - Starting work at Victoria Embankment, prior to excavating the 51m deep shaft.

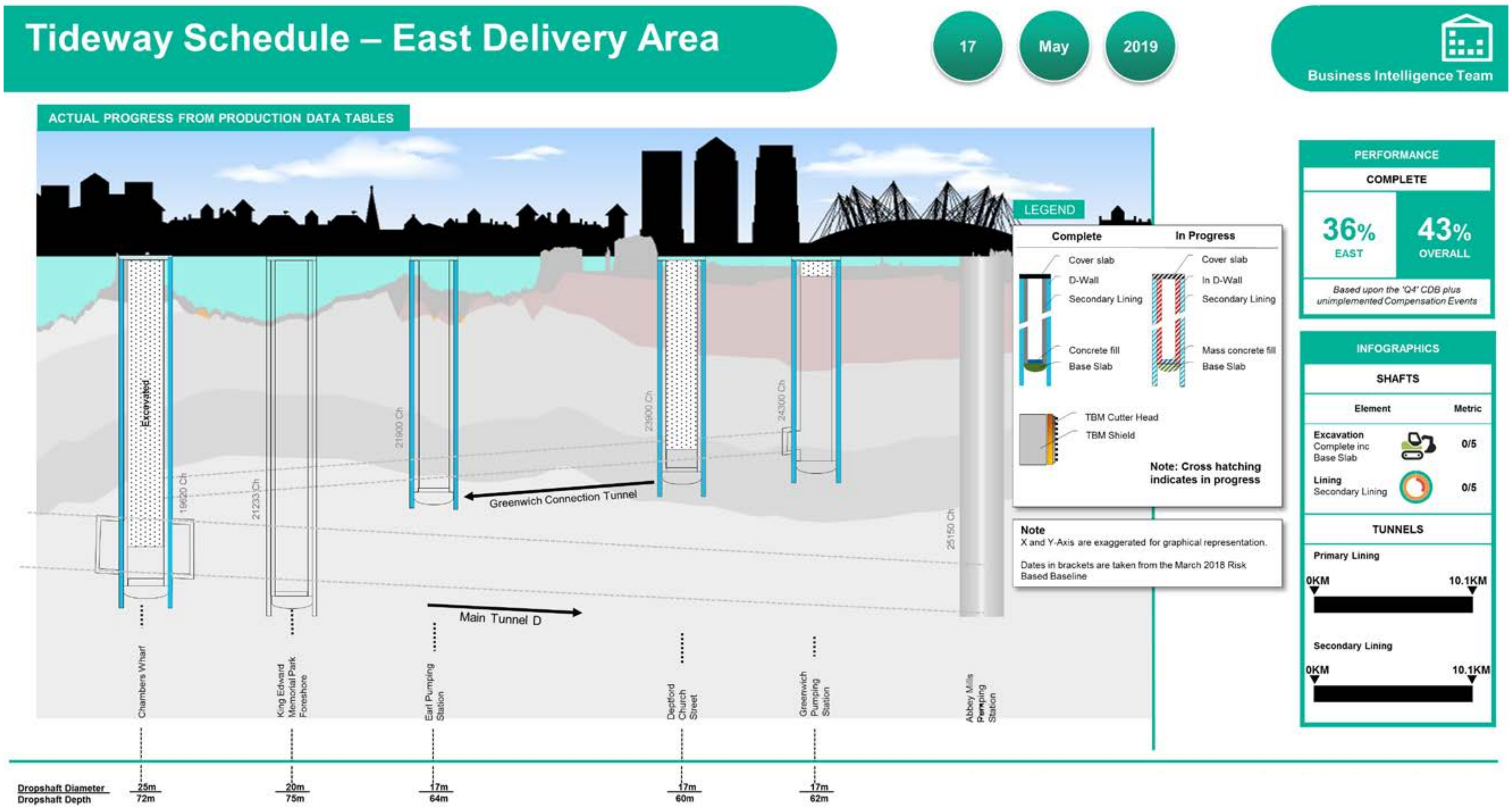
Kirtling Street

Victoria Embankment Foreshore

Blackfriars Bridge Foreshore

Investment Programme - East

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.



Investment Programme – East (cont.)

- 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. This enabled us to start 24-hour working on shaft excavation, five days a week.
- We have completed over 50% of the shaft excavation in readiness for the TBM Selina, with tunnelling due to start in early 2020.
- **Further milestones 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 has 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 nearly half the 28m deep shaft.
  - 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 .
  - 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.

King Edward Memorial Park

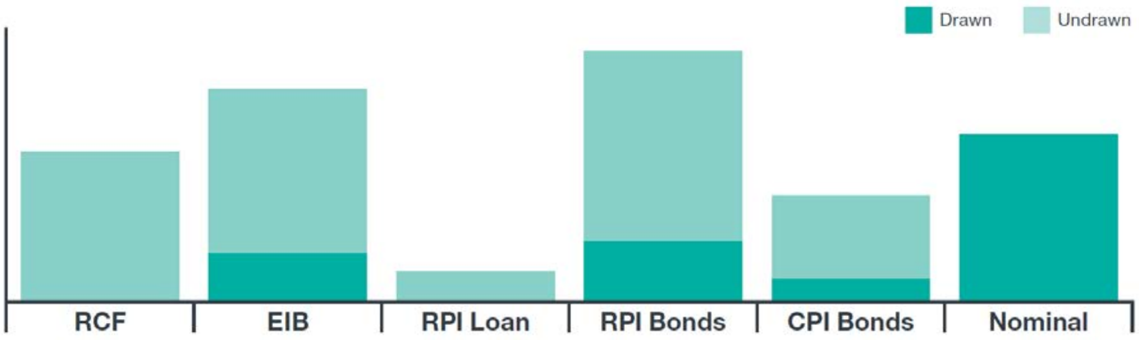
Chambers Wharf

Deptford Church Street

Financing Activity

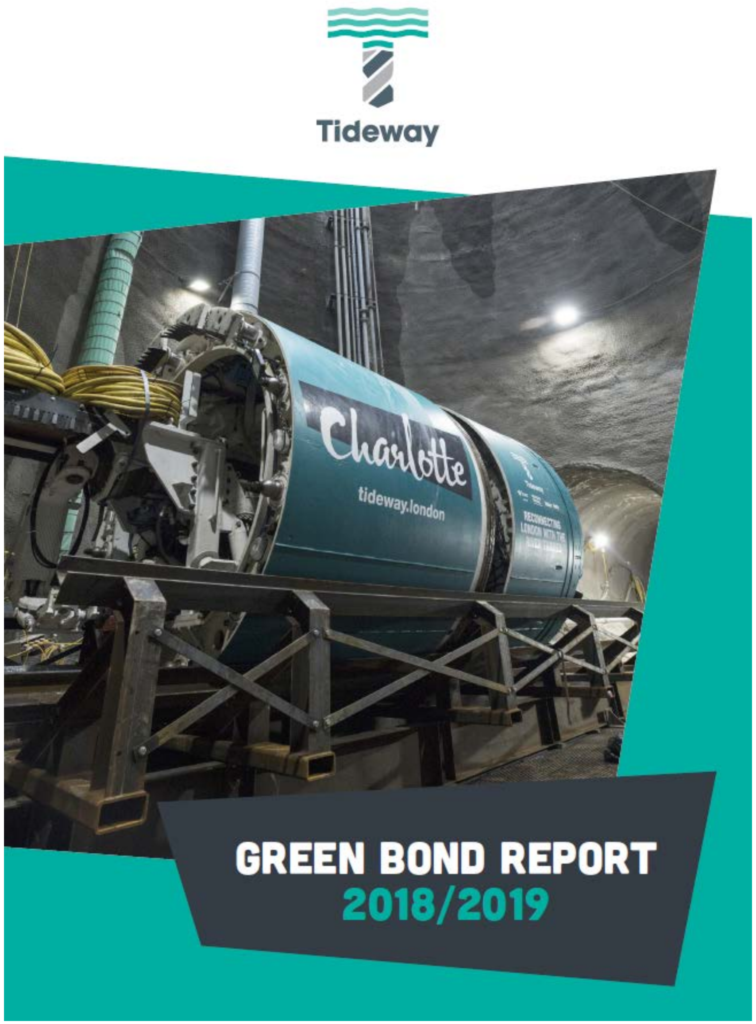
- There was no further debt issuance in the 6-month period ending 31st March 2019 and the total committed debt funding secured to date stands at £3,025m.
- There were also no new derivative transactions - our derivative portfolio continues to include the swaps hedging the first eight tranches of our £700m EIB loan and £70m of our £300m USPP notes.
- The further de-risking of the financing plan with the £325m of additional debt raised in the first quarter of the year, enabled us to cancel £250m of the RCF and reduce it to £500m in December 2018. The RCF remains undrawn.
- As at 31 March 2019, we had received £1,274m from our shareholders, which was the full commitment at Licence Award, in line with our equity-first approach to financing. Part of the shareholder loans have been repaid and the balance at 31 March 2019 was £711m. A Restricted Payment of £30.5m was paid in March, comprising £28.4m of interest and a £2m repayment of the shareholders' loan.
- In December 2018, we drew our second deferred bond, the £100m 0.249% Index-linked Bonds due 2040 and in January 2019 we drew the second tranche of the EIB loan of £80m.
- As at 31 March 2019, we had total liquidity in excess of £2.5bn, comprising £655m of cash, the £500m undrawn RCF, £540m undrawn under the EIB loan, £700m of deferred purchase bonds and £100m of an undrawn loan. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity requirements to System Acceptance.

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



Financing Activity (cont.)

- Fitch published a full rating report on the Company in March 2019 covering key rating driver assessments and confirming and rationale for its BBB+ rating. Fitch has since applied ESG relevant scores to all infrastructure issuers.
- We have mapped our Legacy commitments against the UN Sustainable Development Goals (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 which was updated in June 2019 and is available on our website.
- In January 2019 Tideway became one of the two UK corporates among the 16 founding members to launch the Corporate Forum on Sustainable Finance. The forum aims to advance the development of sustainable finance.
- Post year end, we published an update of our EMTN programme prospectus.
- Also post year end, S&P updated its Green Evaluation of our EMTN programme and maintained the E1/95 assessment, still the highest S&P mitigation score to date and the joint-highest overall score.



Historical Financial Performance

The information in this and the next two pages is in respect of BTL, the operating company. Please see our website for BHL group accounts.

At 31 March 2019, costs of £1,828.6m were capitalised (2018: £1,154.9m) within the asset under construction in the Statement of Financial Position. This represents £673.7m costs during the year and £1,154.9m for the prior periods to 31 March 2018.

	2018/19			2017/18		
Analysis of Costs[2] and Cash Outflows (£m)	Costs	Timing Differences	Cash Outflows	Costs	Timing Differences	Cash Outflows
Direct Costs	504.4	0.5	504.9	443.2	(16.8)	426.4
Indirect Costs	84.2	(6.3)	77.9	99.5	(7.7)	91.8
Allowable	588.6	(5.8)	582.8	542.7	(24.5)	518.2
Excluded	85.1	2.4	87.5	66.3	45.4	111.7
Total	673.7	(3.4)	670.3	609.0	20.9	629.9
Brought Forward	1,154.9			545.9		
Capitalised Costs*	1,828.6			1,154.9		

Allowable Costs

For the year ended 31 March 2019, our Allowable Project Spend(1) is lower than the Allowable costs(2) as our Allowable costs include the timing of accruals and unwinding of prepayments of items, including insurance contracts and the GSP.

Allowable Costs[2] (£m)	2018/19	2017/18
Direct Costs	504.4	443.2
Resource Costs	62.2	68.4
Other Indirect Costs	22.0	31.1
Indirect Costs	84.2	99.5
Total	588.6	542.7

Direct Costs

Direct costs are primarily the MWC (Main Work Contractors) costs. The direct costs incurred in the year have increased compared with 2017/18, reflecting the increase level of construction as we commenced tunnelling.

Indirect Costs

The largest indirect cost is Resource Costs of £62.2m. This represents the cost to employ the c429 average FTEs (2017/18 c479 average FTEs) either employed or contracted by the Company. The Other Indirect Costs include information systems, insurance, GSP, office and other running costs. Indirect costs have decreased compared with 2017/18 due to budget controls and cost cutting measures.

(1) Allowable Project Spend - Allowable Project Spend (on a cash basis) is added to our RCV
(2) Allowable Costs - 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
(3) Excluded Costs – 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

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

Excluded Costs

The Excluded costs[3] (on an accruals basis) for the year ended 31 March 2019 were £85.1m. These comprise £84.9m of interest payable (including shareholder loans), £6.2m of costs which mainly relate to financing, partly offset by £6.0m interest receivable.

Historical Financial Performance (cont.)

Cash Flow and Cash

The cash at 31 March 2019 was £554.8m (£644.8m including short term deposits of £90.0m), which was £283.5m lower than the £838.3m cash at 31 March 2018.

The cash inflows of £386.9m include £360.0m proceeds from borrowings, £59.3m of working capital inflows less £32.5m of transfers to short term deposits. The working capital inflows include £46.1m of regulated revenue received from Thames Water and £13.2m of other inflows, including interest and payment for other services provided to Thames Water.

The cash outflows of £670.3m include £669.5m of investment in the construction of the TTT and £3.4m shareholder loan repayments, partly offset by working capital inflows of £2.6m.

External Debt

At 31 March 2019, the Company's borrowings were £1,898.9m being £711.0m shareholder loans and £1,187.9m of other borrowings. These were in the form of £1,176.4m of fixed and floating rate loans and £722.5m of fixed rate and index linked bonds. In addition, the Company 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. A list of Tideway's external debt facilities can be found on page 25.

Cash (£m)	2018/19	2017/18
Opening Balance	**838.3**	**315.9**
Proceeds from Shareholder Loans	0.0	208.9
Proceeds from Equity	0.0	139.3
Proceeds from Borrowings	360.0	822.1
Deferred revenue	46.1	32.1
Transfer (to)/from Short Term Deposits	(32.5)	(57.5)
Other	13.2	7.4
Cash Inflows	**386.9**	**1,152.3**
Construction of the infrastructure asset	(669.5)	(607.4)
Working capital inflows/(outflows)	2.6	1.3
Repayment of Shareholder Loans	(3.4)	(23.8)
Cash Outflows	**(670.3)**	**(629.9)**
Closing Balance	**554.8**	**838.3**

** Excludes short term deposits of £90.0m.*

Historical Financial Performance (cont.)

Fair value measurements and valuation

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.

These long-term index-linked swaps help manage the Company's exposure to inflation linked rate risk. The derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the Statement of Financial Position date.

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.

During the year to 31st March 2019, there was a negative movement of £31.0m in the fair value of the index-linked swaps (£9.5 positive movement in FY1819); this was primarily driven by a shift in implied Libor having a negative impact on the valuations.

Tax

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

We did not recognise any taxable profits in the period (2017/18: £nil) and therefore have no corporation tax charges (2017/18: £nil).

Debt Portfolio – March 2019

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
DRAWN				
£75m CPI + 0.828%	75	Bond	Aug-17	2047
£300m 2.86%	300	USPP Loan Note	Sep-17	2032
£250m 2.375%	250	Green Bond	Nov-17	2027
£200m CPI+ 0.74%	200	Green Bond	Nov-17	2042
£100m RPI + 0.688%	100	Bond	Jun-18	2050
£80m Tranche 1	80	EIB	Jul-18	2051
£100m RPI + 0.249%	100	Bond	Dec-18	2040
£80m Tranche 2	80	EIB	Jan-19	2051
Subtotal	**1185**			
COMMITTED AND UNDRAWN				
RCF	500	Revolver	N/A	2025
EIB	540	Loan	*Various 2019-2022*	2051
£100m RPI + 0.755%	100	Bond	Jun-19	2051
£125m RPI + 0.192%	125	Bond	*Jul-19*	2049
£100m RPI + 0.01%	100	Loan	Sep-19	2049
£25m RPI + 1.035%	25	Bond	*Jun-20*	2048
£50m RPI + 0.787%	50	Bond	Jun-20	2052
£25m RPI + 0.951%	25	Bond	*Jun-20*	2054
£25m RPI + 1.042%	25	Bond	Jun-21	2048
£25m RPI + 0.954%	25	Bond	*Jun-21*	2054
£150m RPI + 0.01%*	150	Green Bond	Apr-22	2032
£75m CPI + 0.949%	75	Green Bond	*May-22*	2052
£50m RPI + 0.074%	50	Green Bond	May-22	2049
£50m RPI + 0.174%	50	Green Bond	*May-23*	2049
Subtotal	**1,840**			
Total	**3,025**			

The £700m EIB loan consists of ten tranches; eight of which will be drawn in floating rate format and have been synthetically swapped with third parties (details in swap portfolio in appendix) while the remaining two tranches will be drawn in RPI linked format directly from the EIB at RPI + 0.01%.

(*) re-offer price of 100.24% reflecting negative yield of -0.014%

Financial Ratios

We confirm that in respect of this Investor Report as of 31 March 2019, by reference to the most recent Financial Statements that we are obliged to deliver in accordance with paragraph 1 (Financial Statements) of Part A (Information Covenants) of Schedule 3 (Holdco Group Covenants) of the CTA:

a) the Senior RAR[(1)] in respect of the relevant Test Period is equal to 32.21%

b) The FFO ICR[(2)] in respect of the relevant Test Period is equal to 3.44

c) The average FFO ICR in respect of the relevant Test Period is equal to 4.74

(together ***the Ratios***)

We confirm that the above Ratios have been calculated in respect of the Test Period(s) or as at the Test Dates for which it is required to be calculated under the CTA.

Description of ratios

(1) Senior RAR measures at a test date, the ratio of Senior Net Indebtedness to RCV

(2) FFO ICR measures in respect of a test period, the ratio of Net Cash Flow to Senior Debt Interest

Other Reportable Matters

Significant management and board changes H2 2018/19

- Mark Corben, the Chief Financial Officer, stepped down in November 2018.
- Mathew Duncan was appointed Chief Financial Officer and joined the Board in November 2018.
- There have not been any other board or relevant management changes in the period.

Post period end

Post period end Tideway has announced the appointment of a new non-executive director, Baroness Ruby McGregor-Smith CBE.

Acquisitions and disposals H2 2018/19

There have not been any acquisitions and disposals in the period.

Current Hedging Position

The current swap portfolio can be found on slide 30 in the appendix.

Confirmation

We confirm that:

a) no Default or Trigger Event has occurred and is continuing;

b) the Borrower is in compliance with the Hedging Policy;

c) the statements set out in this Investor Report are accurate in all material respects; and

d) the insurances are being maintained in accordance with paragraph 28 (Insurance) of Part C (General Covenants) of Schedule 3 (Holdco Group Covenants) to the CTA.

Mathew Duncan,

Chief Financial Officer

For and on behalf of Bazalgette Tunnel Limited as Holdco Group Agent

APPENDICES

Swap Portfolio – March 2019

- During FY16/17 Tideway swapped tranches 1-8 of the EIB loan with various banks to index linked (RPI) format and agreed to draw tranches 9-10 in index linked format directly from the EIB
- In September 2017, Tideway swapped £70m notional of the USPP
- The swaps mature in 2030-2032 which is the beginning of Tideway's next regulatory period where the regulatory framework is expected to change to CPIH from RPI

Swap	Facility	Notional (£m)	Effective date	Swap maturity	Interest rate
Swap 1	EIB	80	Jul 2018	Mar 2030	RPI - 0.125%
Swap 2	EIB	80	Jan 2019	Mar 2030	RPI - 0.122%
Swap 3	EIB	80	Jul 2019	Mar 2030	RPI - 0.018%
Swap 4	EIB	80	Jan 2020	Jan 2031	RPI - 0.750%
Swap 5	EIB	80	Jul 2020	Jan 2031	RPI - 0.484%
Swap 6	EIB	80	Jan 2021	Jan 2031	RPI - 0.573%
Swap 7	EIB	80	Mar 2021	Jan 2032	RPI - 0.468%
Swap 8	EIB	60	Jul 2021	Jan 2032	RPI - 0.550%
Swap 9	USPP	70	Sep 2017	Mar 2030	RPI - 0.455%

Reference to the CTA

The table below summarises the requirements of the Investor Report and references in this document.

Requirement	Reference
General overview	Page 4, Overview
Regulatory and business update	Pages 5-8, Regulatory and Business Update Pages 9-19, Investment Programme
Capital Expenditure	Pages 22-24 Historical Financial Performance
Financing	Pages 20-21, Financing Activity, 27 and Appendix
Acquisitions or Disposals	Page 27, Other Reportable Matters
Current Hedging Position	Page 27, Other Reportable Matters Appendix
Financial Ratios	Page 26, Ratios