TIDEWAY – HOLDCO GROUP INVESTOR REPORT

23 December 2019

Tideway

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 30 September 2019.

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

Contents

Overview

This Investor Report provides an update of the Holdco Group's activities for the period to 30 September 2019. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Interim Report and Financial Statements for the six months ended 30 September 2019.

H1 2019/20 Highlights:

Tideway continues to make good progress towards its ambition to safely deliver the Thames Tideway Tunnel (TTT) at the right quality and to best value.

- Construction activity on the project is now 51% complete (November 2019) in line with our Business Plan.
- We have made significant progress and met some important milestones: completed construction of all cofferdams, made significant progress on shaft construction (73% complete) and tunnelling, and reached peak marine operations, delivering our More by River strategy. We continue to maintain our scheduled date for Handover in March 2024.
- Our tunnel boring machines (TBMs) made good progress on their journeys with 10km of the 25km of main tunnel complete.
- Total project costs for the six-month period were £389.8m, taking the total capitalised costs relating to the tunnel at September 2019 to £2,218.6m.
- In July and August 2019, we raised £150 million of deferred term debt. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover anticipated construction costs.
- Tideway's credit ratings of Baa1 by Moody's and BBB+ by Fitch have been re-affirmed 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 there were no major (life-changing) incidents during the six-month period ended 30 September 2019. Health, Safety & Wellbeing performance across the programme remains strong compared to all industry benchmarks.
- Our accident frequency rates (AFR, measuring lost-time injuries over a rolling 12-month window) improved during the reporting period, with AFR-1 reducing by 8% (0.26 down to 0.24), AFR3 by 25% (0.16 down to 0.12) and AFR-7 by 25% (0.12 down to 0.09). There were nine lost time injuries during the 3 million hours worked, four of which resulted in over seven days lost time. Whilst our AFRs remain better than previous infrastructure projects we believe that more is achievable to eliminate injuries entirely.
- There was a significant incident at the Greenwich site in the first quarter, relating to a lift of heavy machinery, which resulted in one lost-time injury and damage to plant. Following this we have worked with our Main Works Contractors to refocus on lifting operations and exclusion zones.
- At the end of September 2019, the Central Area were commended for exceeding two million hours worked without a lost-time incident.
- The project has moved into a phase in which river and operational movements are at their peak, with marine logistics increasingly important for Tideway's delivery programme. Tideway recruited a Marine Operations Manager and further developed the risk register and planned mitigations for marine works risks.
- Mental health of the workforce continues to be a major drive for the project and has been supported with the Mates in Mind programme, mental health first aiders, mindfulness sessions and support from local services such as MIND, the mental health charity.

Business Update - Vision, Legacy and Reputation

Vision, Legacy and Reputation

- As the project reaches the peak of construction activity, continuing to build good relations, trust and confidence with stakeholders is vital to ensure efficient delivery. Our aim is to communicate the need for the project, its benefits and our progress in delivering it whilst engaging proactively with communities close to our sites.
- During the reporting period we held 22 Community Liaison Working Groups, plus weekly information centre sessions at Chambers Wharf, a monthly session at Carnwath Road and a dedicated noise drop in for those residents living closest to Kirtling Street.
- Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to reducing our carbon emissions. Legacy delivery continues to be ahead of target, with 91% of commitments on track against a target of 75% at the end of the reporting period. This increase was driven by stronger assurance around the project performance against its commitment to minimise its carbon footprint.
- The number of apprentices on the programmed increased, with a ratio of 1 in 41 at the end of the period, against a target of 1 in 50.

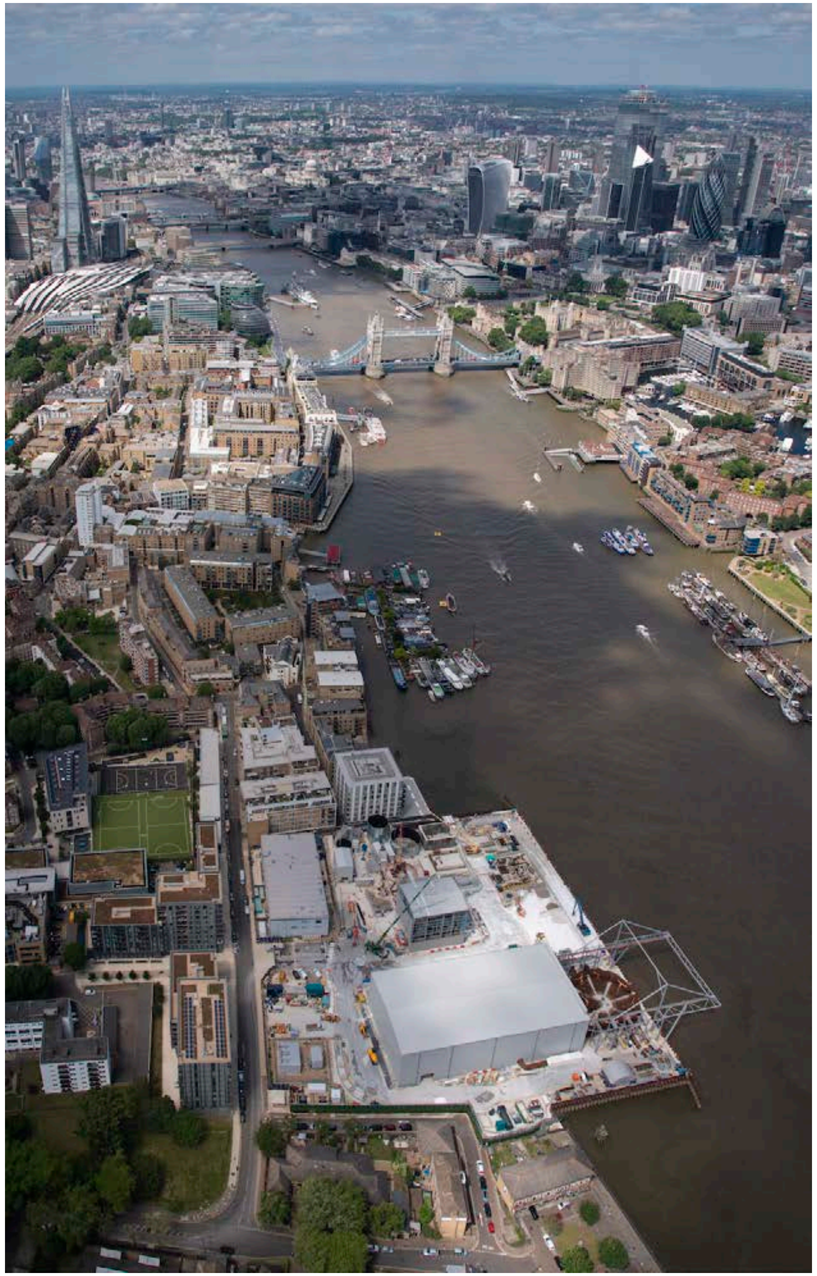
- We are also working hard to meet those commitments where we are behind our target: for example, in the East section of the project we achieved the target of 25 per cent of staff being from the 14 London boroughs in which we work, with our West and Central areas increasing to 23 per cent and 24 per cent respectively against the 25 per cent target. Additionally, performance against our ex-offender target has improved and we are working with a local charity to support ex-offenders into work within and beyond Tideway.
- We achieved recertification to the BRE Ethical Labour Sourcing Standard (ELS). This demonstrates our commitment to eliminating any possibility of human trafficking and modern slavery from our business as well as our supply chain. Our 2019 assessment achieved the highest level of performance (Level 4) in the HR section for our policies in this regard and for achievements such as being a Times Top 50 Employer for Gender Equality.
- The number of environmental incidents, which were all minor, continue to drop due to the maturity of control measures on site. During the past six months there have been fourteen minor incidents, predominantly involving burst hydraulic hoses and no major incidents. All incidents were managed and there was no material adverse impact caused.

Regulatory Update

- On 9 July 2019, Ofwat published its conclusions on strengthening the regulatory ring-fencing framework, following a 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.
- Tideway's licence was modified on 1 August 2019 to align its Board leadership, transparency and governance obligations with Ofwat's updated expectations, and to incorporate a number of simplifying and clarifying changes. None of the modifications have had or are expected to have a material effect.
- Post period end, on 8 October 2019, Ofwat published its new strategy setting out its ambition for the water sector. The document is focused on delivering public value for the sector, building trust with customers and communities, and improving the environment. While Tideway is confident in its commitment to delivering broader public value we are reflecting on our approach given Ofwat's Vision and Strategy.
- Post period end, on 16 December 2019, Ofwat published its final determinations (FDs) for the PR19 price review. Tideway is not subject to PR19 but has engaged closely with Ofwat and Thames Water throughout the process with the aim of ensuring that Thames Water is adequately funded and incentivised to support the TTT project until 2025. Thames Water's FD contains a package of performance commitments and incentives relating to the project that are broadly in line with those proposed by Tideway, including on timely achievement of System Commissioning and support for early hand back of project land.

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 handover 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. Post period end, Ofwat has published its PR19 Final Determinations for the industry and Thames Water as mentioned above.



Investment Programme – Overview

- Progress generally remains encouraging with the project being overall 51% complete as of November 2019 in line with 2019/20 Business Plan
- Completed over 36% of all primary (Tunnel Boring Machine) tunnels
  - 4 TBMs launched (1 completed its journey)
  - 2 TBMs to be launched in 2020
- Main Tunnel primary lining built is 10.6km (from 7.4 km in September)
  - Drive A=2.2km
  - Drive B=4.9km (completed)
  - Drive C=3.5km
- Our main tunnel route passes under 21 bridges over the river. So far we have passed under 9 of them, namely Putney Bridge, Battersea Railway Bridge, Battersea Bridge, Albert Bridge, Chelsea Bridge, Grosvenor Rail Bridge, Vauxhall Bridge, Lambeth Bridge and Westminster Bridge, none of which have registered any meaningful movements.
- We have successfully built all eight of the cofferdams (new areas of land in the River Thames)
- We are now 79% complete on shaft excavation. Of the 23 shafts to be built:
  - 14 are at full depth with base slab poured
  - 6 are under excavation;
  - 3 are in walling construction.
- As part of our ‘More by River’ approach we have avoided over 260,000 lorry movements on London’s roads to date and moved over two million tonnes of material by river.
- The “Start of System Commissioning”, “Handover” and “System Acceptance” dates remain broadly unchanged compared to the 2019 Business Plan.

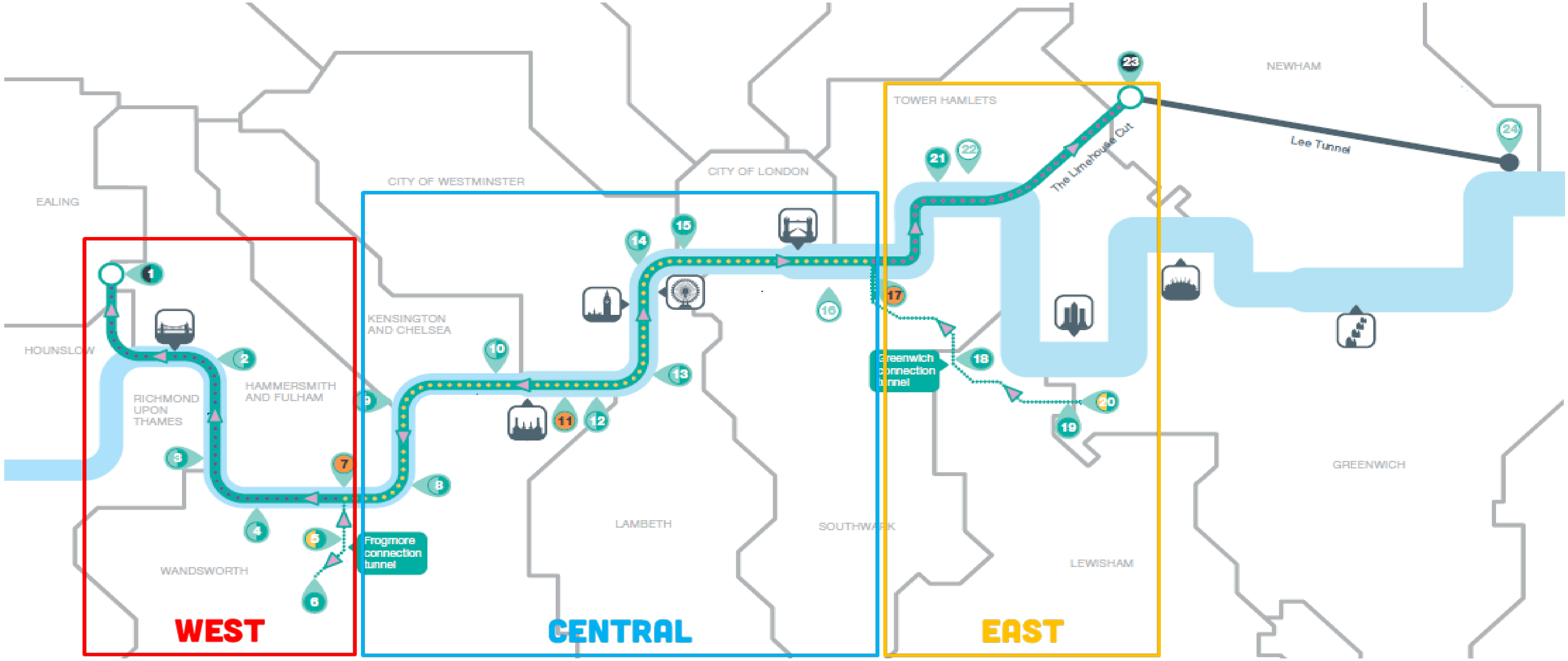
Investment Programme – Regulatory Baseline

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

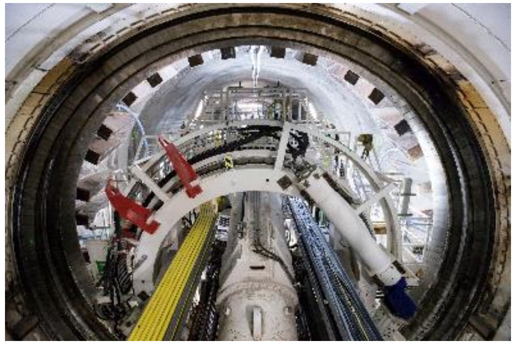
1. Acton Storm Tanks
2. Hammersmith Pumping Station
3. Barn Elms
4. Putney Embankment Foreshore
5. Dormay Street
6. King George's Park
7. Carnwath Road Riverside
8. Falconbrook Pumping Station
9. Cremorne Wharf Depot
10. Chelsea Embankment Foreshore
11. Kirtling Street
12. Heathwall Pumping Station
13. 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

- West area team is mobilised on all seven sites. Post reporting period, as of November 2019, the overall works are reported at 59% complete.
- Since May when TBM Rachel was launched, she has bored through over 2km of London clay and will complete her journey when she arrives in Acton in 2020.
- Charlotte, the second TBM for the West, began her journey to King George's Park earlier this year and completed her journey arriving at King George's Park in October. She is now being taken out and will go back to Dormay Street. Works are now underway to prepare Dormay Street for the commencement of tunnelling to Carnwath Road in early 2020, creating the Frogmore Connection Tunnel.
- At Acton the team successfully completed the shaft and poured its base in July.
- In November 2019 the area shaft excavation works were completed. Barn Elms and Putney were the final shaft excavations to complete in the period and both were ahead of the 2019/20 Business Plan. The base slabs of both shafts have also been completed.
- The construction of the connection tunnel at Putney commenced and progressed to 8% complete.

Dormay Street

King George's Park



Carnwath Road Riverside

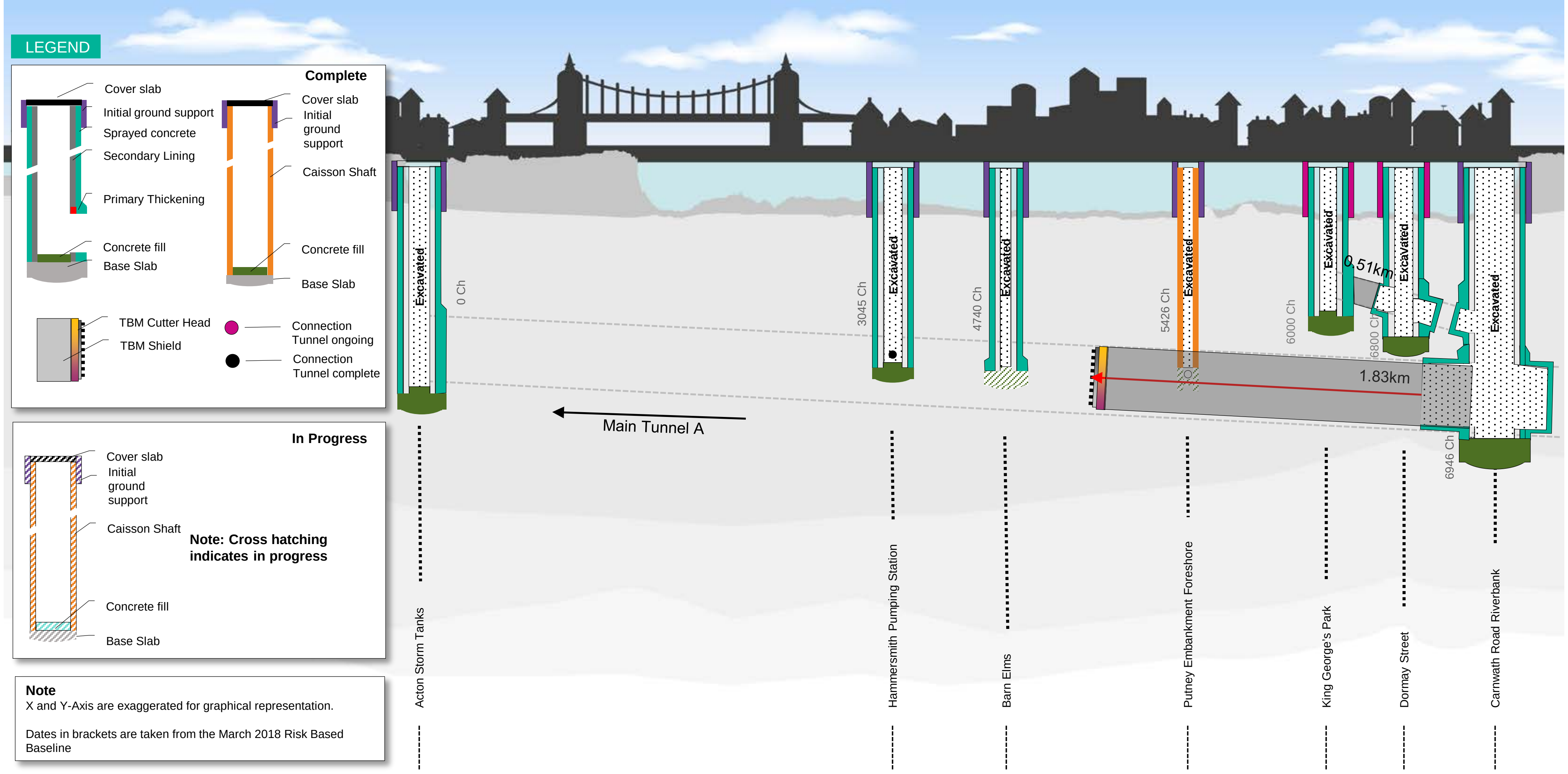
Tideway Schedule – West Delivery Area

The Slice Report

15 Nov 2019

Business Intelligence Team

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



Dropshaft Diameter / Dropshaft Depth to base level	Acton Storm Tanks	Hammersmith Pumping Station	Barn Elms	Putney Embankment Foreshore	King George's Park	Dormay Street	Carnwath Road Riverbank
Dropshaft Diameter	15m	11m	6m	6m	9m	12m	25m
Dropshaft Depth to base level	36m	35m	36m	40m	23m	26m	49m

PERFORMANCE

COMPLETE

59%	51%
WEST	OVERALL

INFOGRAPHICS

SHAFTS

Element	Metric
Excavation Complete inc Base Slab	5/7
Lining Secondary Lining	0/6

TUNNELS

Primary Lining

2.34KM — 8.1KM

29%

1522 Rings installed

Secondary Lining

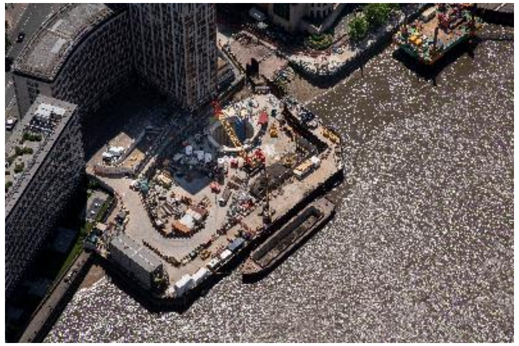
0.00KM — 8.1KM

Investment Programme – Central

- As of November 2019 the overall area works are reported at 52% complete.
- Tunnelling works have progressed to 7.7 km and continue to be ahead of the 2019 Business Plan. The eastbound machine, Ursula, was launched in March and has completed 3km on her journey towards Chambers Wharf in Bermondsey. Her sister, Millicent, had been tunnelling westbound towards Carnwath Road in Fulham November 2018 and completed her 4.9 km of tunnel drive in November 2019. Due to complexities in extracting the TBM at Carnwath Road, a “turn and bury” solution has been implemented for Millicent which will minimise the impact with the West interface.
- The area shaft excavation works progressed to 76% complete.
- Shaft excavation has commenced at Chelsea along with increased productivity at Heathwall. In November, shaft excavation at Albert and Victoria was completed ahead of plan. Shaft excavation at Falconbrook is forecast to commence in late 2019.

Blackfriars Bridge Foreshore

Victoria Embankment Foreshore



Albert Embankment Foreshore

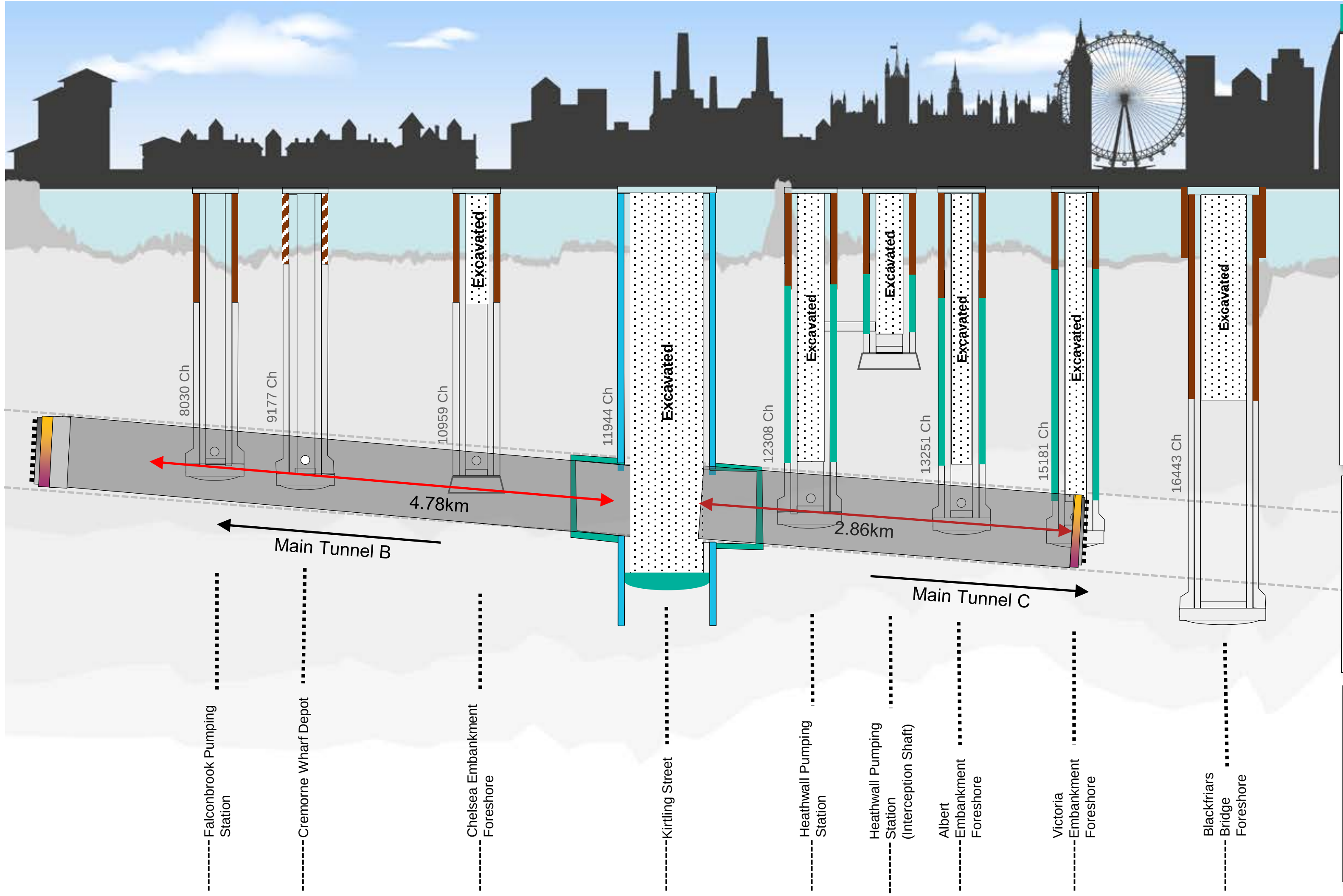
Tideway Schedule – Central Delivery Area

The Slice Report

15 Nov 2019

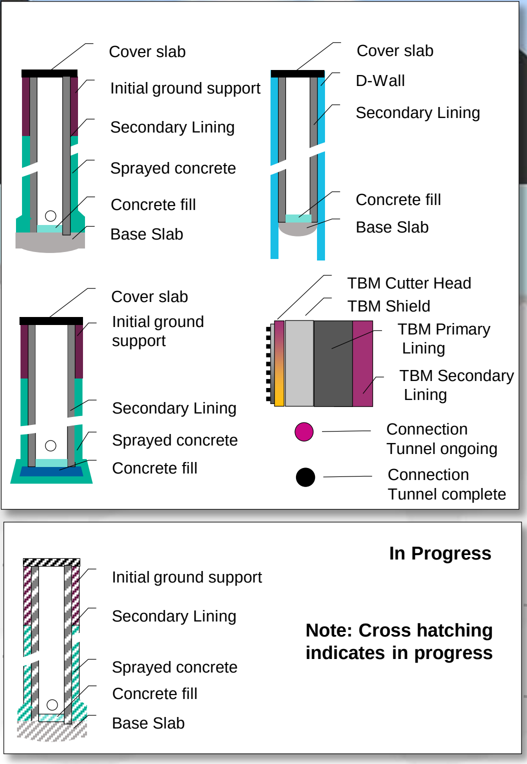
Business Intelligence Team

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



Dropshaft Diameter / Dropshaft Depth to base level	Falconbrook Pumping Station	Cremorne Wharf Depot	Chelsea Embankment Foreshore	Kirtling Street	Heathwall Pumping Station	Heathwall Pumping Station (Interception Shaft)	Albert Embankment Foreshore	Victoria Embankment Foreshore	Blackfriars Bridge Foreshore
Dropshaft Diameter	9m	8m	12m	30m	16m	10m	16m	13m	22m
Dropshaft Depth to base level	44m	47m	47m	56m	53m	26m	50m	54m	60m

LEGEND



Note
X and Y-Axis are exaggerated for graphical representation.

Dates in brackets are taken from the March 2018 Risk Based Baseline

Heathwall Pumping Station - The Interception Shaft is shown as it utilises such similar construction methods to the main dropshaft and is of such a substantial depth (26m) that warrants its inclusion. Interception structures elsewhere are shallower and don't warrant such complexity in their construction.

PERFORMANCE

COMPLETE

52% CENTRAL	51% OVERALL

INFOGRAPHICS

SHAFTS

Element	Metric
Excavation Complete inc Base Slab	1/9
Lining Secondary Lining	0/9

TUNNELS

Primary Lining

7.64 KM 12.6KM

60%

4217 rings

Secondary Lining

0KM 12.6KM

Investment Programme - East

- We have made significant progress at our Chambers Wharf site, the main drive site for the East section of the project. Following the construction of a large acoustic enclosure the team has constructed the 64m deep shaft. Over the summer, the team successfully carried out a 36-hour continuous concrete pour to construct the base of the shaft.
- At King Edward Memorial Park, we have been working hard to improve ground conditions with deep soil mixing. Diaphragm walling to construct the shaft started in the Autumn of 2019; excavation at this site is the last shaft in the area that is yet to commence.
- Across the rest of the East sites, we have successfully excavated shafts at Greenwich Pumping Station and Deptford Church Street, as well as starting to construct the shaft at Earl Pumping station. The area shaft excavation works have progressed to 71% complete, ahead of the 2019 Business Plan.
- The Greenwich Connection Tunnel’s TBM, Annie, is currently being reassembled and will arrive at the Greenwich site early in 2020. The Greenwich connection tunnel and main tunnel D are expected to commence tunnelling in the summer of 2020.
- As of November 2019 the area works are reported at 43% complete.

Deptford Church Street

Abbey Mills Pumping Station

Chambers Wharf

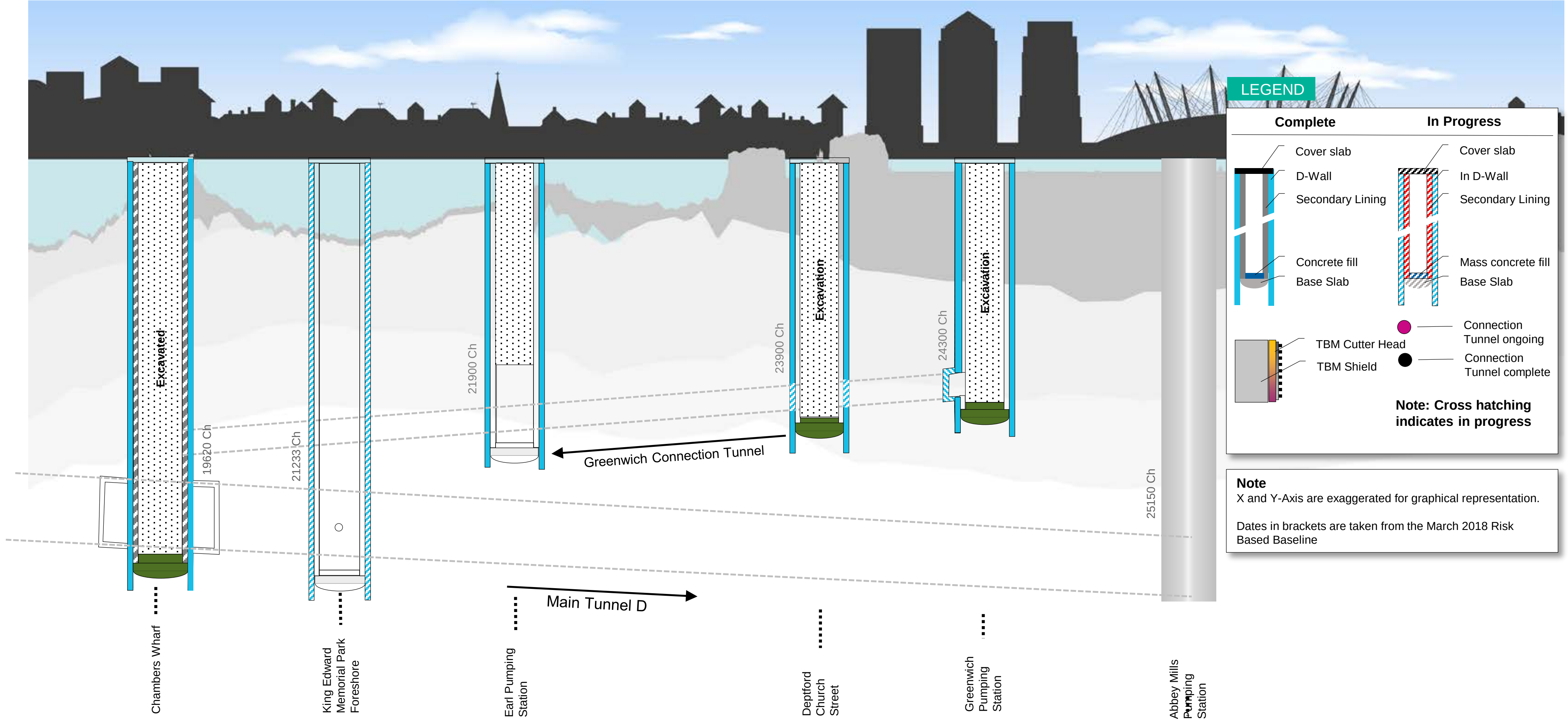
Tideway Schedule – East Delivery Area

The Slice Report

15 Nov 2019

Business Intelligence Team

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



Dropshaft Diameter / Dropshaft Depth	Chambers Wharf	King Edward Memorial Park Foreshore	Earl Pumping Station	Deptford Church Street	Greenwich Pumping Station
Dropshaft Diameter	25m	20m	17m	17m	17m
Dropshaft Depth	72m	75m	64m	60m	62m

PERFORMANCE

COMPLETE

43%	51%
EAST	OVERALL

INFOGRAPHICS

SHAFTS

Element	Metric
Excavation Complete inc Base Slab	3/5
Lining Secondary Lining	0/5

TUNNELS

Primary Lining

0KM — 10.1KM

Secondary Lining

0KM — 10.1KM

Financing Activity

In July and August 2019, we raised £150 million of deferred term green debt:

- A £75m 15-year green RPI-linked bond with a 2-year deferral priced on 29th July and closed on 9th August.
- A £75m green USPP with a 2-year deferral and 20-year maturity was priced on 22 August and closed on 6 September.

There were 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 2017 notes.

We drew £413m of deferred debt in the period: Series 6 (£100m) funded in June and Series 9 (£133m, which is £125m plus accretion) and Tranche 3 of the EIB loan (£80m) were drawn in July. The £100m loan facility with Scottish Widows funded on 30th Sep.

As at 30 September, we had received £1,274m from our shareholders in the form of equity and shareholder loans, which was the full commitment at Licence Award. Part of the shareholder loans have been repaid and the balance at 30 September 2019 was £713m. A Restricted Payment of £26.5m was paid in September, corresponding to interest on the shareholders' loan.

Gearing remains low in line with our equity-first approach to financing with Senior Net Indebtedness to RCV of 40.6%. This will grow in the coming years as we progress through construction and draw on the deferred committed debt. The interest coverage ratio remains well above the covenant with FFO ICR at 5.3x.

As at 30 September, we had total liquidity of £2.4bn, comprising £795m of cash and £1.59bn of undrawn debt facilities. 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	Total
Drawn	-	240	100	425	275	550	1,590
Undrawn	500	460	-	475	75	75	1,585
Total	500	700	100	900	350	625	3,175

Financing Activity (cont.)

Fitch and Moody affirmed the credit ratings at BBB+ and Baa1 respectively, both with a stable outlook.

In June 2019 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. The evaluation was extended to all bond issuance since the inception of the programme in June 2016.

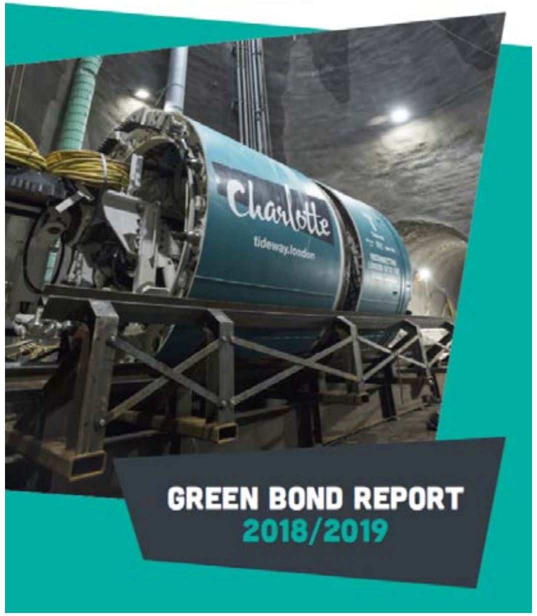
Bonds series 1 to 10 issued in 2016 and 2017 were moved to the London Stock Exchange Green segment following receipt of S&P's green evaluation. Tideway now has 17 green bonds totalling £1.5bn.

Tideway received a Corporate ESG Prime rating by ISS-oekom, meaning it fulfils its demanding requirements regarding sustainability performance.

Progress on our sustainable financing strategy is reported to our debt investors through our Green Bond Report which was updated in June 2019. This report provides information to investors of the allocation of proceeds and impact of the project, including mapping of our Legacy commitments against the UN Sustainable Development Goals where we expect to make a significant contribution during and/or after construction.

In July, we published an update to our EMTN programme. A supplementary prospectus was published in December 2019 to incorporate the half year accounts.

Tideway



SUSTAINABLE BOND MARKET
LONDON STOCK EXCHANGE

Corporate ESG Performance
Prime
RATED BY ISS ESG

Historical Financial Performance

For the six-month period ended 30 September 2019, total capitalised costs were £389.8m (2018: £325.3m). The increase reflects the further growth of construction activities across all our current sites. The costs in the first six months of this financial year take the total costs capitalised to £2,218.6m, which includes £1,828.8m brought forward form prior periods.

Allowable Costs

Our Allowable Costs of £341.0m (2018: £283.1m) includes £301.3m of Direct costs and £39.7m of Indirect costs.

Direct Costs

Direct costs are primarily the Main Works Contractor costs and the System Integrator contract so reflect costs directly related to the tunnelling programme and other construction activities such as shaft and cofferdam construction.

Indirect Costs

The largest indirect costs are resource costs of £29.3m. This represents the cost to employ the c400 Full Time Equivalents (FTEs) either employed or contracted by the Group. Other indirect costs include non-resource costs such as information systems, office, insurance, Government Support Package and other running costs. Indirect costs have reduced compared with 2018, largely reflecting cost savings from lower FTEs and other running costs.

Excluded Costs

Excluded costs for the six-month period to 30 September 2019 were £48.8m (2018: £42.2m). These comprise £49.2m of interest expense (including shareholder loan interest), £2.6m of costs which mainly related to financing activities, partly offset by £3.0m of interest income.

Asset Under Construction (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Net Book Value Brought Forward	1,828.8	1,154.9
Additions (Capitalised Costs)	389.8	325.3
Net Book Value Carried Forward	2,218.6	1,480.2

Analysis of Capitalised Costs (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Direct Costs	301.3	240.8
Indirect Costs	39.7	42.3
Total Allowable	341.0	283.1
Excluded costs	48.8	42.2
Total Capitalised Costs	389.8	325.3

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

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

Historical Financial Performance (cont.)

Cash Flow and Cash

Net cash flows from operating activities of £102.6m (2018: £69.5m) represent movements in working capital and are chiefly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water which are deferred on the Statement of Financial Position during the construction phase of the project.

Net cash flows used in investing activities of £345.0m (2018: £370.8m) show the gross cash outflows used in constructing the TTT as well as movements to and from short-term deposits which represent money market funds where cash is held on deposit for a period longer than three months.

The net cash inflows from financing activities of £411.6m (2018: £178.7m) are largely the result of new borrowings drawn in the period which included £233.1m of index linked bonds and £180.0m of floating rate loans. These financing inflows were partly offset by £1.5m lease payments in relation to the Group's IFRS 16 leases.

External Debt

At 30 September 2019, the Group's net debt included borrowings of £1,624.7m with third parties. These were in the form of £649.2m fixed and floating rate loans and £975.5m of fixed rate and index linked bonds. A further £713.0m of Shareholder loans, which are not included in net debt, takes the total Statement of Financial Position borrowings to £2,337.7m. In addition, the Group had the following undrawn debt facilities: £500.0m Revolving Credit Facility (RCF), £460.0m loan with the European Investment Bank, and £625.0m of deferred bonds and loans.

Due to the adoption of IFRS 16, the Group's outstanding lease liabilities totalled £7.3m at 30 September 2019 and these have been included now in the calculation of net debt. The Group has applied the modified retrospective option on adoption of IFRS 16 and as a result there is no prior year comparative. A list of Tideway's external debt facilities can be found on page 23.

Cash Flow (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Cash generated from operations before changes in working capital	-	-
Decrease/(Increase) in trade and other receivables	13.0	(0.3)
Increase in trade and other payables	58.1	50.7
Increase in advance payment liability	31.5	19.1
Net cash from operating activities	**102.6**	**69.5**
Construction of infrastructure asset	(374.0)	(319.3)
Transfers from/(to) short-term deposits	29.0	(51.5)
Net cash used in investing activities	**(345.0)**	**(370.8)**
Proceeds from new borrowings	413.1	180.0
Repayment of shareholder loan principal	-	(1.3)
Lease payments	(1.5)	-
Net cash from financing activities	**411.6**	**178.7**
Net increase/(decrease) in cash and cash equivalents during the period	**169.2**	**(122.6)**
Cash and cash equivalents at the start of the period	564.5	846.4
Cash and cash equivalents at the end of the period	**733.7***	**723.8***

** Excludes short term deposits of £61m (2018: £109m)*

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 are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Holdco Group's debt. The swaps fix finance costs for the Holdco Group’s regulatory period in a cost-effective manner and ensure that we benefit from low-cost financing. The movement in fair value of these financial instruments is recognised in the Income Statement because, under IAS 23 these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised.

During the last twelve months, there was a negative movement of £92.8m in the fair market value of the index-linked swaps. This was primarily driven by a significant decrease in the implied forward Libor rates which is impacting the receive leg of the swaps.

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 (2018/19 £nil) and therefore have no corporation tax charges (2018/19: £nil).

Liquidity and Debt Portfolio – September 2019

Debt Portfolio

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
Drawn				
£75m CPI + 0.828%	75	Green 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	Green Bond	Jun-18	2050
£80m Tranche 1	80	EIB	Jul-18	2051
£100m RPI + 0.249%	100	Green Bond	Dec-18	2040
£80m Tranche 2	80	EIB	Jan-19	2051
£100m RPI + 0.755%	100	Green Bond	Jun-19	2051
£80m Tranche 3	80	EIB	Jul-19	2051
£125m RPI + 0.192%	125	Green Bond	Jul-19	2049
£100m RPI + 0.01%	100	Loan	Sep-19	2049
Subtotal	**1,590**			

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%.

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
Committed and undrawn				
RCF	500	Revolver	*N/A*	2025
EIB	460	Loan	Various 2019-2022	2051
£25m RPI + 1.035%	25	Green Bond	Jun-20	2048
£50m RPI + 0.787%	50	Green Bond	*Jun-20*	2052
£25m RPI + 0.951%	25	Green Bond	Jun-20	2054
£25m RPI + 1.042%	25	Green Bond	*Jun-21*	2048
£25m RPI + 0.954%	25	Green Bond	Jun-21	2054
£75m RPI + 0.01%*	75	Green Bond	*Aug-21*	2036
£75m 2.418%	75	Green USPP Loan Note	Sep-21	2041
£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	**1,585**			
Debt Portfolio total	**3,175**			

Liquidity

Facility	Amount (£m)
Cash	795
Committed and undrawn debt	1,585
Liquidity Total	**2,380**

Ratios

We confirm that in respect of this Investor Report as of 30 September 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 40.65%

b) The FFO ICR[(2)] in respect of the relevant Test Period is equal to 5.27

c) The average FFO ICR in respect of the relevant Test Period is equal to 4.53

(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.

Other Reportable Matters

Significant management and board changes H1 2019/20

- In June, following approval of the Annual Report and Financial Statements for the year ending 31 March 2019, Tideway announced the appointment of Baroness Ruby McGregor-Smith as a new Independent Non-Executive Director to the Tideway Board.
- In July Anne Baldock stepped down as an Independent Non-Executive Director on the Tideway Board, having been engaged in the project since 2013.

Post period end

- Angela Roshier stood down as a Shareholder Director of Bazalgette Tunnel Limited and the other Tideway group Companies. She is replaced by Javier Falero as Shareholder Director for DIF Bid Co Limited.
- Joseph Phillipsz stood down as Shareholder Director on Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. He is replaced by Nick Axam as Shareholder Director for Dalmore Capital 14 GP Limited.

Acquisitions and disposals H1 2019/20

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

Current Hedging Position

The current swap portfolio can be found on slide 29 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

References to the CTA

The table below summarises the requirements of the Investor Report as per Schedule 6 of the CTA and references in this document.

Requirement	Reference
General overview	Page 4, Overview
Regulatory and Business update	Page 5-8, Regulatory and Business Update Page 9-17, Investment Programme
Capital Expenditure	Pages 20-23, Historical Financial Performance
Financing	Page 18-19, Financing Activity Appendix
Acquisitions or Disposals	Page 25, Other Reportable Matters
Current Hedging Position	Page 25, Other Reportable Matters Appendix
Ratios	Page 24, Ratios

Swap Portfolio – September 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.
- No new hedges in the period.

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%

Tideway

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