Tideway

# RECONNECTING LONDON WITH THE RIVER THAMES

## ANNUAL REPORT 2019/20

## Contents



## About us

Bazalgette Tunnel Limited, trading under the name **Tideway,** began operating as an independent regulated water company in August 2015, when Ofwat awarded us our Licence to design, build, commission, maintain and finance the Thames Tideway Tunnel.

**Since Licence Award, our shareholders have invested £1.3bn.**
Close to half of the total equity has come from UK investors, including many pension funds, giving 3 million UK pension holders a stake in Tideway.

Tideway

# Tideway Highlights

*Our year at a glance*

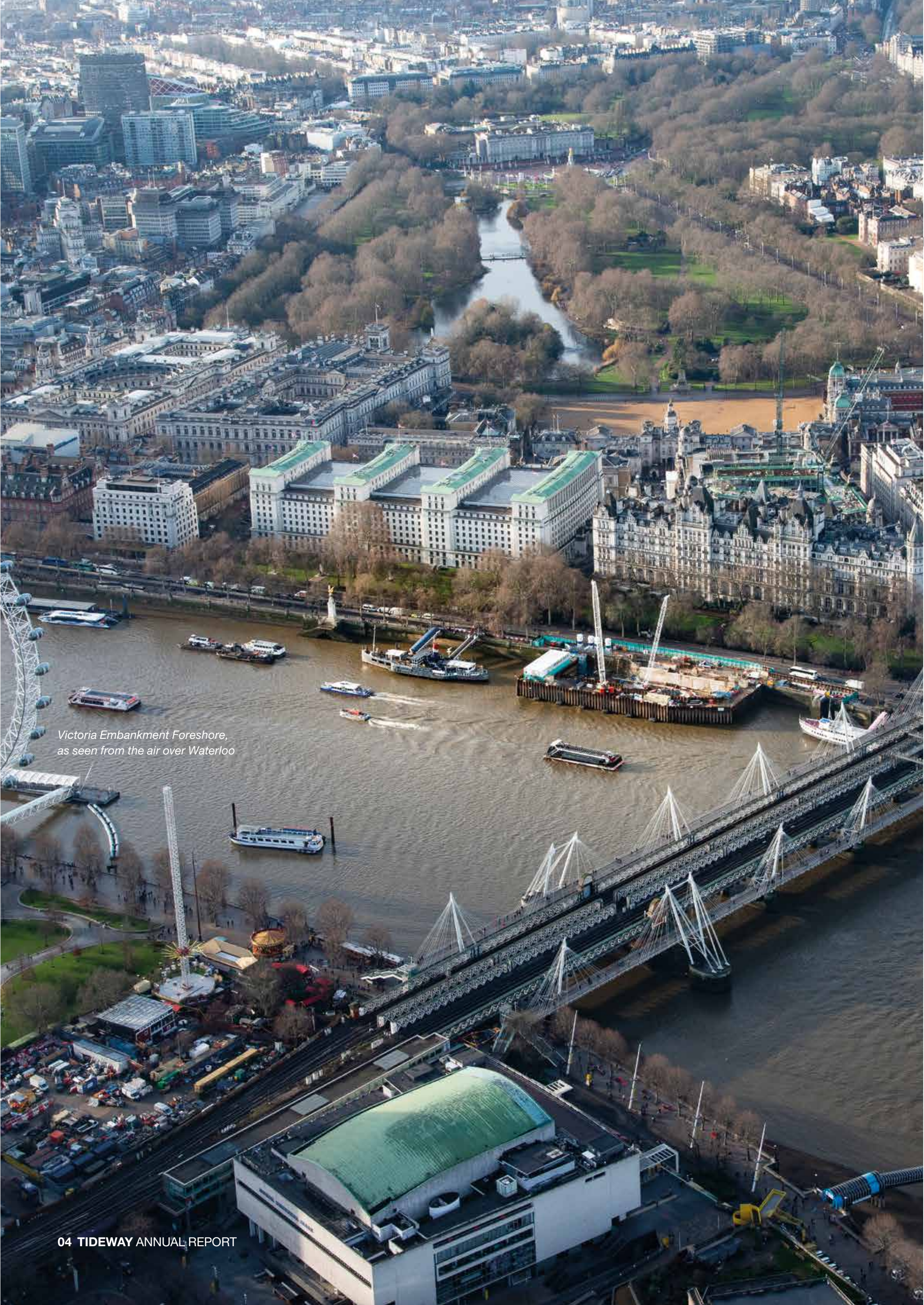
| *Objective* | *Highlight* | *Recognition* |
|---|---|---|
| HEALTH, SAFETY & WELLBEING | • No major injuries or significant incidents | **REBA Best Mental Wellbeing Strategy (Fewer than 1000 staff)**<br>**REBA Best Leadership and Culture in Wellbeing**<br>**Vitality Health Britain's 3rd Healthiest Workplace for medium size companies** |
| SCHEDULE, COST & QUALITY | • On track to Handover by 2024<br>• Costs expected to be £3.9bn (vs £3.4bn regulatory baseline)<br>• More by River strategy: To date, over 3.3 million tonnes of material has been moved by river, avoiding 400,000 two way HGV movements | **British Construction Industry Award Environment and Sustainability Initiative of the Year for More By River** |
| VISION, LEGACY & REPUTATION | • 91% of live legacy commitments on track against a target of 75%<br>• Community investment programme benefitted over 12,000 people | **Winner of Commitment To The Local Community category at the Better Society Awards and Bronze award at the Global Good Awards for our Thames River Watch 'citizen science' partnership** |
| COMPANY & PEOPLE | • Staff engaged and enabled survey results:<br>• 92% I am treated with respect as an individual<br>• 95% Tideway values and promotes diversity | **Engaged Performance Awards 2019 for both our Engagement and Enablement scores** |
| FINANCING | • Extended Sustainable Financing platform and obtained ESG assessments | **Finalist 2019 Finance for the Future Awards**<br>**'Excellent' culture from S&P's ESG assessment** |

**93% OF STAKEHOLDERS SURVEYED WERE POSITIVE TOWARD TIDEWAY**

# Strategic Report



*Irmantas Paskauskas, Claire Donnelly and Samuel Kidane at the bottom of the shaft at Chambers Wharf*



*Victoria Embankment Foreshore, as seen from the air over Waterloo*



# Strategic Report
## *Chairman's Introduction*

SIR NEVILLE SIMMS
NON-EXECUTIVE CHAIRMAN

At the time of publishing this, our fifth Annual Report and Accounts since the company was established in 2015, we find ourselves emerging slowly from some three months of severe disruption created by the COVID-19 pandemic. In those circumstance it would be easy to focus only on that and not to recall last year's exceptional progress on the project, which took us past the halfway mark and turned our attention to our preparations for tunnelling completion, system commissioning and handover.

The Chief Executive has outlined in more detail in his report how we are dealing with the fallout from the pandemic but, at this time, I can confirm that since the end of March our focus has been on delivering this major infrastructure project in a way that protects the health, safety and welfare of our workforce and the communities we operate in.

While the pandemic may have created an highly uncertain environment for delivery, it is still clear that the tunnel remains a vitally important project for London and the supply chain involved in building it and, with the cooperation of our stakeholders, we are determined to finish it as quickly and as cost effectively as we can.

Fortunately, at Board level we are able to harness a wide range of skills and experience and the non-executive directors bring an appropriate balance of support and challenge to the executive team faced with navigating us through the present circumstances. We also remain committed, as a Board, to maintaining robust governance processes. The Main Works Contractors, Defra, Ofwat, our workforce, the communities in which we work and ultimately, bill payers, all have an interest in the decisions we take at Board level and I am personally committed to ensuring their interests are considered, alongside those of our shareholders, in our boardroom discussions.

Tideway's culture and values, including commitment to the health, safety and the wellbeing of all, along with a collaborative approach to problem-solving, has shone through in our approach to the pandemic. People at every level of the organization and the project have gone to great lengths to support and accommodate one another at this challenging time. Those behaviours were acknowledged externally earlier in the year when our staff were recognised for their achievements in leadership, culture and mental wellbeing, so that for the second year running Tideway came third in its class in the VitalityHealth awards for Britain's Healthiest Workplace.

We continue to lead the greenfield infrastructure market with the regulated asset base delivery model that provides low-cost, long-term private capital for the purpose of delivering critical UK infrastructure. The shareholders' decision at Licence Award to invest £1.3bn of equity upfront enabled the company to achieve robust credit ratings and competitively priced financing. This model of infrastructure funding has a vital role in the infrastructure investment our country needs and, in the face of continuing challenges in the economy, our success will be a strong signal to promoters, investors and government.

Finally, I would like to express my thanks to all those who have worked on and supported the project over the past year. Once the worst of the pandemic is behind us the Board will establish a new schedule to completion and update all interested parties.

**Sir Neville Simms**
**Chairman**

People at every level of the organization and the project have gone to great lengths to support and accommodate one another at this challenging time.

## Chief Executive Officer's Report

Notwithstanding the extraordinary events of the last few months, it has been a year of significant progress on the project. Our performance in health, safety and wellbeing continues to be encouraging.

ANDY MITCHELL CBE
CHIEF EXECUTIVE OFFICER

We find ourselves in the midst of a global pandemic. This has had a profound impact on us all, and we have nothing but gratitude to those who have been working tirelessly to keep us safe and well. For those who have suffered at the hands of this devastating virus, we offer our heartfelt condolences.

It was only in February that we marked our most significant milestone so far - the completion of half of the 'super sewer', with 12.5km of the new tunnel constructed. Move ahead a matter of just a few weeks and it was unthinkable that the country would be in an unprecedented lockdown, disrupted beyond comprehension but with every part of government and society united in common cause, dealing with the devastation of the COVID-19 outbreak.

At Tideway we did what we had to. We paused our work on site and brought tunnelling to a safe stop. Every member of staff who was able to, began working from home. We gave assurances to our supply chain that we would continue to pay them, so in turn they could protect their own workforce. This was the right thing to do and has meant that we have been able to safely re-mobilise our operations, with the same, highly skilled team in place.

Following extensive safety reviews at our sites we are now back to doing some work at each of them. We are working towards full capacity and our tunnelling machines have re-started their journeys under the Thames. We have many additional controls in place to protect our workers and the public, all based on the advice from the government, and we expect this to be the case for some time to come. Our teams have worked tirelessly and creatively to make our new environment safe and I pay tribute to them. Measures include personal transport plans; enhanced personal protective equipment; testing for anyone with symptoms; and social distancing procedures. For our teams who are not based on site we have also had to adapt to a new, remote way of working, putting in place new channels of communication to keep everyone connected and motivated; and supporting people through their own, very personal experiences.

Notwithstanding the extraordinary events of the last few months, it has been a year of significant progress on the project. Our performance in health, safety and wellbeing continues to be encouraging, with the key measure (reportable injuries) reaching seven during the year (compared with eight last year).

This meticulous focus on health, safety and wellbeing continues and our mantra of doing things safely or not at all has been the foundation of our approach to the COVID-19 outbreak. Our monthly awards programme 'RightWay in Delivery' helps to foster a positive culture around health, safety and wellbeing with every one of our sites participating to share their examples of good practice and innovation.

By year end, more than 14km of tunnel had been constructed with the first of our four main 'drives' (from Kirtling Street in Battersea to Carnwath Road in Fulham) complete. We had fully excavated 16 of the project's 21 shafts, which are so critical to completion and the preparations on the last section of tunnel, the east, were well underway.

With 55 per cent of the project complete, this year we started the detailed planning for the completion of the project, including how we will 'hand back' our sites and our preparedness for commissioning. These final phases of the project require very close collaboration with Thames Water and we launched a new joint-approach to guide our partnership during the year.

By year-end we had revised our estimated cost at completion upwards by three per cent to £3.9bn to reflect the commercial performance of the year and our best views of remaining costs. We remained on track to deliver all works by 2024.

*CEO Andy Mitchell on site at Chelsea Embankment Foreshore in November 2019*

We are proud to be an environmental project and to be delivering it in a way that is sustainable.

Whilst the pandemic will inevitably have an impact on our schedule and costs, our solid performance in this and previous years means we are in a strong position to respond to this unprecedented shock. We are now working through our detailed assessment of the impacts, working with all stakeholders including our contractors and our regulator, and we will publish more detail later this year.

Other global events, namely the Black Lives Matter protests, have once again shone a light on systemic racism, and have led me and many of my colleagues to reflect on the role we can play and where we can build upon our work to tackle race inequality. This year we signed up to Business in the Community's Race at Work Charter which includes five calls to action that we are tracking our progress against, including re-focusing our employee network and appointing an Executive Sponsor on race. This is a starting point and we know there is more to do.

We are proud to be an environmental project and to be delivering it in a way that is sustainable. This year we continued to assess our performance against the UN Sustainable Development Goals and we were pleased to achieve a very good score in S&P Global Ratings ESG assessment which noted our significant environmental credentials, our high governance and social standards and our safety performance, and the strength of our culture. You can read more about our sustainability focus and our work with communities throughout this report.

Finally, we could not have made progress without the support of our stakeholders - our Board, investors, the bodies which give us permission to work, our regulator, our contractors, our neighbours and many other organisations and individuals who are with us on this journey. With this support, and constructive challenge, we are in the strongest position to complete this unique and critical project - one we believe will make everyone proud.

Andy Mitchell

**Andy Mitchell CBE**
**Chief Executive Officer**

# Our Vision, Purpose & Values


## OUR PURPOSE

Tideway is building the Thames Tideway Tunnel under the River Thames – creating a healthier environment for London by cleaning up the city's greatest natural asset, now and for the foreseeable future.

## OUR VALUES

It is not just what we do that is important to us, but how we do it.

With our commitment to safety, legacy, collaboration, respect and innovation we aim to transform the way the industry operates.

### Living Our Purpose & Values

We bring our purpose and values to life every day. 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, 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 and stakeholder surveys, our progress in delivering our legacy commitments, which we have aligned to the UN Sustainable Goals and sustainable finance strategy. Many of these achievements have received external awards.

## VALUES

| Case Studies | Page | Safety | Legacy | Collaboration | Respect | Innovation |
|---|---|---|---|---|---|---|
| Build the Thames Tideway Tunnel | 16-17 | ✓ | ✓ | ✓ | ✓ | ✓ |
| Stakeholder engagement | 14-15 | ✓ | | ✓ | ✓ | ✓ |
| EPIC | 29 | ✓ | ✓ | ✓ | | ✓ |
| Healthy workplace | 27 | ✓ | | ✓ | ✓ | ✓ |
| Mental health | 28 | ✓ | ✓ | | ✓ | ✓ |
| More by River | 32 | ✓ | ✓ | ✓ | | |
| Community investment and charitable giving | 42 | | ✓ | ✓ | ✓ | |
| Educational outreach | 44 | | ✓ | ✓ | ✓ | ✓ |
| Cement replacement | 42 | | ✓ | ✓ | | ✓ |
| Ethical supply chain | 44 | ✓ | ✓ | | ✓ | |
| London living wage | 52 | | | | ✓ | |
| Staff engagement | 46 | ✓ | | ✓ | ✓ | |
| Diversity and inclusivity | 48 | | | ✓ | ✓ | ✓ |
| People with convictions | 52 | | ✓ | ✓ | ✓ | ✓ |
| Women in construction | 48 | | | ✓ | ✓ | |
| People case study | 53 | | | | ✓ | ✓ |
| Sustainable finance framework | 56 | | ✓ | ✓ | | ✓ |

## UN SUSTAINABLE DEVELOPMENT GOALS

| Case Studies | 3 Good health and well-being | 4 Quality education | 5 Gender equality | 6 Clean water and sanitation | 8 Decent work and economic growth | 9 Industry, innovation and infrastructure | 11 Sustainable cities and communities | 12 Responsible consumption and production | 13 Climate action | 17 Partnerships for the goals |
|---|---|---|---|---|---|---|---|---|---|---|
| Build the Thames Tideway Tunnel | | | | ✓ | | | ✓ | | | |
| Stakeholder engagement | | | | | | | | | | ✓ |
| EPIC | ✓ | | | | | | | | | |
| Healthy workplace | ✓ | | | | | | | | | |
| Mental health | ✓ | | | | | | | | | |
| More by River | ✓ | | | | | | ✓ | | | |
| Community investment and charitable giving | | | | | | | ✓ | | | ✓ |
| Educational outreach | | ✓ | | | ✓ | | | ✓ | ✓ | |
| Cement replacement | | | | | | ✓ | | | | |
| Ethical supply chain | | | | | ✓ | | | ✓ | ✓ | |
| London living wage | | | | | ✓ | | | | | |
| Staff engagement | | | | | | | | | | |
| Diversity and inclusivity | | | ✓ | | ✓ | | | | | |
| People with convictions | | | | | ✓ | | | | | |
| Women in construction | | | ✓ | | | | | | | |
| People case study | | ✓ | | | ✓ | | | | | |
| Sustainable finance framework | | | | | ✓ | | | | | ✓ |

# Who We Are & What We Do

Bazalgette Tunnel Limited, trading under the name Tideway, began operating as an independent regulated water company in August 2015, when Ofwat awarded us our Licence to design, build, commission, finance and maintain the Thames Tideway Tunnel.

## DELIVERING OUR PURPOSE AND VISION

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 building a 25km tunnel, 'the super sewer' stopping tens of millions of tonnes of sewage polluting the Thames each year. 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.

"It's great that Tideway has sought sustainable finance support for a major construction project, there will be lots to learn from this. I've also been pleased to see Tideway working with the Environment Agency to improve our understanding of measuring the impact of work against the UN's Sustainable Development Goals."

**Emma Howard Boyd**
**Chair of the Environment Agency**

## OUR LEGACY COMMITMENT

We have 54 legacy commitments, of which 40 are live and the achievements against these commitments feature throughout this annual report. Through our legacy commitments, Tideway will bring many associated benefits to London and the rest of the UK: the creation of thousands of jobs, with targets for local workers; improved health, safety and wellbeing standards; and a new upskilled generation of workers to tackle the skills shortage in the industry.

Our commitments have evolved into 54 metrics within our Legacy Plan under five themes that capture the range of opportunities created by the project—Environment; Health, Safety and Wellbeing; Economy; People; and Place— which demonstrate how the project is delivering the objectives. We have aligned our commitments to the UN Sustainable Development Goals, identifying the main SDG targets to which Tideway makes a direct contribution.

Fulfilling the ambitions of the Global Goals by 2030 of achieving a better future for all will take an unprecedented effort by all sectors in society. In this decade for action business has to play a very important role in the process. The graphic shows the link between each of our legacy commitments and one or more SDG targets, confirming the purposeful nature of Tideway's business, closely aligns with many of the Global Goals.

Tideway will make a long-term direct contribution to SDG 6 Clean Water and SDG 11 Sustainable Cities. During construction, Tideway is making a significant contribution to eight other SDGs – some of these will have a lasting impact and will be handed over to other organisations. This report covers how some of our live legacy commitments relate to the SDGs and specific targets. The Sustainable Finance Report describes more fully the targets that we are working towards.

## OUR LEGACY COMMITMENT

| | | |
|---|---|---|
| ENVIRONMENT | 1 | Improve River Thames water quality |
| | 2 | Reduce litter |
| | 3 | Infrastructure supports biodiversity |
| | 4 | Support understanding of River Thames habitats and ecology |
| | 5 | Minimise carbon footprint |
| | 6 | Reduction in lorry movements |
| HEALTH, SAFETY AND WELLBEING | 7 | Aspire to have no major incidents |
| | 8 | Raise standard of health, safety and wellbeing inductions |
| | 9 | Supervisors trained in health and safety above industry norms |
| | 10 | Promote new occupational health standards and practices |
| | 11 | Lorry and vulnerable road users' initiatives |
| | 12 | Introduce a health & safety communication standard |
| | 13 | Improve health & safety for river transport workers |
| ECONOMY | 14 | Provide sewerage system that supports growth |
| | 15 | Remove the risk of EU imposed infraction fines |
| | 16 | Create more than 4,000 direct, sustainable jobs |
| | 17 | Create an engaged and competitive supply chain |
| | 18 | Demonstrate support for London and UK economy |
| | 19 | 90% of excavated material removed by river |
| | 20 | Support skills through Thames Skills Academy |
| | 21 | Encourage modernisation of marine equipment |
| | 22 | Support river infrastructure such as enhanced river walls |
| | 23 | Support SME's with their procurement process |
| | 24 | Offer sustainable employment |
| | 25 | Support tunnelling and Underground Construction Academy |
| | 26 | Share our innovations to benefit future projects |
| | 27 | Encourage innovation through procurement |
| | 28 | Encourage commercial innovation and shared risk |
| | 29 | Support 30 days of invoice – support fair payment charter |
| | 30 | Support ethical sourcing in the supply chain |
| PEOPLE | 31 | MWC employees live in the borough at each drive site |
| | 32 | MWC employees live in local boroughs within each contract area |
| | 33 | Employees to live in 14 boroughs directly affected by the works |
| | 34 | Employees to live in London, Kent or Essex for river workers |
| | 35 | Support the London Living Wage |
| | 36 | Appoint skills & employment managers |
| | 37 | Promote job security through supply chain employment |
| | 38 | Create employment opportunities for the workless |
| | 39 | Create an inclusive environment that will enhance diversity |
| | 40 | Create apprenticeship opportunities |
| | 41 | Support the STEM programme |
| | 42 | Provide teaching & learning resources |
| | 43 | Work with charities to employ one ex-offender per 100 staff |
| | 44 | Significant reduction in health risks from water borne pathogens |
| | 45 | Inspire people to engage and reconnect with the river |
| PLACE | 46 | Design principles to increase number of trees |
| | 47 | Additional and enhanced public space available to the public |
| | 48 | Enhance the Thames path |
| | 49 | Connect people of reduced mobility with the river |
| | 50 | Heritage interpretation strategy and public art strategy |
| | 51 | Collaborate with other developers to enhance local space |
| | 52 | Develop sustainable maintenance strategies for new public realm |
| | 53 | Contractors local community investment activities |
| | 54 | Tideway community investment activities |

# Who We Are & What We Do

## 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 3 million of UK pension holders a stake in Tideway.

> "Tideway meets all of my expectations, it is a great company to work for."
>
> **Staff survey 2019**

## DELIVERING WITH PARTNERS

Our delivery partners include our Programme Manager (PM), three consortia known as the Main Works Contractors (MWCs) and our System Integrator. 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<br>• Morgan Sindall Plc<br>• Balfour Beatty Group Ltd |
| **Central Contract FLO Joint Venture** | • Ferrovial Agroman UK Ltd<br>• Laing O'Rourke Construction Ltd |
| **East Contract CVB Joint Venture** | • Costain Ltd<br>• Vinci Construction Grands Projets<br>• Bachy Soletanche Ltd |
| **System Integrator** | • Amey OWR Ltd |

We work closely with Thames Water and they have a team co-located at our offices. Thames Water is responsible for important elements of the overall project and will ultimately operate the system in conjunction with its network.

Tideway has 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.

*Concrete segments to create the main tunnel being delivered to TBM Millicent at Kirtling Street*

# Who We Are & What We Do

## ENGAGING WITH OUR EXTERNAL PARTNERS

We listen to our stakeholders' views, residents and businesses based close to our construction sites; local councillors, MPs and Members of the London Assembly; as well as organisations including local authorities, the Greater London Authority, the Environment Agency, the Department for Environment, Food and Rural Affairs (Defra), and the Port of London Authority.

At a local level, we ensure that the communities we are working in are kept 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, 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 stakeholder groups.

These include independent assessors of project information, Chairs for stakeholder groups and bodies for advice, complaints and compensation. We engage with other 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.

The Right Honourable Nick Raynsford Chairs Tideway's Reporting Group, which brings together the three independent stakeholder bodies for the project (ICP, ICC, TTT Forum). Each of the stakeholder functions is independently chaired and reports annually to the Reporting Group about their activities. The reports are available on Tideway's website.

## THE DELIVERY MODEL

The Thames Tideway Tunnel has an innovative delivery model, which was established to attract private sector capital to finance infrastructure and deliver value for money to customers.

It includes a bespoke regulatory framework, with a 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.

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 (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.

"Tideway continues to take a proactive approach to engaging with its stakeholders, including people who are directly affected by project activities. The three independent bodies provide expert feedback as well as external review and challenge to the project team which Tideway fully engages with. This year the bodies' activities have increased, in line with the increase in project activity. Tideway has been responsive, open to feedback and has resolved issues in a timely manner."

**The Right Honourable Nick Raynsford**
**Chair of Tideway's Reporting Group**

| | | | |
|---|---|---|---|
| **Category** | Key Government and regulatory stakeholders | Consenting bodies and delivery partners | Communities directly impacted by construction |
| **Stakeholder** | Ofwat; Environment Agency; Department for Environment Food & Rural Affairs; Thames Water | Transport for London; Historic England; Marine Management Organisation; Port of London Authority; Greater London Authority<br>STAKEHOLDERS ALSO INCLUDE LANDOWNERS, ASSET OWNERS & LOCAL AUTHORITIES | RESIDENTS; BUSINESSES & LOCAL SERVICES; SCHOOLS |
| **Channel** | Quarterly Liaison Committee meeting (including Thames Water) | Quarterly Thames Tideway Tunnel Forum<br>Bilateral meetings<br>Annual stakeholder survey | Regular Community Liaison Working Group meetings<br>Letter drops about works<br>Quarterly newsletters<br>Community Information Centres<br>Dedicated web pages and other communications |
| **Independent roles and assurance** | **Independent Technical Assessor (ITA):** The ITA reviews Tideway and Thames Water reporting to the Liaison Committee. | **Independent Chairman of Tideway Reporting Group,** a group set up to oversee stakeholder reporting. It also oversees the ICP and ICC.<br>**Independent Chairman for TTT Forum.** | Independent services available to support stakeholders, which include:<br>**Independent Advisory Service (IAS):** Offers independent help and support to stakeholders living and working close to our construction sites.<br>**Independent Compensation Panel (ICP):** Oversees and determines claims made under any of the non-statutory compensation policies.<br>**Independent Complaints Commissioner (ICC):** Assists stakeholders who are not satisfied with the ICP's response regarding a claim. |

6 CLEAN WATER AND SANITATION

6.3 Increase water-use efficiency

6.6 Protect and restore water-related ecosystems

11 SUSTAINABLE CITIES AND COMMUNITIES

11.6 Reduce the adverse environmental impact of cities

# The Tunnel Route

**25**
kilometres long

Travelling from west to east London, the main tunnel will be 25km long. Two connection tunnels will be 4.6km and 1.1km long.

**7.2**
metres wide

The main tunnel will have an internal diameter of 6.5 metres between Acton Storm Tanks and Carnwath Road Riverside. It will have a 7.2 metre internal diameter at Abbey Mills Pumping Station. The Greenwich connection tunnel will have a 5 metre internal diameter and Frogmore connection tunnel will be 2.6 metres.

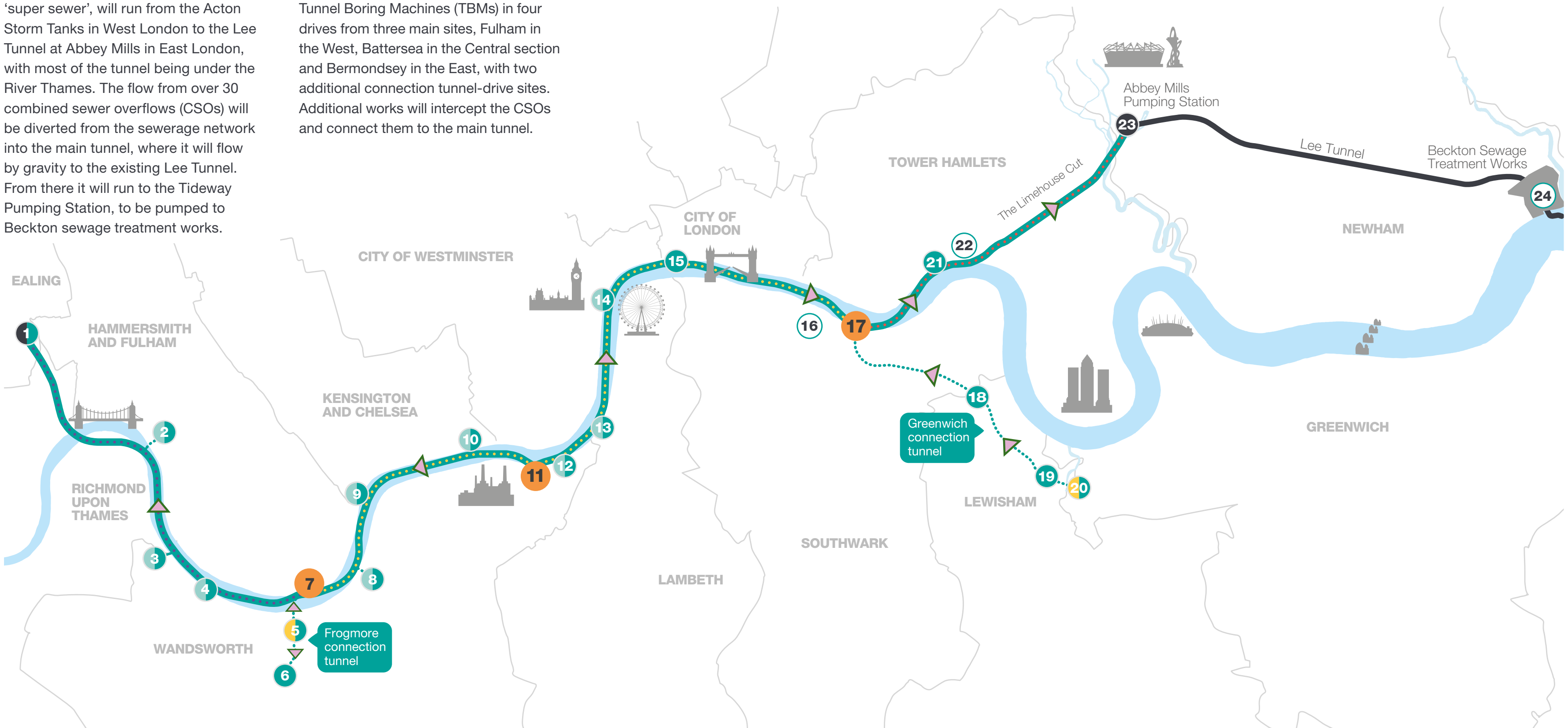
**66**
metres deep

The tunnel needs to fall one metre every 790 metres so it can be self-cleaning. Starting from 30 metres deep at Acton Storm Tanks, it will finish 66 metres deep at Abbey Mills Pumping Station.

## THAMES TIDEWAY TUNNEL

The 25km tunnel beneath London, 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 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.




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
Connection tunnels
Lee Tunnel
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

# The Timeline

## THE TIMELINE

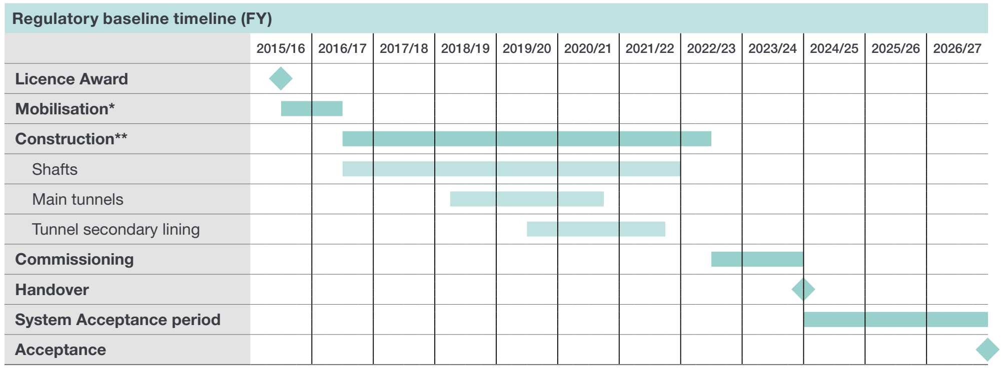
After we were awarded our Licence, we agreed a baseline schedule with our MWCs that met the Licence date for completing the project, which we call the Current Regulatory Baseline. There are four main stages.

### 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 at 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**
  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

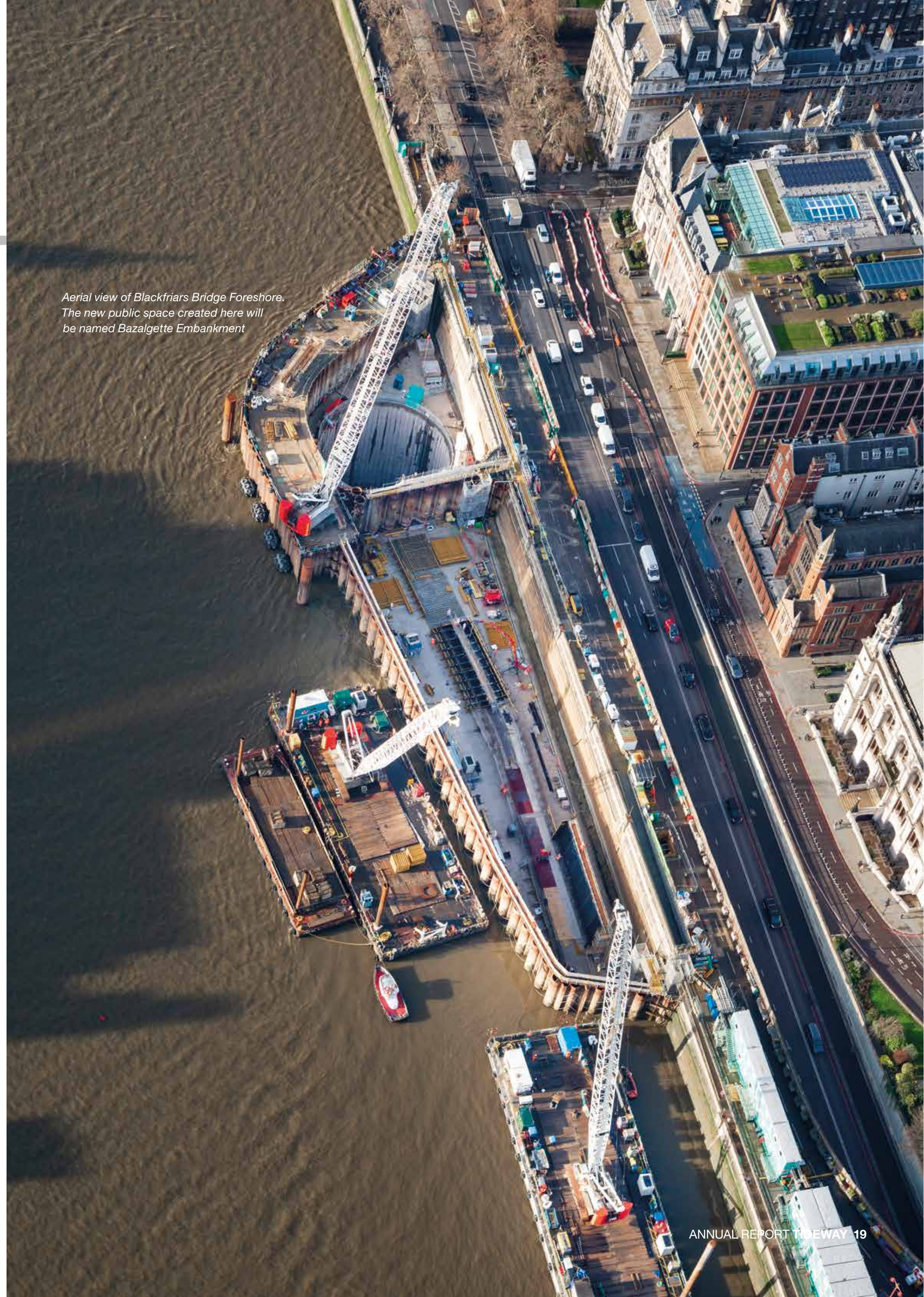
The outline schedule remains representative of the project and its overall progress, although as we deliver the project we have made and will continue to make some changes to specific site schedules.




* 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).





*Aerial view of Blackfriars Bridge Foreshore. The new public space created here will be named Bazalgette Embankment*

# Our Business Model
*The Value We Add*

## PURPOSE
## WHAT WE DO

Tideway is building the Thames Tideway Tunnel under the River Thames – creating a healthier environment for London by cleaning up the city's greatest natural asset, now and for the foreseeable future.

## OUR VALUES
## HOW WE DO IT

**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

### Cleaner Thames

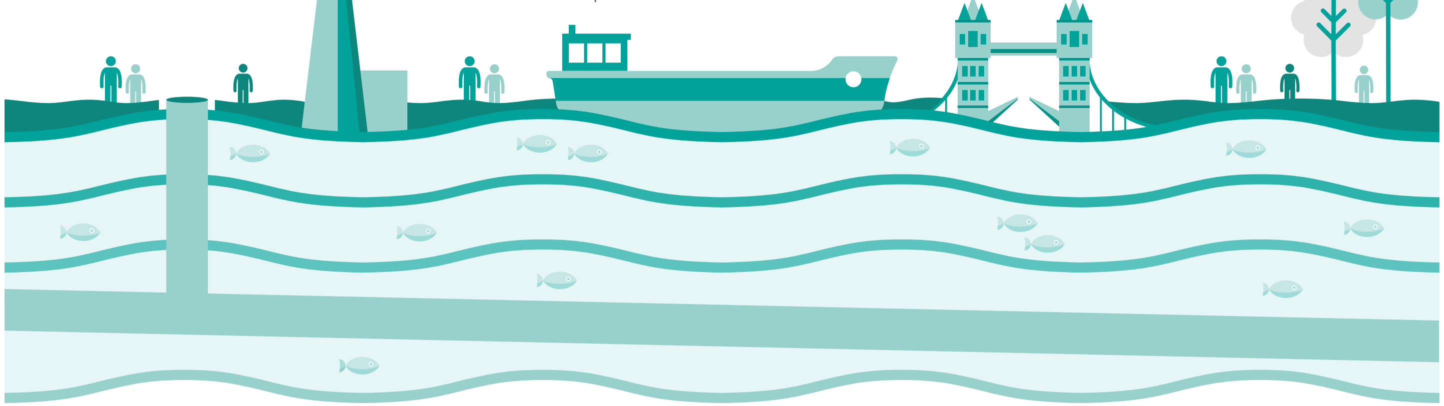
The Thames Tideway Tunnel will dramatically reduce CSO discharges, reducing sewage-related litter (and plastics) and improving water quality in the tidal Thames

### More by River

Our river transport strategy will aim to keep over 300,000 lorries off London's congested roads, and could produce 90% less CO2 than the road equivalent

### New public spaces

We are creating seven new areas of public land in the River Thames



## Enablers

**SAFE OPERATIONS / DELIVERY**
We strive to create and maintain a culture of doing things safely or not at all
See page 26 to find out more

**EFFECTIVE GOVERNANCE, RESILIENCE AND OVERSIGHT**
Our risk management systems and policy provide a clear framework for managing and reporting risks
See page 77 to find out more

**TALENTED AND PASSIONATE PEOPLE**
We work to attract, motivate, develop and retain the best talent
See page 46 to find out more

**COLLABORATIVE PROCESSES**
Tideway and Thames Water collaborate closely, while we maintain an experienced, competitive supply chain
See page 30 to find out more

**STAKEHOLDER FOCUS**
We aim to build enduring relationships with government, local authorities, our neighbours, partners, suppliers and others we impact
See page 40 to find out more

**EFFICIENT FINANCING**
We aim to finance the project as efficiently as possible to ensure that we minimise our impact on bill-payers
See page 54 to find out more

## STAKEHOLDER VALUE

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

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

**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

**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 purpose, vision, values and company objectives to deliver for all our key stakeholders.**

Looking ahead the Executive Team and Board have reviewed and developed targets and aspirations for 2020/21. This process involved significant Board engagement in the first few months of 2020. Due to the timing of our business plan it was not possible to capture the potential impact of COVID-19. It was important however to continue to provide an overall framework for delivery. We recognise that we will need to review and revise our strategy and targets during the year as the potential impact of the virus on the project and the wider environment for delivery becomes clearer. Looking ahead COVID-19 is still impacting our performance. We will continue to develop ways of working during this period with the safety of those involved on the project and public health remaining paramount.

During the Board review process, we reflected on our performance during this year including stakeholder feedback, the external environment and the phase of the project. We restructured our teams introducing a new Completion and Handover Directorate to provide the right focus for the remainder of the project as we passed the half way mark. Furthermore, we reflected on the changes in the external environment including the December 2019 General Election which established a majority Conservative Government, providing certainty on the medium-term political environment and greater short-term clarity on leaving the European Union as well as Ofwat's Final Determination which provides funding and incentives for Thames Water's role on the project.

## HEALTH, SAFETY & 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

- Continue to reinforce HSW performance in the construction phase with consistent strong performance in all areas but specifically high-risk activities including marine and tunnelling.
- Develop an effective HSW strategy that is fit for the future with a specific focus on managing MEICA installation and worksite testing & commissioning risks safety critical operations) are in line with our requirements

### Relevant Principal Risks:

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

## SCHEDULE, COST & 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 wider sewer network

### Priorities for 2019/20

- Working with the Programme Manager to deliver the best value for money schedule possible
- Start to handback areas on completion of construction (including architecture and landscaping) and worksite testing
- Securing TWUL's commitment, through the joint approach, to the earliest possible Handover and Acceptance
- Seeking and implementing all appropriate opportunities to increase efficiency
- Ensuring that the asset being delivered is of the right quality Commercial status of all three MWCs and SIC aligned to Tideway's objectives for cost and schedule

### Relevant Principal Risks:

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

## VISION, LEGACY & REPUTATION

### Objective

We want to maintain a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. We want to continue to be a responsible business in all that we do and demonstrate these credentials in order to build trust

### Key Long Term Activities

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

Promote the Tideway story to a broad range of audiences

Address the needs and concerns of our neighbours

Continue to deliver legacy commitments

Work with the end in mind to have a structured 'successful delivery' communications and engagement plan, which includes a clear narrative

### Priority for 2019/20

- Continue to ensure our stakeholder engagement programme supports efficient delivery of the project
- Evolve the narrative and prepare our 'successful delivery' plan with the end point in mind. Includes engagement with Thames Water to agree a joint approach to comms, engagement and Corporate Responsibility to the end of the project

### Relevant Principal Risks:

- High impact, low probability events
- Reputation

## COMPANY & 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

Maintaining our commitment to diversity

Maintaining a clear strategy for preserving organisational capability in critical roles

Providing training and development and succession planning

Offering competitive terms and conditions, benefits and incentive

Delivering systems, processes and tools to support an effective organisation

### Priority for 2019/20

- Continue to 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 sustainable 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 and strengthening financing sustainability/ ESG performance

Maintaining appropriate levels of liquidity

Optimise our cost of finance to increase our return to shareholders

Drive strong financial control and discipline across the company

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

### Priorities for 2019/20

- Maintain the Company Credit rating & deliver IRR and shareholder distributions in line with the financing plan
- Liquidity and investment management – continue focus on capital preservation and liquidity and seek to optimise return

### Relevant Principal Risks:

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

# Our Performance

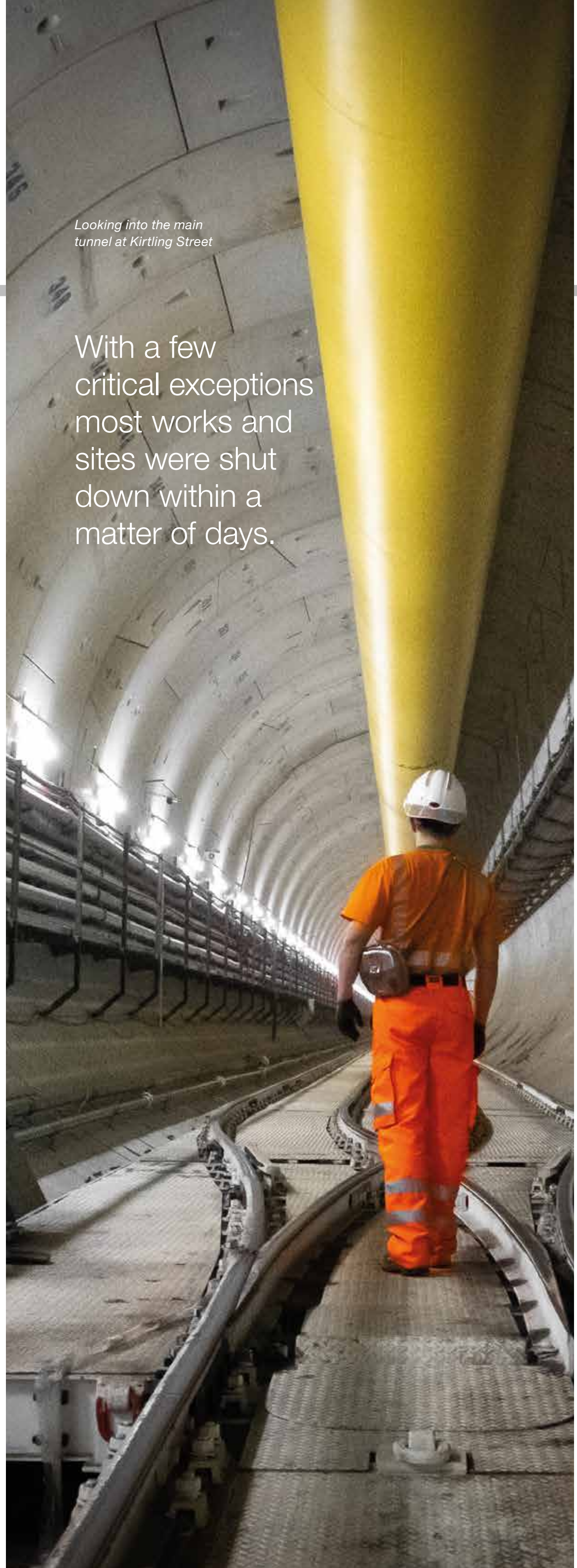
Excavation of the main tunnel passed the halfway mark in February, while 16 of the project's 21 shafts have been fully excavated.

The year also saw the peak in river transport on the project, with 3.3m tonnes of material moved by river, avoiding 400,0000 HGV journeys. The health safety and wellbeing of everyone on the project remains a top priority and there have been no major injuries or significant incidents relating to construction or marine operations to date.

**Our performance during the year included:**

- Accident Frequency Rates (AFR) continue to be encouraging, with our key measures down from last year.
- In February we marked completion of half of the 'super sewer', with 12.5km of the new tunnel constructed.
- Our stakeholder research showed continued positive attitudes towards Tideway and confidence in the project. Positive sentiment among stakeholders and the public was 93 per cent and 75 per cent respectively of those surveyed, compared with 92 per cent and 73 per cent in 2018.
- Our employee survey showed our performance remains strong with 73 out of 74 questions showing an increase in positive scores internally and against UK benchmarks. We are proud that in 57 questions we outperform the industry norms.
- Extending our sustainable finance platform and continuing to assess our performance against the Sustainable Development Goals. S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway with a score of 74/100 and our culture was deemed 'excellent'.


*In the spring of 2020, Tideway installed 'thank you' signage across its sites for NHS staff and key workers*



*Looking into the main tunnel at Kirtling Street*

With a few critical exceptions most works and sites were shut down within a matter of days.

**OUR RESPONSE TO THE COVID-19 PANDEMIC**

The overriding consideration in anything that we do must be the health, safety and wellbeing of our workforce and those that we affect. Following that, our objective is to minimise the overall impact on outturn cost to protect the interests of investors and bill payers to the greatest extent possible. Tideway has responded quickly, in line with HMG's guidance and to protect the safety of those involved on the project and the wider public safety. We continue to seek to provide the best environment for overall project delivery in the interest of all stakeholders including bill-payers.

Since the middle of March 2020 the COVID-19 pandemic has had a profound impact on the delivery of the Tideway Project. We took action quickly as government advice emerged on the need to change our working practices. Between 13 March and 17 April we moved from 2,800 people working on site or in offices to 150 across our 21 sites. In early April we started Readiness Reviews ensuring only those activities that could be restarted safely and in line with HMG guidance would be undertaken. Staff have been able to work from home and we have supported them to do this whilst continuing to provide many aspects of our Health, Safety and Wellbeing programme online. When the lockdown period was extended we identified some roles that could be furloughed and agreed with those staff the arrangement to do so, this was a challenging decision but the right one as it was the support needed for those affected.

With a few critical exceptions, most works and sites were shut down within a matter of days. Social distancing and other measures were introduced so critical works where possible were able to continue safely. We agreed with the MWCs payment measures in the first few days to support our supply chain and we started detailed planning within the first month to consider how and what works could be restarted at each site. We continue our commercial discussions with MWCs and are working together to ensure they can operate in the most effective way possible.

We engaged with our shareholders and independent non-executive directors immediately to discuss our approach. The support and engagement of our stakeholders has been critical during this time to ensure that our decision making is well informed and considers the interests of all our stakeholders.

# Health, Safety & 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 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

**2019/20 Measure**

| Measure | Target | Actual |
|---|---|---|
| Maintain strong HSW Performance | Safety record better than recent major projects/industry leading | On Track |
| Number of major injuries | 0 | 0 |
| Marine Operations Significant incidents | 0 | 0 |
| Number of reportable accidents* Accident Frequency Rate 3 (AFR-3) | 0.00 | 0.11 |
| Accident Frequency Rate 7 (AFR-7) | 0.00 | 0.10 |

* *Definitions:*

**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. Excludes Road-Traffic accidents to ensure alignment with RIDDOR 2013.*

**AFR-7:** *as above, for over seven days lost time for the individual involved. Excludes Road-Traffic accidents to ensure alignment with RIDDOR 2013. Injuries contributing to AFR-7 will automatically be included in AFR-3.*

## Performance

We are pleased to report that we have had no major injuries or significant incidents relating to marine operations to date. Overall, the programme's three day Accident Frequency Rate (AFR-3) has remained below other large infrastructure projects at similar phases of construction. We had fifteen lost time incidents in the year, of which eight injuries resulted in over-seven-day absences. We remain committed to doing things better and, having investigated these lost time incidents and implemented the resultant lessons learned, we continue to strive to improve as we progress further into the project.

## RightWay

RightWay is our approach to establish a working environment that allows individuals to:

- plan ahead,
- challenge,
- continually strive to do things better, and
- reinforce a positive HSW culture through effective leadership.

The 'RightWay in Delivery' initiative continues to provide an opportunity for site teams to showcase innovations and good practices against Tideway's Health, Safety and Wellbeing strategy. Site teams prepare monthly submissions to highlight their current best practices, for which the best submission is recognised in each pillar. Quarterly, the winning site team is presented with an award by the Client HSW Director and Programme Director.

The initiative was a collaborative development by the Project Managers and the MWC teams. We celebrate good practices on site, promote enthusiastic ownership by the site teams and encourage them to consider and adopt best practices from other sites.

## Health and Wellbeing

Tideway is actively engaged in promoting and improving the Health and Wellbeing of our workforce as well as mitigating the health risks associated with our works. In addition to several project-wide initiatives throughout the year, Tideway has also focussed on continuous improvement with our supply chain to ensure we promote parity between health and safety.

**Recognitions include winning:**

★ **Best** Mental Wellbeing Strategy (Fewer than 1000 staff)'

★ **Best** Leadership and Culture in Wellbeing

**Reward & Employee Benefits Association (REBA) Wellbeing Awards 2020.**

For the second year running, Tideway achieved third place in the medium-sized business category at *VitalityHealth's* 'Britain's Healthiest Workplace'. The *VitalityHealth* survey report noted the positive impact of our managers and leaders on supporting their colleagues' wellbeing, which was significantly higher than our industry benchmark. We will use the findings to further develop our health and wellbeing programme.

# Health, Safety & Wellbeing

**3.6** Reduce traffic accidents
**3.9** Reduce deaths and illness from pollution

### Fatigue Management

During the year we focused on fatigue management as one of the highest risks associated with 24-hour, seven-days-a-week construction. We will share our findings with the industry on how Tideway has managed fatigue, drawing from research conducted previously on Tideway by Loughborough University. We have been able to highlight the best practice on the project and improve our monitoring process for measuring the impact of fatigue and will be looking to introduce further improvements within 20/21.

**Key lessons learned included:**

- Clients specifying shift requirements in contract documents will positively influence risk management.
- Recognition that there is no such thing as a perfect shift pattern. There will be variation between individuals in their preferences and tolerances of different shift patterns.

### Occupation Health Inspections (OHI)

The OHI is used to record both positive and negative observations related to occupational health on site for example, noise and vibration, manual handling, COSHH (Control of Substances Hazardous to Health) and thermal comfort and lighting is also included for tunnelling works. We have evolved our approach, with supervisors and engineers now leading the inspections which is more efficient when combined with a coaching programme with our Occupational Hygienists. We are planning further efficiencies and revisions such as a task-based approach moving away from a whole-site approach.

### Mental Health

Mental Health of the workforce continues to be a major driver for the project. It has been supported with the Mates in Mind programme, Mental Health First Aiders, Mental Health First Aider Networks, Mental Health focused Rightway Lives and initiatives and local services such as MIND, the mental health charity. Tideway's Transforming Health and Safety Group (THSG) set up the Mental Health Working Group (MHWG) with the sole purpose of gaining insights from the business to help inform what actions we need to take, both now and in the future, to improve mental health at Tideway (and wider industry).

**Initiatives include:**

- The pledge board - for Mental Health Awareness Week we provided all sites with a re-useable pledge board to 'positively change the way we think and act about mental health'. These boards were used at toolbox talks, start of shift briefings and initiatives to raise awareness on mental health.
- 'I'm in your corner' campaign which coincided with 'Time to Talk Day 2020' encouraged everyone to have a conversation about mental health. The campaign shone a spotlight on the project's 167 mental health first aiders.
- Collaborated with Mates in Mind on a pilot managerial course for managers/supervisors across the project ready to launch project-wide in 2020/21.
- Engaged the MWCs to bring together their supply chain to share lessons learned from Tideway's approach to mental health and support the smaller companies as they embark on the same journey.

### Employer's Project Induction Centre (EPIC)

We established our innovative 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 20,700 people have attended the programme. 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.

The EPIC centre is available for external industry days to promote the ground-breaking and immersive EPIC experience to the wider industry. External clients who have utilised EPIC include Lower Thames Crossing, Joseph Gallagher, Associated British Ports, Berkeley Homes, Network Rail, Amey Rail, NEBOSH, PLA and Tarmac.

EPIC Logistics, is an induction course designed to provide HGV drivers on Tideway with a visceral experience of a fatal incident. The induction highlights the impact that a chain of poor decisions can have on health and safety and shows the consequences of such an incident for those not directly involved in it. To date, EPIC Logistics has been undertaken by 1,013 drivers. This supports our More by River strategy which has already significantly reduced vehicle movements.

case study

**FOCUS ON MENTAL HEALTH**
**HEAD ABOVE WATER**

Sculptor Steuart Padwick created a gigantic "Head Above Water" sculpture to stand as a symbol of compassion and positivity for those who have come through, or are still confronting, mental health issues.

The 9 metre-tall structure, originally for Mental Health Week 2018, was relocated to our Northfleet site that provides materials and logistical support for Tideway. The Northfleet team are passionate about improving mental health and installed it as an access point onto site and added literature and mental health material for the site team and visitors. Furthermore, the site includes a herb garden, a greenhouse made from reused water bottles and a pizza oven, as well as vegetable patches, seating areas overlooking the Thames and a disused shipping container has been transformed into a gym.

"I'm delighted that Head Above Water now has pride of place at Northfleet. At this site we're putting a lot of effort into raising awareness of mental health issues. We're definitely going about things the right way here, and I'm proud of what we're doing."

**Phil Dupree**
**Logistics and Transhipment Manager for Tideway**

Find out more about the Head Above Water sculpture

https://youtu.be/muMx6oW4NcA

# Schedule, Cost & 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 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

**2019/20 Measure**

**Delivery against the regulatory baseline – schedule**

| Target | Forecast |
|---|---|
| Handover by quarter one 2024 | Handover by quarter two 2024 |

**Delivery against the regulatory baseline – cost***

| Target | Forecast (2019) |
|---|---|
| £3.4bn | £3.9bn |

** Tideway's element of the programme in outturn prices (based on current inflationary expectations), up to System Acceptance. Ofwat has set a regulatory baseline of £3.1bn (in 2014/15 prices) Which is equivalent to £3.4bn in outturn prices).*

## Performance

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

Our construction progress has been good in the period and broadly in line with the challenging project targets we set ourselves. Whilst the safe delivery now is important so is the focus on delivering the whole programme to safe handover in 2024. This focus has highlighted the key interfaces relating to the tunnelling and secondary lining operations at our Carnwath Road and Chambers Wharf drive sites. As the programme has evolved we have constantly monitored these key interfaces and are now able to make strategic decisions on how they should best play out, which has resulted in an increase to our cost estimate by £100m and extended the programme by three months. We have therefore updated our cost estimate to £3.9bn and Handover to Quarter 2 2024.

Our aim is to be in a position to handback parcels of land as soon as the project no longer requires the use of the land. Our teams have developed strategies this year for each site and are in a position where sites can be handed back as soon as required.

With TWUL we have developed a joint approach to handover and commissioning. This strategic document is being used as a framework for both companies to plan future activities and ensure that they are correctly resourced. Our joint effort has set good foundations to work together over the coming years so when we complete construction both parties are ready to bring the tunnel into service.

We have continued to search for ways to deliver the project more efficiently and during the year we have found and realised savings of £122m. An additional £33m has been identified and we are working to realise these savings.

## Construction Quality

The level of non-conformance and re-work on the project has remained at a satisfactory level. Construction quality is the responsibility of the Main Works Contractors (MWCs) who self-certify their works. This self-certification is overseen through regular surveillance by the Programme Manager. Further technical assurance is provided by inspections from Tideway's NEC Supervisor team with regular oversight by 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.

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

## Commercial

In line with the provisions of the main works contracts each of the MWCs target prices have been adjusted to reflect Compensation Events (risks retained by Tideway). This is in accordance with the NEC 3 contract under which the MWCs are appointed.

The primary areas of change to the MWCs relates to finalisation of the construction and programme interfaces including the introduction of incentives for efficient delivery and the settlement of outstanding claims in respect of entitlement to target price adjustment for historical events.

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.

# Schedule, Cost & Quality

**3 GOOD HEALTH AND WELL-BEING** — **3.6** Reduce traffic accidents

**11 SUSTAINABLE CITIES AND COMMUNITIES** — **11.6** Reduce the adverse environmental impact of cities

## MORE BY RIVER

This year has seen the peak of river transport use on Tideway whilst supporting the construction of three main tunnel drives, shafts and connection tunnels. 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.

The project's use of the river over the period has avoided carrying 2.4m tonnes of material on London's roads, bringing the total to 3.3m tonnes transported by river. To date, our More by River Strategy has avoided 400,000 HGV journeys, which has led to the avoidance of more than 10m HGV road miles and approximately 10,000 tonnes of $CO_2$.

Tideway continued to support the development of the river economy with 416,000 tonnes of additional materials being transported under the More by River strategy, bringing the total to 650,000 tonnes. The benefits of the river strategy was promoted in a campaign called **#EveryBoatCounts** and as part of an education resource available via our tunnelworks platform.

## For every barge used to transport material...

**100 lorries** were kept off the road

At least **90%** of the material excavated from our tunnels will be exported by river.

To date, **our river strategy** has resulted in...

**200,000 fewer** HGV arrivals

**400,000 fewer** HGV journey

**Saving 10,000 tonnes of $CO_2$ emmisions**

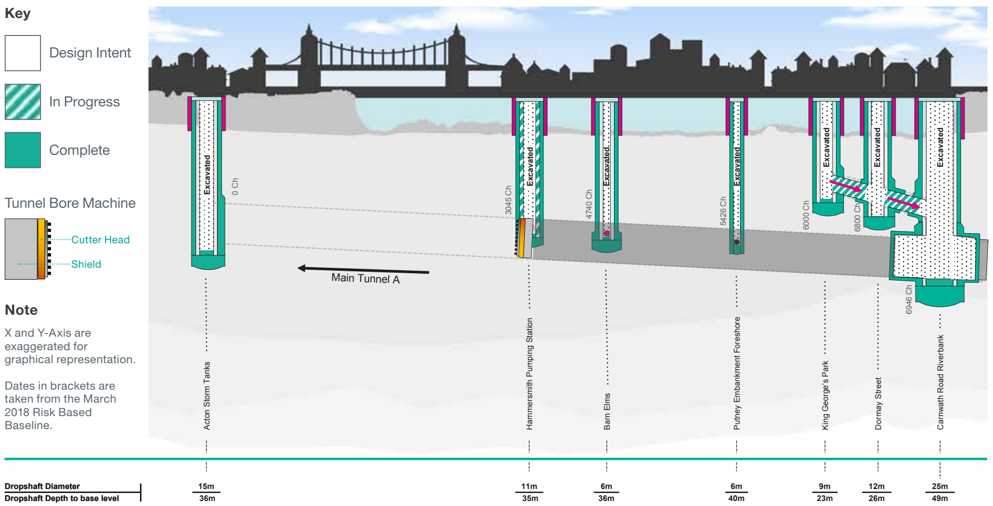
*A barge filled with spoil from Tideway's tunnelling operation passing through the Pool of London as it leaves the city*

# Schedule, Cost & Quality

*Progress by area*

## WEST AREA

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




*Putney Bridge was closed in February 2020 to allow a pipe-jacking machine to be lifted from Tideway's site nearby*

There has been good progress across the sites with all seven shafts excavated and significant progress of our tunnel boring machines (TBMs). Our TBM Rachel has been constructing the main western part of the super sewer and TBM Charlotte has been constructing the Frogmore Connection Tunnel.

At our main drive site at Carnwath Road, TBM Rachel was successfully lowered into the shaft in April 2019, and began tunnelling in May. Rachel is now over half-way through her 6.5km journey from Carnwath Road to Acton Storm Tanks.

In March, Dormay Street saw TBM Charlotte being lowered into the shaft where she then successfully completed her drive to King George's Park in October, which is part of the 1.1m Frogmore Connection Tunnel. In November, Charlotte was removed from the King George's Park shaft and transported back to Dormay Street by road before being re-lowered. She is now continuing her drive towards our main drive site at Carnwath Road Riverside where she is due to arrive later this year. The King George's Park part of the connection tunnel is currently being secondary lined, and this section will be complete in summer 2020. At both Dormay Street and King George's, the reinforced concrete underground structures required for diverting sewage into the tunnel are being constructed.

Our Putney Embankment Foreshore site has come a long way in the past year. We completed the excavation of the 36m deep shaft and the rectangular 9m deep penstock chamber. We also completed the 135m high level connection tunnel using a pipe-jacking technique from the penstock chamber under the Grade II listed Putney Bridge, where it will intercept the CSO.

Our Hammersmith site was the first on the project to complete its 297m long connection tunnel, which will lead into the main super sewer. Additionally, the site has completed the secondary lining to the connection tunnel, and the shaft. In 2020, the Vortex Generator will be arriving to site in late spring to be installed into the shaft – the first across the project.

**Further milestones include:**

- Excavation of the interception chamber at Hammersmith;
- Construction of the lower level connection tunnel at Putney;
- Completion of the spray concrete lining of the shaft at Acton;
- At Barn Elms, excavation and primary lining of the 36m shaft was completed in October 2019 with pipe-jack work started in February this year.

### Local Engagement

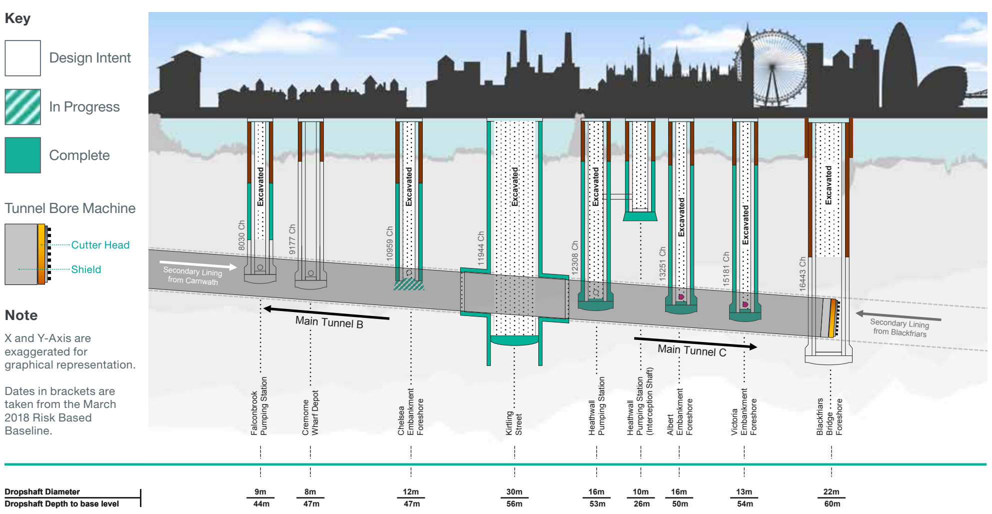
We needed to close part of Putney Bridge for 24 hours in February 2020 to lift our pipe-jacking machine out of the foreshore where it had completed its connection tunnelling. The team worked closely with key stakeholders including the London Borough of Hammersmith and Fulham, Transport for London and the London Borough of Wandsworth to ensure members of the public were informed in advance and the work was carried out safely and on time.

# Schedule, Cost & Quality

*Progress by area*

## CENTRAL AREA

The Central team are working across all eight construction sites, each of which have started or completed excavating their shaft structure.




In total, there are nine shafts in Central with two at Heathwall Pumping Station. Base slabs have been installed in the bottom of five of the nine shafts, marking completion of the primary lining. Shaft excavation is ongoing at Falconbrook Pumping Station and Cremorne Wharf. At Blackfriars Bridge Foreshore, excavation of the shaft has paused until tunnel boring machine (TBM) Ursula has completed her drive as the tunnel passes directly below the shaft.

The westbound 5km long tunnel drive from Kirtling Street to Carnwath Road was safely completed in November 2019 as Millicent became the first TBM on the project to complete her section of the main tunnel. This entire stretch of tunnel was completed without a lost-time incident, totalling over 2.3m work hours.

TBM Ursula, launched in March 2019, has completed over 4.4km from Kirtling Street and reached the shaft at the Blackfriars Bridge Foreshore site where we will change the cutting tools and complete other essential maintenance before she continues deep below east London to complete her journey at Chambers Wharf.

At our Blackfriars Bridge Foreshore site our 3,500-tonne culvert structure is taking shape within the cofferdam. All concrete pours to create the walls of the structure have been completed. Later in 2020 the cofferdam will be flooded and the culvert floated along the River Thames to be connected to the Fleet CSO located underneath Blackfriars Bridge.

**Further milestones achieved include:**

- Over 1,000,000 tonnes of tunnel spoil removed from Kirtling Street by barge;
- Completed the mitigation on the Chelsea Wharf building next to the Cremorne Wharf site, which enabled shaft excavation to begin in January 2020;
- Completed the primary lining of the connection tunnel between the shaft and the main tunnel at Albert Embankment in January 2020;
- Completed the primary lining of the 42m culvert tunnel between the two shafts at Heathwall Pumping Station and completed the shorter culvert at Falconbrook Pumping Station;
- Installed the support structure within the Low-Level Sewer at Victoria Embankment, which allows construction to be carried out without causing damage; which allowed the removal of the service subway and old river wall structures above the sewer, to enable sewer interception;
- Commenced secondary lining of connection culverts at Albert Embankment and Heathwall Pumping Station.

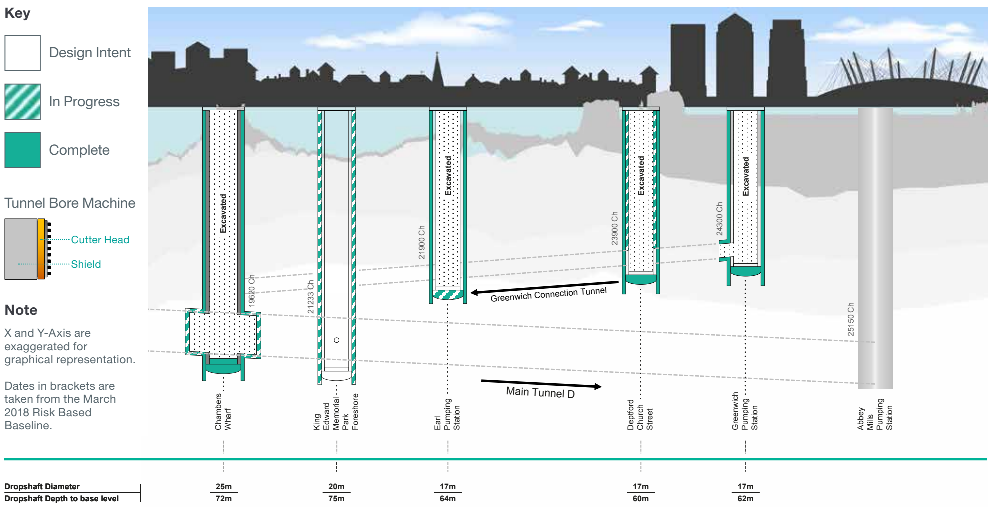
# Schedule, Cost & Quality

*Progress by area*

9.4 **Adopt clean and environmentally sound technologies**

## EAST AREA

The East team continue working on five of the six construction sites. We have completed shaft excavation on four sites and are getting ready to move onto the tunnelling phase of works.




At King Edward Memorial Park we have been constructing the 74m deep shaft walls with shaft excavation due to start in the summer. Works to our remaining sixth site at Abbey Mills has been brought forward to reflect knowledge gained from the set-up of other sites across the project and will now start in 2021.

At Chambers Wharf, the main drive site, the 60m deep shaft excavation was completed in June. A month later the team successfully completed a large scale concrete pour to construct the shaft's base slab, this saw approximately 1,500m$^3$ of concrete poured over a 36-hour period, marking a major milestone for the project. The concrete mix for the base slab contained the highest volume of cement alternative used to date, 75% of the cement was replaced with GGBS (Ground Granulated Blast-furnace Slag a by-product from the blast-furnace industry) which meant that cement only made up 5% of the total volume of the material* – significantly reducing its carbon footprint.

Chambers Wharf met another milestone by being the first site on the project to complete secondary lining to the shaft. This used slipform technology which is a system of concrete formwork that is raised vertically to allow concrete to be poured in a continuous process. The site is now getting ready to see the arrival of our TBM Selina, with tunnelling due to start shortly afterwards.

**Further milestones achieved include:**

- Strengthening works and deep soil mixing to improve poor ground conditions at King Edward Memorial Park were completed in autumn 2019;
- At Deptford Church Street, we completed the excavation of the shaft which was almost 60m deep, this included the construction of the shaft base slab. Works are progressing with the construction of the CSO;
- Earl Pumping Station saw the completion of the 54m deep shaft excavation. The team are now working on sewer diversion works;
- The acoustic enclosure was completed at our Greenwich Pumping Station site, enabling us to complete shaft excavation, the shaft was completed with a 3m thick base slab. The team then constructed a 26m long tunnel via a sprayed concrete method which will house the TBM prior to launch;
- At Greenwich Pumping Station, the site has been set up to receive the Greenwich Connection Tunnel TBM. At the Phoenix Wharf side of the site, we have almost completed installing the slurry treatment plant and dredging works to Deptford Creek are well underway. Dredging will maximise the tidal flow of the creek, meaning more barges will be able to gain access resulting in more material being taken away by river.

** The binding component which includes the cement is only 20% of the entire volume of the concrete.*

# Vision, Legacy & 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 is the right thing to do. It also reduces the scope for delays, so we can deliver the tunnel's benefits as soon as possible.

**Priority for 2019/20**

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

**2019/20 Measure**

| Measure | Target | Actual |
| --- | --- | --- |
| Support from Stakeholders | No material schedule impact as a result of stakeholder intervention | 93% positive no impact |
| Percent of live legacy commitments on track | 75% | 91% |
| Apprentices per project staff | Target FTE 1 in 50 | Actual FTE 1 in 39 Monthly Average |
| STEM* volunteer hours per project staff** | Target (per 3 FTE) 1 hour | Actual (per 3 FTE) 3.8 hours 3,094 hours in total |
| Community volunteer hours per project staff** | Target (per 3 FTE) 1 hour | Actual (per 3 FTE) 5.2 hours 6,674 hours in total |

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

## Performance

Tideway's public engagement and communication is a vital way of maintaining trust in the project and ensuring we continue to be publicly accountable. This year our aim has been to build greater awareness of the Tideway project and its benefits with public-facing campaign communications and greater levels of community and stakeholder outreach activity.

Our annual stakeholder research showed continued positive attitudes towards Tideway and confidence in the project. Positive sentiment among stakeholders and the public was 93 per cent and 75 per cent respectively of those surveyed, compared with 92 per cent and 73 per cent in 2018.

> "Tideway's reputation remains incredibly impressive, among the best (if not the best) score of key large businesses Populus tracks. Engagement with stakeholders remains extremely strong."
>
> **Research agency Populus**

Tideway aims to be a responsible business in all that it does, delivering the highest standards of sustainability to create a long-term legacy for London. Tracking progress against our 54 legacy commitments is how we measure our performance.

Business In The Community's annual 'Insights' report on responsible business standards in the UK in 2019-20 selected Tideway as an example of best practice in 'Good Work and Inclusive Growth' for our support for people with convictions.

## Engagement

With the project's increased visibility and activity on site and on the river, we continued with our efforts to engage with stakeholders through site visits, briefings, events and River Thames boat tours. On our 24-hour helpdesk we saw a 20 per cent increase in contacts compared to last year, rising to 5,874. Around 10 per cent of these were complaints, the majority of which related to noise and vibration issues. The rest of the enquiries were on a broad range of topics from job opportunities to site visit requests. The Thames Tideway Tunnel Forum, which brings together Tideway's key stakeholders including local authorities and other delivery partners, continued to meet quarterly and we held 42 Community Liaison Working Group meetings for local residents and stakeholders. We continued with our 'River Times' newsletter which is mailed directly to our closest neighbours and we also ran a survey for this group to seek views on how our sites are managed and how we communicate. More than 600 responses were received with many positive comments as well as feedback that local teams have been able to act upon, for example about site lighting.

Tideway strives to engage and excite the public about the benefits and progress of the super sewer, to create a sense of pride and responsibility for cleaning up London's river and bring to life the stories of the people working on the project. Through a variety of channels, we were able to deliver our messaging across some of the largest media platforms available. Our messages told Tideway's story from our commitment to caring for our people's mental health - for example through our 'In your Corner' campaign, which amassed a social media audience of more than 100,000; to highlighting our use of the river rather than road to deliver the project through our **#EveryBoatCounts** social media campaign which reached an audience of more than 350,000. We continue to innovate in our communications, aiming to reach people who have been historically more difficult to engage, such as younger audiences. Our 'Engineer with Me' careers campaign which targeted school leavers, reached nearly 330,000 social media users during November 2019. Our video content, focusing on the Tideway team as much as the construction work itself, has driven our interaction on social media, which this year increased substantially, for example our LinkedIn following increased by 38 per cent.

# Vision, Legacy & Reputation
*Continued*

9.4 Adopt clean and environmentally sound technologies

11.6 Reduce the adverse environmental impact of cities

17.17 Encourage and promote partnerships

### Carbon

We are committed to minimising the carbon footprint of our project. We have aligned ourselves to the World Resources Institute and the World Business Council for Sustainable Development definitions of Scope 2 and 3 emissions*. As expected, with tunnelling work increasing, Scope 3 emissions have begun to rise.

To reduce our carbon, we are working with our supply chain to reduce the embedded carbon of materials which make up the majority of the construction footprint. For example, the concrete mixes for the tunnel segments contain between 27 - 40 per cent cement replacement compared to the predicted average of 25 per cent in the project's original Environmental Statement. During the year the designers worked to maximise the volume of cement replacement, either Pulverised Fuel Ash (PFA) or Ground Granulated Blast furnace Slag (GGBS), in assets, such as the baseplug at Chambers Wharf. This achieved a cement replacement (PFA) of 75 per cent whilst maintaining the concrete's performance specification.

The total construction carbon (CAPEX) consumed:

- **Scope 2:** 114 tonnes $CO_2e$
- **Scope 3:** 113,357 tonnes $CO_2e$ and 262,822 tonnes $CO_2e$ project to date.

As tunnelling works continue to increase, the Scope 3 totals will rise as predicted. At the end of the period, we have consumed 34 per cent of the predicted CAPEX carbon.

** Greenhouse gas emissions are categorised into three groups or 'scopes' by the most widely-used international accounting tool, the Greenhouse Gas (GHG) Protocol. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.*

### Innovation

Tideway continues to share innovations and best practice on the Infrastructure Industry Innovation Partnership (i3P) Portal. Tideway continues to invest in innovations which can deliver benefit to the project and to date has invested c.£800k delivering a return on investment (ROI) of 3.4 to 1 with a forecast ROI of over 8 to 1 by the end of the project The development of a Dynamic Noise Monitoring System at Tideway East was approved at our "Dragons' Den" innovation event in 2017 after the project leads requested an investment of £22k from Tideway. This has now been successfully implemented, reporting a saving of up to £1m in noise mitigation at the Chambers Wharf site.

### Community Investment and Charitable Giving

Community investment and charitable giving are crucial to our legacy and engagement aims.

Tideway's community investment programme benefited a total of 225 organisations and 12,185 people in the year. Project staff volunteered a total of 6,674 hours, including 3,479 hours volunteered by MWC staff and 3,195 by Tideway, a reduction of seven per cent on 2018-19. Tideway's skilled or professional volunteering increased to more than 600 hours. This included career mentoring for young people leaving school; pro bono advice for partners on areas such as GDPR regulations and risk management; and strategic support as trustees from members of our senior team.

Tideway and environmental charity Thames21 won the 'Commitment To The Local Community' category at the Better Society Awards and a bronze award at the Global Good Awards for our Thames River Watch 'citizen science' partnership; Active Row, our partnership with London Youth Rowing to help young people to get active through indoor and on-water rowing, was shortlisted in the National Lottery 25th birthday awards; and for the third year running, Tideway finished in the top 25 of national index GivX, which measures staff and corporate giving.

### 'River reconnection' community partnerships - Thames21 and London Youth Rowing

Thames River Watch, a collaboration between Tideway and environmental charity Thames21 found that about 2,000 community volunteers had collected almost 100,000 plastic bottles from the Thames foreshore since 2016, almost 50 per cent of them water bottles. This included 1,732 on one day in October during the annual 'Big Count' at 17 sites along the river. End-of-year surveys showed that 95 per cent of volunteers feel they have a much better awareness about the impact the public's actions have on the river and 76 per cent will reduce their use of plastic as a result of their involvement. The programme's data has been used by Thames21 to highlight the scale of the ongoing issue that has helped them campaign for policy change on single use plastic and for ideas such as a bottle deposit return scheme.

Active Row is ahead of its target to get 8,000 young people active within four years. By March 2020 the programme had engaged more than 6,200 young people, 42 per cent female, 68 per cent from minorities and eight per cent with special educational needs. A total of 19 per cent of participants did not take part in any physical activity prior to joining an Active Row club and 86 per cent surveyed said their teamwork and ability to work with others had improved, 69 per cent reported feeling more relaxed because of rowing and 63 per cent believe that on-water rowing is a fun way to connect with their local river/waterway.

### Charitable giving and the Oarsome Challenge

The Oarsome Challenge involved 16 crews from across Tideway rowing 13 miles along the Thames. The event raised more than £34,000 for charity, including funds for a new community boat to encourage disadvantaged communities in the capital to take up rowing. We also took part in 'Race the Thames', a 72km team indoor rowing challenge, and raised £18,000 for London Youth Rowing. In total staff raised £48,118 for charity in the year and Tideway itself gave £63,664 in charitable donations. Donations supported a social club at Blackfriars for South London Cares; a summer residential course for care-experienced young people for the Drive Forward Foundation; and a Christmas party for current and former homeless men and women in Lewisham for Single Homeless Project. We also gave emergency donations to these three charities at the end of the business year as they struggled with the impact of the COVID-19 crisis.

"Tideway's support always makes a powerful difference, and it's especially appreciated and valuable now."

**Alex Smith**
**CEO of South London Cares**

### Regatta London

Regatta London is the concept of a mass participation paddle sports event on the River Thames which would support Tideway's river reconnection strategy to deliver a long term, sustainable legacy for London. Sadly, the inaugural event, which was due to take place in September and had attracted 1,300 participants and involved more than 40 charities, had to be cancelled on safety grounds due to adverse weather. Full refunds were given to participants and charities who all showed strong support for the decision to cancel and for the potential of the event. Tideway is now considering options for delivering an event in future years.

**4.3** Provide equal access for all women and men to education

**4.4** Increase numbers who have relevant employment skills

**8.7** Eradicate forced labour, modern slavery and human trafficking

**8.8** Protect worker rights

**12.2** Achieve sustainable and efficient use of natural resources

# Vision, Legacy and Reputation

## Educational Outreach

**Our education programme is in its seventh successful year.**

**The Tideway project had:**

**125** STEM* volunteers

**Who delivered:**

**3094** hours of STEM* activities

**To:**

**8798** young people

* *Science Technology Engineering and Mathematics*

## Ethical Supply Chain

Tideway is committed to supporting ethical sourcing practices in the supply chain, including:

- ensuring everyone on the project is paid the London Living Wage (LLW);
- SMEs are paid within 30 days of invoice under the Fair Payment Charter;
- staff have job security by working under contracts;
- our materials are responsibly sourced;
- developing a robust *Modern Slavery and Human Trafficking Statement*.

The Building Research Establishment (BRE) re-verified us to their Ethical Labour Sourcing Standard (ELS) (BES 6002) for a second year. We maintained or improved our level of performance in all categories and achieved the highest level, Level 4, under the Human Resources section. Tideway remains the only Client organisation to be verified to the ELS and members of our supply chain, like Danny Sullivan Group, VGC Group, Reliable Contractors Ltd, Tarmac and Aggregate Industries, are all verified to the ELS.

In terms of responsible sourcing of materials, we have included a requirement within our Works Information that 100% of our key building materials (cement, aggregates, steel) must be certified to either BES6001 Responsible sourcing of construction products, CARES Sustainable Constructional Steel (SCS) or Eco-Reinforcement as applicable. All timber being used on site has to be certified as FSC and/or PEFC standard. In 2019/20 the materials procured which came from certified responsible sources (or otherwise agreed with the Project Manager) ranged from 97% to 100% compared with 92% to 100% in 2018/19.

**Our supply chain spend to date has reached:**

**c1500** companies

**12** UK regions

**19** London Boroughs

**Since Licence Award c95% of our supply chain spend has been within the UK.**


*Putney Embankment Foreshore, where this year we completed the excavation of the 36m deep shaft*

# Company & People

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

**Priority for 2019/20**
- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

**2019/20 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 | 2018/19 | 2017/18 |
|---|---|---|---|
| 63% | 69% | 64% | 63% |

**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 | 2018/19 | 2017/18 |
|---|---|---|---|
| 74% | 81% | 71% | 67% |

**Employee diversity****

Percentage of women within Tideway at 31 March 2019

| Target | Actual | 2018/19 | 2017/18 |
|---|---|---|---|
| 40% | 36% | 34% | 36% |

**Preserving a values driven, skilled, diverse and engaged workforce**

| Target | Actual | 2018/19 | 2017/18 |
|---|---|---|---|
| Subjective | Green | N/A | N/A |

* *Tideway employee survey: percentage of favourable responses*
** *Includes Tideway employees and our programme manager. 84% of those eligible took part in the survey.*



## Performance

Our employee survey is now in its fourth year and our performance remains strong with 73 out of 74 questions showing an increase in positive scores internally and against UK benchmarks. We are particularly proud that in 57 questions we outperform the industry norms. Over the last twelve months we have focused on improving internal communication, which had seen a drop in the previous survey, and consequently we saw an improvement of nine percentage points. We are proud of how we live and promote our values and maintained our favourable scores to 'promote diversity' and 'treat people with respect'.

We were awarded Korn Ferry's Engaged Performance Awards 2019 for both our Engagement and Enablement scores. These survey questions formed the assessment.

- **Engagement Category:** I feel proud to work for the company. I would recommend the company as a good place to work.
- **Enablement Category:** My job makes good use of my skills and abilities. Conditions in my job allow me to be about as productive as I can be.

| Questions | % Favourable | % General Industry Norm |
|---|---|---|
| Tideway is open and honest in its communications with employees | 78% | 56% |
| I am treated with respect as an individual | 92% | 79% |
| Tideway values and promotes diversity | 95% | 71% |

"Continue the fantastic work on wellbeing and mental health, it is appreciated and makes me proud to work on the project."

**Staff Engagement Survey 2019**

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, and;
- OHSAS 18001: 2007 Health and Safety.

*The team at King George's Park following the breakthrough of TBM Charlotte in October 2019*

# Company & People

8 DECENT WORK AND ECONOMIC GROWTH

**8.5** **Provide decent work & equal pay**

5 GENDER EQUALITY

**5.1** **End discrimination against all women and girls**

**5.5** **Provide equal opportunities for women**

## Diversity and Inclusivity

We were proud to maintain our exceptionally strong Engagement survey scores across all aspects of diversity, inclusivity and work life balance with 90% of staff agreeing 'Tideway shows care and concern for its employees'. We have remained focused on diversity and inclusion although we missed our gender target for the project, ending this year with 36% women against a target of 40%. In a workplace environment that is still heavily male dominated we continue to look at ways that we can attract women to the industry. Our recent staff led event for International Women's day, spotlighted women working on site, and the support they receive from male colleagues, providing role models in non-traditional female roles.

We continue to provide training to managers to support inclusive recruitment and ran workshops on Conscious Inclusion as well as banter in the workplace. Our employee led diversity forum, Encompass continues to focus on all aspects of diversity and this year, championed the introduction of a Carer's forum, supported by the introduction of five days paid leave for those who provide care to elderly or disabled friends and relatives. We also hosted an event for the Black Professionals In Construction group to provide a platform for supporting the increased engagement of BAME individuals in the infrastructure sector.

## Women into Construction

Working with us, Women into Construction (WiC), a not for profit organisation, has facilitated 41 work placements for women and 30 direct jobs on the project. This year 11 women were offered a work placement and nine were directly employed. Tideway hosted seven WiC registration events during the year attended by 110 women. Tideway's work with WiC was recognised in September when we received the award of Most Engaged Client.

"Tideway is a prestigious engineering project, as well as an exceptional employer, leading the way in providing excellent working conditions. The emphasis on the health and safety of all its employees, and the opportunity to work flexibly are hugely valued by Women Into Construction clients."

**Kath Moore**
**MBE, MD WiC**

| | 2018 | | | 2019 | | | 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Headcount** (as at 31 March 2020)* | **Female** | **Male** | **Total** | **Female** | **Male** | **Total** | **Female** | **Male** | **Total** |
| Board** | 2 | 11 | 13 | 2 | 11 | 13 | 1 | 12 | 13 |
| Senior Management | 20 | 33 | 53 | 18 | 22 | 40 | 19 | 23 | 42 |
| Other Employees | 153 | 271 | 424 | 128 | 250 | 378 | 125 | 226 | 351 |
| **Total *** | **175** | **315** | **490** | **148** | **283** | **431** | **145** | **261** | **406** |

* *Includes Tideway employees and our project management contractors (Jacobs)*
** *Includes shareholder Directors*

## Appointment of a non-executive director representing workforce matters

In March 2019 the Board considered the issue of workforce representation and agreed that nominating a designated non-executive director to represent workforce matters was an effective route to help ensure the voice of the workforce is heard in board discussions and decision-making.

The project is now well established and the Board recognises that Tideway's workforce will experience changes as the project evolves over the months and years ahead. The appointment of a designated non-executive director to represent Tideway's workforce of around 155 provides both leadership and the workforce with clear opportunity for two-way dialogue. The role will help ensure the workforce is not overlooked or under-represented in Board discussions and it bolsters other mechanisms – including the employee engagement survey, whistle-blowing procedures, staff turnover, training and pay data – that inform Board decision-making.

In July 2019 Baroness McGregor-Smith was appointed to the role and received a preparatory briefing from the Human Resources Director and the Company Secretary which covered, among other matters, existing sources of workforce information and resources available in the organisation, the proposed scope of the role and options for direct engagement with Tideway's workforce.

Going forward, this mechanism for workforce engagement will be kept under review: After a two-year term a decision will be made whether to extend the role, rotate it to a different non-executive director or adopt a different mechanism for workforce engagement.

We note that our definition of "workforce" is limited to members of staff employed directly by Tideway and affected by decisions of the Board (including agency workers and workers engaged under contracts of service). We expect the Main Works Contractors and the Programme Manager to implement their own effective mechanisms to recognise and address matters that affect their workforces, and we seek to positively influence the circumstances of all staff and operatives across the project through active management and initiatives such as EPIC, the whistle-blowing helpline, and the annual project-wide health, safety and wellbeing survey.

**case study** **LEAN IN CIRCLES**

Andy Mitchell our CEO and Julie Thornton our HR Director concluded their "Lean in Circles" sessions with all Tideway female employees. These provided opportunities for employees to discuss their aspirations and seek support from their colleagues to achieve them. Andy and Julie also held follow up personal career conversations with several women on the project, they invested time to listen to the needs of individuals and understand the support that Tideway could provide.

Anecdotal feedback indicated that staff appreciated the level of commitment the senior leadership had shown by personally supporting and delivering the sessions.

# Company & People

## Report from designated non-executive director Baroness McGregor-Smith

In July 2019 I accepted the invitation of the Board to take on the role of designated non-executive director representing workforce matters. I embarked on a series of roundtable discussions, open to all members of staff, to meet the workforce and hear directly about their experience working for Tideway.

To create a structure for the conversation we focused on topics from the employee engagement survey including:

- internal communications,
- career planning and development,
- company culture,
- decision making and empowerment,
- collaboration and cooperation.

Altogether six roundtable discussions were held, giving me an opportunity to meet 44 individual participants who provided feedback that I have since discussed with Tideway management as well as reporting to Board level. Particular matters raised and commitments subsequently made by management are summarised in the table below.

Overall, I am pleased to confirm that comments received from the roundtables reflected very well on Tideway's culture and values. On the other side of the equation, however, staff who enjoy working for the organisation are also concerned about the evolution of the project over time and potential redundancies as the project moves through the construction phase toward commissioning and handover. In my role going forward, as well as representing workforce views in Board decision-making, I intend to continue to encourage open and transparent dialogue between staff, management and myself to help ensure we navigate those concerns in a way that is collaborative and serves the interests of both individuals and the project.

**Baroness Ruby McGregor-Smith**
**June 2020**

| Themes discussed | Tideway commitments |
|---|---|
| Potential future redundancies | Continue to make staff aware of changes that will happen overtime and encourage them to prepare through their own personal development and career conversations / planning. |
| Internal communications | Tackle technical jargon through education and information sharing. Investigate IT technology to improve delivery of information. |
| Career development and future opportunities | As part of any future redundancy activity we will support individuals whose role is coming to an end through outplacement and other routes. |
| Cross organisation working | Continue to encourage staff to engage with others across the project, and on other projects through the Professional Development Network. |

*Charles Edoh, Project Manager for Dormay Street and King George's Park, posing as part of Tideway's I'm In Your Corner campaign to promote the project's mental health first-aiders*

# Company & People

4 QUALITY EDUCATION

4.3 Provide equal access for all women and men to education

8 DECENT WORK AND ECONOMIC GROWTH

8.5 Provide decent work & equal pay

8.6 Reduce youth not in employment, education or training

## Talent

We annually review our succession plans, to ensure that we understand our strength at a senior leadership team level and identify those individuals who have potential to progress further within the organisation. This is a regular health check to ensure we have appropriate plans for key roles. As Tideway progresses, we continue to support individual career aspirations, internally and externally, as activities and therefore roles come to an end in the future. Our corporate and individual development activities have included sessions to ensure that individuals present themselves effectively on LinkedIn, as well as coaching and mentoring and networking tips.

**APPRENTICES**

Aim

1 in 50

Year Average

1 in 39

(Project to date: 1 in 47)

**PEOPLE WITH CONVICTIONS**

Aim

1 in 100

Year Average

1 in 145

(Project to date: 1 in 124)

**RESIDENTS**

across 14 London boroughs

Aim

25%

End of Year

25%

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 people with convictions.

The proportion of people with convictions employed on the project is 1 in 145, below our target of 1 in 100. An independent Social Return on Investment (SRoI) report has found that Tideway's programme of working with people with convictions, is a socially worthwhile commitment delivering a social return of £6.86 per £1 spent, which illustrates that our quantitative target does not fully reflect the positive impact we have had with this group.

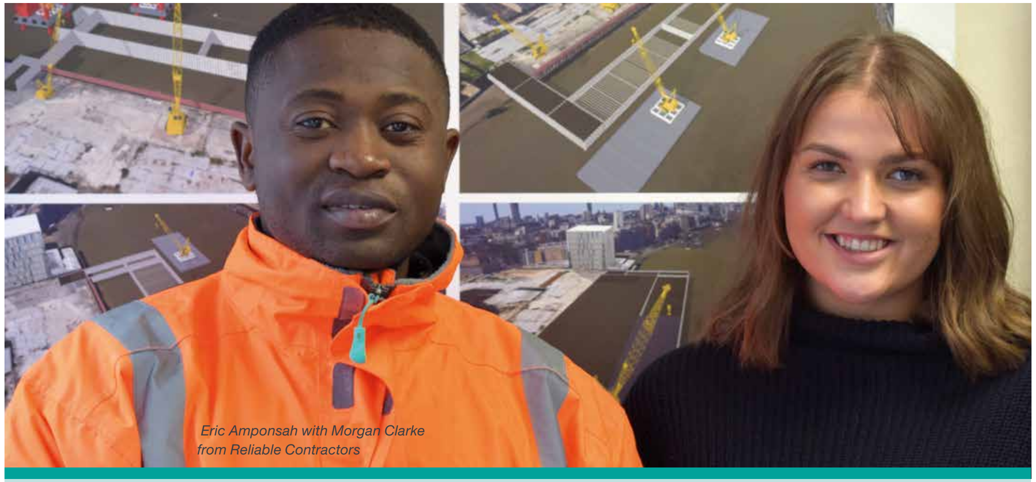
One of our commitments is to target employment in the 14 boroughs affected by our works. At the end of 2019/20 we were on target: 25% of Tideway's MWC workforce resides locally, within the 14 boroughs. Tideway has recruited the first ever UK cohort of tunnelling operative apprentices, leading the way on how to work collaboratively through the supply chain to attract new talent to the sector.

### Living Wage employer

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. Tideway was accredited a Living Wage Employer in November 2019. Excluding apprentices, 99.4% of all staff employed on the project are paid at or above the London Living Wage, we have procedures in place to resolve cases of non-compliance[1]. We are working hard to identify and resolve outstanding cases.

[1] *In this context, a 'worker' is described as 'a contract or other arrangement to do work or provide services personally for a reward (the contract doesn't have to be written)'. This definition is likely to highlight those working on short term contracts or self employed, therefore unlikely to have job security.*





*Eric Amponsah with Morgan Clarke from Reliable Contractors*

case study

## TUNNEL APPRENTICE ERIC AMPONSAH

Eric Amponsah, a tunnelling apprentice on Tideway, had a far-from-conventional journey into construction. Born and raised in Accra in Ghana, Eric moved to the UK and spent five years in the army before a medical discharge forced him to reconsider his plans. He initially went back to university to earn a degree in forensic science, but quickly decided that career path was not for him. And when his son was born at around the same time, he left the course and started looking for a different path. That is when he learned about the tunnelling apprenticeships on Tideway. Reliable Contractors works to fill roles at tier one contractors on major infrastructure projects and helped Eric position himself for one of the new apprenticeships.

"As soon as I heard about the opportunity to become an engineering apprentice, I was interested. It was a great feeling when I was told I had been successful because it's something that I really care about. Being given the chance to give back and help clean up the Thames was too good to ignore. I live in London with my wife and son, so the sewer matters to me personally, but also to millions of other people. I'm proud to be working on a project that's building something for future generations to enjoy." As well as the long-term goals of the project and the opportunity to work in challenging conditions, it is the bond Eric has built with his team that he believes makes his role so special and makes him excited about the prospect of heading to site every day.

Listen to Eric's story here:

https://vimeo.com/377316132

"I love being part of Tideway, and it'll be amazing being able to tell my son that I helped clean the river, and did my bit to make London a better place to live."

**Eric Amponsah**

# 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 2019/20**
- Support the organization to deliver the best result for bill payers and shareholders
- Consider issuing debt driven by value creation and/or de-risking
- Maintain strong liquidity position

| 2019/20 Measure | Target | Actual |
|---|---|---|
| Company credit rating | Baa1/BBB+ | Baa1/BBB+ |
| Cost verification by ITA | 99% | 100% |
| Distribution | Achieve 19/20 financing plan | In line |
| Debt raised | Subjective | £150m with 2 year deferral |
| Liquidity | 18 months liquidity | > 4 years |

## Our performance

We achieved all of our financing priorities for the year. We continued to monitor the market to identify opportunities for further debt and successfully raised £150m of additional debt at attractive terms, which further de-risked the financing plan. The Revolving Credit Facility (RCF) was restructured to incorporate a £300m reduction (the closed facility was for £200m of which £160m is committed), lower pricing and a tenor which better reflects the project's funding needs. It was also structured as a sustainable loan and includes a rebate for meeting a sustainability KPI. 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.

## 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.

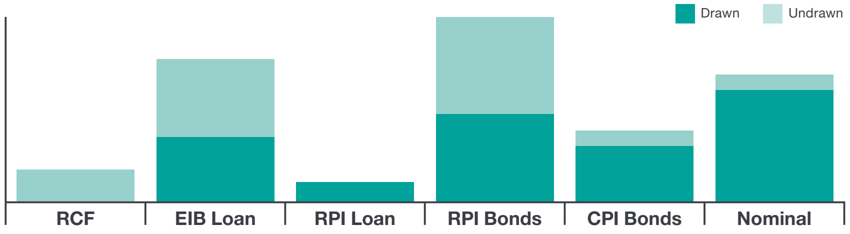
## Financing activity

The RCF remained undrawn during the period and the commitment at the year end after the restructuring of the facility stood at £160m.

The revised cost estimate announced in April 2019 added c.£100m to the long-term financing needs at current gearing targets, which were met with the new debt issuance in the summer. In August 2019 we issued a £75m 15-year RPI-linked bond with a 2-year deferral and in September 2019 we closed a £75m 20-year US Private Placement with a 2-year deferral. Both transactions were green. This extra funding allowed us to continue to de-risk our financing plan and secure the best possible borrowing terms while the deferred drawdown terms enable us to lock in committed debt funding at current market rates while effectively managing the negative carry costs associated with pre-funding.

These transactions meant that at 31 March 2020, the Company had secured total committed debt funding of £2,843m. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover the forecasted construction costs as at 31 March 2020.

| Debt £m | RCF | EIB Loan | RPI Loan | RPI Bonds | CPI Bonds | Nominal | Totals |
|---|---|---|---|---|---|---|---|
| Drawn | - | 320 | 100 | 433 | 275 | 550 | 1678 |
| Undrawn | 160 | 380 | - | 475 | 75 | 75 | 1165 |
| Total | 160 | 700 | 100 | 908 | 350 | 625 | 2843 |




Of the £2,843m of committed debt facilities, £1,678m has been settled and the funds have been received and £1,165m is still undrawn.

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.

# Financing

8.4 Improve resource efficiency in consumption and production

17.17 Encourage and promote partnerships

## Sustainable Financing

During the year, Tideway issued £150m of new green debt. Green debt instruments are debt instruments whose proceeds are used to fund projects with environmental benefits, such as the Thames Tideway Tunnel. All past bonds issued to date are now green and are listed in the London Stock Exchange Green Segment, so Tideway's total green debt issuance stands at £1,583m.

In addition, the RCF was restructured as a Sustainable Linked Loan in January 2020. This loan further aligns Tideway's financing not only with the long-term target of cleaning the river, but also with the significant efforts during construction on a number of fronts and which have been captured in Tideway's Legacy commitments. The agreed KPI is the meeting of at least 85% of the live legacy commitments and this year we exceed the target by meeting 91% of the live commitments.

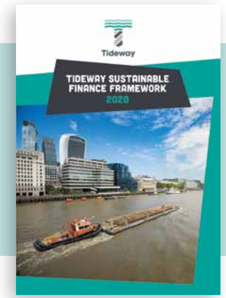
We have published an updated Green Bond Report to inform investors of the allocation of proceeds and impact of the project. The reporting is aligned with the United Nations Sustainable Development Goals.

Our Green Bond Framework was expanded into a Sustainable Finance Framework to encompass a wider array of funding instruments. It is aligned with the Capital Markets Association (ICMA) Green Bond Principles and the Loan Market Association Green Loan Principles, as well as with the Loan Market Association Sustainability Linked Loan Principles. **It is available on our website.**

The Green Evaluation we obtained from S&P Global Ratings in 2017/18 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. The Green Evaluation was updated in June 2019 and the score of E1 - 95/100 remained unchanged.

Tideway continues to be an active member of the Corporate Forum on Sustainable Finance, which launched on 15 January 2019. The forum aims to drive the sustainable finance agenda by working with rating agencies, investors and other national and international forums, as well as by leveraging the members' mutual expertise.

Tideway was a finalist in the Communicating Integrated Thinking Award in the Finance for the Future Awards. These awards recognise finance functions driving sustainable economies and looks for examples of good practice that could be transformational in building a sustainable organisation. Finance for the Future was founded by ICAEW and The Prince's Accounting for Sustainability Project (A4S) in 2012.




We have published an updated Sustainable Finance Framework to encompass a wider array of funding instruments including green bonds and sustainability-linked loans.

## 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 and £70m of the £300m US Private Placement notes. These transactions were completed in previous financial years and no swaps were executed in 2019/20.

## Distributions

At Licence Award our shareholders committed a total of £1,274m in the form of £509.7m in equity and £764.5m as shareholder loans. This amount has been fully injected into Tideway and project expenditure is 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 receive a cash return on their investment through a combination of payments of interest on the loan and partial repayments of those loans, which now stand at £720.4m. 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 2019/20, we made distributions totalling £47.8m through payments of interest. Any outstanding interest at each distribution date was capitalized and added to the 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 Company's operational and financial performance and the cumulative yield, to ensure it is consistent with the level set during the equity procurement process.

The distribution policy was amended in December 2019 to replace semi-annual distributions with quarterly distributions, with the first such distribution of £11.5m paid on 31 December 2019.

## Liquidity

At 31 March 2020, we had total liquidity of £1.7bn, comprising £532m of cash, the £160m undrawn RCF, the £380m undrawn part of the EIB loan, £550m of bonds and £75m US private placement. 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.

## Credit Ratings and Environmental, Social and Governance Assessments

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

S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway which was published in April 2020. Tideway achieved a 74/100 score with our culture rated as 'excellent'. Our environmental and social (which includes safety, workforce and diversity, and community relations considerations) scores are above the industry average and our governance score is in line with the industry.

**ISS-Oekom, an ESG rating provider, rated Bazalgette Equity as "Prime".**

Corporate ESG Performance
Prime
RATED BY ISS ESG

## Investment Management

The amount of shareholders' funds paid in and the debt drawn to date led to us benefiting from substantial cash balances throughout the period, averaging £672.2m 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.

# Financial Performance Review

## Accounting policies

Our financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Our accounting policies are consistent with those reported in the financial statements for the year ended 31 March 2019 with the exception of the adoption of IFRS 16 (Leases). The impact of this standard in the first year of adoption is explained in note 1 to the Financial Statements.

During the construction phase of the project, expenditure which is directly attributable to bringing the Thames Tideway Tunnel into its intended use will be capitalised as an asset under construction within the Statement of Financial Position. Similarly, during the construction phase, any regulated revenue amounts received from Thames Water, will be deferred onto the Statement of Financial Position. This is because the performance obligation for recognising these amounts as revenue in the Income Statement will not be met until the tunnel is operational and being used by Thames Water. Post System Acceptance we consider that accounting for the Thames Tideway Tunnel as a finance lease is the most appropriate accounting basis under IFRS (further details on this judgement can be found in note 1 to the Financial Statements).

## Non-GAAP measures

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP). 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 Regulatory Capital Value (RCV). Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

Allowable costs are stated on an accruals basis, which form part of the Allowable Project Spend when the underlying assets or liabilities are cash settled. Excluded costs are costs stated on an accruals basis which will be Excluded Project Spend when the underlying assets or liabilities are cash settled.

For the purposes of calculating net debt, borrowings include all intra-group and third-party borrowings with the exclusion of shareholder loan notes. Due to the adoption of IFRS 16 from 1 April 2019, net debt now includes finance lease liabilities.

## Income statement

During the year Tideway reported a loss of £33.3m (2018/19: £31.0m), with no dividends paid or proposed (2018/19: £nil). We did not recognise any taxable profits in the period (2018/19: £nil) and the resulting corporation tax charge for the period was £nil (2018/19: £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 Company's derivative financial instruments. These are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Company's debt. The swaps fix finance costs for the Company'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 International Accounting Standards (IAS) 23, these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 11 to the financial statements provides more detail on the financial instruments.

We have made a 'disregard election' to HMRC which means that any gains or losses arising from the movement in the fair value will be disregarded for current tax purposes (the Tax section later in this Financial Performance Report provides more details).

## Statement of Financial Position

The total carrying value of the tunnel asset under construction is shown in the table below.

| Asset Under Construction (£m) | Year ended 31 March 2020 | Year ended 31 March 2019 |
|---|---|---|
| Net Book Value Brought Forward | 1,828.6 | 1,154.9 |
| Additions (Capitalised Costs)* | 764.9 | 673.7 |
| **Net Book Value Carried Forward** | **2,593.5** | **1,828.6** |

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

At 31 March 2020, costs of £2,593.5m were capitalised within the asset under construction in the Statement of Financial Position. This represents £764.9m costs during the year and £1,828.6m for the prior periods to 31 March 2019.

The table below reflects the split of this years capitalised costs between the Direct costs, Indirect costs and Excluded costs.

| Analysis of Capitalised Costs (£m) | Year ended 31 March 2020 | Year ended 31 March 2019 |
|---|---|---|
| Direct Costs | 593.1 | 504.4 |
| Indirect Costs | 80.4 | 84.2 |
| Total Allowable | 673.5 | 588.6 |
| Excluded Costs | 91.4 | 85.1 |
| **Total Capitalised Costs** | **764.9** | **673.7** |

## Direct costs

Direct costs are primarily the Main Works Contractors (MWC) costs which include the tangible construction activities. The direct costs incurred in the year have increased compared with 2018/19, reflecting the increased level of construction activities.

## Indirect costs

The largest indirect cost is Resource Costs of £62.0m. This represents the cost to employ the c394 average FTEs (2018/19 c429 average FTEs) either employed or contracted by the Company. Other Indirect Costs totalled £18.4m in the year and this includes the cost of information systems, insurance, GSP, office and other running costs. Indirect costs have decreased compared with 2018/19 due to budget controls and cost cutting measures.

# Financial Performance Review

*Continued*

### Excluded costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2020 were £91.4m. These comprise £92.0m of interest payable (including shareholder loans), £4.9m of costs which mainly relate to financing, partly offset by £5.5m interest receivable.

### Costs and net cash outflow comparison

The table below shows both the Allowable costs and Excluded costs and the equivalent Allowable Project Spend and Excluded Project Spend.

| | Year ended 31 March 2020 | | | Year ended 31 March 2019 | | |
|---|---|---|---|---|---|---|
| **Analysis of Project Costs and the equivalent Net Cash Outflows (£m)** | **Costs** | **Timing Differences** | **Cash Outflow** | **Costs** | **Timing Differences** | **Cash Outflow** |
| Direct Costs | 593.1 | (61.7) | 531.4 | 504.4 | 0.4 | 504.8 |
| Indirect Costs | 80.4 | (6.9) | 73.5 | 84.2 | (6.2) | 78.0 |
| Total Allowable | 673.5 | (68.6) | 604.9 | 588.6 | (5.8) | 582.8 |
| Excluded Costs | 91.4 | (19.6) | 71.8 | 85.1 | 2.4 | 87.5 |
| **Total** | **764.9** | **(88.2)** | **676.7** | **673.7** | **(3.4)** | **670.3** |

For the year ended 31 March 2020, our Allowable Project Spend of £604.9m is £68.6m lower than the Allowable costs of £673.5m. This is mainly due to the timing of our payments to our main works contractors which were not due for settlement before the year end date. Our Allowable costs also include the timing of accruals and unwinding of prepayments of items such as insurance contracts and the GSP. The Excluded Project Spend outflow of £71.8m is £19.6m lower than the Excluded costs of £91.4m. This is mainly due to accretion costs on our debt for which the associated cash flow will not occur until the future and also due to shareholder loan interest costs that have been capitalised throughout the year.

### Net Debt and Financing

Net debt at 31 March 2020 was £1,314.4m, which was £681.3m higher than the £633.1m net debt at 31 March 2019.

**The table (below) compares the movements in net debt.**

| Net Debt (£m) | Year ended 31 March 2020 | Year ended 31 March 2019 |
|---|---|---|
| Cash* | 380.8 | 554.8 |
| Borrowings** | (1,688.2) | (1,187.9) |
| Lease Liabilities | (7.0) | - |
| **Net Debt** | **(1,314.4)** | **(633.1)** |

* ***Cash*** *excludes short term deposits*
** ***Borrowings*** *exclude the shareholder loans*

At 31 March 2020, the Company's borrowings were £2,408.6m being £720.4m of shareholder loans and £1,688.2m of other borrowings which include third party borrowings and intra group debt. These were in the form of £1,352.4m of fixed and floating rate loans and £1,056.2m of fixed rate and index linked bonds and loans.

In addition, the Company has secured deferred loans of £455.0m and deferred bond issuances of £550.0m 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 was restructured to incorporate a £300m reduction with the closed facility for £200m of which £160m is committed. The Financing section in the Strategic Report provides more details.

Due to the adoption of IFRS 16, the Company's outstanding lease liabilities totalled £7.0m at 31 March 2020 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.



### Cash

Cash and cash equivalents at 31 March 2020 was £380.3m, which was £174.0m lower than the £554.8m cash and cash equivalents at 31 March 2019. The table below shows the movement in cash:

| Cash Flow (£m) | Year ended 31 March 2020 | Year ended 31 March 2019 |
|---|---|---|
| Cash generated from operations before changes in working capital | - | - |
| Decrease/(Increase) in trade and other receivables | 0.8 | (0.9) |
| Increase in trade and other payables | 90.7 | 24.4 |
| Increase in advance payment liability | 57.6 | 38.4 |
| **Net cash from operating activities** | **149.1** | **61.9** |
| Construction of infrastructure asset | (746.3) | (669.5) |
| Transfer (to)/from short term deposits | (67.5) | (32.5) |
| **Net cash to investing activities** | **(813.8)** | **(702.0)** |
| Proceeds from new borrowings | 493.1 | 360.0 |
| Repayment of shareholder loan principal | - | (3.4) |
| Lease liability payments | (2.4) | - |
| **Net cash from financing activities** | **490.7** | **356.6** |
| **Net decrease in cash and cash equivalents during the period** | **(174.0)** | **(283.5)** |
| Cash and cash equivalents at the start of the period | 554.8 | 838.3 |
| **Cash and cash equivalents at the end of the period** | **380.8** | **554.8** |

Net cash flows from operating activities of £149.1m (2019: £61.9m) represent movements in working capital and are mainly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water. The increase in trade and other payables is due to the timing of the March payment of our Main Works Contractors with £58.9m settled post year end.

Net cash flows used in investing activities of £813.8m (2019: £702.0m) show the gross cash outflows used in constructing the Thames Tideway Tunnel as well as movements to short-term deposits which represent money market funds where cash is held on deposit.

The net cash inflows from financing activities of £490.7m (2019: £356.6m) are largely the result of new borrowings drawn in the period which included £233.1m of index linked bonds and £260.0m of floating rate loans. These financing inflows were partly offset by £2.4m lease payments in relation to the Company's IFRS 16 leases.

# Financial Performance Review
*Continued*

### Financial Key Performance Indicators (KPIs)

Under its Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (Senior RAR) and Funds from Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios for 2019/20 are provided below.

### 1. Senior RAR

This ratio compares the net debt to the RCV. It is calculated as long-term senior borrowings, less cash and short term deposits to the RCV. The Senior RAR trigger in the CTA is 70%.

**2019/20 performance** = 50.0%
**2018/19 performance** = 32.2%

| | Senior RAR | | 31 March 2020 | 31 March 2019 |
|---|---|---|---|---|
| A | Net Debt - per CTA | | 1,182.0 | 556.5 |
| B | RCV - per CTA[1] | | 2,366.0 | 1,727.9 |
| C | Senior RAR | A/B | 50.0% | 32.2% |

*[1] RCV is per the CTA definition not the Regulatory Accounts definition*

The table below provides a reconciliation to the net debt in the financial statements:

| Reconciliation to reported net debt (£m) | 31 March 2020 | 31 March 2019 |
|---|---|---|
| Net Debt - per CTA | 1,182.0 | 556.5 |
| Short-term deposits | 157.5 | 90.0 |
| Intra group debt | (22.8) | (10.9) |
| Other adjustments[1] | (2.3) | (2.5) |
| Reported net debt | 1,314.4 | 633.1 |

*[1] Adjustments for fixed rate bond discount on £250m bond 2027*

### 2. FFO ICR

This ratio compares the level of cash interest cover compared with the funds from operations. The FFO ICR trigger in the CTA is 1.3 times.

**2019/20 performance** = 5.9 times
**2018/19 performance** = 3.4 times

| | FFO ICR | | 31 March 2020 | 31 March 2019 |
|---|---|---|---|---|
| D | Net Cash Flow - per CTA | | 68.2 | 43.7 |
| E | Debt Interest - per CTA | | 11.6 | 12.7 |
| F | FFO ICR | D/E | 5.9 | 3.4 |

The table below provides a reconciliation of Net Cash flow and Debt Interest to the financial statements:

| Reconciliation to the Financial Statements (£m) | 31 March 2020 | 31 March 2019 |
|---|---|---|
| Increase in advance payment liability[1] | 57.6 | 38.4 |
| VAT adjustment per CTA | 10.6 | 5.3 |
| Net Cash Flow for CTA | 68.2 | 43.7 |

| Reconciliation to the Financial Statements (£m) | 31 March 2020 | 31 March 2019 |
|---|---|---|
| Net Interest paid | 56.7 | 66.6 |
| Shareholder interest[2] | (47.8) | (57.1) |
| Commitment fees paid | 2.7 | 3.2 |
| Debt Interest - per CTA | 11.6 | 12.7 |

*[1] Part of "Cash from operations" within the Consolidated Cash Flow Statement*
*[2] Part of "Construction of infrastructure asset" within the Consolidated Cash Flow Statement*

### Regulatory Financial Reporting

For regulatory financial reporting, interest is expensed through the Regulatory Income Statement rather than being capitalised in the Statement of Financial Position. The Regulatory Income Statement shows a net loss of £119.9m. This represents £92.1m of loan interest expense and £33.3m fair value movement on financial instruments partly offset by £5.5m of interest income. At 31 March 2020, the RCV was £2,307.9m (in March 2020 prices). The RCV is the sum of Allowable Project Spend that has been incurred, verified by the Independent Technical Assessor and adjusted for inflation. This is consistent with Table 5B in the Regulatory Report section.

### Revenue

Within the financial statements, all regulated revenue is recorded as deferred income in the Statement of Financial Position, in line with our revenue recognition accounting policy. Revenue of £61.7m is reported for the year, based on the latest actual and forecast allowable project spend. During the year, we received cash inflows of £57.6m from revenue, which includes some revenue from prior years as shown in Table 5A in the regulatory accounts.

### Tax

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. We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with the tax authorities.

The scope of our business activities in the UK mean that we are subject to the scope of corporation tax, employment taxes, Value Added Tax (VAT) and other taxes such as environmental levies 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. We believe we are compliant with all applicable UK tax legislation and pay the correct taxes on time and in full.

During the construction phase of the project, we anticipate that we will not pay any Corporation tax. This is because the tunnel we are building is an asset that will not be ready for economic use until it is fully operational. The System Acceptance date is when Thames Water will accept the tunnel for operational use. The significant amounts of expenditure we incur in construction go towards the development of that asset.

We do receive regulated revenue payments from Thames Water during the construction phase, however we do not recognise these as revenue in the Income Statement. This is because the performance obligations for recognition of this revenue will not be met and fulfilled until the System Acceptance date. This effectively means the recognition of revenue is matched to the same period where economic value can be obtained from the tunnel.

Our Income Statement does recognise profits and losses from the valuation of derivative financial instruments. As a result of the potential volatility of such items and because they are forward looking in nature, HMRC allows companies to take an exemption which effectively removes them the calculation of taxable profit or loss.

As a result of the accounting implications of the above, our Income Statement is unlikely to have 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 as a result of this. In the post construction taxation periods when the Tunnel asset is fully operational, we expect this position to change.

# Financial Performance Review
*Continued*

### Tax strategy

Tideway's commitments on tax and adherence to them are underpinned by the tax strategy which is based on the following principles:

1. **Tax planning and compliance:** 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. 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 policies.

2. **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.

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

4. **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.

5. **Governance:** The Chief Financial Officer (CFO) is responsible for and implements our approach to tax, which is reviewed and approved by the Audit Committee. The CFO is also responsible for ensuring that appropriate policies and procedures are in place and maintained and that the financial control team, with specialist external support as necessary, has the appropriate skills and experience to implement the approach effectively.

The publication of this strategy is considered to constitute compliance with the duty under paragraph 16(2) Schedule 19 Part 2 of the UK Finance Act 2016.

# 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.

During the closing months of the year we experienced unprecedented circumstances as we faced the COVID-19 virus pandemic. Here we describe our risk management approach during the year and also how we adapted our operations as we responded to the rapid changes to our everyday lives as the nation experienced lockdown. Tideway's risk framework included the potential for High Impact Low Probability events. These tended to be related to construction related events rather than a global pandemic such as COVID-19. The company's response to COVID-19 has been discussed earlier under the Performance Section.

### 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. It considers:

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

The Board Risk committee is supported by an Executive Risk Committee that considers on a rolling basis the programme risks across the West, Central and East areas and a Corporate Risk Committee (CRC)

The CRC conducted an exercise to look at the long-term trajectory of the corporate risks. Risk owners prepared a timeline that considered how the risk profile would change during the different phases of the project. The resulting timeline showed where they anticipated the risks might increase or reduce in the future.

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Company'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.

# Risk Management
*Continued*

### Principal Risks

**Tideway has ten principal risks.**
There were no new or removed principal risks compared to last year's Annual Report.

We assessed our principal risks regularly and updated our mitigations throughout the year and implemented 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 with the exception of the credit rating risk which was reduced.

Notable changes in the external risk environment related to the political environment with the December 2019 General Election establishing a Conservative Government with a strong majority providing greater short-term clarity on leaving the European Union. Ofwat published the Final Determination for Thames Water in its 2019 price review, providing clarity on certain regulatory arrangements such as Thames Water's funding and incentivisation in relation to the TTT project for the period 2020-25.

We have also considered our principal risks in light of the COVID-19 pandemic and have indicated where we expect it will have a significant impact on our ongoing operations. During the coming year we will continue to review, manage, revise and mitigate our principal risks accordingly.

**Further detail** on changes in the year are included within the principal risk table on the next page.

### Our Risk Management Framework


### 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; and
- mitigating liquidity risk and interest rate risk, by raising significant amounts of debt well in advance of needing the financing.

### COVID-19 and Principal Risks

In March 2020 we updated our 'External Operating Environment' analysis to consider the impact of COVID-19 on our operations. As the pandemic rapidly took hold we made a number of swift decisions and implemented a range of operational changes to respond to the pandemic.

In early 2020, the World Health Organisation declared COVID 19 a global pandemic. In the weeks before the Government implemented a lockdown Tideway established a silver command team to closely monitor the Public Health England advice and provide regular guidance and support to employees. We implemented our business continuity plans which had been tested during the year. Tideway followed the Government advice as it emerged. In addition, it responded to the immediate situation in two ways:

- Developing forecasts and scenarios for the cost, schedule and financing impact of COVID-19 on the project to shape high level Tideway responses; and
- Identifying areas at increased risk due to COVID-19 and implementing additional monitoring and mitigations as appropriate.

We continued our good governance by preparing our Business Plan for the Board to approve; this ensured we had governance in place for continued financial and operational matters. We will use this as a baseline for 2020/21 and revise it with the Board during the year.

# Risk Management

*Principal Risk Table*

| | 1 Health, Safety and Wellbeing (includes marine) | | 2 Programme Delivery |
|---|---|---|---|
| Description | **Overall**<br>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. | **Marine**<br>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 £3.9bn. 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. | 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:<br>• World-class contractors, with experience of tunnelling in London.<br>• Contracts that transfer certain risks to our contractors that they are better placed to manage.<br>• Establishment of the Alliance, to encourage co-operation and support across the project.<br>• An integrated, proactive approach to risk management. |
| Relevant Objective | • Health, Safety and Wellbeing | • Health, Safety and Wellbeing | • Schedule, Cost and Quality<br>• Financing |
| Commentary | **No change in risk level**<br>**COVID-19 potential increase in risk** | **No change in risk level**<br>**COVID-19 potential increase in risk** | **No change in risk level**<br>**COVID-19 potential increase in risk** |

| | 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.<br>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.<br>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<br>• Company and People<br>• Schedule, Cost and Quality<br>• Financing<br>• Vision, Legacy and Reputation | • Financing |
| Commentary | **No change in risk level**<br>We continue to monitor the supply chain closely and have undertaken appropriate contingency planning.<br>**COVID-19 potential increase in risk** | **No change in risk level**<br>**COVID-19 unlikely to have an impact** | **Risk level reduced**<br>**COVID-19 unlikely to have an impact** |

** Compared to previous year*

# Risk Management

## *Principal Risk Table*

| | 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.<br>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.<br>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.<br>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.<br>The More by River strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river.<br>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.<br>The Alliance Agreement incentivises Thames Water to help us deliver the programme.<br>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.<br>We have worked with Thames Water to develop and agree arrangements for managing the revenue process. |
| Relevant Objective | • Financing | • Company and People<br>• Vision, Legacy and Reputation | • Schedule, Cost and Quality |
| Commentary* | **No change in risk level**<br>**COVID-19 potential increase in risk** | **No change in risk level**<br>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.<br>**COVID-19 potential increase in risk** | **No change in risk level**<br>**COVID-19 potential increase in risk** |

| | 9 Regulatory and Political Risk | | 10 Brexit Risk |
|---|---|---|---|
| Description | **Political climate**<br>Institutional and policy changes pursued by the Conservative government that took power following the December 2019 General Election may have legal, regulatory, reputational and relationship impacts on Tideway. Relevant changes could include the shape of post-Brexit environmental regulation, impacts on Defra, and potential reforms to the legal system. | **Regulation**<br>Tideway operates under a licence granted by Ofwat, which places restrictions and obligations on us. Changes to the regulatory framework may affect our performance.<br>There is a risk of damage to Tideway's relationships with key stakeholders if it does not align with other regulatory expectations, such as the focus in Ofwat's new strategy on companies articulating their purpose and delivering public value. | Following the UK's departure from the EU in January 2020, there remains a risk that an agreement on the future relationship is not concluded by the end 2020 deadline. |
| Effect | Brexit is likely to lead to changes in government and regulatory oversight e.g. proposed Office of Environmental Protection. There is a risk of other effects including repeal of EU-sourced environmental regulations reducing rationale and public/government support for the Tideway project.<br>Could involve radical reform driven by government including challenging the concept of private sector funding/ownership; windfall tax II Tideway may not be directly targeted by such reforms but could be impacted by industry-wide changes e.g. to reporting, corporate structure or governance requirements.<br>If the government pursues institutional reforms e.g. to the civil service or legal system, this could affect Tideway's relationship with key stakeholders such as Defra and/or its legal and regulatory environment. | If we do not meet Ofwat's requirements, we could face enforcement including financial penalties or the loss of our licence. In addition, a revised regulatory framework could affect financial performance and investors' returns.<br>Failure to align with regulatory expectations could damage Tideway's relationship with Ofwat and other key stakeholders and potentially lead to new obligations. | The future settlement on leaving the EU is likely to have potential impacts on the supply chain, the ability to source labour and plant, as well as any impact from unforeseen restrictions. |
| 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.<br>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<br>• Financing | • Schedule, Cost and Quality<br>• Financing | • Schedule, Cost and Quality<br>• Financing |
| Commentary* | **No change in risk level**<br>We note considerable volatility and uncertainty in the political sphere and continuing pressure on the regulation of the water sector.<br>**COVID-19 uncertain** | **No change in risk level**<br>**COVID-19 uncertain** | **No change in risk level**<br>We continue to include this as a principal risk, given the scale of uncertainty and the potential impact on the business.<br>**COVID-19 uncertain** |

* *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 Company will be able to continue in operation and meet its liabilities as they fall due over a long-term period.

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

- identified the most appropriate period over which to make the assessment;
- evaluated the Company's current position and future prospects;
- 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 company's long-term viability.

## Appropriate period

The Board considers that it is appropriate to assess the Company'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 Company 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 £150m of additional debt at attractive terms and restructured the Revolving Credit Facility to £200m (with £160m committed). Tideway has now raised £2.7bn 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 Company and our business model to the potential impact of our principal risks, or a combination of those risks. For the purposes of this assessment, we have considered the likely impact of each principal risk on the Company's viability, taking into account the availability and effectiveness of risk mitigation plans and the measures we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, we take into account the Board's regular monitoring and review of risk management and internal control systems.

The Board confirms that it has conducted a robust assessment of the principal risks (considering availability and effectiveness of risk mitigation plans) facing the Company, including those that could 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 (apart from COVID-19 that has been included) as it is considered too remote for meaningful quantification and substantially covered by commercial insurance and/or the GSP;
- Credit Rating Risk: Our credit ratings have remained stable since Licence award at Baa1 by Moody's and BBB+ by Fitch, being two levels above the covenants in the CTA and Licence. The factors that could lead to a downgrade remain material construction delays or other significant delivery problems and unfavourable regulatory developments. The financial impact of any downgrade is indirectly captured in the programme delivery scenarios 1 and 2 below;
- Reputational Risk as the financial impact cannot be quantified.

We have assessed the potential impact of the remaining seven relevant principal risks on Tideway's viability by modelling several scenarios, which have been discussed and agreed by the Board. Before mitigations, we consider there are three key routes through which viability could be impacted: i) increases in the total costs of the project (including potential delays in the project as ultimately this will translate into a cost increase scenario), particularly if the Company were to bear a disproportionate share of these costs; ii) reduction in outturn inflation; and iii) an increase in bad debt. For each of these routes, we have modelled scenarios representing impacts ranging from plausible downside to severe downside, as well as reviewing a scenario comprising the current estimate considered by the Board.

- *Cost increase:* Our current estimate of £3.9bn compares to our regulatory baseline of £3.4bn (£3.1bn in 2014/15 prices). For our plausible downside scenario, we modelled a 9% increase in the remaining costs to complete, taking the total to £4.1bn. This is consistent with our most recent internal scenarios. We consider a severe downside case to be a 24% increase in the remaining costs to complete, which equates to a total cost of £4.3bn. Both our plausible downside and severe downside cost increase cases include the estimated impact of COVID-19, making reasonable assumptions about the ability of the Company to agree the most appropriate cost allocation with our stakeholders.

The plausible downside case incorporates revised start dates on sites, recognising when key operations can commence safely and allows for reduced productivity to reflect government guidelines on social distancing constraints. The severe downside case assumes further site delays and reduced productivity. Although there are significant challenges posed by COVID-19 events and disruption there is still sufficient financial resiliance in both cases against the Threshold Outturn, on the basis of a reasonable sharing of COVID-19 related costs between all stakeholders.

The Threshold Outturn is the limit up to which the Company will be required to fund expenditure.

The GSP provides that the company may request that the Secretary of State provide contingent equity in respect of the cost overrun above the Threshold Outturn. Ofwat compares our total cost against the Threshold Outturn in 2014/15 prices and there is headroom in the plausible downside and severe downside scenarios of circa £500m and £300m, respectively, on the basis of a reasonable sharing of COVID-19 related costs between all stakeholders.

However, it should be noted that the precise impact of the present pandemic crisis makes it much harder to be definitive about possible downside outcomes.

- For *inflation risk* we have modelled scenarios where outturn inflation is 1% and 2% lower than current expectations for 4 years, as well as a scenario of 0% average inflation in the period. We consider this range of scenarios appropriate in view of the likely lower inflation in the short term and 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 Company'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 9% cost increase, 2% lower inflation and 50% revenue under recovery for 2 years, which we consider a reasonable composite downside combination of impacts.

# Long-Term Viability Statement
*Continued*

The outcome of the sensitivities has been assessed considering a range of different financial ratios and the output of this analysis is summarised in the following table:

## SCENARIO ANALYSIS

| Principal Risk No. | Principal Risk | Scenario | Assessment |
|---|---|---|---|
| 1<br>2<br>3<br>8<br>9<br>10 | **Programme delivery** (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory, Brexit risks) | **Scenario 1.** An increase of 9% £150m in the remaining cost to complete the project (net of any sharing of costs assumed with the Main Works Contractors). | Tideway would be able to finance the increase in cost in Scenario 1 by flexing the amount of distributions to its shareholders and drawing existing available facilities. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants. |
| | | **Scenario 2.** An increase of 24% £414m in the remaining cost to complete the project (excludes any sharing of costs with the Main Works Contractors). | Scenario 2 projects a change in capital during 2022/23 to be compliant with our gearing financing covenant. However, after mitigation, 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 for 4 years then reverts to the long term 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.<br>Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants. |
| | | **Scenario 4.** Outturn inflation 2% lower than current forecast for 4 years then reverts to the long term forecast. | |
| | | **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.<br>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. |

### Mitigation of risks in the above scenarios

The programme risk is most significant during the remaining years of construction, but some risk will still exist post construction as the project enters the commissioning and systems acceptance period. The programme risk is managed through Tideway's risk management framework, which is explained on page 66 and other mitigations include the raising of new debt (within our gearing ratio requirement), flexing the level of distributions to our shareholders or via a change in capital.

The inflation risk is expected to be more significant in the short term with lower inflation forecasts in the next few years. We expect Quantitative Easing may help increase inflation and to further mitigate inflation risk, over 80% of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way. The residual risk is considered acceptable as seen in the outputs of the scenario modelling.

The value of the revenue collection increases each year as revenue is driven by the RCV which accumulates each year. However, there is a building block that deals with the under recovery of revenue that mitigates the risk to an immaterial level.



### 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 Company'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 within this report.

On the basis of the robust assessment of our principal risks and on the assumption that we manage or mitigate them in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of our sensitivity analysis and assurance described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 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 Company 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 Company's viability. Therefore, the Directors consider it appropriate to adopt the going concern basis in preparing these financial statements.

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

The Strategic Report was approved by the Board on 25 June 2020 and was signed on its behalf by:

**Andy Mitchell CBE**
**Chief Executive Officer**


# Governance



*TBM Charlotte breaking through at King George's Park in Wandsworth*


*A pipe-jacking machine being lifted from site at Putney Embankment*



# Chairman's Introduction

SIR NEVILLE SIMMS
INDEPENDENT NON-EXECUTIVE CHAIRMAN

For a very large proportion of the year matters arising at Board level have focussed, as one would expect, on current matters relating to delivery of the project and on preparing for the stages ahead, including arrangements for commissioning and handover.
These matters are set out on pages 88 to 91 which describe the Board's priorities and discussions, and actions and progress against specific matters.

**What's less well reflected in these records is the way the Board responded at the end of the reporting period (and more recently) to the emerging COVID-19 situation.**

The Board considered COVID-19 for the first time in late January 2020, in the context of a "safety moment" which reviewed the rising number of infections and spread of the virus overseas and reflected on the steps we might take to protect against infection, including emphasising the importance of good personal hygiene. By the time of the next meeting of the Board in March, the Board had already started a process of weekly update meetings to provide regular Board engagement and oversite and had received an initial briefing regarding the likely impact of the pandemic on the project and key stakeholders.

At the time of writing this high level of active Board engagement relating to COVID-19 continues.

I am confident the Board is well placed to deal with the situation as it continues to evolve. We are benefited by the range of skills and experience of our Board members and the insight they bring not least in terms of our relationships with stakeholders. The results of the Board evaluation carried out earlier this year confirmed there are healthy relationships between board members and a good level of discussion and debate in Board decision-making.

We are committed to maintaining, and where needed, improving our existing governance arrangements. Details of our compliance with Ofwat's principles for board leadership, transparency and governance, and with the Code, are set out in this Annual Report and online, on Tideway's website. An overview of the requirements, and where to find the relevant information about our arrangements, is also available on the Tideway website at tideway.london/about-us/leadership.

I also believe that engagement with our stakeholders is critical to the challenges that lie ahead as we work through the full impact of the COVID-19 pandemic, to deliver an asset that will be a critical element in London's infrastructure.
We have continued to keep Her Majesty's Government (through Defra and the Infrastructure Projects Authority) and Ofwat engaged in our decision-making following the lockdown, and the Board fully appreciates the need for ongoing transparency to maintain trust which is vital to our success as a regulated company.

Finally, I'd like to thank Anne Baldock and Angela Roshier, both of whom stepped down from the Board in 2019 following a number of years of dedicated services to the business. Baroness McGregor-Smith and Javier Falero have joined the Board and their contributions at this critical time are welcomed.

# Board Leadership, Transparency and Governance

*The Board Members*

**Key to Committees**

A Audit & Finance — N Nomination — R Risk

H Health, Safety, Security & Environment — RE Remuneration — Committee Chair

## INDEPENDENT NON-EXECUTIVE DIRECTORS


**Sir Neville Simms FREng**
**Chair of the Board and Chair of Nomination Committee**
*Appointed August 2015, having met the independence criteria.*

### Key skills and experience

- Chartered civil engineer with significant board-level experience, known for driving change and enhancing value.
- Excellent understanding of policy making and regulation through advising and influencing government policy in the infrastructure sector.

### Background

Sir Neville is recognised as an outstanding leader in the industry and has a long track record of leading major organisations. He was Chief Executive of Tarmac plc, Chairman of International Power plc and until May 2005, Chairman of Carillion plc. He was also joint Chairman of the Channel Tunnel contractors' consortium, TML for the final three years of the project. Sir Neville chaired the Building Research Establishment Trust, as well as several construction industry bodies, and the regional leadership teams for Business in the Community in the West Midlands and the Solent Regions. He was also a founder member of the government's Private Finance Panel and served for seven years on the Court of the Bank of England.

### External appointments

None


**Richard Morse**
**Deputy Chair of the Board and Chair of Audit & Finance Committee**
*Appointed August 2015*

### Key skills and experience

- Over 30 years' experience of investment in the infrastructure and energy sectors.
- Significant understanding of regulated businesses.

### Background

Richard has a background in investment banking with significant expertise in the energy and infrastructure sectors, having been the Deputy Director of Ofgem (1999-2001) and the head of corporate advisory teams at Dresdner Kleinwort Wasserstein, Goldman Sachs International and Greenhill International. He is a Partner at Opus Corporate Finance. Richard has been involved in the project since 2013 when he joined the board of subsidiary Thames Tideway Tunnel Limited, to assist in the set-up of Tideway.

### External appointments

- Chairman – JLEN Environmental Assets
- Chairman – The Woodard Corporation
- Non-Executive Director – Heathrow Southern Rail Limited

## INDEPENDENT NON-EXECUTIVE DIRECTORS


**John Holland-Kaye**
**Chair of Health, Safety, Security and Environment Committee**
*Appointed July 2017*

### Key skills and experience

- Significant experience of developing and delivering major UK infrastructure.
- Strong commercial perspective, including from experience in the construction sector.

### Background

John has been the CEO of Heathrow Airport Limited since July 2014. Prior to that, he was Commercial Director and Development Director at Heathrow, where he was responsible for delivering £1bn of annual investment, including the new Terminal 2. John has held various senior executive roles, such as Divisional CEO at Taylor Wimpey plc and Managing Director of Bass Brewers.

### External appointments

- Chief Executive Officer – Heathrow Airport Limited
- Chairman - Business in the Community Employment and Skills Leadership Team
- Member - DEFRA's Council for Sustainable Business


**Baroness McGregor-Smith CBE**
**Independent Non-Executive Director**
*Appointed June 2019*

### Key skills and experience

- Chartered accountant with significant board-level experience in operations and change management.
- The first Asian woman to become chief executive of a FTSE 250 company.

### Background

Baroness McGregor-Smith was the Chief Executive of MITIE Group plc from 2007 to 2016. As one of the few female chief executives in the FTSE 250 and FTSE 100, she grew MITIE's employee base from circa 23,000 to 65,000, making it one of the UK's largest private sector employers. She was made a life peer of the House of Lords in 2015 where she is a member of the European Committee for Internal Markets. Recognised by the Financial Times as one of the top 50 female business leaders in the world in 2013, she is also Chair of the government's Office for Tackling Injustices and served as the Chair of the Women's Business Council.

### External appointments

- President – British Chamber of Commerce
- Chair – Airports Operator Association
- Non-Executive Director – Department for Education

# Board Leadership, Transparency and Governance

*The Board Members*

**Key to Committees**

- A – Audit & Finance
- N – Nomination
- R – Risk
- H – Health, Safety, Security & Environment
- RE – Remuneration
- Committee Chair

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Michael Queen**
**Chair of Remuneration Committee**
*Appointed July 2019*

### Key skills and experience

- Proven commercial and strategic skills, gained from running and advising a wide range of organisations.
- Deep understanding of infrastructure investment.

### Background

Michael is a chartered accountant with over 30 years' experience in the alternative finance sector. He was CFO and then CEO of 3i Group plc, where he developed 3i's activities in the infrastructure sector by founding 3i Infrastructure plc. He was previously a member of the Prime Minister's Business Advisory Group (2010-2012) and currently brings his commercial and financial expertise to a variety of organisations.

### External appointments

- Non-Executive Director – Coller Capital
- Member of the Advisory Board – CKGSB (a Beijing-based business school)
- Chair of Council – University of Surrey

**Mike Putnam**
**Chair of Risk Committee**
*Appointed July 2018*

### Key skills and experience

- Recognised leader in the construction sector, with expertise in strategy and commercial management.
- Extensive experience in the successful delivery of high-profile infrastructure projects.

### Background

Mike is experienced across the development, construction and services sectors. Mike was the President and CEO of Skanska UK plc (2009-2017) and prior to that, he was one of the company's Executive Vice Presidents and main Board Directors (2001-2009). He has been closely involved with the successful delivery of several high-profile infrastructure projects, including the M25 PFI/PPP, the Channel Tunnel, the Channel Tunnel Rail Link, National Grid Power Tunnels, Crossrail, Thameslink, Northern Hub and Waterloo Rail Alliances.

### External appointments

- Non-Executive Director – Southern Water Services
- Non-Executive Director – Network Rail
- Non-Executive Director – ARCADIS (the global design and cost consultancy business headquartered in Amsterdam)

## NON-EXECUTIVE SHAREHOLDER DIRECTORS

**Gavin Tait**
**Amber Infrastructure**
*Appointed May 2015*

### Key skills and experience

- Extensive experience leading investments in major infrastructure projects.
- Expertise in regulated utilities, including water, gas and electricity.

### Background

Gavin is the Chief Executive Officer of Amber Infrastructure. Amber is a global infrastructure fund manager with a team of c. 130 infrastructure investment professionals, with responsibility for managing six separate infrastructure funds across the energy, transport, digital and social infrastructure sectors. Before Amber, Gavin worked at Babcock & Brown and ABN AMRO.

**Andrew Cox**
**Allianz**
*Appointed March 2018*

### Key skills and experience

- Specialist in asset management activities for infrastructure investments.
- Significant experience in infrastructure transactions.

### Background

Andrew is Head of Infrastructure Asset Management at Allianz Capital Partners, where he is responsible for all asset management activities for the direct infrastructure investment portfolio. He also sits on the Boards of Porterbrook, Gassled and Net4Gas. Andrew was a Senior Principal Investor and Asset Manager for 3i Group plc and was a member of its infrastructure team for nearly ten years, overseeing investments including Anglian Water, Elenia Heat and Cross London Trains. Andrew previously held roles at Ambac and Schroders.

# Board Leadership, Transparency and Governance

*The Board Members*

**Key to Committees**

- A Audit & Finance
- N Nomination
- R Risk
- H Health, Safety, Security & Environment
- RE Remuneration
- Committee Chair

## NON-EXECUTIVE SHAREHOLDER DIRECTORS

**Javier Falero**
**DIF**
*Appointed November 2019*

### Key skills and experience

- Significant experience of investment in assets in the developed world and emerging markets.
- Extensive infrastructure experience managing projects through the construction and long-term operations phases.

### Background

Javier is a Director at DIF where he is responsible for the asset management of a number of UK and Irish investments. Prior to joining DIF in 2016, Javier worked for Barclays Infrastructure Funds Management and then as a director at 3i, where he was involved in the origination and execution of new equity investment opportunities and the asset management of existing investments across the infrastructure and energy sectors. Javier has a first-class degree in Mathematics and Computation from Loughborough University and is a qualified Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

**Alistair Ray**
**Dalmore Capital**
*Appointed May 2015*

### Key skills and experience

- Over 20 years' experience in the infrastructure sector.
- Wide range of board-level experience, spanning several sectors.

### Background

Alistair co-founded Dalmore Capital in 2009 and is CIO. He is a Dalmore shareholder and board member, as well as being on the investment and operations committees. Alistair has held senior positions in the infrastructure investment business, including at Edison Capital, Noble Group, Merrill Lynch and 3i Infrastructure plc. He was a founding member of the infrastructure team at 3i and was involved in the acquisition of Anglian Water and the purchase of stakes in Oiltanking GmbH. Alistair was also a Non-Executive Director of CAF Bank and is a Director of Cory Holdco Limited.

## COMPANY SECRETARY

**Valmai Barclay**
**Company Secretary**
*Appointed January 2018*

### Key skills and experience

- Lawyer with specialist knowledge of the construction and infrastructure sectors.

### Background

Valmai is Company Secretary and Legal Counsel at Tideway. Throughout her career, she has been involved in a range of UK infrastructure and development projects. Prior to Tideway, she worked in-house at a multinational construction company and before that, as a solicitor in private practice, specialising in construction and engineering.



## EXECUTIVE DIRECTORS (ALSO PART OF EXECUTIVE COMMITTEE)

**Andy Mitchell CBE, FREng**
**Chief Executive Officer**
*Appointed August 2015*

### Key skills and experience

- Civil engineer who has managed high-profile UK and overseas projects.

### Background

Andy was appointed CEO of Tideway in 2014 and was formally appointed to the Tideway Board on Licence Award in 2015. He joined the project from Crossrail where he was Programme Director and a Board member. He has worked in the United Arab Emirates, France and South Africa, and on developments such as Hong Kong Airport and the Hong Kong West Rail. He joined Network Rail in 2001, where he was Project Director for its Southern Power Upgrade project and Senior Programme Director of the Thameslink Programme. Andy is a Fellow of the Royal Academy of Engineering and the Institution of Civil Engineers, former Chair of the Infrastructure Industry Innovation Platform (i3P) and the Infrastructure Client Group (ICG) and since 2018 has been Co-Chair of the Construction Leadership Council.

**Mathew Duncan**
**Chief Financial Officer**
*Appointed November 2018*

### Key skills and experience

- Financial expertise in the construction and infrastructure sectors.
- Experienced on large scale infrastructure project.

### Background

Before joining Tideway, Mathew was the Finance Director of Crossrail Ltd, the company responsible for delivering the new high-frequency, high-capacity railway for London and the South East. Prior to that he worked for Balfour Beatty in a number of roles, the last one as interim CEO and Finance Director at Balfour Beatty Support Services, where he was responsible for business sectors such as UK rail and utilities operations, and a workforce of 8,500 people. Mathew is an External Member of the House of Lords Commission, the body responsible for providing strategic and political direction for the House of Lords Administration.

**Mark Sneesby**
**Chief Operating Officer**
*Appointed August 2015*

### Key skills and experience

- Extensive experience in complex water projects.
- Track record of driving operational and commercial performance.

### Background

Mark joined Tideway as COO in May 2014 and was formally appointed to the Tideway Board on Licence Award in 2015. He is a chartered engineer by experienced in delivering major infrastructure in the water industry. He was Head of Major Projects at Thames Water, which included the Lee Tunnel project, one of the largest contracts ever awarded in the UK water industry.

# Board Leadership, Transparency and Governance
*The Board Members*

## EXECUTIVE MANAGEMENT TEAM

**Andy Alder**
**Programme Delivery Director**

**Background**

Andy joined Tideway in 2015 from Crossrail, where he was Project Manager for construction of tunnelling in the West area. He was previously responsible for the design of the London Underground Tottenham Court Road Station Upgrade and DLR Extensions to London City Airport and Woolwich. Andy is a Fellow of the Institution of Civil Engineers and a Member of the Association for Project Management.

*Responsible for the delivery of all infrastructure across the project.*

**Roger Bailey**
**Chief Technical Officer**

**Background**

Roger joined the project in 2012 and took on the role of Asset Management Director in 2014. He is a chartered civil engineer with more than 30 years' experience in the planning, design and construction of complex infrastructure projects in the UK and overseas. Roger is a Fellow of the Institution of Civil Engineers and a Director of the Thames Skills Academy.

*Responsible for leading the Completion & Handover Team and for technical oversight, property and commercial agreements, compliance with planning permission, system commissioning and the operational integration of the completed Thames Tideway Tunnel asset into the existing London sewer network.*

**Julie Thornton**
**Human Resources Director**

**Background**

Julie joined the project in 2013. Her career began at IBM as Head of HR for Global Services, UK, before moving to Citibank as Vice President for HR in EMEA in Geneva and London. Julie's experience includes business services, oil and gas, and construction sectors.

*Responsible for employee engagement, development, diversity and HR strategy.*

**Lucy Webster**
**External Affairs Director**

**Background**

Lucy joined Tideway in 2016 from Metropolitan, a large housing provider. Prior to this, she held senior communications roles in the transport and regeneration sectors. She spent six years at Transport for London and worked on the preparation for the London 2012 Olympic Games, including planning and land assembly. Lucy sits on the Board of the London Design and Engineering UTC, a mixed university technical college at the University of East London campus.

*Responsible for communication, stakeholder and community engagement and Tideway's corporate responsibility programme.*

## EXECUTIVE MANAGEMENT TEAM

**Celia Carlisle**
**General Counsel**

**Background**

Celia joined the project in 2013 from the Olympic Delivery Authority. She has over 20 years' experience, both in-house and in private practice, of advising major infrastructure projects and their financing. Celia sits on the finance committee of the London Design and Engineering UTC, a mixed university technical college at the University of East London campus.

*Responsible for providing strategic legal advice on all aspects of the project, negotiating key contracts and ensuring regulatory compliance.*

**Steve Hails**
**Health, Safety and Wellbeing Director**

**Background**

Steve joined Tideway in 2016 after gaining over 20 years' experience in the construction, engineering and manufacturing sectors. He was previously Director of Health and Safety at Crossrail, which he joined from Siemens Energy. Steve is Chair of the Board of Trustees of Mates in Mind, President of the Construction Health and Safety Group and a Chartered Member of the Institution of Occupational Safety and Health. As of April 2018, Steve was the first Honorary Fellow of the British Occupational Hygiene Society.

*Responsible for business services, including information systems, quality and sustainability together with advising on health, safety and wellbeing issues, ensuring that all risk areas are identified and managed, and promoting a positive health and safety Company culture.*

**Siân Thomas**
**Director of Operational Readiness**

**Background**

Siân joined the project in 2014 as the System Wide Project Sponsor taking on the role of Director of Operational Readiness in 2020. A Fellow of the Institution of Civil Engineers and Chartered Management Institute, Siân has spent 20 years in infrastructure delivery, in general business, project and operational roles.

*Responsible for delivering an integrated, operable CSO control system, ensuring the tunnel is ready for operation with the Thames Water network.*

**Matthew Parr**
**Director of Strategy and Regulation**

**Background**

Matt joined the project in 2011 to focus on the funding of the Tideway project through its development and delivery phases and to establish its approach to legacy. Prior to this, he was a Director at a management consultancy where he advised governments, regulators, companies and investors in the utility and infrastructure sectors. Before moving into consultancy, Matt held various positions at Ofwat.

*Responsible for strategy, business planning, corporate risk, revenue, regulatory and government relations, annual and corporate reporting.*

# Board Leadership, Transparency and Governance
*The Board's Role and Responsibilities*

## THE ROLE OF THE BOARD

The Board's role is to govern Tideway, so it achieves its strategy and objectives, in particular the successful delivery of the Thames Tideway Tunnel, consistent with the values and purpose of the organisation. The Board is collectively responsible for Tideway's long-term success and for delivering sustainable value to customers, Shareholders and other stakeholders. It sets Tideway's strategy and risk appetite and approves and monitors management's plans for achieving Tideway's strategic objectives and targets, including risk mitigation.

Important aspects of Tideway's business are subject to scrutiny by the Board committees. Descriptions of the committees' roles and activities are set out later in this section.

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

Certain matters are reserved to Shareholders for ultimate approval and these are set out on page 125. Nevertheless, the Board considers all such issues and advises Shareholders as appropriate. The Board retains responsibility for Tideway's overall direction, supervision and management and the following key matters are reserved to be decided by a simple majority of the Board.

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

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

## BOARD ACTIVITY

The Board has focused on a range of issues including operational delivery, risk management, succession planning and governance. This table summarises some of the Board's key discussions, and progress made against specific activities.

### Leadership and employees

| Strategic priorities and actions arising | Progress |
|---|---|
| Reviewing company purpose, values and culture | Reviewed and discussed company purpose, values and culture including considering how these reflect the needs of our stakeholders and the steps required to safeguard and develop these for future phases of the project. |
| Reviewing the health, safety and wellbeing and engagement of employees | Carried out separate staff surveys on health and safety and employee engagement. See page 47 for more information.<br>Received regular monthly performance updates on health, safety and wellbeing, including performance against the Health and Safety Performance Index (HSPI). |
| Engaging with the workforce | Appointed an independent non-executive director to represent workforce matters and received formal reports and other contributions relating to workforce matters in board discussions and decision-making. |
| Reviewing the composition of the Board and monitoring its effectiveness | Reviewed the effectiveness of the Board, its committees and individual directors. |
| Appointing and removing directors and ensuring appropriate succession planning | Approved the appointments of Baroness McGregor-Smith and Javier Falero to the Board. |
| Monitoring the remuneration strategy, to ensure it remains appropriate | Discussed employee reward and pensions. |

### Strategy and performance

| Strategic priorities and actions arising | Progress |
|---|---|
| Monitoring progress against strategic priorities | Discussed topics including:<br>• health, safety and wellbeing;<br>• schedule, cost and quality;<br>• vision, legacy and reputation;<br>• company and people; and<br>• financing.<br>See the Strategic Report section for more on Tideway's objectives and priorities. |
| Reviewing and approving business activities | Reviewed and approved the Annual Business Plan and Budget.<br>Reviewed and approved operational matters in accordance with the SoDA. |
| Monitoring operational performance | Reviewed and discussed management's monthly operational performance reports.<br>Received updates on key business activities, including specific briefings on:<br>• shafts, tunnels and secondary lining;<br>• commercial strategy;<br>• tunnelling progress;<br>• TBM transit at Greenwich; and<br>• the impact of and responses to COVID-19. |

# Board Leadership, Transparency and Governance
*The Board's Role and Responsibilities*

## BOARD ACTIVITY

### Risk Management

| Strategic priorities and actions arising | Progress |
|---|---|
| Reviewing risk appetite | Reviewed the Board's risk appetite and Tideway's principal risks. See the Risk Management section of this report. |
| Monitoring risk management and control | Reviewed the effectiveness of the risk management and internal control systems. See the Risk Management section of this report. |
| Monitoring key operational risks | Received detailed briefings on preparations for system commissioning, schedule, secondary lining, interfaces between main works areas and, later in the year, on the COVID-19 pandemic. |

### Governance

| Strategic priorities and actions arising | Progress |
|---|---|
| Ensuring appropriate delegation of authority | Reviewed and approved updates to the SoDA. |
| Reviewing work carried out by Board committees | Received post-meeting reports from the Chairs of each committee, summarising discussions and actions. |
| Monitoring and ensuring good corporate governance | Received regular governance updates from the Company Secretary. |
| Ensuring appropriate assurance | Reviewed, via the Audit and Finance Committee, and approved the 2019/20 Assurance Plan. |

### Regulatory matters

| Strategic priorities and actions arising | Progress |
|---|---|
| Monitoring regulatory requirements | Reviewed and discussed regulatory developments, strategy and consultation responses. |
| Ensuring regulatory reporting requirements are met | Reviewed and approved the Regulatory Report and Accounts and the Revenue Statement, prior to submission to Ofwat. |
| Ensuring compliance with the project Licence | Reviewed and discussed Licence compliance, including reviewing changes to the Licence and approving the Risk and Compliance Statement and the Statements on sufficiency of financial and non-financial resources. See page 173 for statements. |

### Financing

| Strategic priorities and actions arising | Progress |
|---|---|
| Reviewing and approving financing arrangements | Reviewed and approved the Financing Plan, the Investment Management Strategy and restructuring other financial arrangements. |
| Maintaining Green Bond Framework | Reviewed Tideway's multi-currency programme for bond issuance and the Green Bond Framework. |
| Ensuring appropriate systems and policies to support Tideway's financing requirements | Reviewed and approved changes to the Treasury Policy. |

### Financial reporting and taxation

| Strategic priorities and actions arising | Progress |
|---|---|
| Reviewing past and projected financial performance | Reviewed and approved the Annual Budget.<br>Reviewed and approved the half year and full-year financial statements.<br>Reviewed the monthly management accounts. |

## THE DIRECTOR'S ATTENDANCE AT SCHEDULED BOARD MEETINGS

| Total meetings held in period: | | 9 |
|---|---|---|
| **Sir Neville Simms** | Independent Non-Executive Director | 9 |
| **Richard Morse** | Independent Non-Executive Director | 9 |
| **John Holland-Kaye** | Independent Non-Executive Director | 7 |
| **Mike Putnam** | Independent Non-Executive Director | 9 |
| **Michael Queen** | Independent Non-Executive Director | 7 |
| **Andrew Cox** | Shareholder Director | 8 |
| **Alistair Ray** | Shareholder Director | 8 |
| **Gavin Tait** | Shareholder Director | 7 |
| **Andy Mitchell** | Executive Director | 9 |
| **Mathew Duncan** | Executive Director | 9 |
| **Mark Sneesby** | Executive Director | 8 |
| Attendance by Director appointed in the period: | | |
| **Baroness McGregor-Smith** | Independent Non-Executive Director | 8 |
| **Javier Falero** | Shareholder Director | 7 |
| Total meetings held in period: | | |
| **Anne Baldock** | Independent Non-Executive Director | 2 |
| **Angela Roshier** | Shareholder Director | 4 |

The Board is required by its terms of reference to meet at least six times a year. The Board met formally nine times in the period. A number of Board workshops were also held during the year as required, and Board dinners provided an opportunity to informally share views and consider issues affecting Tideway.

# Board Leadership, Transparency and Governance

*Governance Standards*

Tideway has from the outset aimed to achieve the highest standards of corporate governance, and to operate in a way that is transparent and collaborative for the benefit of all our stakeholders.

We are pleased to report that we complied in full with the objectives set out in Ofwat's 2019 principles for board leadership, transparency and governance, and we also complied with the principles set out in the 2018 UK Corporate Governance Code (the Code) other than the Code's requirement that at least half the Board, excluding the Chair, should comprise Independent Non-Executive Directors[1]. We have six Independent Non-Executive Directors, including the Chair, on the Tideway Board. This makes the Independent Non-Executive Directors the single largest group on the Tideway Board.

The Board believes it has the right combination of Executive Directors, Shareholder Directors and Independent Non-Executive Directors for the role of the Board supporting the organisation. Importantly, no individual or group can dominate the Board's decision making, and the Board is satisfied that the Independent Non-Executive Directors are independent in character and judgement, and that there are no relationships or circumstances which are likely to affect or could appear to affect their independence. Each of the Board committees is chaired by an Independent Non-Executive Director and the Shareholders' Agreement entered into at Licence Award supports these principles, containing legally binding commitments to maintain an independent board.

The significant independent representation and limited matters reserved to Shareholders help ensure that the Board is independent and in control of the regulated business and able to operate in a sustainable way in line with the long-term nature of the sector.

Further information features in the composition of the Board section. The limited matters reserved to Shareholders are set out in full on page 125, and further information on our process for identifying and managing actual or perceived conflicts of interests is available on the Tideway website at tideway.london/about-us/leadership.

Tideway's practices have continued to evolve over the year, to ensure we continue to achieve the highest standards of corporate governance. Themes considered and steps taken are summarised below:

| Purpose, values and culture | |
|---|---|
| **The Board has reviewed the company's purpose, strategy and values, and adopted new measures to ensure that these and the company's culture reflect the needs of all our stakeholders:** | • adding information on Directors' duties under s.172 of the Companies Act to the directors' induction programme;<br>• keeping directors routinely informed of stakeholder engagement as part of regular information provided to the Board;<br>• modifying board paper templates to ensure these consider the impact of board decisions on stakeholders;<br>• introducing workforce representation at Board level through the appointment of an independent non-executive director representing workforce matters. |
| **Effective contribution** | |
| **We have adopted measures to facilitate the effective contribution of all non-executive directors, and ensure that non-executive directors have sufficient time to meet their board responsibilities:** | • allowing time at the end of each Board meeting for discussion between the Chairman and the Non-Executive Directors, without the Executive Directors and Observers in attendance;<br>• reminding Board members of their duty to disclose new appointments and any change of circumstance which might adversely affect their ability to devote sufficient time to their Tideway role. |
| **Composition and succession** | |
| **We have reinforced existing mechanisms to ensure the Board and its committees have appropriate skills, experience and knowledge, and that membership is regularly refreshed and promotes diversity by:** | • reviewing Tideway's succession roadmap;<br>• building diversity considerations into succession planning and board-mapping;<br>• requiring external search consultants (where used) to provide a diverse list of candidates and to demonstrate they are actively engaged in initiatives that support the development of a pipeline of candidates from diverse backgrounds. |
| **Remuneration** | |
| **We continue to provide transparency in relation to executive pay and performance metrics and adopt best practice by:** | • ensuring matters of clarity, simplicity, risk, predictability, proportionality and alignment to culture are specifically addressed in executive director remuneration policies and practices; and<br>• ensuring that Remuneration Committee reporting covers all matters described in the 2018 Code, including the reasons why the remuneration is appropriate. |

[1] *An overview of these principles and further information on where to find details regarding Tideway's related governance arrangements, is provided on page [ ].*

# Board Leadership, Transparency and Governance

*Board Composition*

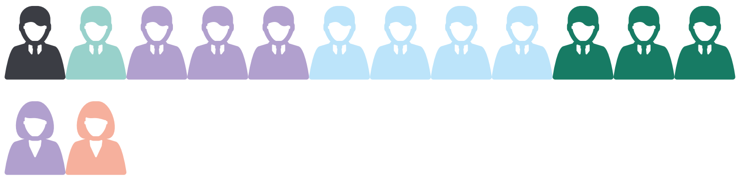
## THE BOARDROOM TABLE

The Tideway Board comprises of 13 Directors, ten of whom are Non-Executive. Six of the Non-Executive Directors are independent, including the Chairman of the Board, Sir Neville Simms, ensuring Tideway complies with Ofwat's requirement that the Independent Directors (including an independent Chair) be the largest single group on the Board.

## BOARD COMPOSITION

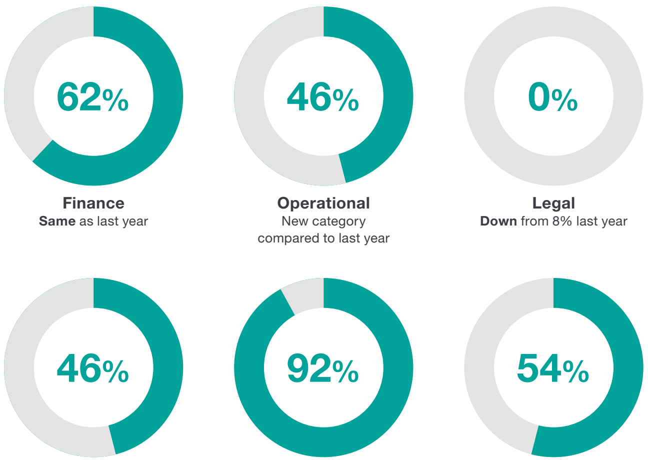
Male
**86%**

Female
**14%**



x1 Chairman
x1 Deputy Chairman
x4 Independent NEDs
x4 Shareholder Directors
x3 Executive Directors
x1 Company Secretary

## SECTOR EXPERIENCE




## SECTOR EXPERIENCE

Board members have a wide range of expertise, including financial, operating and regulatory experience in the construction, finance and infrastructure sectors. We recognise that as the project progresses the matters requiring Board consideration will change and we intend to keep Board members' skills and experience under review and to refresh the Board from time to time, to ensure its breadth of sector experience appropriately reflects the project's needs.

This year we have added operational expertise to our sector experience calculations, reflecting the increasing importance of this area as we progress through construction towards the operational phase of the project. The Board has been strengthened in this respect by the appointment of Baroness McGregor-Smith, whose experience bolsters that of other Board members. We did, however, lose a Board member with expertise in the legal sector when Anne Baldock stepped down last year. This is reflected in the statistics diagram opposite. The Board remains supported on legal matters by the General Counsel who attends the Board as a matter of course, and other senior members of the legal team who regularly attend the Board and Board committees.

## CHANGES TO THE BOARD

There were two departures from the Board, and two appointments during 2019/20: In terms of Independent Non-Executive Directors, Baroness McGregor-Smith joined the Board in June 2019 and Anne Baldock stepped-down in July 2019. In terms of Shareholder Directors, Javier Falero replaced Angela Roshier in November 2019 as the Shareholder Director representing DIF. The balance of Independent Non-Executive Directors on the Board remains the same as last year.

Further details of the Tideway Directors, including their dates of appointment, are contained in their biographies. Further information on the process for Board appointments and succession arrangements is available on the Tideway website.

We note that over the course of the year the proportion of women at Board level (including the Company Secretary) has reduced from 21 percent to 14 percent and over the course of the project to date, the proportion of women on the Tideway Board has reduced from 31 percent. The Executive management team has four women from a total of 11 members, representing 36 percent of the total, and a number of senior female staff (including the General Counsel, HR Director, Treasurer and Senior Legal Counsel) regularly attend and contribute to meetings of the Board and its Committees.

Tideway's diversity policy, objectives and progress to date are set out in the Performance Review section of this Annual Report. We remain committed to improving diversity at all levels of the organisation, including at Board level.

# Board Leadership, Transparency and Governance
*Board Composition*

## DIVISION OF RESPONSIBILITIES WITHIN THE BOARD

### Chair

The Chair's primary role is to provide independent oversight and governance, as leader of the Board.

The Chair is the most senior leader of the business and the guardian of the interests of all shareholders and stakeholders. He is responsible for leading the Board and ensuring its effectiveness and takes overall responsibility for the Board's composition, capability and performance evaluation.

**The Chair's key functions are to:**

- manage the Board and run Board meetings promoting a culture of openness and debate;
- take responsibility, with the Board, for agreeing and monitoring Tideway's strategy and its delivery through the Annual Business Plan;
- ensure good corporate governance is maintained, in the interests of all stakeholders;
- discuss with the CEO any recommendations from the Remuneration Committee;
- agree with the CEO all key external communications;
- represent Tideway externally at the most senior level;
- determine with the CEO which matters require Board approval;
- determine with the Company Secretary which decisions are reserved to the Shareholders;
- facilitate constructive Board relations and effective contribution of Non-Executive directors; and
- ensure that directors receive accurate, timely and clear information.

It is important that the Chairman and CEO work well together, to provide effective and complementary stewardship. The Chairman therefore consults regularly with the CEO and is also available to advise and support the CEO.

### Chief Executive Officer

The CEO is responsible for all of Tideway's operations, as leader of the Executive Management Team.

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

**The CEO's key functions are to:**

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

### Senior Independent Director

The Board has appointed Richard Morse as its Deputy Chair, in which role he fulfils the functions of the Senior Independent Non-Executive Director. He provides a sounding board for the Chair and serves as an intermediary for other Directors, when necessary or appropriate. The Deputy Chair is also available to Shareholders and other stakeholders if they have concerns which it would be inappropriate to raise through the conventional channels of Chair, CEO or the other Executive Directors.

### Non-Executive Directors

The Board includes ten Non-Executive Directors, four of whom represent the current Shareholders and six of whom are independent. The Shareholder Directors represent the views of investors in Board discussions and decision-making. The Independent Non-Executive Directors (who form the largest group) ensure there is a balance of perspectives, drawing on a wide range of skills and experience, so that the Board can make high quality decisions that address diverse stakeholder needs.

All the Non-Executive Directors use their breadth of knowledge and experience to challenge, monitor and approve the strategy and policies recommended by the Executive Directors. Each of the Board committees is chaired by one of the Independent Non-Executive Directors, with those roles allocated based on their relevant skills and experience.

### Executive Directors

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

The COO is responsible for delivering the project through the Main Works Contractors, the Systems Integrator and the Programme Manager. The COO works closely with the CEO and CFO.

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

*The River Thames running through central London, with Chambers Wharf visible to the east of Tower Bridge*

# Board Leadership, Transparency and Governance
*Board Composition*

## BOARD DEVELOPMENT, CONFLICTS AND EVALUATION

### Development
To ensure Board members maintain a deep understanding of the business and stay abreast of developments affecting Tideway's legal and regulatory environment, we provide a range of opportunities inside and outside the boardroom. During the year the Board received regular presentations and updates from both staff and external advisors on topics including health and safety, the main works contracts, external affairs, project and programme manager activities, construction sites, operational matters, and the supply chain. In addition, Board members have attended site visits during the year, enabling them to speak to staff responsible for delivering the project and to see the works at first hand.

Further information on the information and support available to Board members is available on the Tideway website.

New directors joining the business are given a comprehensive induction programme tailored to their skills, experience and role on the Board.

case study

### DIRECTOR INDUCTION BARONESS MCGREGOR-SMITH

Baroness McGregor-Smith was appointed to the Board in June 2019. As part of her induction she participated in a full health and safety orientation which included site inductions and onboarding at various sites in the Central main works area, and completing Tideway's interactive induction programme, EPIC (described in more detail on page 29).

Site visits allowed Baroness McGregor-Smith to see at first hand progress being made and challenges faced on the project. She was able to speak directly to those delivering the main works, including activities at Kirtling Street, one of the main tunnel drive sites.

One-to-one meetings were held with each of the other Directors to help build relationships with Board members and to learn about their individual experience on the project.

As the non-executive director representing workforce issues at Board level, Baroness McGregor-Smith was briefed on the role and the relevant matters arising from the most recent employee engagement survey.

She quickly embarked on a series of round-table meetings to meet staff directly. **More information on this role and the activities undertaken is available on page 49.**

Baroness McGregor-Smith was prepared for the project's regulatory and legal context with a briefing covering, among other things:

- Tideway's licence under the Water Industry Act and the unique regulatory circumstances that apply to the project;
- Tideway's application of the Ofwat principles on board leadership, transparency and governance;
- Tideway's strategy and performance, with regard to its complex stakeholder environment; and
- key themes affecting the water industry in general and Tideway in particular.

Finally, as is standard for all new non-executive board appointments, Baroness McGregor-Smith attended a pre-appointment meeting with Ofwat.

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

Tideway conducts annual evaluations of the performance of the Board, its committees, the chair and individual directors. This year's Board evaluation was conducted internally. Board members were asked to consider implementation of the recommendations from the 2019 Board evaluation and to comment in detail on the performance of the Board, its Committees, individual directors and the Company Secretary. They were also asked to evaluate the performance of the Chair in a process overseen by Richard Morse as Senior Independent Director.

**The evaluation covered a wide range of matters including but not limited to:**

- How effectively Board members work together to achieve objectives
- The composition of the Board, including whether there is an appropriate balance of skills, experience, independence and knowledge
- Whether there is sufficient diversity among Board members
- How the Board addresses stakeholder needs
- How well the company meets the overarching objectives set out in Ofwat's principles on board leadership, transparency and governance

Whereas usually the results of the Board evaluation would be discussed in a meeting, this year, due to restrictions arising as a consequence of the COVID-19 pandemic the results and feedback were discussed in a call involving all members of the Board. This call also dealt with succession planning.

Overall, the results and feedback were very positive on all the topics. Board members are satisfied that Tideway continues to maintain a high standard of corporate governance, and that the balance of experience, expertise and skills on the Board is appropriate for the current stage of the project. On the issue of company purpose, values and culture, Board members reflected that this is an area where the company performs strongly, whilst acknowledging that consideration needs to be given to the long-term purpose of the company and how we continue to meet the needs of all our stakeholders.

It was agreed that last year's recommendations had been successfully actioned, with exception of bringing greater diversity to the Board, where the position remains unchanged from last year. The reasons for the lack of diversity and mitigating factors were set out in last years' Annual Report and Accounts and the same reasoning applies this year, with increased emphasis on the advantages of skills mix and continuity in the light of the challenges posed by the pandemic crisis. It is an area that will be kept under review in the coming year.

The Board evaluation posed some issues about the best way for the Board to engage with the shareholders; and the best way for the Board to engage with stakeholders. Both have been the subject of further discussion involving the whole Board and some modest changes of approach may result to improve the Board's engagement in both instances.

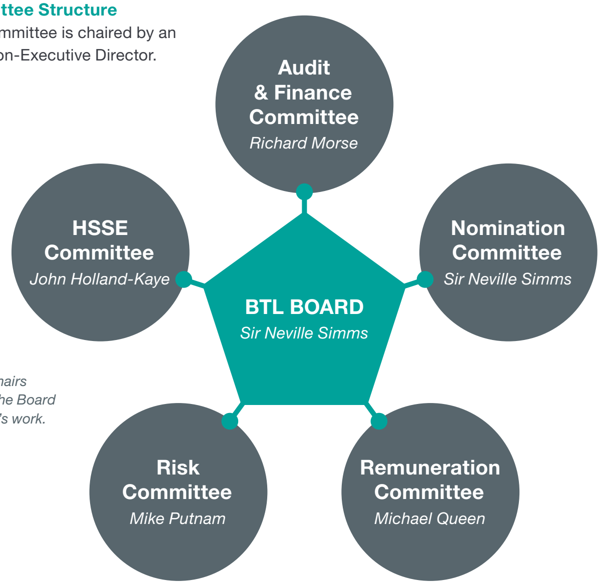
It was agreed to defer any definitive discussions about Board succession until the pandemic crisis had abated and its implications became clearer.

Next year, in compliance with the UK Corporate Governance Code provision that the Board evaluation should be externally facilitated every three years, Tideway will appoint an independent third party to carry out the annual Board evaluation.

# Board Leadership, Transparency and Governance
*Board Committees*

### Board Committee Structure

Each Board Committee is chaired by an Independent Non-Executive Director.




*The Committee chairs regularly update the Board on the committee's work.*

The Board has established five Board committees. The committees meet regularly, in accordance with an agreed schedule. All Non-Executive Directors are permitted to attend committee meetings, in addition to the committee members. The Executive Directors are not members of the Board committees, but they are invited to attend the majority of meetings other than Remuneration and Nomination committee meetings, which only the CEO attends, for all business other than relating to his own remuneration.

Each committee has terms of reference, which have been approved by the Board. Each committee's terms of reference and performance are reviewed by the Board each year, to ensure that the committees operate effectively. The Board approves any changes to the terms of reference, which are available on Tideway's website.

# Nomination Committee Report

### Sir Neville Simms FREng
Chair of Nomination Committee

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

All Shareholder Directors and Independent Non-Executive Directors are entitled to attend our meetings. The Committee would expect to meet at least once during the year. The Committee meets to assist the Board by:

- reviewing Company succession planning and talent management activity;
- understanding the current bench strength of the Executive Management Team;
- conducting a rigorous and transparent process when recommending or renewing the appointment of Directors to the Board; and
- approving the appointment of the new Non-Executive Director

### Role of the Nomination Committee

The Committee is responsible for:

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

### Activities

The Committee focused on Board succession, renewing the Independent Non-Executive Directors' appointments and recruiting a new Non-Executive Director as part of the continual cycle of refreshing the Board. An external search consultancy, Russell Reynolds, were appointed following a procurement process to assist with the recruitment of a new Non-Executive Director.

The Committee is aware that whilst the Board has an appropriate range of skills and expertise, it has seen an overall reduction in gender diversity; this alongside achieving broader diversity will need to be considered during any future Board changes.

| Membership of the Nomination Committee 2019/20 | | Attendance |
|---|---|---|
| **Sir Neville Simms** Chair | Independent Non-Executive Director | 1 |
| **Richard Morse** | Independent Non-Executive Director | 1 |
| **Michael Queen** | Independent Non-Executive Director | 0 |
| **Andrew Cox** | Shareholder Director | 1 |
| **Alistair Ray** | Shareholder Director | 1 |
| **Angela Roshier** Resigned Nov 2019 | Shareholder Director | 0 |
| **Mike Putnam** | Independent Non-Executive Director | 1 |
| **Javier Falero** Appointed Nov 2019 | Shareholder Director | 1 |
| **Baroness McGregor-Smith** Appt. July 2019 | Independent Non-Executive Director | 1 |

# Risk Committee Report

**Mike Putnam**
Chair of Risk Committee

I am pleased to introduce this report on Tideway's Risk committee, the second since I took over as Chair of the Committee in September 2018.

The Risk Committee is made up of four Independent Non-Executive Directors (including myself) and two Shareholder Directors. Together we have a thorough understanding of the Tideway project, significant experience in the infrastructure sector and an appropriate balance of risk management expertise.

### Composition of the Committee

All members of the Board are entitled to attend our Committee meetings. As a matter of course we also invite the Chief Technical Officer, the Director of Strategy and Regulation, the Head of Programme Assurance and the Head of Internal Audit to attend the meetings, and we extend invitations to other relevant experts when required.

### Role of the Committee

The role of the Committee is to review and report to the Board on risk management, mitigation and internal control. This includes determining the nature and extent of the principal risks Tideway faces. (These are in the Risk Management section of the Strategic Report.)

We also assist the Board in its oversight of risk by reviewing Tideway's risk appetite and risk profile, and the effectiveness of its risk management framework.

We are supported by two executive-level risk committees. The Corporate Risk Committee is chaired by the Director of Strategy and Regulation and meets every six months to consider corporate risks that may affect the financial and reputational viability of the business. The Executive Risk Committee was previously chaired by the Chief Tehnical Officer (until January 2020) and is now chaired by the Chief Financial Officer and meets monthly to review programme risks that could affect the physical delivery of the project. I have personally attended the Executive Risk Committee and have regular meetings with the Director of Strategy and Regulation and the Chief Financial Officer to help ensure proper information flows from these committees, up to the Board's Risk Committee.

I'm pleased to report that this year's Board evaluation confirmed that the Committee is working effectively and that there is a good balance of skills and experience among Committee members. We will continue to work with the Tideway staff to ensure that the quality of materials produced for the Committee is of a high standard.

| Membership of the Risk Committee 2019/20 | | Attendance |
|---|---|---|
| **Mike Putnam** Chair | Independent Non-Executive Director | 3 |
| **Andrew Cox** | Shareholder Director | 3 |
| **John Holland-Kaye** | Independent Non-Executive Director | 3 |
| **Richard Morse** | Independent Non-Executive Director | 3 |
| **Michael Queen** | Independent Non-Executive Director | 3 |
| **Alistair Ray** | Shareholder Director | 2 |

### Activities in the year

The Committee met formally three times and undertook the following main activities:

| Subject | Activity |
|---|---|
| Risk appetite monitoring | Received detailed reports on key risk exposures, emerging and potential risks, and matters driving risk across the project.<br>Assessed and challenged the appropriateness of Tideway's overall risk appetite and approved the principal risks. |
| Risk management and governance | Received regular risk reports covering the principal and corporate risks, the programme and project risks, and the mitigations in place.<br>Received updates from the Compliance Assurance and Risk Group (CARG), which is chaired by the CEO and challenges relevant staff on compliance and assurance matters.<br>Received reports from Internal Audit with observations on the CARG covering management's approach to the process.<br>Considered the risk retirement profile presented by management.<br>Considered the results of an internal audit into Tideway's risk function. |
| Internal controls | Reviewed Tideway's Risk Management Plan. |
| Deep dive on marine risks | Risks associated with increased marine activity have continued to be an area of focus. Committee members received an in-depth briefing from Tideway's River Transport Strategy Manager and the Marine Operations Manager, which covered, amongst other things:<br>• steps taken since the Committee's previous review to close out items in the marine action plan;<br>• confirmation that an internal audit had been completed with a satisfactory score;<br>• review of forecasted barge movements;<br>• implementation of a communications strategy targeting river users;<br>• the skills, experience and observations of the appointed Marine Operations Manager. |
| Deep dive into interface risks between Tideway and Thames Water | This deep dive gave the Committee an opportunity to focus on risks as the project progresses towards System Commissioning, Handover and Acceptance. Committee members reviewed risks by themes and by sites and plans for management and mitigation in the relevant periods. |
| Water industry compliance risks | Received a special report on risks in the regulated water sector associated with failures in compliance and misreporting. The Committee used the briefing to consider a range of matters related to assurance, culture and governance. |
| Annual effectiveness review | Carried out an annual review of effectiveness which considered:<br>• Tideway's risk appetite and desired culture in relation to risk;<br>• the operation of risk management and internal control systems, including the determination of principal risks;<br>• the integration of risk management and internal controls with Tideway's strategy and business model, and with business planning processes;<br>• changes in the nature, likelihood and impact of principal risks and Tideway's ability to respond to changes in the business and the external environment;<br>• the extent, frequency and quality of communication from Tideway's management to the Board regarding the results of risk monitoring;<br>• issues dealt with over the course of the year, including actions to address weaknesses or control failings; and<br>• the effectiveness of Tideway's public reporting processes. |

# Health, Safety, Security and Environment Committee Report

**John Holland-Kaye**
Chair of HSSE Committee

This is my second year chairing the HSSE Committee and I am proud to report on its work during the year.

I have a background of leadership in business, construction and infrastructure sectors, and first-hand experience of priorities attached to health, safety, security and environmental matters.

The Committee's members have an appropriate balance of expertise in matters concerned with health, safety, security and the environment, and in-depth knowledge of Tideway's business.

### Composition of the Committee

The Committee has three Independent Non-Executive Directors and three Shareholder Directors. All members of the Board are entitled to attend our Committee meetings. As a matter of course we also invite the Chief Technical Officer, the Business Services and Health, Safety and Wellbeing Director and the Head of Sustainability. Further invitations are extended to relevant staff when required.

### Role of the Committee

Tideway is committed to best practice, continual improvement and a transformational approach to health, safety and wellbeing, and we recognise the significance of environmental matters. The Committee has a key role in regularly reviewing, developing and overseeing consistent policy, standards and procedures for managing HSSE risk, and helping to ensure that Board members are sufficiently informed to discharge their individual and collective responsibilities for HSSE.

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

The Committee is supported by executive-level Monthly Management Review meetings, which are chaired by the CEO and include an in-depth review of matters related to health, safety and wellbeing. In addition, the Business Services and Health, Safety and Wellbeing Director chairs the Legacy and Environment Committee which meets bi-annually to provide strategic support on legacy, environmental and sustainability issues.
Both forums feed into the HSSE Committee.

I am pleased to report that the results of this year's Board evaluation confirmed that the HSSE Committee is operating effectively with no concerns raised relating to the Committee's composition, operations or decision-making.

| Membership of the HSSE Committee 2019/20 | | Attendance |
|---|---|---|
| **John Holland-Kaye** Chair | Independent Non-Executive Director | 2 |
| **Andrew Cox** | Shareholder Director | 2 |
| **Mike Putnam** | Independent Non-Executive Director | 2 |
| **Angela Roshier** Resigned Nov 2019 | Shareholder Director | 0 |
| **Sir Neville Simms** | Independent Non-Executive Director | 2 |
| **Javier Falero** Appointed Nov 2019 | Shareholder Director | 1 |
| **Gavin Tait** | Shareholder Director | 1 |

### Activities

IN accordance with its terms of reference, the Committee met twice in the year 2019/20.

| Subject | Activities |
|---|---|
| HSW performance review | Addressed detailed reports on the HSW performance of the MWCs, Programme Manager and Tideway. |
| Special briefing on lifting operations in shafts | Received a special briefing from the Programme Manager relating to an incident at Greenwich and steps taken to improve the management of health and safety risks at shafts. |
| Review of security | Received a report from the Head of Security and Facilities relating to security arrangements on the project and risks associated with unauthorised site access. |
| Environmental performance review | Reviewed the environmental performance of the MWCs and Tideway. |
| HSW risk register | Reviewed and considered the priority of matters included within the register. |
| Environmental risk register | The Committee reviewed the environmental risk register. |
| Governance | Reviewed and approved minor changes in the Committee's Terms of Reference. |

# Audit and Finance Committee Report

**Richard Morse**
Chair of Audit and Finance Committee

I am pleased to present this report which reviews the role and main activities of the Committee for the financial year ended 31 March 2020.

### Composition

I chaired the Audit Committee when it was originally established in 2015, and continued on as Chair of the Audit and Finance Committee when it merged with the Treasury Committee in July last year. I have over 30 years' experience of infrastructure and energy transactions as an investment banker. The Committee members have an appropriate balance of financial and accounting experience, and an in-depth understanding of Tideway's business and the infrastructure sector.

There is a majority of independent Committee members, based on a Committee composition of three Independent Non-Executive Directors and two Shareholder Directors. All of the Independent Non-Executive Directors have recent and relevant financial experience.

All members of the Board may attend our Committee meetings. We invite the Head of Internal Audit to attend as a matter of course, and other relevant staff as required.

### Role of the Committee

The Committee reviews and reports to the Board on all financial reporting matters. We review the role and independence of the external auditor, the Internal Audit function, and Tideway's overall approach to compliance and assurance and annual reporting. We also review and report to the Board on Tideway's treasury policy, treasury strategy and financial strategy.

**Our main responsibilities are to:**

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

I am pleased to report that this year's Board evaluation raised no matters of concern relating to the Committee's effectiveness, composition or operations.

| Membership of the HSSE Committee 2019/20 | | Attendance |
|---|---|---|
| **Richard Morse** Chair | Independent Non-Executive Director | 4 |
| **Anne Baldock** Resigned Nov 2019 | Independent Non-Executive Director | 1 |
| **Andrew Cox** | Shareholder Director | 4 |
| **Baroness McGregor-Smith** Appt. July 2019 | Independent Non-Executive Director | 2 |
| **Gavin Tait** | Shareholder Director | 2 |
| **Michael Queen** | Independent Non-Executive Director | 3 |

### Activities

The Audit and Finance Committee met formally four times in the year to 31 March 2020.

| Subject | Activities |
|---|---|
| Financial and regulatory statements | Considered the appropriateness of the accounting policies.<br>Reviewed significant issues in respect of the 2019/20 financial statements.<br>Considered the potential impact of COVID-19 in the preparations of the accounts and disclosures therein. |
| Annual audit | Considered issues arising from the statutory and regulatory audits. |
| Internal audit | Reviewed the plan, activities and effectiveness of the Internal Audit function. |
| External auditor | Reviewed the reappointment of the external auditor, including considering the external auditor's independence and objectivity, and subsequently recommended reappointment to the Board. |
| Compliance and assurance | Considered the Company's approach. |
| Financial and narrative reporting | Reviewed the Company's approach to annual reporting including regulatory requirements. |
| Long-term viability statement | Considered management's approach and recommendations relating to the Long-Term Viability Statement, for adoption by the Board and inclusion in the Annual Report and Accounts. |
| Cyber security | Reviewed the Company's arrangements in relation to cyber security. |
| Treasury strategy and performance | Received detailed reports on financing market conditions and reviewed the performance of Tideway's financing strategy. |
| Distributions | Considered distribution payments to shareholders and made subsequent recommendations to the Board. |
| Funding, hedging and investment | Considered opportunities relating to funding, hedging and investment management. |
| Bond prospectus | Reviewed the proposal to update Tideway's green bond programme, and subsequently recommended to the Board that the update should be postponed. |

# Audit Committee Report
*Continued*

### Significant Matters Considered In Respect Of The 2019/20 Financial Statements

The Audit and Finance Committee has considered a number of significant issues in relation to the financial statements. These mainly related to the judgements and accounting estimates made by management in preparing the financial statements and the regulatory accounts, and also to the appropriateness of the accounting policies adopted for the year to 31 March 2020, including changes from the prior period.

The Committee reviewed the following key areas in relation to the financial statements:

- the appropriate reporting and disclosure relating to estimated outturn costs for the project;
- the valuation and disclosure of financial instrument arrangements in the period;
- the evidence supporting the assumption that the accounts can be prepared on a going concern basis, including a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks;
- the evidence and assumptions supporting the Long-Term Viability Statement and the Directors' view of Tideway, including a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks;
- compliance with accounting standards and other legal requirements; and
- asset carrying value considerations in the financial accounts.

### Internal Control, Risk and Compliance

The Committee is responsible for reviewing Tideway's internal control and risk management systems, and compliance matters. We are supported by the independent Internal Audit function, which reviews the effectiveness of Tideway's risk management and internal control systems throughout the year and regularly reports to the Committee. The Committee provides further review and challenge including:

- reports prepared by the Internal Audit function, management's response to issues raised and their timely resolution;
- the control-related findings presented by the external auditor during its audit of the financial statements;
- approach to assurance, particularly considering requirements contained in Tideway's Project Licence, consents, financial obligations and other legal duties;
- approach and underlying process to assure the Board in relation to the Risk and Compliance Statement which is required in the Annual Report under the Licence granted by Ofwat; and
- the policies and procedures in place to prevent, detect and investigate fraud.

### Internal Audit

The Internal Audit function has a remit to carry out risk-based reviews covering the whole of the business, giving the Committee assurance on the adequacy of the internal controls.

The Head of Internal Audit is considered independent of management. The Head of Internal Audit reports functionally to the CFO since January 2020. Prior to that he reported to the CEO. To help preserve the independence of the function, he also met regularly with the Chair of the Audit and Finance Committee without executive management being present.

The Committee has a role to oversee the work of the Internal Audit function to ensure it is as robust and effective as possible including:

- reviewing and approving the Internal Audit function's policy;
- considering and approving the function's planned programme of work;
- monitoring the adequacy of the function's resources and skills;
- reviewing the function's performance in terms of reports prepared and subsequent follow-up and close out of actions;
- monitoring progress against the approved programme of work.

Based on the Committee's oversight of the Internal Audit function, the Committee considers that the Internal Audit function is independent and effective.

### Confidential Reporting Procedures and Whistleblowing

The Committee is responsible for ensuring that Tideway has systems in place which allow staff to raise, in confidence, concerns about possible improprieties in financial reporting or other matters, and for ensuring that where such concerns are raised, arrangements are in place for proportionate and independent investigation and follow-up action.

Tideway has a confidential whistleblowing policy and procedure for its staff, which has been advertised throughout the organisation. It covers a range of areas where malpractice could occur, such as health and safety, fraud, bribery, money laundering and other human resource related matters. Staff are encouraged to deal with any matters of concern with line management first, and also have direct access to a confidential whistleblowing reporting process with Crimestoppers. The Head of Internal Audit acts as the Whistleblowing Officer and monitors, investigates and reports both to the General Counsel and the Committee on any concerns raised and the resulting outcome.

### Auditor Appointment, Independence and Objectivity

This is the fifth financial year in which the Annual Report and Accounts have been audited by KPMG which was appointed following a competitive tendering process, described in our 2016/17 Annual Report. The contract permits us to continue to appoint KPMG, on an annual basis, subject to the requirements of the Companies Act.

The Committee keeps KPMG's performance, independence and appointment under regular review. In addition, the CFO has regular contact with the audit team, as does the Chair of the Board and the Chair of the Audit and Finance Committee, who each have regular dialogue with the lead audit partner at KPMG, sometimes with and sometimes without members of the Tideway Executive team in attendance.

During the period the Committee considered KPMGs performance in relation to:

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

The Committee has considered and approved the fees and activities for non-audit services carried out by KPMG.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Non-audit services** | | |
| Review of interim financial information | 0 | 0 |
| Other regulatory assurance services | 41 | 29 |
| **Total** | **41** | **29** |

I have met the KPMG engagement partner to discuss matters without the Executive management in attendance. The Committee has also reviewed the performance of the audit with the Executive team and has concluded it is satisfied with the independence of the auditor and the overall quality of the audit process.

Accordingly, the Committee agreed to recommend KPMG's appointment as auditor for the 2020/21 financial year.

Both Executive management and the Committee will continue to monitor the auditor's performance and independence.

This report was approved by the Board of Directors on 25 June 2020.

**Richard Morse**
**Chair of the Audit and Finance Committee**

# Remuneration Committee

**Michael Queen**
Chair of Remuneration Committee

I am pleased to introduce my first report on the work of Tideway's Remuneration Committee and thank Anne Baldock for her excellent work as chair since 2015.

Tideway continues to strive to be a world-class employer, offering an inclusive culture, fair pay and competitive terms and conditions to its employees. Its remuneration and employment policies and practices are designed to attract and retain the best talent to work on each stage of the project.

Tideway's remuneration policy is designed to support the attraction, motivation and retention of employees in a new and unique Company and major infrastructure project. Underpinning the remuneration strategy is the Company's culture of respect, fairness and equity of application of the policy across the organisation, irrespective of role or seniority. Therefore, the approach to pay and benefits for both the executive Directors and all employees are applied in the same way. Our Company annual bonus targets are set with the aim of promoting individual and collective motivation to realise the company's objectives and purpose, focusing on Health and Safety, the time, cost and quality of build and importantly the impact on our communities and support to our people. In this way, we align the interests of customers, who are ultimately paying for the project through their water bills with the investors who are funding the project.

## Composition

The Committee has four Independent Non-Executive Directors (including myself) and three Shareholder Directors. The Committee has an appropriate balance of experience and in-depth knowledge of Tideway's business.

Other Non-Executive Directors have the right to attend the Committee if they so wish. The CEO attends the meetings for all business other than that relating to his own remuneration. Independent advisors attend meetings by invitation and the HR Director or nominated deputy acts as Secretary to the Committee.

| Membership of the Remuneration Committee 2019/20 | | Attendance |
|---|---|---|
| **Michael Queen** Chair | Independent Non-Executive Director | 3 |
| **Andrew Cox** | Shareholder Director | 2 |
| **John Holland-Kaye** | Independent Non-Executive Director | 3 |
| **Richard Morse** | Independent Non-Executive Director | 3 |
| **Alistair Ray** | Shareholder Director | 3 |
| **Angela Roshier** Resigned Nov 2019 | Shareholder Director | 0 |
| **Javier Falero** Appointed Nov 2019 | Shareholder Director | 2 |
| **Sir Neville Simms** | Independent Non-Executive Director | 3 |

## Role of the Remuneration Committee

The Committee has delegated responsibility for:

- setting the remuneration policy for all Executive Directors and the Company's Chairman, including pension rights and any compensation payments;
- recommending and monitoring the level and structure of remuneration for senior management;
- setting and reviewing the ongoing appropriateness and relevance of the remuneration policy;
- commissioning external benchmarking to obtain reliable, up-to-date information in other companies of comparable scale and complexity;
- recommending the design of, and determine targets for, any performance-related pay schemes and recommend the total annual payments made under such schemes;
- recommending the policy for, and scope of, pension arrangements for each Executive Director and other designated senior executives;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- overseeing any major changes in employee benefits structures throughout the Company.

## Activities

Tideway is a dynamic, multi-year construction project, requiring a progression of skills and expertise over its life, from a competitive employment market. This requires us to constantly review and translate Tideway's remuneration policy into individual remuneration and incentive packages for staff and senior management. We aim to retain and incentivise the whole workforce, including the senior Executive team.

Each year, the Remuneration Committee reviews the overall compensation and benefits for all employees and compares them to various market benchmarks. Construction resources remained in demand across the country and particularly in London, an overall salary increase budget of 3% was approved in the year and adjustments to base salaries were therefore made to reflect external market changes and underlying increases in wage inflation. The executive directors each received a basic pay increase of 2.75%. I would like to thank our Shareholders for their views and constructive input into this adjustment process.

The Committee reviewed the overall Executive remuneration, to ensure it remains appropriate and fair. The first two long-term incentive plans (LTIPs) were put in place in 2016. These focus on the completion of the Tunnel by achieving key milestones, the first two of which are starting and completing tunnelling. The third LTIP implemented in 2019 is designed to incentivise management to transition the Company smoothly to Handover and Acceptance of the Tunnel. Whilst speed of construction is still an important component of our incentivisation and reward strategy, it does not override either health and safety or the quality of the finished tunnel, which must be fit for purpose.

In the year we reviewed the targets for LTIP2 and LTIP3. LTIP2 was revised due to a change of sequencing of secondary lining across the project, the target was refocussed to the completion of primary lining in all tunnels. For LTIP 3 we simplified and improved transparency of the incentive targets and aligned them to overall targets of cost and schedule. All incentives are still subject to satisfactory Health and Safety performance and the Committee has the discretion of assessing the final award.

Over the coming years the project will move into different phases, the Committee therefore reviewed retention of the Executive management team and key staff to ensure stability and retention of key knowledge and experience. Specific awards were agreed based on the required retention period. The committee agreed that these were proportionate to the commitments required and delivery on the project. These awards are subject to claw back and malus.

# Remuneration Committee Report
*Continued*

## REMUNERATION POLICY REPORT

The Company's remuneration policy continues to reflect the complexity and significance of one of Europe's largest infrastructure projects. Directors' remuneration comprises three elements: base salary; an annual bonus; and LTIPs. We assess annual bonuses on a combination of individual and Company performance, to incentivise and reward success in line with our annual business plan objectives.

Willis Towers Watson provides independent salary and benefits benchmarking and consultancy to the Company, to ensure that salaries and bonuses remain in line with market norms.

## PAY AND CONDITIONS FOR EMPLOYEES

We have maintained our position regarding pay and conditions, recognising that whilst Tideway is a regulated independent water company, we have several unique characteristics which influence our remuneration strategy. Not least, we are implementing one of Europe's largest infrastructure projects and need to do so in a manner which provides value for money for customers. Our overall compensation structure is designed to attract and retain appropriate skills, experience and talent to achieve the Company's aims. In certain areas there is a very competitive labour market and it is important for the project's success that we offer an attractive overall compensation and benefits package.

We apply our compensation strategy consistently across all employees, from junior members of staff through to the senior management team, with the same principles of fairness and equity.

- Remuneration packages reflect the complexity and significance of one of Europe's largest infrastructure projects.
- Reward is based on total compensation, meaning base pay, bonus and benefits.
- Future increases in base pay are merit based, by reference to market comparators. There is no right to annual increases, although an annual review will take place.
- Pensions are contributory into a defined contribution scheme, with contributions in line with market practice.
- All employees have a base-level benefits package, covering holidays, pension, life insurance and private medical cover. Additional benefits are provided based on job level (such as car allowances and level of medical insurance cover) or personal circumstances (such as relocation allowance).
- Bonuses are discretionary, based on a combination of individual and Company performance, and are a key part of the package to incentivise and reward project and personal success.
- All employees who are eligible for an annual bonus share the same Company-wide targets and have individual objectives set in the same way as those of the Executive Directors. Maximum bonus opportunities for our staff range from 10-50% of salary, depending on their seniority and role. There is one exception set out below.
- An additional bonus implemented for executive managers in 2017 remains in place, the structure of which mirrors LTIP 1 with a maximum award of 100% of base salary payable 50/50 over a period of at least two years. In line with LTIP 1 achievement of this bonus was assessed at 44%.

Tideway has no collective agreements in place and salary increases are determined based on an individual's performance and internal and external relativities. The overall salary increase pot was three per cent in 2019/20. Individual annual increase reviews take place in April each year. The Remuneration Committee considers the same criteria for the annual pay award for employees as those used when considering any increase to base pay for Executive Directors.

## GENDER PAY GAP REPORTING

As Tideway employs less than 250 people, we are not required to report our gender pay gap, however the Committee took the decision to report this year for the first time, in line with our principles of transparency.

The Tideway mean gender pay gap to April 2019 was 33.25% an improvement of 10% from the previous year. We recognise that this is significantly above the national mean of 17.9%, which is driven by having a higher proportion of men in senior positions. In a traditionally male dominated industry, we continue to look at ways to reverse this imbalance, and through our focus we have seen the percentage of women in the highest paid quartile increase by 15% in the year.

In the last twelve months we have continued to underpin our focus on reducing the gap through a number of activities including but not limited to; inclusive recruitment, unconscious bias training and further promoting flexible working. We have also had an increased focus on support to women on the project to develop their careers. We have done this through ensuring an appropriate focus on succession planning, completely changing the annual appraisal process to focus all employees on their future careers, as well as the CEO and HRD holding small group sessions for all the Tideway women on the project and an offer of individual career conversations. In addition, paid carers leave and a carers network have been established, which whilst not specifically aimed at women, is recognised to disproportionally support working women. We are proud that Tideway employs 57% women, but we recognise that continued focus to improve diversity at the senior levels within the company is required to address the structural imbalance.

We take practical steps to achieve our broader diversity and employment goals, including an employee network, Encompass, with several working groups which focus on gender, disability, LGBT+ and BAME employees. Each diversity strand has an executive sponsor, to support diversity and inclusion activities and programmes across the Project. We also support returners coming back into the workforce after a career break. Through our Skills and Employment team, we support a range of activities within schools, to encourage young women to take STEM subjects at school and university, to try to redress the known gender imbalance in the engineering sector. The Company will continue to focus on these issues to work towards diversity of representation across all levels of the Company.

Tideway prides itself on being an inclusive and diverse employer and this is reflected in our Employee Engagement Survey results. These confirmed that we continue to live our values, with 95% favourably responding to the question "Tideway values and promotes employee diversity" an increase of 3% in the year and a 92% favourable response to "I am treated with respect as an individual" an increase of 4% in the year.

# Remuneration Committee Report
*Continued*

## PAY AND CONDITIONS FOR EXECUTIVE DIRECTORS

Full details of each component of the Executive Directors' remuneration and the way remuneration was calculated, applicable for the year ended 31 March 2020, are set out here.

| Executive Director Base Salary arrangements | |
|---|---|
| Purpose and strategy | The overall remuneration package is set to attract and retain Directors of the appropriate calibre, to reflect the organisation's size, complexity and external market competition and company values. |
| Operation | The base salary of the Executive Directors is reviewed by the Remuneration Committee annually and is normally fixed for 12 months. There is no right to an annual increase. Increases are set by reference to:<br>• individual performance;<br>• internal and external comparators; and<br>• market conditions. |
| Opportunity | Base salary increases are reviewed at the same time as those across the Company and will usually be in line with market increases.<br>The Remuneration Committee will consider differences to this where there is:<br>• increase in role scope or responsibility, including a promotion;<br>• external market data showing that the salary is not competitive; and/or<br>• a risk of not attracting or retaining executives |
| Performance metrics | The individual's performance, external market and internal relativities will determine the salary level. Salary levels for the Executive Directors for 2019/20 are set out later in this report. |

| Executive Director Annual Bonus Arrangements | |
|---|---|
| Purpose and strategy | Incentivises and rewards performance against annual targets, which support the Company's strategic direction and personal development. |
| Operation | Annual targets included Health, Safety and Wellbeing, project milestones, public perception, employee engagement, as well as personal targets. Targets are set annually by the Remuneration Committee and notified to the Board.<br>The Remuneration Committee approves the assessment of achievement.<br>All bonuses are discretionary and can be removed or adjusted at the Committee's discretion. |
| Opportunity | Maximum bonus opportunities: CEO – 100%; CFO – 80%; COO – 80%<br>Awards for 2019/20 were: CEO – 80%; CFO – 64%; COO – 64% |
| Performance metrics | See table below |

Performance metrics

| | Requirement | 2019/20 minimum | 2019/20 stretch |
|---|---|---|---|
| Health Safety and Wellbeing | Maintain Strong HSW performance | Safety record better than other recent major projects | Good/outstanding compared to other recent major projects |
| Schedule cost and quality | Monthly Schedule Performance | Deliver schedule milestones | Not applicable |
| | Year-end position in line with outturn budget (Estimate at Completion) | In line with EAC forecast | £50m better that EAC forecast |
| | Asset Quality, Fitness for Purpose & Durability | No Significant delays due to quality issues | 90% of Non Compliance Reports (NCRs) closed in agreed timescales. |
| Vision Legacy and Reputation | Support from stakeholders | No material schedule impact as a result of stakeholder intervention | Survey results in line with 18/19 results. Active support from stakeholders in progressing the project |
| Company and People | Preserving a values driven, skilled, diverse and engaged work force | Subjective | Subjective |
| Personal objectives | Achievement of personal objectives | As per individual plan | As per individual plan |

**These targets are shared with all staff.**

- The Committee has discretion to weight each of the above requirements as it sees fit.
- The Committee has assessed that the Company achieved 80 per cent of its goals overall. This was based on a range of inputs, including the project's health and safety record, performance schedules, employee engagement survey and independent research detailing our reputation in the external market.
- The Committee has discretion to reduce the bonus to zero if there is a significant health and safety or regulatory breach.
- Personal objectives comprise a combination of strategic, project and development measures to support the delivery of project milestones, Company priorities and personal development of the individual.

# Remuneration Committee Report
*Continued*

## EXPLANATION OF PERFORMANCE METRICS CHOSEN

This year the Company continues significant construction of shafts and tunnelling. The metrics chosen were designed to ensure that all staff members remained engaged with the project's priorities, so it remained on budget and on time, whilst underpinning the Company's core values of transformational health and safety, stakeholder and employee engagement.

Company targets for Directors and executive management are 50 per cent of the bonus opportunity, with individual targets making up the other 50 per cent. For other employees, the split is 25 per cent Company targets and 75 per cent personal targets. Individual targets focus on all areas of the Company, project delivery and personal development.

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

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

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

| Executive Director Termination Policy | |
|---|---|
| Base salary + benefits | Payment made up to termination date. |
| Annual bonus | There is no contractual entitlement to a bonus payment. If the Director is under notice or left employment at the time of payment, the Committee may use its discretion to make a bonus award. Typically, in the market this would be pro-rated for time and based on the performance assessed at the end of the bonus year. |
| Long-term incentive plan | Treatment would be in line with plan rules and at the Remuneration Committee's discretion. |

| Executive Director LTIP Arrangements Applicable to the CEO, CFO and the COO | |
|---|---|
| Purpose and strategy | To reward performance and delivery and retain Directors over the life of the project, right through to final commissioning and handover of the tunnel at completion, in line with Company values and legacy commitments. |
| Operation | The LTIP is split into three Tranches. Each Tranche is designed to encourage completion of the project as swiftly as possible, within budget and without compromising health and safety or quality, and to deliver our stated legacy aims. |
| Opportunity | **Tranche 1** is awarded on the date on which the final tunnel boring machine at the three main drive sites starts to tunnel and is payable over a three-year period. The maximum amount that may be paid under Tranche 1 of the LTIP is 225 per cent of 2016/17 base salary in the first available payroll occurring after its award and 112.5 per cent of 2016/17 base salary in each of the following two years.<br><br>**Tranche 2** is awarded on the Tunnelling Completion Date (broadly defined as the date on which all tunnelling is complete). The maximum amount that may be paid under Tranche 2 is up to 150 per cent of the base salary pertaining at the tunelling start date, on the first available payroll occurring after award, and up to 300 per cent (subject as set out below) of such base salary in the following year.<br><br>**Tranche 3** is awarded at Handover and is payable as to two-thirds at Handover of the tunnel and one third at System Acceptance. Amounts paid out depend on the timing of system wide Handover and acceptance of the tunnel, the costs of achieving this. LTIP 3 is calculated as up to 200 per cent of salary for each of the years from scheme introduction to Handover. |
| Performance metrics | 100 per cent of the **Tranche 1** LTIP will be awarded if the Committee is satisfied that tunnelling has started at all the main drive sites before a specified date (the Pre Licence Award Date (LAD)) which is before the date scheduled when the Company's Licence was awarded. The award will reduce to nil if no tunnelling has occurred by the date (the LAD) scheduled when the Company's Licence was awarded. The reduction between 100 per cent and nil will be calculated on a site-by-site basis. The award will reduce by 20 per cent for each site that has not started tunnelling by the LAD or such lesser percentage (calculated on a straight-line basis, per tunnel if tunnelling commencement occurs between LAD and Pre LAD.) The Committee has discretion to increase or reduce the award by up to a further 20 per cent, depending on the length of tunnel bored by the LAD.<br><br>**Achievement:** Based on tunnelling start dates and overall tunnel completed the amount awarded under this LTIP was 44 per cent in September 2019. The performance amounts payable to the CEO and COO are disclosed in the renumeration tables for this financial year.<br><br>100 per cent of the **Tranche 2** LTIP will be awarded if the Committee is satisfied that the Tunneling Completion Date has occurred on or before a specified date falling ahead of the date scheduled when the Company's Licence was awarded. The award will reduce to nil if the Tunnelling Completion Date has not occurred by the date scheduled as at Licence Award date and will reduce on a straight-line basis if the Tunnelling Completion Date occurs between those two dates.<br><br>For **Tranche 3**, 100 per cent of LTIP 3 will be paid if the Committee considers that Handover and System Acceptance has or will occur on the date scheduled at Licence Award (the LAD) and agreed forecast costs have been met. The award is adjusted downwards if either the schedule or cost are not met.<br><br>The Committee has discretion to reduce all or any tranche of the LTIP to zero for, inter alia, health and safety or regulatory breaches or malus. |

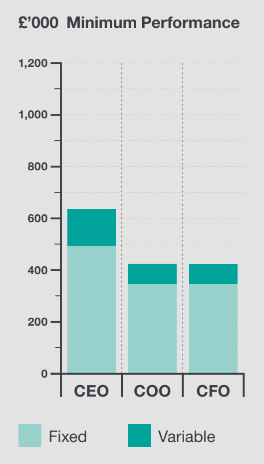
# Remuneration Committee Report
*Continued*

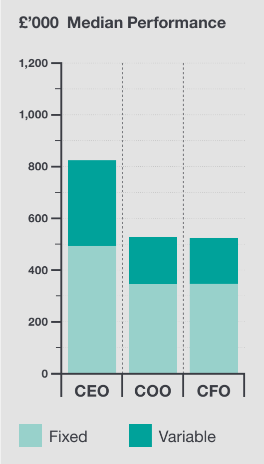
## POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

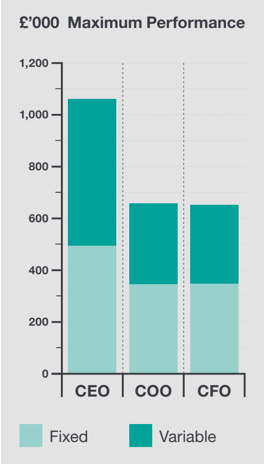
Here we set out the potential remuneration for Executive Directors in various bonus award scenarios.

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

Here we show the relative split of remuneration between fixed (base salary, benefits and pensions) and variable elements (annual and LTIP) for the Executive Directors under the three scenarios described above.




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

## DIRECTOR'S CONTRACTS

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

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

## REMUNERATION

The total remuneration earned by each Director is shown in the following tables. These tables have been audited by KPMG.

| Year ended 31 March 2020 | Base salary and fees £'000 | Taxable benefits £'000 | Annual bonus £'000 | LTIP £'000 | Pension Contributions £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Andy Mitchell | 450 | 14 | 335 | 824 | 10 | 1,633 |
| Mark Sneesby | 316 | 11 | 185 | 572 | 10 | 1,094 |
| Mathew Duncan | 308 | 31 | 45 | | | 384 |
| Sir Neville Simms | 275 | 4 | | | | 279 |
| Richard Morse | 97 | | | | | 97 |
| Mike Putnam | 61 | 3 | | | | 64 |
| John Holland-Kaye | 61 | | | | | 61 |
| Michael Queen | 61 | | | | | 61 |
| Baroness Ruby McGregor-Smith[1] | 48 | | | | | 48 |
| Anne Baldock[2] | 18 | | | | | 18 |

[1] *Baroness McGregor-Smith reflects part year earnings based on appointment to the Board in July 2019.*
[2] *Anne Baldock's remuneration reflects part year earnings until her resignation from the Board in July 2019.*

The CEO's base salary for the year ended 31 March 2020 included an annual increase pay award of 2.75 per cent. There was no change to the CEO's taxable benefits.

| Year ended 31 March 2019 | Base salary and fees £'000 | Taxable benefits £'000 | Annual bonus £'000 | Deferred Bonus £'000 | Pension Contributions £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Andy Mitchell | 446 | 12 | 261 | | 10 | 729 |
| Mark Sneesby | 308 | 11 | 149 | | 10 | 478 |
| Mark Corben[2] | 205 | 6 | 253 | 1,500 | | 1,964 |
| Mathew Duncan[1] | 118 | 6 | | | | 124 |
| Sir Neville Simms | 275 | | | | | 275 |
| Richard Morse | 90 | | | | | 90 |
| Anne Baldock | 54 | | | | | 54 |
| John Holland-Kaye | 54 | | | | | 54 |
| Michael Queen | 54 | | | | | 54 |
| Mike Putnam[3] | 41 | | | | | 41 |
| Mark Fairbairn[4] | 27 | | | | | 27 |

[1] *Figures for Mathew Duncan reflect part-year earnings since his appointment to the Board as CFO in November 2018.*
[2] *Mark Corben's remuneration reflects part-year earnings until his resignation from the Board in November 2018.*
[3] *Fees for Mike Putnam reflect part-year earnings since his appointment to the Board in July 2018.*
[4] *Fees for Mark Fairbairn reflect part-year earnings until his resignation from the Board in September 2018.*

Fees for the Independent Non-Executive Directors have been set in line with the policy described and were last reviewed in July 2019. The committee concluded that the overall level of fees had become uncompetitive. Therefore, the Non-Executive Directors were awarded, an annual payment of £10,000 for chairing a committee. Their basic fees remained the same. There was no change to the fees of the Chairman.

## RECRUITMENT REMUNERATION POLICY

We use the policy detailed above when deciding on the overall remuneration package for externally recruited Directors. The Committee has the discretion to include other components outside of the policy, if this is necessary to facilitate the hiring of individuals of the right calibre and experience.

This report was approved by the Board of Directors on 25 June 2020.

**Michael Queen**
**Chair of the Remuneration Committee**

# Relationship with Shareholders

## OUR OWNERS

Tideway is owned by a consortium of investors here we set out our equity investors and their equity interests as at June 2020.

| Shareholder and Shareholding | Description |
|---|---|
| Allianz Infrastructure Luxembourg I S.a.r.l.<br>34.26% | The Allianz Group is a leading global financial services group, active in insurance and asset management with over 100 million retail and corporate clients in more than 70 countries. In fiscal year 2019 the Allianz Group achieved total revenues of approx. €142.4bn. It is one of the world's largest asset managers, with third party assets under management in excess of €1.6 trillion at the end of 2019.<br>The investment in Tideway is funded from the balance sheets of various Allianz Group insurance companies. |
| Dalmore Capital 14 GP Limited<br>33.76% | Dalmore is an independent fund manager based in London, with over £5bn of investors' funds under management and a sole focus on the infrastructure sector. For its investment in Tideway, Dalmore established a single purpose fund which has secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors. |
| IPP (Bazalgette) Limited<br>15.99%<br>Bazalgette (Investments) Limited<br>5.33%<br>(Both Amber related entities) | Amber Infrastructure is a specialist international investment manager, focused on investment origination, asset management and fund management. With over £4 billion of funds under management, Amber invests in eight countries internationally across six funds and a number of managed accounts, including International Public Partnerships Limited (IPP, a London Stock Exchange listed infrastructure company), for public and private sector investors. Amber's core business focuses on sourcing, developing, advising, investing in and managing infrastructure assets across the public, transport, energy, digital and demographic infrastructure sectors that support the lives of people, homes and businesses internationally. Amber manages the IPP and Swiss Life Holding AG (Swiss Life) investments in Tideway which are held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited respectively. Swiss Life Asset Managers is the third-largest manager of institutional assets in Switzerland, with over 2,100 employees and more than 160 years of experience in managing the assets of the Swiss Life Group. Assets under management amount to CHF 254.4bn as of 31 December 2019, with CHF 171.4bn attributable to Swiss Life's insurance business and CHF 83.0bn to third-party asset management. The core competencies of Swiss Life Asset Managers lie in actively managed solutions in Infrastructure, Real Estate, Fixed Income, Equities and Multi-Asset classes. |
| DIF Bid Co Limited<br>10.66% | DIF Capital Partners is an independent fund management company with c. €6.7 bn of funds raised. Through nine investment funds, DIF Capital Partners invests in high-quality infrastructure assets that generate long-term, stable cash flows, including public private partnership projects (PPP/PFI/P3), renewable energy projects and other core infrastructure projects in the telecoms, transport and energy sectors in Europe, the Americas and Australasia. DIF Management Holding BV directly or indirectly owns and/or manages all of the DIF entities in the corporate structure above Bazalgette Equity Limited. DIF Management UK Limited is the topmost UK company in the DIF Capital Partners corporate structure. The source of DIF Capital Partner's share of equity funding for the project comprises long-term pension fund, insurance and fund of funds investors. |

The Shareholder Directors are the primary conduit by which the Board interacts with the Shareholders and understands their views, both individually and collectively. As described on page 92 a number of arrangements are in place to ensure Tideway maintains an independent Board for the purposes of strategic and risk management decisions. Matters reserved to Shareholders, and the limited times these reserved powers were used in the year, are detailed below.

## THE ROLE OF EACH COMPANY

| Name | Registration Number | Place of Registration | Description |
|---|---|---|---|
| Bazalgette Tunnel Ltd | 9553573 | England and Wales | The Infrastructure Provider entity licensed by Ofwat to design, build, commission and maintain the regulated assets of the Thames Tideway Tunnel. It lies within the security ring-fence. |
| Bazalgette Holdings Ltd | 9553510 | England and Wales | Bazalgette Tunnel Limited's immediate holding company, established to act as the vehicle where the Secretary of State would inject funds if required. It lies within the security ring-fence. |
| Bazalgette Ventures Ltd | 9553461 | England and Wales | The holding company of Bazalgette Holdings Limited. It was established to act as the vehicle for shareholder loan funding. |
| Bazalgette Equity Ltd | 9553394 | England and Wales | The ultimate holding company of the group. It was established to act as the vehicle for shareholder share capital funding. |
| Bazalgette Finance plc | 9698014 | England and Wales | A sister company of Bazalgette Tunnel Limited and financing subsidiary of Bazalgette Holdings Limited, established to be the issuer of public market bonds. It lends on the proceeds of any bond issuance to Bazalgette Tunnel Limited. |

Thames Tideway Tunnel Limited, which was a subsidiary of Bazalgette Tunnel Limited, has been dissolved. All employees, contracts and assets were transferred from Thames Tideway Tunnel Limited to Bazalgette Tunnel Limited by 31 March 2017 and the entity was dissolved on 24 April 2018.

## RELATIONSHIP WITH SHAREHOLDERS

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

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

Each shareholder controlling 20 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Observer to the Board of Bazalgette Tunnel Limited.

Each shareholder controlling 30 per cent or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Observer to the Board of Bazalgette Tunnel Limited.

The Observers are entitled to attend Board and committee meetings and to speak with the permission of the Chairman of the Board but are not entitled to vote.

# Relationship with Shareholders

## SHAREHOLDER RESERVED MATTERS

There are a limited number of matters reserved by the Board for approval by Shareholders. These matters require the approval of Shareholders holding either 75 per cent or 90 per cent of Tideway's equity. Each Shareholder has the number of votes on such matters equal to its shareholding in Bazalgette Equity Limited.

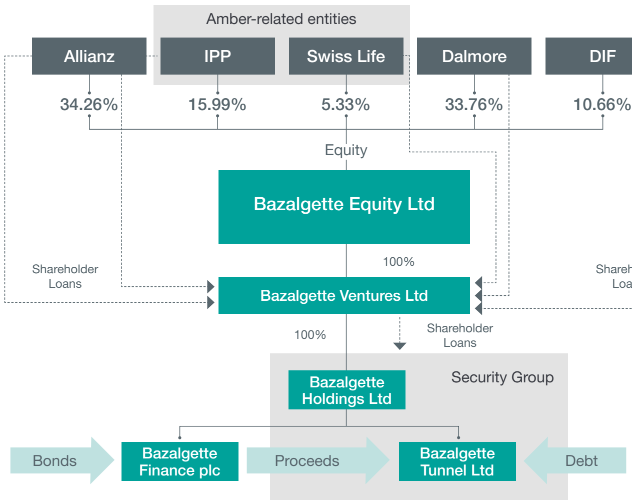
The Shareholder reserved matters are described in full, below, together with a summary of the nature of each matter. Although these matters are reserved to the Shareholders, the Board expresses its view before any Shareholder decisions are taken. The Board retains responsibility for all matters related to Tideway's strategy and is accountable for all aspects of Tideway's business.

In the year, matters reserved to Shareholders arose twice in the Board's decision-making activities. Both matters related to changes to the scope of the project and required delegated authority to a Tideway representative at the Liaison Committee for the variation process:

1. In May 2019 Shareholders approved implementation of a variation to incorporate a connection tunnel not previously included in the scope, required as the result of unforeseen ground conditions at King Edward Memorial Park.
2. In September 2019 Shareholders approved implementation of a variation to remove delivery of a storm pump exercising station at Earl Pumping Station from the scope. The variation included arrangements to transfer responsibility for delivering the storm pump exercising station to Thames Water Utilities Limited.

## TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is Bazlagette Holdings Limited, which is in turn wholly owned by Bazalgette Ventures Limited, and its ultimate holding company is Bazalgette Equity Limited. The structure of the Tideway group of companies and their role is described here.




## SHAREHOLDER RESERVED MATTERS REQUIRING 75% APPROVAL

| Nature of Matter | Description |
|---|---|
| General corporate | Matters relating to the issue of any shares in any Tideway group company. |
| Incurring of commitments, liabilities etc. | Unless contemplated by the Annual Business Plan or Budget. |
| Acquisitions or disposals | Including capital expenditure over £50 million or not contemplated by the annual Business Plan or Budget. |
| Accounts, auditor | The change of Tideway's accounting reference date, the removal or appointment of the auditor and any change to the accounting policies, except where required as a consequence of a change in IFRS, GAAP or law. |
| Manner of carrying on business | • Entering into or materially changing a material contract, to the extent not contemplated by the annual Business Plan or Budget.<br>• Substantial alteration in the nature of the business or cessation of the business. Approval of or making amendments to the Project Licence, Business Plan or Budget, which would result in additional expenditure or indebtedness over £50 million.<br>• Entering into any guarantee in excess of £50 million.<br>• The appointment to the Board or removal of an Executive Director, as recommended by the Nomination Committee.<br>• The conduct of litigation and claims involving any Tideway group company, where the potential liability may exceed £50 million.<br>• Any material submission or application to Ofwat, whether pursuant to the Licence or otherwise.<br>• Any request that Ofwat refer a matter to the Competition and Markets Authority.<br>• The submission of any material tax claim, disclaimer, election or consent.<br>• The issuances or withdrawal of notices pursuant to the Government Support Package.<br>• The replacement of a Main Works Contractor, System Integrator or Project Manager during the Construction Period.<br>• The appointment of a Tideway representative to the Liaison Committee and any voting in relation to material variations to the scope of the project.<br>• The approval of or entry into a related party transaction. |

## SHAREHOLDER RESERVED MATTERS REQUIRING 90% APPROVAL

| Nature of Matter | Description |
|---|---|
| Partnership, joint venture or other agreement | Entering into any partnership or other profit-sharing agreement in excess of a materiality threshold. |
| Articles and Board composition | A change to the articles, acting contrary to the articles or a change to the Board composition requirements in the Shareholders' Agreement. |
| Share denomination | Any consolidation or redenomination of any shares. |
| Share redemptions or buybacks | The redemption or purchase by Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited of any share or the reduction of its share capital or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account. |
| Winding-up or liquidation | Any proposal for the winding-up or liquidation of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited. |
| Control of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited | Any arrangement whereby the Directors no longer determine the general policy, scope of activity and operation or major decisions of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. |
| Paying up of share capital or debentures | The paying up of any share capital or debenture or debenture stock of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited by way of capitalisation or application of any profits or reserves. |
| Schemes of arrangement and demergers | The proposal of any compromise or arrangement within the meaning of section 895 of the Companies Act 2006 or any arrangement pursuant to which Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010. |

# Section 172 Statement

When making decisions, the directors must act in the way they consider, in good faith, is most likely to promote the success of the company for the benefit of its members as a whole, while also considering the broad range of stakeholders who are affected by our business. Section 172 requires a director to have regard amongst other matters to:

- the likely consequences of any decisions in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and environment
- the desirability of the company maintaining a reputation for high standards of business conduct and
- the need to act fairly as between members of the company.

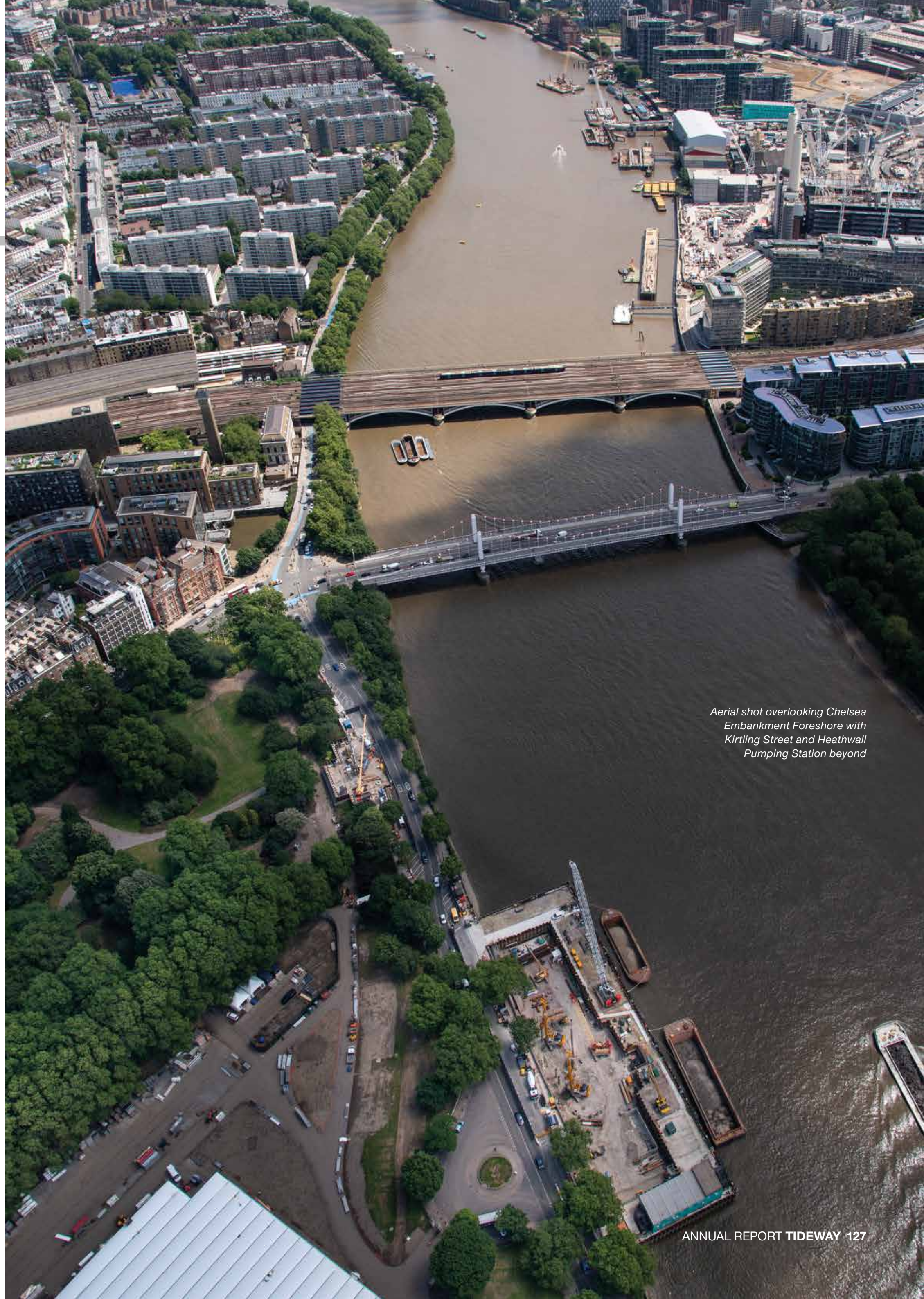
In discharging their s.172 duties the Directors have had regard to the factors set out above, as well as other factors relevant to the decision being made.

### Tideway's approach to s.172

Engagement with stakeholders is an important part of our day-to-day work delivering the Thames Tideway Tunnel and from the outset of the project we have sought to develop close relationships with our stakeholders, with consideration for the impact of the project on the community and the environment. The Board recognises that is it responsible for Tideway's long-term success and for delivering sustainable value to customers, Shareholders and other stakeholders.

Much of our engagement with stakeholders and the steps we have taken to protect the environment and communities we serve is explained in the Strategic Report. The Board's activity and decision making processes are described in the Governance section. The following table is not a comprehensive overview, but identifies some areas in this Annual Report where you can find more specific information relating to our approach to the matters addressed in s.172.

| Matter | For further information see |
|---|---|
| Communities | Delivering with Partners page 12<br>Vision, Legacy and Reputation page 41 |
| Our People | Company and People pages 46 to 53<br>Appointment of a non-executive director representing workforce matters page 49<br>Board Activity pages 89-91 |
| Supply chain and delivery partners | Delivering with Partners page 12<br>Board Activity pages 89-91<br>Chair's introduction to the Governance Report page 79 |
| Bill Payers | Schedule, cost and quality page 30<br>Financing page 54 |
| Investors | Our Shareholders page 122<br>Relationship with Shareholders pages 122-125 |
| Environment | More by River page 32<br>Carbon page 42<br>Sustainable Financing page 56 |
| Standards of Conduct | Health Safety and Wellbeing pages 26 - 29<br>Ethical Supply Chain page 44<br>Governance Standards pages 92-93 |
| Long Term | Vision, Legacy and Reputation pages 40 to 45<br>Risk Management pages 65 to 71<br>Long Term Viability Statement pages 72 to 75 |



*Aerial shot overlooking Chelsea Embankment Foreshore with Kirtling Street and Heathwall Pumping Station beyond*

# Directors' Report

The Directors present their Annual Report and the audited Company financial statements of Bazalgette Tunnel Limited (the Company) for the year ended 31 March 2020. The Company is incorporated and domiciled in the United Kingdom. The registered company number is 09553573 and the Company's registered address is Cottons Centre, Cottons Lane, London, SE1 2QG. The financial statements are the Company's statutory financial statements as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures as required under the Companies Act 2006.

### Ownership and relationship with associated companies

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

### Directors

The Directors who held office during the year, and thereafter, are listed in the Governance Report.

### 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 Company had in place Directors and Officers Liability insurance for the year.

### Corporate governance

Full disclosure on the Company's Corporate Governance activities is set out in the Governance Report and is incorporated by reference into this Directors' Report.

### Principal activities

The Company's business is to design, build and maintain the Thames Tideway Tunnel. A full explanation of the Company's principal activities is set out in the Strategic Report.

### Financial results and dividends

Following the Company's accounting policies (see note 1 to the financial statements), all costs that meet the capitalisation criteria are capitalised and all regulatory revenue received is currently deferred on the Statement of Financial Position. This accounting treatment is expected to continue throughout the construction phase of the project.

The Company recorded a £33.3m loss for the year ended 31 March 2020 (31 March 2019, here after referred to as "2019": £31.0m loss). This is a result of fair value movements on the Company's derivative financial instruments. The tunnel asset under construction totalled £2,593.5m at 31 March 2020 (2019: £1,828.6m).

An explanation of the financial results of the Company are set out in the Financial Performance Review. The Company did not pay any dividends in the year (2019: £nil). During the year, £47.8m (2019: £57.1m) of shareholder loan interest was paid and £nil loan principal was repaid during the year (2019: £3.4m). Interest on the shareholder loans totaling £9.4m (2019: £nil) was capitalised during the year and added to the outstanding loan. Further details of the shareholder loan notes are set out in note 10 of the financial statements.

### Financial risk management

Full disclosure on the Company's financial risk management is set in the financial statements in note 11.

### Involvement of employees

Details of how the Company undertakes engagement with its employees is detailed in the Company and People section of the Strategic Report.

The average number of people employed by the Company (including Directors) during the year was 154 (2019: 161). Details relating to the Company's employment policies and values are set out in the Strategic Report.

### Greenhouse gas emissions

The Company's approach to identifying and reducing its greenhouse gas emissions is set out in the Strategic Report.

### Charitable and political donations

The Company made charitable donations totaling £63,664 during the year (2019: £53,340). Details of the Company's charitable partnerships are set out in the Strategic Report.

The Company did not make any political donations or incur any political expenditure during the year (2019: £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 we monitor their compliance. The creditor days for the year ended 31 March 2020 were approximately 27 days (2019: 22 days).

### Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 16 of the financial statements.

### Disclosure of information to the auditor

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

### Other information

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

### Auditor

Having carried out a review of their effectiveness during the year the auditor, pursuant to Section 487 of the Companies Act 2006, will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

The Directors are responsible for preparing the Strategic Report, the Directors report and the financial statements in accordance with applicable law and regulations.

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

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 Company and of their profit and loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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.

### Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

The Directors considers the annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

**On behalf of the Board**

**Mathew Duncan**
**Chief Financial Officer**
Cottons Centre, London Bridge
London SE1 2QG
**25 June 2020**

# Annual Report and Financial Statements

For the year ended 31 March 2020
Registered number 09553573



*The main tunnel at Kirtling Street*

# Financial Statements
## Independent Auditor's Report

### to the members of Bazalgette Tunnel Limited

### 1. Our opinion is unmodified

We have audited the financial statements of Bazalgette Tunnel Limited ("the Company") for the year ended 31 March 2020 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement 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 Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- 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 Company 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:** financial statements as a whole | £8.5m (2019: £6.7m)<br>1% (2019: 1%) of total expenditure |
| **Key audit matters** | **vs 2019** |
| **Recurring risks** | Completeness and existence of capitalised costs and creditors |

### 2. Key audit matters: including 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. **We summarise below the key audit matters, in arriving at our audit opinion above.**

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, were as follows.

Our identification of key audit matters remains unchanged from 2019 with the following exceptions. We have removed the key audit matters related to the Impact of uncertainties due to the UK exiting the European Union and Going Concern, following a reassessment of the risks which considered the risk of cost overrun and available liquidity of the Company.

**Completeness and existence of capitalised costs and creditors Capitalised costs: (£765.1 million; 2019: £673.9 million)**

Refer to page 138 (accounting policy) and page 143 (financial disclosures).

**The risk**

The Company incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalised costs and capital creditors to be at 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 areas which has the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

**Our response**

**Our procedures included:**

**Control design**

Testing controls over the 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 Company 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 Company 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 the independent project managers assessment of these claims and disallowed costs for reasonableness.

**Our results**

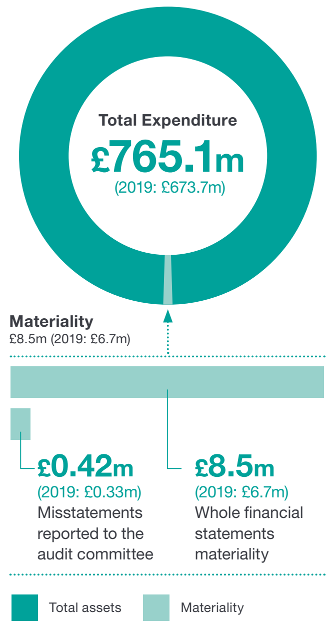
We consider the recorded balances to acceptable.

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

Materiality for the financial statements as a whole was set at £8.5m (2019: £6.7m), determined with reference to a benchmark of total expenditure, of which it represents 1.0% (2019: 1.0%). The benchmark has not changed from prior year. Total expenditure continues to be the relevant benchmark given it indicates the activity in the period.

We agreed to report to the Audit Committee any uncorrected identified misstatements exceeding £0.42m (2019: £0.33m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed virtually in conjunction with the Company's head office in London.



# Financial Statements
## Independent Auditor's Report
*Continued*

### 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 to cease their operations, and as they have concluded that the Company'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 its 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 Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Significant cost overruns on tunnel construction.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts such as the impact of Brexit.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

***We have nothing to report in these respects, and we did not identify going concern as a key audit matter.***

### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 the other information.

**Strategic report and Directors' report**

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports 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.
- In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

**Disclosures of emerging and principal risks and longer-term viability**

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

- the directors' confirmation within the long term viability statement (page 72) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long term viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

**Corporate governance disclosures**

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

***We have nothing to report in these respects.***

### 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 128, 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 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 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*

### 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
**26 June 2020**

# Financial Statements

## COMPANY INCOME STATEMENT

*For the year ended 31 March 2020*

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| Net operating costs | 2,3 | - | - |
| **Operating result** | | - | - |
| Net finance costs | 4 | (33.3) | (31.0) |
| **Loss before tax** | | **(33.3)** | **(31.0)** |
| Taxation | 5 | - | - |
| **Loss for the year** | | **(33.3)** | **(31.0)** |

## COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2020*

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| Loss for the year | | (33.3) | (31.0) |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive income for the year attributable to owners of the parent** | | **(33.3)** | **(31.0)** |

*Notes 1 to 16 form an integral part of these financial statements.*

## COMPANY STATEMENT OF FINANCIAL POSITION

*As at 31 March 2020*

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 2,600.9 | 1,828.6 |
| Trade and other receivables | 7 | 54.9 | 57.2 |
| | | 2,655.8 | 1,885.8 |
| **Current assets** | | | |
| Trade and other receivables | 7 | 40.7 | 39.2 |
| Cash and cash equivalents | 8 | 380.8 | 554.8 |
| Short-term deposits | 8 | 157.5 | 90.0 |
| | | 579.0 | 684.0 |
| **Total assets** | | **3,234.8** | **2,569.8** |
| **Current liabilities** | | | |
| Trade and other payables | 9 | (100.5) | (37.2) |
| Lease Liabilities | | (2.1) | - |
| | | (102.6) | (37.2) |
| **Non-current liabilities** | | | |
| Advance payment liability | 9 | (149.5) | (91.9) |
| Lease Liabilities | | (4.9) | - |
| Borrowings | 10 | (2,408.6) | (1,898.9) |
| Derivative financial instruments | 11 | (89.0) | (55.7) |
| Other payables | 9 | (59.5) | (32.1) |
| | | (2,711.5) | (2,078.6) |
| **Total liabilities** | | **(2,814.1)** | **(2,115.8)** |
| **Net assets** | | **420.7** | **454.0** |
| **Equity** | | | |
| Share capital | 12 | 509.7 | 509.7 |
| Retained earnings | 12 | (89.0) | (55.7) |
| **Total equity** | | **420.7** | **454.0** |

*Notes 1-16 form an integral part of these Financial Statements. These Financial Statements were approved by the Board of Directors on 25 June 2020 and were signed on its behalf by:*

**M Duncan**
**Director**

Company registered number: 09553573

## COMPANY STATEMENT OF CHANGES IN EQUITY

| | Share capital £m | Retained earnings £m | Total equity £m |
|---|---|---|---|
| Balance at 1 April 2018 | 509.7 | (24.7) | 485.0 |
| 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** | **-** | **-** | **-** |
| **Balance at 31 March 2019** | **509.7** | **(55.7)** | **454.0** |
| Balance at 1 April 2019 | 509.7 | (55.7) | 454.0 |
| Loss for the year | - | (33.3) | (33.3) |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **-** | **(33.3)** | **(33.3)** |
| **Total contributions by and distributions to owners** | **-** | **-** | **-** |
| **Balance at 31 March 2020** | **509.7** | **(89.0)** | **420.7** |

*Notes 1 to 16 form an integral part of these financial statements.*

## COMPANY CASH FLOW STATEMENT

*For the year ended 31 March 2020*

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| **Cash flows from operating activities before working capital movements** | | - | - |
| Decrease/(Increase) in trade and other receivables | 7 | 0.8 | (0.9) |
| Increase in trade and other payables | 9 | 90.7 | 24.4 |
| Increase in advance payment liability | 9 | 57.6 | 38.4 |
| **Cash flows from operations** | | **149.1** | **61.9** |
| **Net cash flows from operating activities** | | **149.1** | **61.9** |
| **Cash flows used in investing activities** | | | |
| Construction of infrastructure asset | 6 | (746.3) | (669.5) |
| Transfer from/(to) short-term deposits | 8 | (67.5) | (32.5) |
| **Net cash flows used in investing activities** | | **(813.8)** | **(702.0)** |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | 493.1 | 360.0 |
| Repayment of shareholder loan principal | | - | (3.4) |
| Lease liability payments | | (2.4) | - |
| **Net cash flows from financing activities** | | **490.7** | **356.6** |
| **Net decrease in cash and cash equivalents during the year** | | **(174.0)** | **(283.5)** |
| Cash and cash equivalents at the start of the year | 8 | 554.8 | 838.3 |
| **Cash and cash equivalents at the end of the year** | **8** | **380.8** | **554.8** |

*Construction of infrastructure asset includes capitalised interest paid of £63.2m (2019: £71.1m) and capitalised interest received of £6.4m (2019: £4.5m).*

*Notes 1 to 16 form an integral part of these financial statements.*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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 require 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 Company's financial position.

The accounting policies set out below have been applied consistently to all periods presented in these company financial statements.

### Judgements and Estimates

In the process of applying the Company'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 Company 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 Company. 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 Company 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:

**Capitalised costs/creditors**

The Company 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 and their materiality in the context of the financial statements, the directors need to ensure their completeness, existence and validity is appropriately monitored, controlled and recorded.

### Going concern

The Directors believe, after due careful enquiry, that the Company 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 Company'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 2019, the Company has adopted IFRS 16 Leases. IFRS 16 replaces IAS 17 (Leases) and eliminates the classification of leases as either operating or finance leases and introduced a single recognition model for lessees.

Previously, the Company's property leases were classified as operating leases under IAS 17 and the Company recognised the lease payments as an expense when incurred. IAS 17 required the Company to disclose undiscounted future minimum rentals payable under non-cancellable operating leases at reporting date.

Under IFRS 16, these property leases meet the new lease definition and therefore the Company is required to recognise right-of-use (ROU) assets and leases liabilities. These ROU assets will be depreciated over remaining lease terms and the group will incur interest costs calculated periodically on the outstanding lease liabilities.

On transition to IFRS 16, the Company has elected to apply the modified retrospective approach and therefore no comparative period information has been restated. Lease liabilities of £8.8m were recognised as the present value of outstanding lease payments on the Company's property leases, discounted at an appropriate incremental borrowing rate applicable at 1 April 2019. ROU assets were measured to be equal to the lease liabilities of these property leases at 1 April 2019.

Reconciliation between IAS 17 operating lease commitments disclosed at 31 March 2019, and the lease liabilities recognised on adoption of IFRS 16 at 1 April 2019 can be seen below:

| | £m |
|---|---|
| **Operating lease commitments at 31 March 2019** | **9.3** |
| Effect of discounting | (0.5) |
| **Lease liabilities recognised on adoption of IFRS 16** | **8.8** |

The Company applied the following practical expedients on transition to IFRS 16:

- Applied the same discount rate to all property leases within scope of IFRS 16 as they share similar characteristics. The Company used an incremental borrowing rate of 2.375%;
- Excluded leases with lease terms that ended within 12 months of transition date as these leases would be considered short-term leases;
- Excluded leases of identifiable low-value assets from consideration; and
- The Company separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

### Property, plant and equipment

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

**Assets under Construction - Recognition and measurement**

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

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 Company 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 2020 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.

**Assets under Construction - 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.

# Financial Statements
*Notes continued*

## 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 Company's asset under construction is reviewed at each reporting date to determine whether there is objective evidence the asset is impaired by reference to its recoverable amount. The recoverable amount of the asset is deemed to be the Company's RCV and the regulated return that is generated from that.

For non-financial assets, the Company 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' at each reporting date to determine whether there are impairment losses.

Any impairment losses are recognised in the Income Statement.

## Revenue
The Company's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Company's RCV. The Company's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Company. Through the construction period, revenue is deferred as the services associated with this revenue 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 Company 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 Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are 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 Company 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 Company are recorded at management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date.

## Financial instruments
The Company 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.

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 Company 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 Company has not designated any derivatives within hedging relationships and therefore has not applied hedge accounting.

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

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

Further details of the derivative financial instruments fair values, valuation technique and fair value hierarchy level are disclosed in note 11.

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

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

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

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

## Recently issued accounting standards not yet applied by the Company
At the date of authorisation of these financial statements, the Company has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Company as at 31 March 2020 and in some cases are subject still to endorsement by the EU.

- IAS 1 amendments on Classifications
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- Interest Rate benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures

## 2 AUDITOR'S REMUNERATION

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Audit services** | | |
| Statutory audit - company | 90 | 87 |
| **Audit related assurance services** | | |
| Regulatory audit services provided by the statutory auditor | 11 | 10 |
| **Other non-audit services** | | |
| Other regulatory assurance services | 41 | 29 |
| | **142** | **126** |

All of these fees have been capitalised.

## 3 EMPLOYEE COSTS

The average number of persons employed by the Company (including directors) during the year was 154 (2019: 161). The aggregate employment costs of these persons were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries | 16.5 | 15.6 |
| Social security costs | 2.5 | 2.0 |
| Contributions to defined contribution pension plan | 0.6 | 0.6 |
| Capitalised into asset under construction | (19.6) | (18.2) |
| | – | – |

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

## 4 FINANCE INCOME AND COSTS

| | 2020 £m | 2019 £m |
|---|---|---|
| **Finance income** | | |
| Interest income | (5.5) | (6.0) |
| **Finance costs** | | |
| Interest expense on borrowings | 92.0 | 84.9 |
| Interest expense on lease liabilities | 0.2 | - |
| Financing fees | 3.9 | 4.3 |
| Financial instruments at fair value through profit or loss: | | |
| – Index linked swaps | 33.3 | 31.0 |
| Capitalised finance interest and expense into asset under construction | (90.6) | (83.2) |
| **Net finance costs** | **33.3** | **31.0** |

## 5 TAXATION

| | 2020 £m | 2019 £m |
|---|---|---|
| Total current tax | - | - |
| **Total Income Statement tax expense** | **-** | **-** |

### Reconciliation of effective tax rate

| | 2020 £m | 2019 £m |
|---|---|---|
| Loss before tax | (33.3) | (31.0) |
| Expected tax credit using UK corporation tax rate of 19% (2019: 19%) | 6.3 | 5.9 |
| Items not taxable[1] | (6.3) | (5.9) |
| **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*

### Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £65.3m (2019: £39.1m) have been calculated with regards to the Company's tax position. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these against future taxable profits.

## 6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following at 31 March 2020:

| | Right-of-use assets (ROU) £m | Asset under construction £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2019 | 8.8[1] | 1,828.6 | 1,837.4 |
| Additions | - | 764.9 | 764.9 |
| Re-measurement of ROU asset | 0.5 | - | 0.5 |
| Balance at 31 March 2020 | 9.3 | 2,593.5 | 2,602.8 |
| **Accumulated depreciation** | | | |
| At 1 April 2019 | - | - | - |
| Depreciation charge | (1.9) | - | (1.9) |
| Balance at 31 March 2020 | (1.9) | - | (1.9) |
| **Net book value at 31 March 2020** | **7.4** | **2,593.5** | **2,600.9** |
| Net book value at 31 March 2019 | - | 1,828.6 | 1,828.6 |

*1 The Right-of-use assets opening balance at 1 April 2019 reflects the modified retrospective transition approach of IFRS 16 applied by the Company at the date of transition.*

### 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 2020. The amount of net borrowing costs capitalised during the year was £86.7m (2019: £78.9m) with a capitalisation rate of 100%.

### Right-of-use Assets

There were no new leases entered into during the period. The re-measurement above represents the net impact of a property lease extension as the Company is reasonably certain to exercise option to extend in future periods.
The right-to-use assets are being depreciated over the remaining lease terms on the Company's existing property leases under IFRS 16.

## 7 TRADE AND OTHER RECEIVABLES

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade receivables | 4.9 | 7.2 |
| Intra-group loans receivable (see note 14) | 10.9 | 9.9 |
| Accrued income | 14.7 | 8.9 |
| Other receivables | 12.1 | 13.2 |
| Prepayments | 53.0 | 57.2 |
| | **95.6** | **96.4** |
| **Non-current assets** | **54.9** | **57.2** |
| **Current assets** | **40.7** | **39.2** |

Accrued income of £14.7m (2019: £8.9m) 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 £23.6m (2019: £26.6m) in relation to the Government Support Package and £8.9m (2019: £10.1m) in relation to insurance contracts and £19.6m (2019: £19.3m) financing related costs.

## 8 CASH AND CASH EQUIVALENTS

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash and bank balances | 31.8 | 28.3 |
| Cash equivalents | 349.0 | 526.5 |
| **Cash and cash equivalents per cash flow statement** | **380.8** | **554.8** |

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 £157.5m (2019: £90.0m).

### Restricted Cash

The Company holds a Debt Service Reserve Account to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in the Debt Service Reserve Account was £6.1m at 31 March 2020 (2019: £12.3m).

## 9 TRADE AND OTHER PAYABLES

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade payables | 60.2 | 1.1 |
| Contract retentions payable | 27.0 | 16.5 |
| Accrued expenses | 28.1 | 23.2 |
| Accrued intra-group expenses (see note 14) | 26.0 | 13.8 |
| Deferred income | 18.7 | 14.7 |
| Advance payment liability | 149.5 | 91.9 |
| | **309.5** | **161.2** |
| **Non-current liabilities** | **209.0** | **124.0** |
| **Current liabilities** | **100.5** | **37.2** |

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 £18.7m (2019: £14.7m) 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.

The Trade payables balance at 31 March 2020 mainly represents invoices payable to the Company's main works contractors totalling £58.9m

## 10 BORROWINGS

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

The Company's sister company Bazalgette Finance plc operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licenced activities. The proceeds from bonds issued under this platform are on-lent to the Company through a series of back to back loans which have the same economic terms and effectively pass the financing arrangements of the external debt held by Bazalgette Finance plc to the Company.

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 Bazalgette Finance plc issues bonds with deferred draw dates, the proceeds from these bonds are only passed to the Company when the proceeds are received from the bond purchaser on the future settlement dates.

This note provides information about the Company's borrowings, which are measured at amortised cost. Issue costs for all intra-group borrowings have been borne by the Company.

| **Intra-group borrowings** | 2020 £m | 2019 £m |
|---|---|---|
| £250m 2.375% fixed-rate bond 2027 [a] | 247.7 | 247.5 |
| £75m 0.828% index-linked bond 2047 [a, d, e] | 75.0 | 75.0 |
| £200m 0.740% index-linked bond 2042 [a, d, f] | 200.0 | 200.0 |
| £100m 0.688% index-linked bond 2050 [a, d] | 100.0 | 100.0 |
| £100m 0.755% index-linked bond 2051 [a, d] | 100.0 | - |
| £100m 0.249% index-linked bond 2040 [a, d, g] | 100.0 | 100.0 |
| £125m 0.192% index-linked bond 2049 [a, d, h] | 133.1 | - |
| Shareholder loan notes 8.000% fixed rate 2064 [b] | 720.4 | 711.0 |
| **Third party borrowings** | | |
| £300m 2.860% fixed-rate loan 2032 [c] | 305.0 | 303.4 |
| £100m 0.010% index-linked loan 2049 [d] | 100.4 | - |
| £320m Libor+0.360% floating-rate loan 2051 [i] | 327.0 | 162.0 |
| **Total borrowings** | **2,408.6** | **1,898.9** |
| **Current liabilities** | **-** | **-** |
| **Non-current liabilities** | **2,408.6** | **1,898.9** |

a) *Borrowing from Bazalgette Finance plc*
b) *Borrowing from Bazalgette Holdings Limited*
c) *The Company has entered into swap agreements that convert £70.0m of this debt into index-linked debt*
d) *The value of the capital and interest elements of these index-linked bonds and loans are linked to movements in either the Consumer Price Index (CPI) or Retail Price Index (RPI)*
e) *This debt amortises (requires repayment of debt accretion) from 2038*
f) *This debt amortises from 2033 and contains a collar mechanism that limits total accretion repayment within a predetermined range*
g) *This debt amortises from 2036*
h) *This debt amortises from 2045*
i) *The Company has entered into swap agreements that convert £320.0m of this debt into index-linked debt*

### Deferred loans

The Company raised a £75m fixed-rate loan with a deferred period of two years and maturity of 2041 during the year (2019: £nil).

As at 31 March 2020, a total of £455m (2019: £640m) of third-party loans are still deferred. The loan proceeds will be received over the next three years and these loans have maturities of 2041 to 2051. Proceeds of £160m (2019: £160m) from deferred loans were received during the period.

### Deferred purchase bonds

Bazalgette Finance plc placed £75m of deferred purchase bonds during the year ended 31 March 2020 (2019: £325m).

As at 31 March 2020, a total of £550m (2019: £700m) of bonds are still deferred. The bond proceeds will be received over the next three years and these bonds have maturities of 2032 to 2054. Proceeds of £233.1m (2019: £200m) from deferred bonds were received during the period.

## 11 FINANCIAL INSTRUMENTS

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

### Financial assets

| | 2020 £m | 2019 £m |
|---|---|---|
| **Financial assets:** | | |
| Trade and other receivables | 40.7 | 39.2 |
| Cash and cash equivalents | 380.8 | 554.8 |
| Short-term deposits | 157.5 | 90.0 |
| **Total** | **579.0** | **684.0** |

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 at 31 March 2020 and therefore not recognised within the period.

### Financial liabilities

| | 2020 £m | 2019 £m |
|---|---|---|
| **Liabilities at fair value through profit and loss:** | | |
| Derivative financial instruments | 89.0 | 55.7 |
| **Other financial liabilities:** | | |
| Trade and other payables | 309.5 | 161.2 |
| Lease liabilities | 7.0 | - |
| Borrowings | 2,408.6 | 1,898.9 |
| **Total** | **2,814.1** | **2,115.8** |

### 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 Company 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 2020 | | 31 March 2019 | |
|---|---|---|---|---|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| **Financial liabilities at amortised cost: Non-current** | | | | |
| Borrowings – fixed-rate sterling loans | 1,025.4 | 1,171.2 | 1,014.4 | 1,072.5 |
| Borrowings – fixed rate bonds | 247.7 | 260.8 | 247.5 | 254.3 |
| Borrowings – index-linked bonds and loans | 808.5 | 1,000.1 | 475.0 | 579.4 |
| Borrowings – floating-rate sterling loans | 327.0 | 278.6 | 162.0 | 145.4 |
| **Financial liabilities at fair value through profit and loss: Non-current** | | | | |
| Derivatives – index-linked swaps | 89.0 | 89.0 | 55.7 | 55.7 |
| **Total** | **2,497.6** | **2,799.7** | **1,954.6** | **2,107.3** |

### 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 Company.

# Financial Statements
*Notes continued*

## 11 FINANCIAL INSTRUMENTS
### Financial instruments at fair value through profit and loss

The Company'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 credit risk. Estimates of future cash flows are based on well-defined and traded market references.

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

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

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

At 31 March 2020, the Company's derivative financial instruments measured at fair value through profit and loss were transferred from level 3 to level 2 of the fair value hierarchy.

The Company considers all its derivative financial instruments to fall within level 2 as the calculation of the estimated fair value is based on market data inputs which are observable directly or indirectly. The calculation does include unobservable inputs with regards to the determination of credit risk for the Company but these are not considered significant to the valuation.

The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2020:

| | 2020 Level 3 £m | 2019 Level 3 £m |
|---|---|---|
| **Financial instruments at fair value** | | |
| Derivative financial liabilities: | | |
| - Index-linked swaps | 89.0 | 55.7 |
| | **89.0** | **55.7** |

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

The table below 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 2019 | 55.7 |
| **Loss recognised in finance costs** | |
| - Net change in fair value (unrealised) | 33.3 |
| - Transfers out of level 3 and into level 2 | (89.0) |
| **Balance at 31 March 2020** | **-** |

*As at 31 March 2020, the Company did not have any liabilities classified at level 3 of the fair value hierarchy.*

### Capital risk management

The Company's principal objectives in managing capital are:

- To finance the Company while minimising risk – Tideway will adopt a low risk financing strategy. The Company will 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/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 Company 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 Company 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 Company's revolving credit facility (RCF) was restructured during the period, to incorporate a £300m reduction (the closed facility was for £200m of which £160m is committed), lower pricing and a tenor which better reflects the Company's funding needs. This £160m RCF facility remained undrawn at the Statement of Financial position date (2019: £nil draw down).

The Company's sister company Bazalgette Finance plc issued a further £75m (2019: £325m) of bonds via multiple counterparties, taking the total bond issuance to £1.5bn (2019: £1.4bn). The bond issuance includes deferred purchase bonds where bond proceeds will be received over the next three years.

### Management of financial risk

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

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

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2020, the Company had total liquidity in excess of £1.7bn, comprising £532m of unrestricted cash and short-term deposits, the £160m undrawn RCF, the £380m undrawn EIB loan, £550m of deferred purchase bonds (via back to back loans with Bazalgette Finance plc) and £75m of other undrawn loans. 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.

For deferred purchase bonds issued by Bazalgette Finance plc, the Company receives these proceeds at a future settlement date via back to back loans. The Company is therefore exposed indirectly to the counterparties to these deferred bonds on whom it relies to provide funds on the pre-agreed dates. 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.

| | 2020 £m | 2019 £m |
|---|---|---|
| **Borrowings** | | |
| Within one year | (80.0) | (74.5) |
| Between one and two years | (80.1) | (74.2) |
| Between two and five years | (242.1) | (223.7) |
| After more than 5 years | (5,710.8) | (4,654.2) |
| **Total** | **(6,113.0)** | **(5,026.6)** |
| **Derivative financial instruments** | | |
| Within one year | 7.7 | 6.7 |
| Between one and two years | 11.5 | 11.4 |
| Between two and five years | 38.3 | 54.2 |
| After more than 5 years | (167.6) | (141.9) |
| **Total** | **(110.1)** | **(69.6)** |

## 11 FINANCIAL INSTRUMENTS

### Credit risk

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

Credit risk for the Company principally arises from trading (the supply of services) and treasury activities (the depositing of cash). The Company's exposure to trading risk is predominantly with Thames Water which is the Company'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 Company 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 Company 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.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2020 was £579.0m (2019: £684.0m). Analysis of this amount can be found in the financial assets section of this note.

### Market risk - Interest rate risk

The Company'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 Company's debt which bears a fixed, floating or an index-linked rate of interest.

The Company's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2020 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.

The finance costs of the Company'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 Company'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 Company 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, Bazalgette Finance plc continues to issue long dated index-linked bonds in both formats, CPI and RPI bonds, which the Company receives the proceeds on.

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

The table below summarises the sensitivity at 31 March 2020 of the Company's profit and equity to changes in RPI for the Company'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 Company's index-linked borrowings. This analysis also excludes any RPI impact on the Company'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.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | £m +1% | £m -1% | £m +1% | £m -1% |
| (Loss)/profit | (63.4) | 70.8 | (71.6) | 66.2 |
| Equity | (63.4) | 70.8 | (71.6) | 66.2 |

## 12 CAPITAL AND RESERVES

### Called-up share capital

| Allotted, called-up and fully paid ordinary shares of £1 each | Ordinary shares 2020 No. | Ordinary shares 2019 No. |
|---|---|---|
| At the beginning of the year | 509,672,601 | 509,672,601 |
| Issued for cash | - | - |
| **At the end of the year** | **509,672,601** | **509,672,601** |

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

| | 2020 £m | 2019 £m |
|---|---|---|
| At the beginning of the year | (55.7) | (24.7) |
| Loss for the year | (33.3) | (31.0) |
| **At the end of the year** | **(89.0)** | **(55.7)** |

## 13 CONTINGENT LIABILITIES

There are a number of uncertainties surrounding the Company including potential claims, which may affect the financial performance of the Company. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Company 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.

## 14 RELATED PARTIES

Amounts outstanding on borrowings from Bazalgette Holdings Limited are £720.4m (2019: £711.0m). During the year £9.4m (2019: £nil) of loan interest was capitalised back into the intercompany loan principal.

Amounts outstanding on loans from Bazalgette Finance plc are £955.8m (2019: £722.5m) and interest outstanding on these loans totals £26.0m (2019: £13.8m).

During the year ended 31 March 2020, the Company paid £9.7m (2019: £8.5m) to Bazalgette Finance plc with regards to interest payments under its back to back loan terms.

Amounts outstanding on intra-group loans made to Bazalgette Holdings Limited are £53k (2019: £52k) and made to Bazalgette Finance plc are £10.8m (2019: £9.9m).

### Key management personnel

Key management personnel comprise the directors of the Company. The remuneration of the directors is provided in the audited part of the Director's Remuneration Report.

## 15 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

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

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

## 16 SUBSEQUENT EVENTS OCCURRING AFTER THE REPORTING DATE

No material events have occurred between the year end date and the signing of these financial statements that would require the Company to adjust the financial statements or require disclosure in these financial statements.




# Regulatory Reporting



*TBM Annie, assembled at Victoria Deep in North Greenwich, before being moved to Greenwich Pumping Station*

# Regulatory Reporting

*Introduction*

Tideway is building the Thames Tideway Tunnel under the River Thames – creating a healthier environment for London by cleaning up the city's greatest natural asset, now and for the foreseeable future.

This is made possible by our status as an independent regulated water company, licensed by Ofwat to design, build, commission, finance and maintain the Thames Tideway Tunnel and to receive a revenue stream from Thames Water's customers to fund this work. We recognise that this status is a privilege that comes with responsibilities beyond the minimum requirements set out in our project licence and other documents issued by Ofwat.

By pursuing our purpose and our values of safety, legacy, collaboration, innovation and respect, we aim to deliver the project in a way that serves the public interest and maximises value in its broadest sense. Since Tideway came into existence in 2015, our activities have been focused not only on delivering a high quality asset but also on creating wider, long term benefits to society and the environment. We are proud of the progress made during 2019/20 which is set out in the 'Our Performance' section of the strategic report.

To maintain the respect and confidence of our stakeholders, we need to ensure that we meet all requirements put in place by Ofwat to aid comparability between companies and to help the regulator monitor the sector's performance and financial resilience. These requirements are set out in a number of documents, including Ofwat's information notice 'Expectations for monopoly company annual performance reporting 2019-20[1], the Regulatory Accounting Guidelines (RAGs), additional Ofwat guidance including on sufficiency of resources, long-term viability statements and Board leadership, transparency and governance principles, and Tideway's Licence. Where relevant, Tideway follows the reporting requirements applicable to the rest of the water industry. However, as Tideway is a wholesale-only company, with specific regulatory arrangements, in some areas the standard reporting requirements are not relevant. In addition, Tideway's financing differs substantially from other water companies given the £1.3bn injected by our shareholders which included over £760m of shareholder loans. We have worked closely with Ofwat to agree a scope for our regulatory reporting that will enable Ofwat and our stakeholders to understand our performance.

The table on pages 153-155 indicates the requirements that are relevant to Tideway and shows where in this document they can be found.

In August 2019 a number of modifications to Tideway's licence, agreed between the Company and Ofwat, came into effect. These minor modifications simplify and clarify certain parts of the licence and introduce a requirement to meet updated objectives on Board leadership, transparency and governance, and have not had a material adverse effect on the company.

Where appropriate we have indicated in this section where we have observed or anticipate an impact of COVID-19 on our activities.

[1] https://www.ofwat.gov.uk/wp-content/uploads/2020/03/IN-Expectations-for-monopoly-company-annual-performance-reporting-2019.._.pdf

| Required disclosure | Source of requirement | Location in report | Notes |
|---|---|---|---|
| Regulatory accounting statements | Regulatory Accounting Guideline (RAG) 3.11 (section 2) and Tideway's Licence, Condition F | This section, pages 156-169 | Companies must provide certain information on their performance, as specified by Ofwat. Tideway has agreed with Ofwat that it will publish a subset of the standard tables plus three tables unique to us. |
| Note on IFRS 16 (leasing) | Ofwat Information Notice 20/03 | Financial statements: contained within note 1 (accounting policies), pages 138-139. APR impacts shown in notes to tables 1C, 1E and 2D in this section | Where companies have changed the accounting treatment in respect of leases, Ofwat expects them to explain the impact of the change in their annual performance reports (APRs). Companies should provide a reconciliation of their total expenditure to the previous accounting treatment. |
| Financing cost adjustment (FCA) | Tideway's Licence, Part A of Appendix 1 | This section, page 169 | Tideway has a bespoke requirement to report on net debt (as defined by the Licence), and the basis of the calculation of the FCA and its component parts. |
| Transfer pricing information | RAG 3.11 (section 6) | This section, pages 170-171 | |
| Risk and compliance statement | Ofwat Information Notice 20/03 | This section, page 172 | This is the main means by which companies annually certify compliance with their licences and relevant legislation. |
| Data assurance summary | Information Notice 20/03 | This section, pages 176-177 | |
| Description of the link between Directors' pay and standards of performance | Section 35A of the Water Industry Act 1991 and RAG 3.11 (section 3.2) | Remuneration Committee report, pages 110-121 | |
| Statement as to disclosure of information to auditors | RAG 3.11 (section 3.3) | This section, page 169 | |
| Statement on dividend policy for the appointed business (value and basis of dividend/ distribution) | RAG 3.11 (section 3.4) | Financing section of the strategic report, page 57 | 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 receive a cash return on their investment through a combination of payments of interest on the loan and partial repayments of those loans, which now stand at £720.4m. |
| Accounting policy note for price control segments; accounting methodology statement | RAG 3.11 (section 3.5) | N/A | As Tideway operates only within the sewerage segment, this requirement does not apply. |
| Note on revenue recognition | RAG 3.11 (section 3.6) | N/A | This requirement does not apply, as none of the items contained within this requirement are relevant. Tideway has not reported any income statement revenue in 2019/20, either in the statutory accounts or regulatory annual performance report, and does not bill customers directly. |
| Note on capitalisation policy | RAG 3.11 (section 3.7) | Financial statements: contained within note 1 under "Property, plant and equipment" (page 139) | Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A, in this section). |

Table continues on the next page

# Regulatory Reporting

*Introduction*

| Required disclosure | Source of requirement | Location in report | Notes |
|---|---|---|---|
| Note on bad debt policy | RAG 3.11 (section 3.8) | Financial statements: contained within note 1 (accounting policies) under "Revenue" (page 140)<br>'Notes' column of this table gives context | Tideway collects its revenue via Thames Water and does not bill customers directly, so its bad debt policies are different from those of other water and sewerage companies. Tideway continues to assess trade receivables (revenue from TWUL) under the forward looking 'expected loss model' at each reporting date in accordance with IFRS 9 requirements. Note 1 to the statutory accounts ('Impairment' section) refers to the overall approach. |
| Statement on sufficiency of non-financial resources | Tideway's Licence, condition K4.4A and RAG 3.11 (section 3.9) | This section, page 173 | Tideway is required to confirm that (as far as reasonably practicable) it has sufficient non-financial rights and resources to enable a special administrator to carry out its licensed activities. |
| Statement on sufficiency of resources and facilities ('Condition K certificate') | Tideway's Licence, condition K10, RAG 3.11 (section 3.10) and additional Ofwat guidance in Information Notice 20/01, 'Requirements and expectations for ring-fencing certificates'. | This section, pages 173-175 | Tideway is required to confirm that it has sufficient rights and resources (financial and non-financial) to enable it to carry out its licensed activities for at least the next year, and to make a statement of the main factors that the Board has taken into account in endorsing the certificate.<br>For 2019/20 we have taken account of Ofwat guidance in Information Notice 20/01; the 'ring fencing certificates' in this document are equivalent to Tideway's Condition K Certificate. |
| An effective, accessible and clear explanation of how Tideway is meeting the objectives on Board leadership, transparency and governance (BLTG) set out in its licence | Tideway's Licence, condition K2.2-K2.3 and Information Notice 20/03<br>In line with the rest of the sector, Tideway's licence was modified on 1 August 2019 to include this new condition. | Governance report, pages 79-125, and particularly pages 92-93<br>Statement on company direction and performance can be found in the strategic report, pages 22-25 ('Our Strategy' and 'Our Performance' sections) | In January 2019 Ofwat published updated BLTG principles including four overarching objectives accompanied by more detailed guiding provisions. Last year Tideway reported on the steps we were taking to ensure we could meet these principles going forward, and this year we report formally against them for the first time.<br>The 2019 BLTG principles replace both the regulated company and holding company principles from 2014. This annual report provides information on the BLTG principles in relation to the Tideway group companies, rather than reporting on its holding companies in a separate document as in previous years.<br>In previous years, Ofwat information notices have included a requirement to publish an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves. This is now reflected as a provision in the BLTG principles. |
| Tax strategy | RAG 3.11 (section 3.11) | Financial Performance Review (pages 63-64) | 'Tax' section of the Financial Performance Review explains why Tideway does not expect to pay any corporation tax during construction, while 'Tax Strategy' section sets out our overall strategy. |
| Statement on differences between statutory and RAG definitions | RAG 3.11 (section 3.12) | This section: see notes to table 1A (page 157) | The only difference relates to capitalisation of interest. |
| Long-Term Viability Statement | RAG 3.11 (section 3.13) and additional Ofwat guidance in Information Notice 19/07 | Strategic report, pages 72-75 | |

| Required disclosure | Source of requirement | Location in report | Notes |
|---|---|---|---|
| Statement explaining out/under performance of the return on regulated equity (RORE) | RAG 3.11 (section 3.14) | N/A | Ofwat has confirmed that these requirements are not relevant to Tideway. The Company was not part of the PR14 process and does not have a base RORE set at Final Determination, so it is not possible for Tideway to report out/under performance against this measure or to compare actual financial flows against a figure based on notional gearing and RORE. |
| Statement on financial flows | RAG 3.11 (section 4.6) | N/A | |
| Narrative disclosures on performance | RAG 3.11 (section 4) | N/A | These requirements are not relevant to Tideway. Outcome performance and totex (total expenditure, a concept combining capital expenditure and operating expenditure) are not part of the bespoke regulatory regime applying to Tideway.<br>Tideway does not operate in the retail sector, so does not report retail performance figures.<br>Tideway was not subject to the 2014 price review and does not complete table 2I, so does not report a wholesale revenue control reconciliation.<br>Current tax reconciliation is not relevant, as Tideway did not pay any corporation tax in 2019/20. The corporation tax charge of £nil in line 12 of table 1A in this section is calculated on the statutory profit before tax and fair value movements which was £nil (line 1A.9). Further details of the Company's tax calculation can be found in note 5 of the statutory financial statements.<br>Tideway was not subject to the 2014 price review and does not have a value for RORE on which the new financial flows metric is based, so will not provide figures or supporting narrative for this.<br>New connections statement is not relevant to Tideway's business. |
| Ofwat expectations for 2019/20 reporting set out in Information Notice 20/03 | Information Notice 20/03 | N/A | The following sections are not relevant to Tideway's business:<br>• Financial flows table<br>• Leakage and per capita consumption<br>• SIM proxy<br>• Shadow year reporting for C-MeX and D-MeX<br>• Reporting transition expenditure in Table 4B<br>• Information on PR14 reconciliation |
| Audit reports | Report on regulatory accounts required by RAG 3.11, section 2.3<br>Report on condition K certificate not formally required by Tideway's licence but obtained in line with good practice as set out in RAG 3.11, section 3.10 and Ofwat information notices 20/01 and 20/03. | This section, pages 178-183 | |

# Regulatory Accounting Statements

## TIDEWAY'S FINANCIAL POSITION AND PERFORMANCE

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

The numbers within these regulatory accounting statements may look different from those reported by other water companies, due to the unique nature of Tideway. Features of the data reported include:

- Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest, as a result of differences between RAG and statutory treatments (see notes to Table 1A). Allowed Revenue and revenue collected are reported in Table 5A;
- In line with the RAGs, the shareholder loans are reported as debt within the net debt metric in tables 1E and 4H, which means that the related gearing metric is higher than that reported to our Board and investors. Tideway has a separate net debt definition in its Licence, which is used in calculating its revenue (see 'Financing cost adjustment' section below) and excludes shareholder loans; and
- Tideway's regulatory capital value, which is calculated on a cash basis, was zero at Licence Award. On 31 March 2020, it was £2,307.9 (expressed in March 2020 prices).

[2] www.ofwat.gov.uk/wp-content/uploads/2019/01/RAG-3.11-Guideline-for-the-format-and-disclosures-for-the-annual-performance-report-1.pdf



## REGULATORY ACCOUNTS

### 1A – Income Statement

For the 12 months ended 31 March 2020

| | Line description | Units | Statutory | Adjustments: Differences between statutory and RAG definitions | Adjustments: Non-appointed | Adjustments: Total adjustments | Total appointed activities |
|---|---|---|---|---|---|---|---|
| 1 | Revenue | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 2 | Operating costs | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Other operating income | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 4 | Operating profit | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 5 | Other income | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 6 | Interest income | £m | 0.000 | 5.473 | 0.000 | 5.473 | 5.473 |
| 7 | Interest expense | £m | 0.000 | -92.137 | 0.000 | -92.137 | -92.137 |
| 8 | Other interest expense | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 9 | Profit before tax and fair value movements | £m | 0.000 | -86.664 | 0.000 | -86.664 | -86.664 |
| 10 | Fair value gains/(losses) on financial instruments | £m | -33.256 | 0.000 | 0.000 | 0.000 | -33.256 |
| 11 | Profit before tax | £m | -33.256 | -86.664 | 0.000 | -86.664 | -119.920 |
| 12 | UK Corporation tax | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 13 | Deferred tax | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 14 | Profit for the year | £m | -33.256 | -86.664 | 0.000 | -86.664 | -119.920 |
| 15 | Dividends | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

**A Tax analysis**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 16 | Current year | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 17 | Adjustments in respect of prior years | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 18 | UK Corporation tax | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

**B Analysis of non-appointed revenue**

| | | | | | |
|---|---|---|---|---|---|
| 19 | Imported sludge | £m | | | 0.000 |
| 20 | Tankered waste | £m | | | 0.000 |
| 21 | Other non-appointed revenue | £m | | | 0.000 |
| 22 | Revenue | £m | | | 0.000 |

**1A Notes to line items**

**1** Revenue that the Company receives from Thames Water (see Table 5A for analysis) is deferred onto the Statement of Financial Position as the associated services will not be delivered until System Acceptance. This is consistent with the accounting policies that are disclosed in note 1 to the statutory financial statements.

**6&7** Differences between statutory and RAG definitions relate to interest capitalised under IAS 23 'Borrowing Costs' in the statutory financial statements. These are required to be shown in the Income Statement for regulatory reporting.

**14** The difference between the statutory accounts profit and the regulatory accounts profit relates to the net interest expense of £-86.664m.

# Regulatory Accounting Statements
*Continued*

## 1B – Statement of comprehensive income
For the 12 months ended 31 March 2020

| | Line description | Units | Statutory | Adjustments: Differences between statutory and RAG definitions | Adjustments: Non-appointed | Total adjustments | Total appointed activities |
|---|---|---|---|---|---|---|---|
| 1 | Profit for the year | £m | -33.256 | -86.664 | 0.000 | -86.664 | -119.920 |
| 2 | Actuarial gains/(losses) on post employment plans | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Other comprehensive income | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 4 | Total Comprehensive income for the year | £m | -33.256 | -86.664 | 0.000 | -86.664 | -119.920 |

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

## 1C – Statement of financial position
For the 12 months ended 31 March 2020

| | Line description | Units | Statutory | Adjustments: Differences between statutory and RAG definitions | Adjustments: Non-appointed | Total adjustments | Total appointed activities |
|---|---|---|---|---|---|---|---|
| **A** | **Non-current assets** | | | | | | |
| 1 | Fixed assets | £m | 2600.915 | -260.945 | 0.000 | -260.945 | 2339.970 |
| 2 | Intangible assets | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Investments - loans to group companies | £m | 10.900 | 0.000 | 0.000 | 0.000 | 10.900 |
| 4 | Investments – other | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 5 | Financial instruments | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 6 | Retirement benefit assets | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 7 | Total non-current assets | £m | 2611.815 | -260.945 | 0.000 | -260.945 | 2350.870 |
| **B** | **Current assets** | | | | | | |
| 8 | Inventories | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 9 | Trade & other receivables | £m | 242.191 | 0.000 | 0.000 | 0.000 | 242.191 |
| 10 | Financial instruments | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 11 | Cash & cash equivalents | £m | 380.772 | 0.000 | 0.000 | 0.000 | 380.772 |
| 12 | Total current assets | £m | 622.963 | 0.000 | 0.000 | 0.000 | 622.963 |

### 1C Notes to line items

**1** All costs included within fixed assets are on an accruals basis. This differs from the Annual Actual Project Spend in Table 5B, which is on a cash basis.

**9** The £242.2m of 'Trade & other receivables' consists of £84.7m of trade and other receivables (excluding £10.9m loans receivable with group companies reported separately in table 1C) and £157.5m of short-term deposits. This trade and other receivables included current and non-current trade debtors, prepayments and other receivables. Under IFRS, the Statement of Financial Position splits these between £54.9m non-current and £40.7m current.



## 1C – Statement of financial position
For the 12 months ended 31 March 2020

| | Line description | Units | Statutory | Adjustments: Differences between statutory and RAG definitions | Adjustments: Non-appointed | Total adjustments | Total appointed activities |
|---|---|---|---|---|---|---|---|
| **C** | **Current liabilities** | | | | | | |
| 13 | Trade & other payables | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 14 | Capex creditor | £m | -100.471 | 0.000 | 0.000 | 0.000 | -100.471 |
| 15 | Borrowings | £m | -2.092 | 0.000 | 0.000 | 0.000 | -2.092 |
| 16 | Financial instruments | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 17 | Current tax liabilities | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 18 | Provisions | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 19 | Total current liabilities | £m | -102.563 | 0.000 | 0.000 | 0.000 | -102.563 |
| 20 | Net current assets / (liabilities) | £m | 520.400 | 0.000 | 0.000 | 0.000 | 520.400 |
| **D** | **Non-Current liabilities** | | | | | | |
| 21 | Trade & other payables | £m | -209.018 | 0.000 | 0.000 | 0.000 | -209.018 |
| 22 | Borrowings | £m | -2413.523 | 0.000 | 0.000 | 0.000 | -2413.523 |
| 23 | Financial instruments | £m | -88.968 | 0.000 | 0.000 | 0.000 | -88.968 |
| 24 | Retirement benefit obligations | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 25 | Provisions | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 26 | Deferred income - G&C's | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 27 | Deferred income - adopted assets | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 28 | Preference share capital | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 29 | Deferred tax | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 30 | Total non-current liabilities | £m | -2711.509 | 0.000 | 0.000 | 0.000 | -2711.509 |
| 31 | Net assets | £m | 420.706 | -260.945 | 0.000 | -260.945 | 159.761 |
| **E** | **Equity** | | | | | | |
| 32 | Called up share capital | £m | 509.673 | 0.000 | 0.000 | 0.000 | 509.673 |
| 33 | Retained earnings & other reserves | £m | -88.967 | -260.945 | 0.000 | -260.945 | -349.912 |
| 34 | Total Equity | £m | 420.706 | -260.945 | 0.000 | -260.945 | 159.761 |

### 1C Notes to line items (continued)

**15** Current borrowings represent the current split of lease liabilities of £-2.092m outstanding at 31 March 2020 on IFRS 16 property leases. The Company has presented lease liabilities as separate line items from borrowings in the Statement of Financial Position.

**21** Trade & other payables represent the cash amounts received from Thames Water in relation to the Company's revenue, which is deferred onto the Statement of Financial Position until System Acceptance. The revenue is deferred as the associated services will not be delivered until System Acceptance.

**22** Non-current borrowings comprises of the borrowings totalling £-2,408.644m and the non-current split of lease liabilities of £-4.879m outstanding at 31 March 2020 on IFRS 16 property leases.

# Regulatory Accounting Statements
*Continued*

## 1D – Statement of cash flows
For the 12 months ended 31 March 2020

| | Line description | Units | Statutory | Adjustments: Differences between statutory and RAG definitions | Adjustments: Non-appointed | Adjustments: Total adjustments | Total appointed activities |
|---|---|---|---|---|---|---|---|
| **A** | **Statement of cashflows** | | | | | | |
| 1 | Operating profit | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 2 | Other income | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Depreciation | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 4 | Amortisation - G&C's | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 5 | Changes in working capital | £m | 149.048 | 0.000 | 0.000 | 0.000 | 149.048 |
| 6 | Pension contributions | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 7 | Movement in provisions | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 8 | Profit on sale of fixed assets | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 9 | Cash generated from operations | £m | 149.048 | 0.000 | 0.000 | 0.000 | 149.048 |
| **B** | | | | | | | |
| 10 | Net interest paid | £m | 0.000 | -56.733 | 0.000 | -56.733 | -56.733 |
| 11 | Tax paid | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 12 | Net cash generated from operating activities | £m | 149.048 | -56.733 | 0.000 | -56.733 | 92.315 |
| **C** | **Investing activities** | | | | | | |
| 13 | Capital expenditure | £m | -746.225 | 56.733 | 0.000 | 56.733 | -689.492 |
| 14 | Grants & Contributions | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 15 | Disposal of fixed assets | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 16 | Other | £m | -67.500 | 0.000 | 0.000 | 0.000 | -67.500 |
| 17 | Net cash used in investing activities | £m | -813.725 | 56.733 | 0.000 | 56.733 | -756.992 |
| 18 | Net cash generated before financing activities | £m | -664.677 | 0.000 | 0.000 | 0.000 | -664.677 |
| **D** | **Cashflows from financing activities** | | | | | | |
| 19 | Equity dividends paid | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 20 | Net loans received | £m | 490.689 | 0.000 | 0.000 | 0.000 | 490.689 |
| 21 | Cash inflow from equity financing | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 22 | Net cash generated from financing activities | £m | 490.689 | 0.000 | 0.000 | 0.000 | 490.689 |
| 23 | Increase (decrease) in net cash | £m | -173.988 | 0.000 | 0.000 | 0.000 | -173.988 |

**1D Notes to line items**

**10** The net interest paid includes £63.2m of interest paid, partly offset by £6.4m of interest received. Net interest includes interest paid on external borrowings, interest received/paid on net settled derivatives and interest received on cash deposits at 31 March 2020.

**13** The £746.225m of capital expenditure represents cash outflows for the asset under construction.

## 1E – Net debt analysis at 31 March 2020
For the 12 months ended 31 March 2020

| | Line description | Units | Interest rate risk profile: Fixed rate | Interest rate risk profile: Floating rate | Interest rate risk profile: Index-linked | Total |
|---|---|---|---|---|---|---|
| 1 | Borrowings (excluding preference shares) | £m | 1280.123 | 327.002 | 808.490 | 2415.615 |
| 2 | Preference share capital | £m | | | | 0.000 |
| 3 | Total borrowings | £m | | | | 2415.615 |
| 4 | Cash | £m | | | | -380.772 |
| 5 | Short term deposits | £m | | | | -157.500 |
| 6 | Net Debt | £m | | | | 1877.343 |
| 7 | Gearing | % | | | | 81.34% |
| 8 | Adjusted gearing | % | | | | 49.96% |
| 9 | Full year equivalent nominal interest cost | £m | 72.404 | 4.649 | 4.059 | 81.112 |
| 10 | Full year equivalent cash interest payment | £m | 72.404 | 4.649 | 4.059 | 81.112 |
| **A** | **Indicative interest rates** | | | | | |
| 11 | Indicative weighted average nominal interest rate | % | 5.66% | 1.42% | 0.57% | 3.36% |
| 12 | Indicative weighted average cash interest rate | % | 5.66% | 1.42% | 0.57% | 3.36% |
| 13 | Weighted average years to maturity | nr | 28.99 | 31.00 | 26.12 | 28.49 |

**1E Notes to line items**

**3** The borrowings of £2,415.615m represents £720.377m shareholder loans, £955.817m intergroup loans, £732.450m third party borrowings and £6.971m lease liabilities.

**6** The net debt figure differs from the Company's internal net debt amount of £1,314.4m presented in the strategic report. The company's internal net debt measure excludes both the £720.4m shareholder loans and £157.5m short term deposits at 31 March 2020.

**7** As the Company was not part of the 2014 or 2019 Periodic Review processes, it does not have an RCV determined at the Final Determinations. Therefore, the gearing is based on the RCV at 31 March 2020 (as per table 5B). Tideway's shareholder loans are included within the debt figure used to calculate gearing.

**8** Adjusted gearing, in relation to the Company's financial covenants, as per the terms of its financing documents, is the ratio of senior net indebtedness to adjusted RCV. Refer to ratios calculated in the Financial Performance Review.

# Regulatory Accounting Statements
*Continued*

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

For the 12 months ended 31 March 2020

| | Line description | Units | Wholesale | | | | | Retail | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Water Resources | Water Network+ | Wastewater Network+ | Sludge | TTT | Household | Non-Household | Total |
| **A** | **Cost** | | | | | | | | | |
| 1 | At 1 April 2019 | £m | 0.000 | 0.000 | 1663.072 | 0.000 | 0.000 | 0.000 | 0.000 | 1663.072 |
| 2 | Disposals | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Additions | £m | 0.000 | 0.000 | 678.839 | 0.000 | 0.000 | 0.000 | 0.000 | 678.839 |
| 4 | Adjustments | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 5 | Assets adopted at nil cost | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 6 | At 31 March 2020 | £m | 0.000 | 0.000 | 2341.911 | 0.000 | 0.000 | 0.000 | 0.000 | 2341.911 |
| **B** | **Depreciation** | | | | | | | | | |
| 7 | At 1 April 2019 | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 8 | Disposals | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 9 | Adjustments | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 10 | Charge for the year | £m | 0.000 | 0.000 | -1.941 | 0.000 | 0.000 | 0.000 | 0.000 | -1.941 |
| 11 | At 31 March 2020 | £m | 0.000 | 0.000 | -1.941 | 0.000 | 0.000 | 0.000 | 0.000 | -1.941 |
| **C** | | | | | | | | | | |
| 12 | Net book amount at 31 March 2020 | £m | 0.000 | 0.000 | 2339.970 | 0.000 | 0.000 | 0.000 | 0.000 | 2339.970 |
| 13 | Net book amount at 1 April 2019 | £m | 0.000 | 0.000 | 1663.072 | 0.000 | 0.000 | 0.000 | 0.000 | 1663.072 |
| **D** | **Depreciation charge for year** | | | | | | | | | |
| 14 | Principal services | £m | 0.000 | 0.000 | -1.941 | 0.000 | 0.000 | 0.000 | 0.000 | -1.941 |
| 15 | Third party services | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 16 | Total | £m | 0.000 | 0.000 | -1.941 | 0.000 | 0.000 | 0.000 | 0.000 | -1.941 |

### 2D Notes to line items

**All** For the purposes of completing table 2D, Tideway has classified all of its activities as falling within the wholesale wastewater segment. This approach reflects that Tideway is constructing a single asset, the Thames Tideway Tunnel, which will be used solely for sewage collection activities. The Company has no direct relationship with customers and carries out no activities that could be classified as retail.

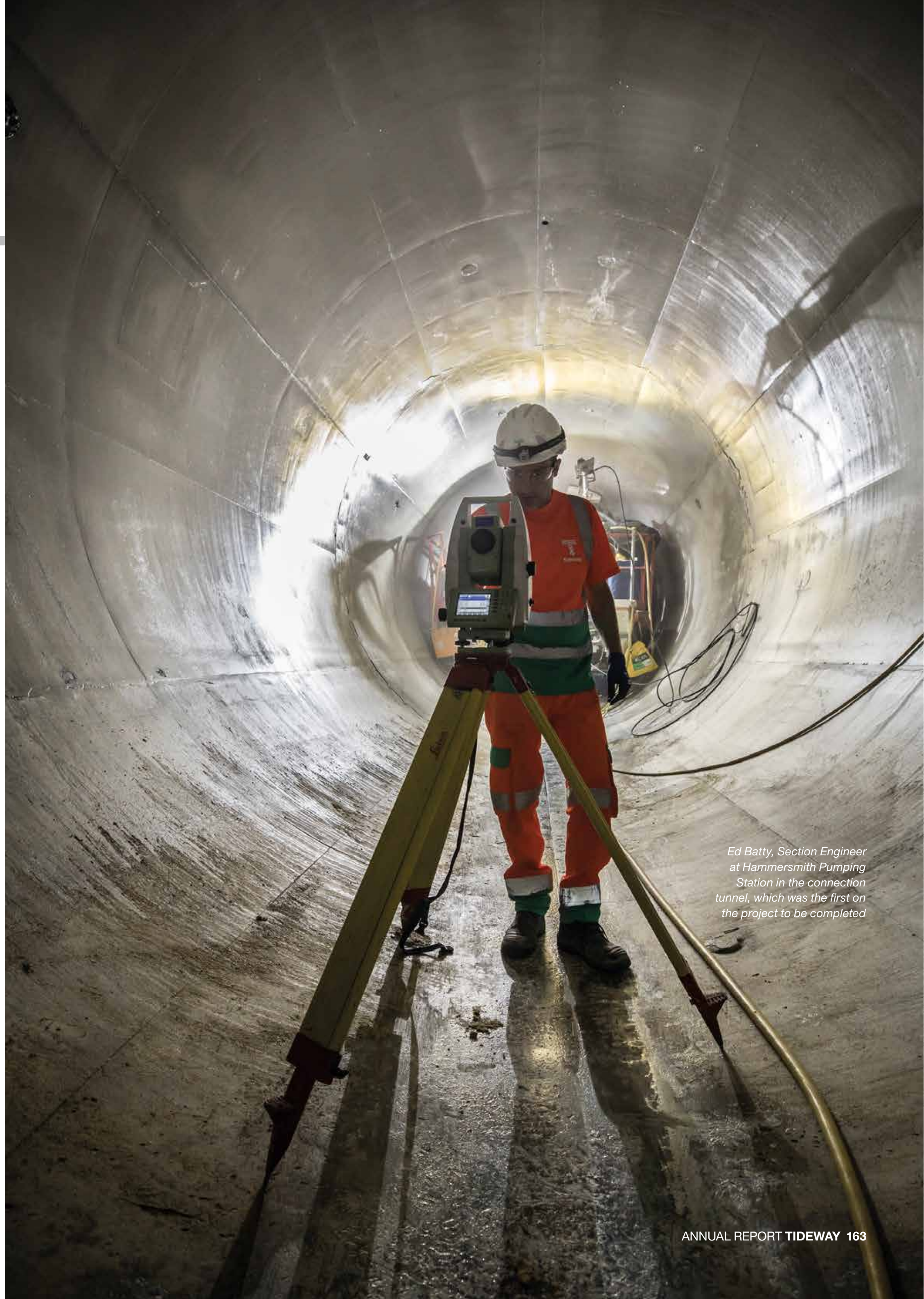
The approach to this table therefore aligns both to the general principles set out in Regulatory Accounting Guideline 2.07, including those of transparency and causality, and with the definitions of wholesale activities set out in Regulatory Accounting Guideline 4.08.

**1** The Opening balance at 1 April 2019 reflects both the tunnel asset and the modified retrospective transition approach of IFRS 16 applied by the Company at the date of transition. Therefore £8.77m of Right-of-Use (ROU) Assets were recorded on transition. These ROU assets relate to the Company's property leases which meet the new lease definition under IFRS 16.

**3** All additions in the year were to assets under construction.

**10 & 14** The ROU assets are being depreciated over the remaining lease terms on the Company's existing property leases under IFRS 16. The depreciation presented here is accounting depreciation only, and regulatory depreciation remains zero.





*Ed Batty, Section Engineer at Hammersmith Pumping Station in the connection tunnel, which was the first on the project to be completed*

# Regulatory Accounting Statements
*Continued*

### 4H – Financial metrics
For the 12 months ended 31 March 2020

| | Line description | Units | Current year | AMP to date |
|---|---|---|---|---|
| **A Financial indicators** | | | | |
| 1 | Net debt | £m | 1877.343 | |
| 2 | Regulated equity | £m | 430.573 | |
| 3 | Regulated gearing | % | 81.34% | |
| 4 | Post tax return on regulated equity | % | -20.84% | |
| 5 | RORE (return on regulated equity) | % | n/a | n/a |
| 6 | Dividend yield | % | n/a | |
| 7 | Retail profit margin - Household | % | 0.00% | |
| 8 | Retail profit margin - Non household | % | 0.00% | |
| 9 | Credit rating | Text | Baa1 | |
| 10 | Return on RCV | % | 0.00% | |
| 11 | Dividend cover | dec | n/a | |
| 12 | Funds from operations (FFO) | £m | -56.733 | |
| 13 | Interest cover (cash) | dec | 0.10 | |
| 14 | Adjusted interest cover (cash) | dec | 0.10 | |
| 15 | FFO/Debt | dec | -0.03 | |
| 16 | Effective tax rate | % | 0.00% | |
| 17 | RCF | £m | -56.733 | |
| 18 | RCF/capex | dec | -0.08 | |
| **B Revenue and earnings** | | | | |
| 19 | Revenue (actual) | £m | 0.000 | |
| 20 | EBITDA (actual) | £m | 0.000 | |

| | Line description | Units | Current year | AMP to date |
|---|---|---|---|---|
| **C Movement in RORE** | | | | |
| 21 | Base return | % | n/a | n/a |
| 22 | Totex out / (under) performance | % | n/a | n/a |
| 23 | Retail cost out / (under) performance | % | n/a | n/a |
| 24 | ODI out / (under) performance | % | n/a | n/a |
| 25 | Financing out / (under) performance | % | n/a | n/a |
| 26 | Other factors | % | n/a | n/a |
| 27 | Regulatory return for the year | % | 0.00% | 0.00% |
| **D Borrowings** | | | | |
| 28 | Proportion of borrowings which are fixed rate | % | 52.99% | |
| 29 | Proportion of borrowings which are floating rate | % | 13.54% | |
| 30 | Proportion of borrowings which are index linked | % | 33.47% | |
| 31 | Proportion of borrowings due within 1 year or less | % | 0.00% | |
| 32 | Proportion of borrowings due in more than 1 year but no more than 2 years | % | 0.00% | |
| 33 | Proportion of borrowings due in more than 2 years but but no more than 5 years | % | 0.29% | |
| 34 | Proportion of borrowings due in more than 5 years but no more than 20 years | % | 27.02% | |
| 35 | Proportion of borrowings due in more than 20 years | % | 72.69% | |

**4H Notes to line items**

**1&3** As shown in table 1E, Tideway's borrowings, which includes shareholder loans, intra-group loans, 3rd party loans and lease liabilities, exceed its cash and cash equivalents and hence it has a net debt position. Applying the line definitions specified by Ofwat results in positive figures for the net debt on line 1 (which is directly taken from table 1E) and consequently regulated gearing in line 3.

**2,3&4** As the Company was not part of the 2014 or 2019 Periodic Review processes (PR14/PR19), it does not have an RCV determined at Final Determinations. Therefore the regulated equity, regulated gearing and post-tax return on regulated gearing are calculated based on the RCV at 31 March 2020 (in table 5B)

**5 & 21-26** The calculation of RORE is not applicable as the Company was not part of the PR14 or PR19 processes and does not have a base RORE set at Final Determinations.

**6&11** As explained in the Financial Performance Review, there were no dividends paid or proposed during the period. Therefore all the dividend-based financial metrics are reported as not applicable.

**7&8** The retail profit margins are not applicable as Tideway has no retail business

**9** The Company has been assigned a corporate credit rating of Baa1 by Moody's, with a stable outlook.

**12-15 & 17-18** The ratios presented in this table are calculated in line with the RAG methodology. As Tideway has £nil operating profit (Table 1A, line 4) due to its accounting policies, this creates some distortion in the ratios linked to funds from operations (FFO) as required by the RAG methodology. These ratios are not considered to reflect business performance.

**16** The effective tax rate of 0.00% is a result of the Company having no taxable profits in the year.

**19** The revenue the Company receives from Thames Water is recognised as deferred in the Statement of Financial Position until System Acceptance. This is consistent with Table 1A line 1.

# Regulatory Accounting Statements
*Continued*

## 4I – Financial derivatives
For the 12 months ended 31 March 2020

| | Line description | Units | Nominal value by maturity (net): 1 to 2 years | 2 to 5 years | Over 5 years | Total value at 31 March 2020: Nominal value (net) | Mark to Market | Total accretion at 31 March 2020 | Units | Interest rate (weighted average for 12 months to 31 March 2020): Payable | Receivable |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | **Interest rate swap (sterling)** | | | | | | | | | | |
| 1 | Floating to fixed rate | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 2 | Floating from fixed rate | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 3 | Floating to index linked | £m | 0.000 | 0.000 | 620.000 | 620.000 | -88.261 | -7.002 | % | RPI -0.838% | 3-month Libor +0.36% |
| 4 | Floating from index linked | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 5 | Fixed to index-linked | £m | 0.000 | 0.000 | 70.000 | 70.000 | -0.707 | -5.047 | % | RPI -0.454% | Fixed 2.86% |
| 6 | Fixed from index-linked | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 7 | Total | £m | 0.000 | 0.000 | 690.000 | 690.000 | -88.968 | -12.049 | | | |
| **B** | **Foreign Exchange** | | | | | | | | | | |
| 8 | Cross currency swap USD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 9 | Cross currency swap EUR | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 10 | Cross currency swap YEN | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 11 | Cross currency swap Other | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 12 | Total | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | | |
| **C** | **Currency interest rate** | | | | | | | | | | |
| 13 | Currency interest rate swaps USD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 14 | Currency interest rate swaps EUR | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 15 | Currency interest rate swaps YEN | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 16 | Currency interest rate swaps Other | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 17 | Total | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | | |
| **D** | **Forward currency contracts** | | | | | | | | | | |
| 18 | Forward currency contracts USD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 19 | Forward currency contracts EUR | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 20 | Forward currency contracts YEN | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 21 | Forward currency contracts CAD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 22 | Forward currency contracts AUD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 23 | Forward currency contracts HKD | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 24 | Forward currency contracts Other | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| 25 | Total | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | | |
| **E** | **Other financial derivatives** | | | | | | | | | | |
| 26 | Other financial derivatives | £m | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 0.00% | 0.00% |
| **F** | **Total** | | | | | | | | | | |
| 27 | Total financial derivatives | £m | 0.000 | 0.000 | 690.000 | 690.000 | -88.968 | -12.049 | | | |

## 5A – Revenue analysis

| | | £m | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Allowed revenue | Payment from TWUL received in period: 2019/20 Apr-Sep | 2019/20 Oct-Mar | 2018/19 Apr-Sep | 2018/19 Oct-Mar | Previous years Apr-Sep | Previous years Oct-Mar | Total |
| 1 | 2015/16 | 11.164 | 0.407 | -1.064 | 0.269 | 0.236 | 16.383 | 15.473 | 31.704 |
| 2 | 2016/17 | 22.439 | | | | | | | |
| 3 | 2017/18 | 28.559 | 0.229 | 1.973 | 2.449 | 0.406 | 9.276 | 12.406 | 26.739 |
| 4 | 2018/19 | 49.236 | 10.712 | 1.003 | 16.314 | 18.713 | n/a | n/a | 46.742 |
| 5 | 2019/20 | 63.431 | 20.080 | 24.270 | n/a | n/a | n/a | n/a | 44.350 |

**5A Notes to line items**

**1-5** Tideway's allowed revenue is calculated in respect of each charging year (equal to the financial year in 2016/17 and beyond) using the methodology set out in its Licence. The allowed revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and as it is collected passes it through to Tideway, which may be during or after the relevant charging year. This table records the cash amounts received from Thames Water during the periods shown. Total payments received from Thames Water during the period 2019/20 were £57.6m.

**1-2** Tideway's allowed revenue was first billed by Thames Water for the 2016/17 charging year, as this could only be calculated following the award of Tideway's Licence in August 2015. Tideway did not receive any payments from Thames Water in 2015/16. As both 2015/16 and 2016/17 allowed revenue were billed together in 2016/17, these amounts are collected together and are not recorded separately in the table above.

**1-5** The 'Total' column outlines the total payments received from Thames Water as at 31 March 2020 in respect of each charging year, to show that payments received do not exceed the respective Allowed Revenue.

**1-5** As explained in the notes to Table 1A, the Company will recognise all revenue as deferred income during the construction phase. This table is prepared on a cash basis and therefore only revenue payments received in the year are included.

The negative payment received in respect of the 2016/17 charging year reflects corrections made by Thames Water, with the majority of the downward adjustment to 2016/17 reallocated to the 2017/18 charging year.

# Regulatory Accounting Statements
*Continued*

## 5B – Expenditure analysis

| | | £m, 2014/15 prices | | | | £m, outturn prices | | |
|---|---|---|---|---|---|---|---|---|
| | | 2019/20 | 2018/19 | Previous years | Total since Licence Award | 2019/20 | 2018/19 | Previous years |
| 1 | Annual Base Case Forecast | 486.089 | 522.927 | 1132.267 | 2141.283 | 550.432 | 577.206 | 1183.706 |
| 2 | Total expenditure | 597.599 | 607.271 | 1217.810 | 2422.679 | 676.704 | 670.304 | 1275.418 |
| 3 | Excluded Project Spend | 59.102 | 72.737 | 249.505 | 381.345 | 66.926 | 80.287 | 260.120 |
| 4 | Non-regulated expenditure | 4.347 | 6.512 | 5.987 | 16.846 | 4.922 | 7.188 | 6.299 |
| 5 | Annual Actual Project Spend | 534.150 | 528.021 | 962.316 | 2024.487 | 604.856 | 582.829 | 1009.000 |
| 6 | Variance from Base Case (£m) | 48.061 | 5.094 | -169.951 | -116.796 | 54.424 | 5.623 | -174.706 |
| 7 | Variance (%) | 9.9% | 1.0% | -15.0% | -5.5% | 9.9% | 1.0% | -14.8% |
| | As at 31 March | | | | | | | |
| 8 | RCV | 2024.487 | 1490.337 | 962.316 | | 2307.916 | 1655.436 | 1043.426 |

**5B Notes to line items**

**1-8** The ‘Previous Years’ column consolidates 2015/16, 2016/17 and 2017/18 data. **These are all consistent with definitions in Tideway’s Licence.**

**1** Tideway’s Annual Base Case Forecast, its annually profiled regulatory baseline, is included in its Licence. The figure reported for each financial year is subject to defined inflationary adjustments, as set out in Appendix 1 of Tideway’s Licence. For this report, the adjustments for 2018/19 and 2019/20 have been applied using the inflation data at 22 April 2020. For this reason, the figures reported above differ from the £530.6m and £497.2m set out in the Licence. The 2018/19 figure also differs slightly from that in the last annual report, as certain construction indices which were provisional at the time of calculation have now been finalised.

**3** Excluded Project Spend is defined in Tideway’s Licence and includes certain specified categories of spending that are not included in Tideway’s RCV. In 2019/20, Excluded Project Spend related primarily to VAT and financing costs.

**4** Non-regulated expenditure relates to activity that is neither Allowable nor Excluded Project Spend. For example, this includes office facilities and software for Thames Water staff working on the interface between the two organisations. To avoid customers paying twice for the same expenditure, it is not included in Tideway’s Regulatory Capital Value but is recorded as non-regulated expenditure at the point the money is recovered from Thames Water, and Annual Actual Project Spend for the year is correspondingly lower.

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

**1-7** Expenditure is in both outturn and 2014/15 prices. The figures in outturn prices are deflated to 2014/15 prices using the financial year average RPI.

**7** Percentage variance figures for previous years in 2014/15 and outturn prices do not exactly match due to impact of summing outturn figures in different price bases.

**8** RCV is in both outturn and 2014/15 prices. The figures in 2014/15 prices are the cumulative Annual Actual Project Spend deflated using the financial year average RPI. The RCV for each year is inflated at the year-end price and therefore differs from the sum of outturn Annual Actual Project Spend (line 5). Previous Years’ RCV is RCV at 31 March 2018.

**9** This table is prepared on a cash basis and therefore only expenditure in the year is included.

**10** The excluded costs of £71.8m presented in the table on page 60 includes £66.9m of excluded spend and £4.9m of non-regulated spend as shown in table 5B.

## 5C – Alliance Agreement payments

| | | £m, 2014/15 prices | | | | £m, outturn prices | | |
|---|---|---|---|---|---|---|---|---|
| | | 2019/20 | 2018/19 | Previous Years | Total since Licence Award | 2019/20 | 2018/19 | Previous years |
| 1 | Alliance Agreement payments received | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 2 | Alliance Agreement payments made | 0.149 | 0.800 | 12.140 | 13.089 | 0.168 | 0.883 | 12.640 |

**5C Notes to line items**

**1&2** The ‘Previous Years’ column consolidates 2015/16, 2016/17 and 2017/18 data.

**1&2** This table is prepared on a cash basis and therefore only payments received and made in the year are included.

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

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

### Financing cost adjustment

The financing cost adjustment is a mechanism in Tideway’s Licence that shares the impacts of movements in the market cost of debt, above certain thresholds, between Tideway and Thames Water’s customers. To ensure transparency in relation to this adjustment, Tideway is required by Part A of Appendix 1 of its Licence to report on:

- Net debt (as defined by the Licence). At 31 March 2020 this was £1,156.9m.This figure was calculated by taking Tideway’s net debt of £1,877.3m (as per table 1E) and removing the £720.4m of shareholder loans. Shareholder loans are included in Tideway’s net debt using the definitions in the Regulatory Accounting Guidelines but are not included in the net debt figure calculated in accordance with Tideway’s Licence.
- The basis of the calculation of the Financing Cost Adjustment and its component parts: this is included in Tideway’s annual Revenue Statement *(see https://www.tideway.london/media/3996/tideway-revenue-statement-2020-21.pdf).*

### Disclosure of information to the auditor[3]

The Directors who held office at the date of approval of the ‘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.

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

# Transfer Pricing Information

## TRANSFER PRICING INFORMATION

To demonstrate that it is operating at arm's length from other companies in the same group and that no cross-subsidies exist, Tideway is required by Regulatory Accounting Guideline 3.11 to disclose details of transactions with associated companies. The Tideway group structure is described on pages 123-124.

| Service received by regulated business | Company | Turnover of associate | Terms of supply | Value |
|---|---|---|---|---|
| Shareholder loans | Bazalgette Holdings Ltd | – | The shareholder loans were included in the financing plan that was part of the bid Tideway's owners made for the company. Bids were evaluated as part of the procurement process for the infrastructure provider, against criteria that included the rate of return required by bidders and the financial resilience of the proposed financing structure.<br>The shareholder loans have a maturity date of 2064. | **£720.4m outstanding** at 31 March 2020 (of £764.5m initially contributed by shareholders) |
| Intra-group loans | Bazalgette Finance Plc | – | Tideway has £955.8m of loans payable to its sister company Bazalgette Finance plc, which operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licensed activities. The proceeds from bonds issued under this platform are lent to Tideway through a series of back to back loans, which have substantively the same economic terms and effectively pass to Tideway the financing arrangements of the external debt held by Bazalgette Finance plc. These intra-group loans have maturity dates ranging from 2027 to 2051 (further detail in note 10 to the statutory accounts). | **£955.8m outstanding** at 31 March 2020 |

| Service provided by regulated business | Company | Turnover of associate | Terms of supply | Value |
|---|---|---|---|---|
| Intra-group loans | Bazalgette Holdings Ltd | - | Tideway has a £53k loan receivable from its immediate parent Bazalgette Holdings Limited, lent for the purposes of Bazalgette Holdings Limited's capitalisation of Bazalgette Finance plc during 2016/17. The loan is on arm's length commercial terms, bearing an annual interest rate of 3-month Libor+85bp. | **£0.05m outstanding** |
| Intra-group loans | Bazalgette Finance Plc | - | Tideway has an £10.8m loan receivable from its sister company Bazalgette Finance plc, lent for the purposes of funding Bazalgette Finance plc's debt reserve service account. The loan is on arm's length commercial terms, bearing an annual interest rate of 6-month Libor+85bp. | **£10.8m outstanding** |

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

**RAG 3.11 requires companies to report:**

- corporation tax group relief received or surrendered by the regulated business; and
- the basis of the recharge made by the appointed business, where appointed business assets have been used to carry out non-appointed activities.

Tideway had no such transactions to report in 2019/20.

# Risk and Compliance Statement

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

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

The listed instruments are considered to define the major obligations on Tideway. Any obligations not covered are considered to be at low risk of non-compliance.

This statement complements a number of other Tideway reporting practices, such as quarterly reporting of project information to the Liaison Committee, which is attended by representatives from Ofwat, Government, the Environment Agency and TWUL as well as the Independent Technical Assessor (ITA), and regular information sharing with the ITA, Environment Agency and other sources of scrutiny. These practices help to ensure transparency and accountability regarding Tideway's compliance with its statutory, licence and regulatory obligations. In this regard Tideway's Board confirms that:[5]

- The Company considers that it has full understanding of, and is meeting, its obligations. The Board considers that Tideway had no material instances of non-compliance with the listed statutory, licence and regulatory obligations throughout 2019/20.

Under the umbrella of its assurance policy, strategy and plan, Tideway has a range of processes for ensuring compliance. These processes are captured in the integrated assurance framework overseen by the Compliance and Assurance Review Group, led by the CEO; details of this group are provided in the Risk Management section.

In relation to Tideway's Licence obligations, each obligation is allocated to the owner within Tideway with the most relevant expertise. These owners are responsible for ensuring compliance and putting in place appropriate processes and first line assurance (defined in the data assurance section). The assurances given in this statement are underpinned by the Regulation team's risk-based reviews of compliance, in which the frequency and degree of scrutiny applied and the level of evidence requested in relation to each obligation reflects the likelihood and potential severity of breach, as assessed using a common set of standards. This approach is supplemented by quarterly management reviews. Tideway's internal audit function carried out a review of Licence compliance in relation to 2019/20 and concluded that the controls in place were effective.

Tideway's legal team manages compliance with our legal obligations. The team monitors and supports compliance on an ongoing basis, undertakes periodic audits, and identifies and prepares for legislative changes that may impact Tideway. To support compliance, the team promotes awareness of key legislative requirements across the business. Training is provided on specific topics such as fraud awareness and the General Data Protection Regulation. The legal team also scrutinises procurements, to ensure compliance with the procurement regime applicable to Tideway.

The results of the assurance processes underlying this Risk and Compliance Statement have been reported to Tideway's Audit and Finance Committee, which recommended to the Board that it make the statements in this section.

- The Company has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations. Tideway is committed to continuous improvement and as such we will continue to refine our processes, to support ongoing compliance.
- The Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks. The steps taken to manage or mitigate material risks are covered in the Risk Management section of the Strategic Report. At the Board Risk Committee meeting in January 2020, the Committee reviewed Tideway's approach to corporate risk management covering all business areas. Committee members were given an opportunity to discuss the principal and corporate risks facing the business, reflecting the current stage of the project and relevant external influences. The Committee also reviewed Tideway's risk appetite to ensure it remains appropriate and reflects the current business environment.

The arrangements for managing COVID-19-linked risks have reflected their rapidly evolving nature. In the early stages the pandemic was classified as an incident and managed as such in line with Tideway policies and with full Board involvement. As the situation develops, Tideway is putting in place arrangements for ongoing review, management and mitigation of the risk reflecting the needs of each area of the project and the potential impact on our stakeholders. Further detail is provided in the Our Performance and Risk Management sections of the strategic report.

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

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



# Condition K Reporting

## SUFFICIENCY OF NON-FINANCIAL RESOURCES

Condition K4.4A of Tideway's Licence requires it to make an annual statement regarding the sufficiency of its non-financial resources, in case of special administration. The Board confirms that as at 31 March 2020, as far as reasonably practicable, Tideway had available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage Tideway's affairs, business and property in accordance with the purposes of the special administration order.

## SUFFICIENCY OF RESOURCES AND FACILITIES (CONDITION K CERTIFICATE)

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

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

As detailed below, the Board's consideration of the resources available to Tideway over the next 12 months has included the estimated impact of COVID-19. Tideway's assessment of these impacts and mitigations is summarised within the Long Term Viability Statement (pages 72-75), 'Our response to the COVID-19 pandemic' (page 25) and Risk Management (pages 65-71) sections of this report. The above statements reflect the Board's assessment at the date of the certificate, although confidence levels are lower than in previous years due to the unprecedented pace of change from COVID-19. The process followed by the Board in reaching its conclusions, which is set out below, has been designed to ensure a robust assessment of sufficiency of resources and maximise the degree of confidence it is able to attach to those conclusions. We are keeping the situation under review, and should events after the date of the certificate mean that the Board is no longer able to give the same opinion, Tideway will inform Ofwat as required by our licence.

Tideway's Board endorsed the above statements on 25 June 2020. Before doing so, the Board:

- Reviewed and discussed a draft Condition K Certificate and supporting paper at a workshop in May 2020; and
- Reviewed the final form of the certificate at its June 2020 meeting.

KPMG's report is presented on pages 182-183.

The Board's reviews were supported by papers showing the view of the most relevant Tideway Director or internal expert on whether Tideway has sufficient resources for at least the next 12 months in each area listed in the table below. They also described the processes, systems and evidence that had led them to this view.

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.

The Board considers that Tideway has sufficient resources in all areas. In reaching this conclusion it paid particular attention to the following:

- Adequacy of processes such as Tideway's Financing Plan, Annual Budget, Annual Business Plan, Treasury Report and resource planners that provide the Board with an overall view on sufficiency of resources;
- Resources considered critical to mitigating the short to medium term impacts of COVID-19, such as business continuity plans and liquidity;
- Resources considered potentially vulnerable to the impacts of COVID-19 or previously identified risks such as a no deal Brexit, such as availability of specialist staff, and how the risks are being mitigated; and
- Governance, assurance and risk management processes that test the robustness of Tideway processes and conclusions on sufficiency of resources.

**The table on the following pages summarises the processes, systems and evidence considered in confirming sufficiency of resources in each area.**

# Condition K Reporting

| Area | Factor | Summary of information considered |
|---|---|---|
| Financial resources and facilities | Financial details, e.g. cash position, financial headroom, refinancing undertaken/planned. | Forward looking liquidity; covenants in financing documents; Treasury policies, plans and assurance. Further detail in Financing section of strategic report. |
| | Performance against Final Determinations (FDs) set at the last price review. | As Tideway was not part of the last Ofwat price review, the Board considered performance against Tideway's regulatory baseline and potential direct and indirect impacts of the forecast. |
| | Credit related factors e.g. credit facilities, ratings, compliance with covenants etc. | Regular reviews with rating agencies; discussions of pandemic impact with rating agencies; credit metrics; Treasury policies; financing document compliance; investor reporting. |
| | Business plans, long-term viability statements, etc. | 2020/21 business plan approved by Board in March 2020. High level of Board engagement on COVID-19 impacts and approval of annual report including Long Term Viability Statement (pages 72-75). |
| | Any relevant reports – internal or third-party. | KPMG review of Condition K Certificate for consistency with audit findings. Internal reports considered under other factors wherever relevant. |
| Management resources | Management skills, experience and relevant qualifications. | Human Resources (HR) processes in place to identify and meet skill, experience and qualification requirements. |
| | Recruitment process, staff engagement. | HR processes in place; results of annual staff engagement survey. See also Company and People section of strategic report (page 46). |
| | Succession planning for key management/staff. | Annual reviews of senior roles; scrutiny by Nomination Committee. COVID-19 risk mitigated by team business continuity plans and contingency plans maintained by Nomination Committee. |
| | Quality of management/staff induction and other training and development. | Results of staff engagement survey. |
| | Process for ensuring diversity of perspectives. | **For staff and management:** approach to recruitment; internal activities to promote inclusivity; results of staff engagement survey.<br>**For the Board:** current Board composition; succession planning arrangements. |
| | Board or management activities, reports or statements. | **Board:** see Governance section.<br>**Management:** monthly performance reviews led by CEO; quarterly reporting to Liaison Committee<br>Additional reporting in place in response to COVID-19. |
| | Independence of Board. | See Governance section. |
| Systems of planning and internal control | Governance procedures; risk management frameworks, oversight procedures. | **Governance:** Board independence; internal control and delegated authority procedures; contract approval process.<br>**Risk management:** see strategic report (pages 65-71).<br>**Oversight:** Compliance and Assurance Review Group (see pages 65-66) and Tideway's Integrated Assurance Framework. |
| | Internal and/or external audit policies, processes, activities and/or reports | Internal Audit policy, strategy, procedures and reporting<br>External audit summarised in Data Assurance section of this report. |
| | Systems for maintaining supply / business continuity, stated action plans. | Emergency Preparedness and Resilience Framework and Business Continuity Management Process; arrangements for review and integration of lessons learned. |
| | Policies to prevent fraud and other unethical behaviour; whistleblowing policy. | Ethical behaviours and whistleblowing policies; mandatory training on antifraud, bribery and corruption. |
| | Risk, compliance other assurance statements. | See Risk and Compliance Statement (page 172) and data assurance summary (pages 176-177). |

| Area | Factor | Summary of information considered |
|---|---|---|
| Rights and resources other than financial resources | Corporate missions and/or values. | See 'Our purpose' section (pages 8-9).<br>Recent Board review and discussion of company purpose, values and culture (page 89). |
| | Technology and other systems for ensuring checks and balances. | Technology considerations including range of service providers; cloud-based systems; cybersecurity arrangements. Examples of how these systems are being used to ensure checks and balances. |
| | Policies to encourage an integrated approach and 'systems thinking'. | Arrangements for integrating our delivered tunnel with the Lee Tunnel and Beckton for operations.<br>Broader context for delivery, including legacy commitments (see pages 10-11).<br>Integration across the Alliance. |
| | Planning systems. | Role of the Programme Manager in integration of planning and scheduling activities.<br>Tideway's Programme Integrated Management System (single source of project delivery information) and Tideway assurance.<br>Arrangements being put in place for long term asset management. |
| | Assets maintenance / insurance factors. | Insurances in place and renewal arrangements in progress.<br>Third party asset protection arrangements in place.<br>Plans for asset management post construction. |
| Contracting | Position/status of key contracts in place. | Most key contracts were in place at Licence Award; Legal team manages new contracts or variations to existing contracts. Contract approval form and other processes ensure compliance of contract terms with our licence, project documents and financing agreements. |
| | All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards. | Assurance via the licence compliance process (see Risk and Compliance Statement, page 172). |
| | Note on transactions between the Appointee and any Associated Company. | See pages 170-171. |
| | Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I). | Assurance via the licence compliance process (see Risk and Compliance Statement, page 172). |
| | No Guarantees or Cross-Default Obligations given without Ofwat's written consent. | Assurance via the licence compliance process (see Risk and Compliance Statement, page 172). |
| Material issues or circumstances | Supply chain availability. | Key risks and mitigations, including consideration of COVID-19 impact. See Risk Management section of strategic report, pages 65-71. |
| | Stakeholder and community support. | See 'Engaging with our external partners' (pages 14-15) and 'Vision, Legacy and Reputation' sections of strategic report (page 40). |

## BOARD ENDORSEMENT

All disclosures in this regulatory report, including the Risk and Compliance Statement, and Condition K Certificate, were approved by the Board on 25 June 2020 and the report was signed on its behalf by:

**Andy Mitchell**
**Chief Executive Officer**

**Sir Neville Simms**
**Chairman**

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

# Data Assurance Summary

We recognise the importance of providing accurate information and explaining how the information has been assured, in order for our stakeholders to trust it. To ensure that the information in the Annual Report is reliable, Tideway has an established data assurance methodology, consistent with its assurance policy, strategy and plan.

### Overview of assurance approach

The Audit and Finance Committee and Board have endorsed the Company's assurance framework, reflecting the 'three lines of defence' approach. Our Compliance and Assurance Review Group (CARG) oversees our compliance and assurance practices, and shares its findings with the Audit and Finance Committee and the Board. As well as the activities to assure this annual report described below, there are also independent (third line) assurances during the course of the year including:

- Internal audit function covering financial and non-financial processes across the business
- External auditor carries out a series of agreed checks (known as "agreed upon procedures") on our Revenue Statement submissions to Ofwat.
- Independent Technical Assessor (ITA) reviews information on the progress of the project, verifies Tideway's Allowable Project Spend and produces quarterly reports on Tideway's reporting to Government.

The ITA is co-located with Tideway and is given full access to information.

## ASSURANCE OF 2019/20 ANNUAL REPORT

Tideway's Internal Audit function reviewed our assurance methodology and provided a written opinion on the approach, described here.

### First and second line assurance

The functional areas responsible for different sections of the report undertook the first line of defence.

- Each section owner provided the source of all data items in the section and described the relevant assurance activities through the reporting year.
- There was a peer review of each section by a colleague within the business function, with any comments fed back to the section owner to be addressed.
- Section owner, their head of department and the appropriate member of the executive management team certified the accuracy, reliability and completeness of the section.

The second line of defence consisted of oversight by the wider business. An independent central team, with representatives from across Tideway tested the robustness of the first line of defence by verifying data items contained in the report, using the source information provided by the section owner, and by checking consistency within the report.

The team decided which data items to check based on the likelihood and potential impact of error, and any internal stakeholder views on areas requiring additional assurance. This determined the depth and breadth of assurance, with all high-risk items checked back to an assured source. Lower-risk items were subject to spot checks. Any comments arising were addressed by section owners.

Other activities in the second line of defence included:

- Executive management review of each section.
- Review of relevant sections of the governance report by Board Committee Chairs.
- Review of the risk management framework, principal risks and long-term viability statement by the Board's Risk Committee.
- Review of the Annual Report by the Board in a workshop held in advance of finalising the report.
- Review of the Annual Report by the Audit and Finance Committee.

### Third line assurance

The third line of defence consisted of independent assurance provided by KPMG (as detailed in the table below), our auditors for the Statutory Accounts. They also provided assurance over various other sections of the report, by carrying out an audit and/or other checks.

Internal audit reviewed this data assurance methodology and checked that it had been followed. Internal audit also audited the year-end licence compliance process, which underpins the risk and compliance statement. The table below sets out the scope of KPMG's assurance.

### KPMG assurance

| Section/table | KPMG assurance |
|---|---|
| Strategic report | Consistency with the accounts |
| Governance | Within scope of statutory audit opinion (pages 132-135) where the Corporate Governance Code has been adopted and the element forms one of the provisions of the Code. |
| Directors report | Statutory audit opinion covers preparation in accordance with the requirements of the Companies Act 2006. |
| Regulatory reporting – tables in sections 1 and 2 | Regulatory audit opinion presented on pages 178-181 |
| Regulatory reporting – tables in sections 3 to 5 | A set of specific tests on the calculations to verify their accuracy (known as agreed upon procedures) |
| Condition K certificate | Report presented on pages 182-183 |
| Regulatory reporting – narrative | Consistency with the accounts |
| Financial statements | Companies Act/statutory audit |

### Board oversight

The Board and its Committees have overseen the Annual Report and the assurance carried out to ensure the Report's accuracy.

We have shared the outcome of the assurance carried out with the Audit and Finance Committee. This has enabled the Audit and Finance Committee to assure the Board, that the 'Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy' in line with the UK Corporate Governance Code requirements.

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

### Board endorsement

The Board approved this data assurance summary on 25 June 2020. The report was signed on its behalf by:

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

# Auditor's Report

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

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

### Opinion

We have audited the tables within Bazalgette Tunnel Limited's Annual Performance Report for the year ended 31 March 2020 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E) and the related notes. In line with the Ofwat guidance issued on 1 June 2020 the financial flows (table 1F) has neither been presented nor audited.
- the historical cost analysis of fixed assets for wholesale and retail (table 2D), and the related notes. In line with the Ofwat guidance issued on 1 June 2020 the other section 2 tables have neither been presented nor audited.

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

In our opinion, Bazalgette Tunnel Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies set out on pages 138-141.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

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

The Regulatory Accounting Statements on pages 156-169 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the audit of the Regulatory Accounting Statements section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.
**Our opinion is not modified in respect of this matter.**

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

### Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.
**We have nothing to report based on these responsibilities.**

# Auditor's Report
*Continued*

**Responsibilities of the Directors for the Annual Performance Report**
As explained more fully in the Statement of Directors' Responsibilities set out on page 129, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report**
Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Regulatory Accounting Statements.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at *https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for.*
This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

We are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

**Opinion on other matters prescribed by Condition F**
Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

**Use of this report**
This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of theProject Licence granted by the WSRA to the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")". ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose.
To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2020 on which we reported on 05 June 2020, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**John Luke**
**For and on behalf of KPMG LLP**
**Chartered Accountants**
15 Canada Square
London
E14 5GL
**26 June 2020**

## INDEPENDENT AUDITOR’S REPORT (CONDITION K CERTIFICATE)

### Report of KPMG LLP to Bazalgette Tunnel Limited (‘the Company’) and the Water Services Regulation Authority (‘the WSRA’) under Licence Condition K

In accordance with the terms of our engagement letter dated 23 June 2020, we have examined the Company directors’ certificate – Condition K dated 26 June 2020 (the “Certificate”) which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company’s Annual Performance Report of the Company for the year ended 31 March 2020.

### Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Director’s Certificate – Condition K in accordance with Condition K of the Licence. The Certificate is presented as set out in the Project Licence granted by the WSRA to the Company as infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) (“the SIP Regulations”).

As specified in our engagement letter dated 23 June 2020, and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company’s Annual Performance Report and any information which we obtained in the course of our work as the Company’s Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company’s Annual Performance Report of the Company for the year ended 31 March 2020 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition K. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company’s financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 25 June 2020, the date of our audit opinion on the Regulatory Accounting Statements within the Company’s Annual Performance Report of the Company for the year ended 31 March 2020.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA’s Contract by signing the WSRA’s Contract. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

### Basis of our findings

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company’s Annual Performance Report and any information which we obtained in the course of our work as the Company’s Auditors.

### Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company’s Annual Performance Report for the year ended 31 March 2020 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company’s Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company’s Annual Performance Report for the year ended 31 March 2020.

**KPMG LLP**
**Chartered Accountants**
15 Canada Square
London
E14 5GL
**26 June 2020**

# Glossary

| Term | Definition |
|---|---|
| **BMB** | Joint venture between Bam Nuttall Ltd, Morgan Sindall Plc and Balfour Beatty Group Ltd, which manages the West component of the project. |
| **Building Research Establishment (BRE)** | A multi-disciplinary building science centre, which aims to improve buildings and infrastructure, through research and knowledge generation. |
| **Community Liaison Working Groups** | Stakeholder groups that Tideway has set up near the active construction sites, to engage and share information with local residents. |
| **Combined Sewer Overflow (CSO)** | Pipes designed to release excess sewage during storms. |
| **CVB** | Joint venture between Costain Ltd, Vinci Construction Grands Projets and Bachy Soletanche Ltd, which manages the East component of the project. |
| **Defra** | Department for the Environment, Food and Rural Affairs. |
| **Employer's Project Induction Centre programme (EPIC)** | Tideway's compulsory Health, Safety and Wellbeing training programme, for every person working on the project. |
| **Encompass Diversity Programme** | The project's diversity forum, open to all working on Tideway. |
| **FLO** | Joint venture between Ferrovial Agroman UK Ltd and Laing O'Rourke Construction Ltd, which manages the Central component of the project. |
| **Government Support Package (GSP)** | An agreement with the UK Government, under which it will provide financial support for the project in certain unlikely circumstances. |
| **Handover** | The point at which the tunnel is integrated into the wider sewer network, commissioning tests have been successfully completed and Thames Water has issued a handover certificate. |
| **i3P** | Launched in October 2016, the Infrastructure Industry Innovation Platform(i3P) is an independent innovation community governed by representatives from its member organisations. Membership is open to clients (currently major infrastructure projects and construction programmes) and their supply chains (Tier 1 contractors and consultants) across the infrstructure industry. |
| **Independent Technical Assessor (ITA)** | Reviews a wide variety of information on the project's progress and verifies Tideway's regulatory expenditure. |
| **London Tideway Tunnels (LTT)** | A 25 km (16 mi) tunnel running mostly under the tidal section of the River Thames through central London, which will provide capture, storage and conveyance of almost all the combined raw sewage and rainwater discharges that currently overflow into the river. This also includes the Lee Tunnel and other Thames Water works. |

| Term | Definition |
|---|---|
| **Main Works Contracts** | The contracts between Tideway and the main works contractors to engineer, procure, construct and commission the three sections (West, Central and East) of the Thames Tideway Tunnel. |
| **More by River** | Tideway's strategy to enhance the use of the River Thames for logistics. |
| **Regulatory Capital Value (RCV)** | The value of Tideway's capital base. Tideway's RCV is calculated on a cash basis using a methodology set out in the Company's licence.<br>It comprises project-related expenditure that does not fall into specified excluded categories, and that has been verified by the Independent Technical Assessor. |
| **Revenue Agreement** | The agreement under which Thames Water collects revenue from its wastewater customers on Tideway's behalf. |
| **RightWay** | Tideway's approach to introducing transformational Health, Safety and Wellbeing. |
| **RightStart** | Tideway's approach to getting the Health, Safety and Wellbeing basics right from the very start, to help us avoid incident spikes often seen at the start of major projects. |
| **System Acceptance** | The point at which the entire Thames Tideway Tunnel system is accepted to serve as part of Thames Water's sewer network. |
| **Thames Water Works** | Thames Water's activities, including enabling and interface works, which are necessary for the development and connection of the Thames Tideway Tunnel to the sewer network. |
| **The Alliance** | The alliance between Tideway, Thames Water, the main works contractors and the system integrator, designed to incentivise collaborative working, realise synergies and share best practice. |
| **Tideway Reporting Group** | The top tire of governance of the three independent public-facing bodies, the Thames Tideway Tunnel Forum, the Independent Compensation Panel and the Independent Complaints Commissioner, which interface between the Tideway project and the wider public. The Tideway Reporting Group is independently chaired and considers the performance of the three bodies and cross-cutting issues arising therefrom. (See pages 14 to 15 for more information.) |
| **Tunnel Boring Machine (TBM)** | Machine used to excavate tunnels with a circular cross section through a variety of soil and rock strata. |

Visit: www.tideway.london
Email: helpdesk@tideway.london

Tideway's rainbow TBM, shared across
our construction sites, was created to
pay tribute to the NHS and key workers

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