Bazalgette Equity Limited

Annual report and financial statements

For the year ended 31 March 2020

Registered number 09553394

Contents

Directors and advisors

Directors holding office

Nicholas Axam (Appointed 6 November 2019)

Andrew Cox

Javier Falero (Appointed 6 November 2019)

Scott McGregor

Joseph Philipsz (Resigned 6 November 2019)

Alistair Ray

Angela Roshier (Resigned 6 November 2019)

Gavin Tait

Amanda Woods

Company Secretary

Valmai Barclay

Registered office

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SE1 2 QG

Independent auditor

KPMG LLP

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London

E14 5GL

Strategic report

The Directors present their Strategic report for Bazalgette Equity Group (the Group) and Bazalgette Equity Limited (the Company) for the year ended 31 March 2020.

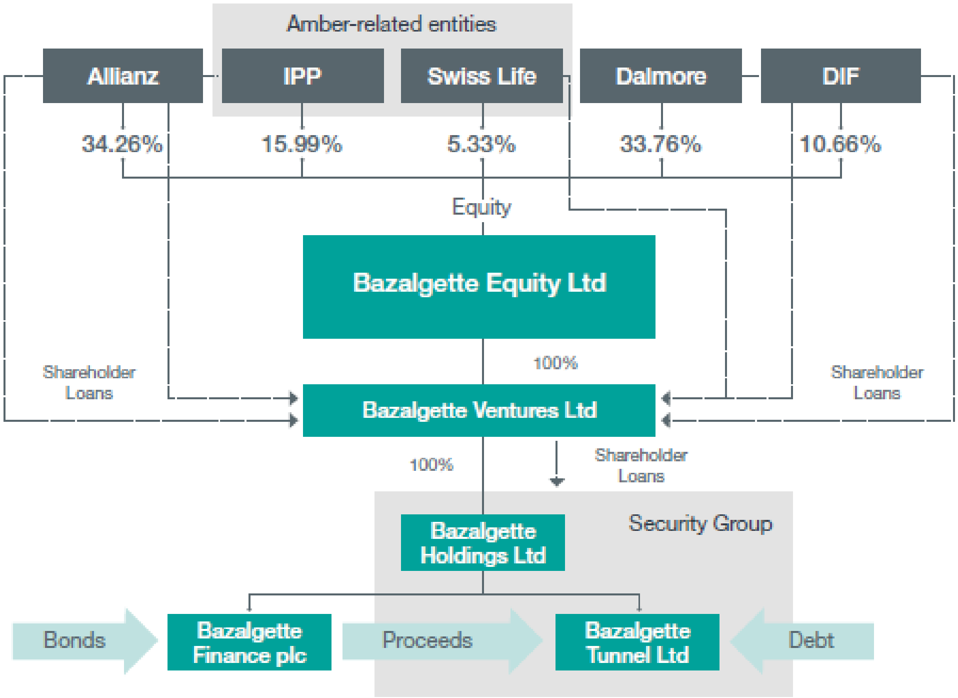
Introduction

The Bazalgette Equity Limited is the ultimate controlling company of the Bazalgette Equity Limited group of companies.

As at the 31 March 2020, the Group comprised the Company, Bazalgette Ventures Limited (BVL), Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited (BTL) and Bazalgette Finance plc (BF). BTL, trading under Tideway, is an independent regulated water company which was awarded a licence by Ofwat in August 2015. The emphasis given to BTL, which trades under the name 'Tideway', throughout this report reflects its importance to the overall performance of the Group.

The principal activity of the Company is to act as the ultimate holding company of the Group and to act as the vehicle for shareholder share capital financing. It does not carry out any activities beyond this role.

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



Company governance

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

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

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

Business review

Our 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 Vision

Reconnecting London with the River Thames.

Living Our Purpose and Values

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

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. In response to what would you change staff said:

> "Tideway meets all of my expectations and so much more and believe it is a great company to work for."
>
> "No Improvement is needed at Tideway, everything works just well, on time and to the best of practice, it's an amazing place to work for, awesome people and great atmosphere."
>
> **Staff survey 2019**
>
> "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 aligned 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

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 UK pension holders a stake in Tideway.

Delivering with our 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 • Morgan Sindall Plc • Balfour Beatty Group Ltd
Central Contract FLO Joint Venture	• Ferrovial Agroman UK Ltd • Laing O'Rourke Construction Ltd
East Contract CVB Joint Venture	• Costain Ltd • Vinci Construction Grands Projects • Bachy Soletanche Ltd
System Integrator	• Amey OWR Ltd

We 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.

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.

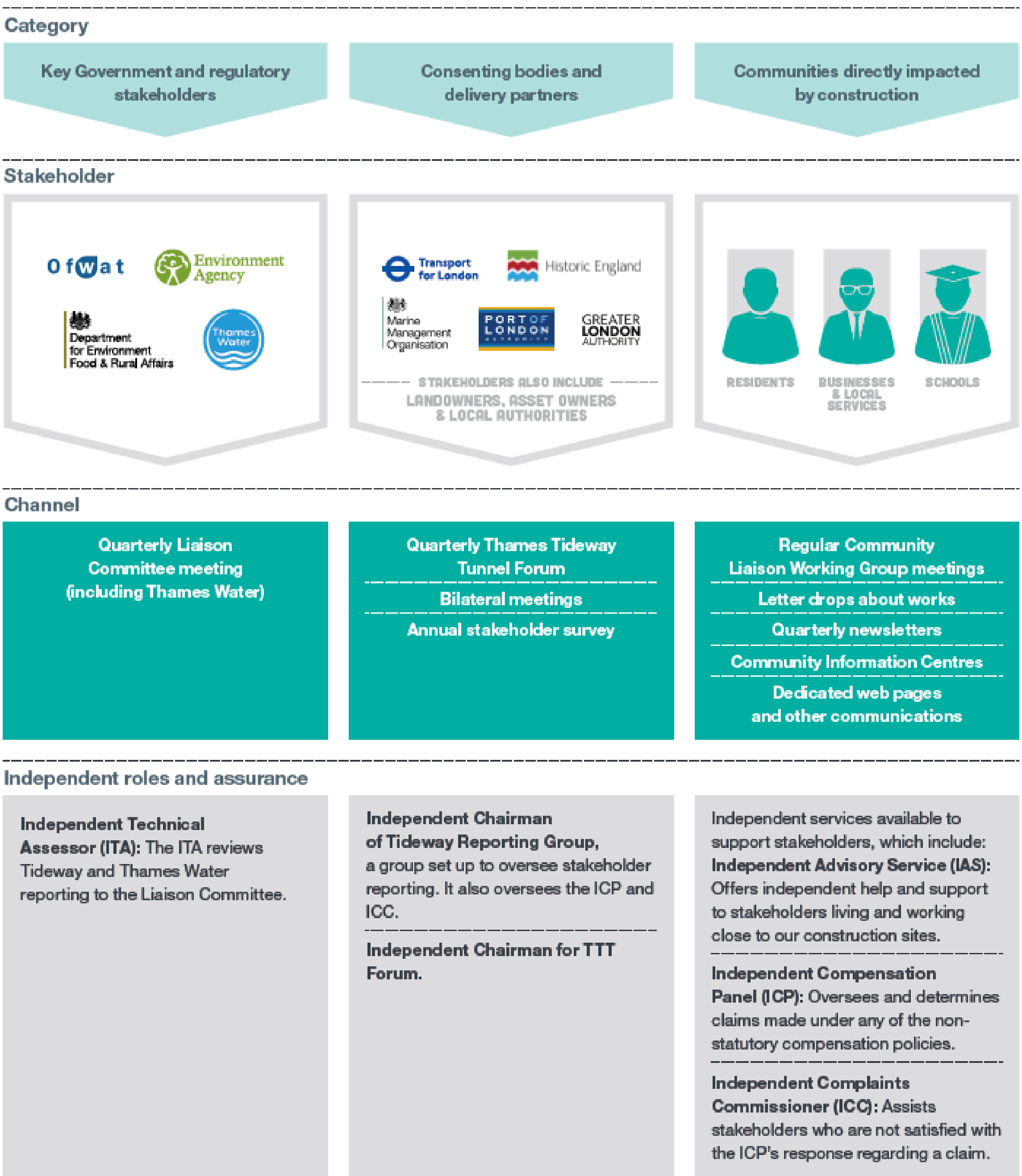
In delivering a major infrastructure project across London we recognise the importance of engagement, transparency and trust. To support the project, we have established a range of independent parties and roles for each of our stakeholder groups. These include independent assessors of project information, 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 at **www.tideway.london**.

> "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 groups have provided support on activities which have had a significant impact on residents – such as a continuous concrete pour at the Chambers Wharf site and noise complaints associated with tunnelling activities at the Kirtling Street site. The TTT forum continues to play a

valuable role in supporting the delivery of the Thames Tideway Tunnel and providing constructive challenge to the teams involved. The Forum has been briefed on key, technical phases such as commissioning, and continues to review Tideway's strategy for moving materials by River rather than road."

The Right Honourable Nick Raynsford, Chair Tideway's Reporting Group



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.

The Tunnel Route

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.

The Timeline

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

Mobilisation of the MWCs

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

Construction

This includes excavating deep shafts 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

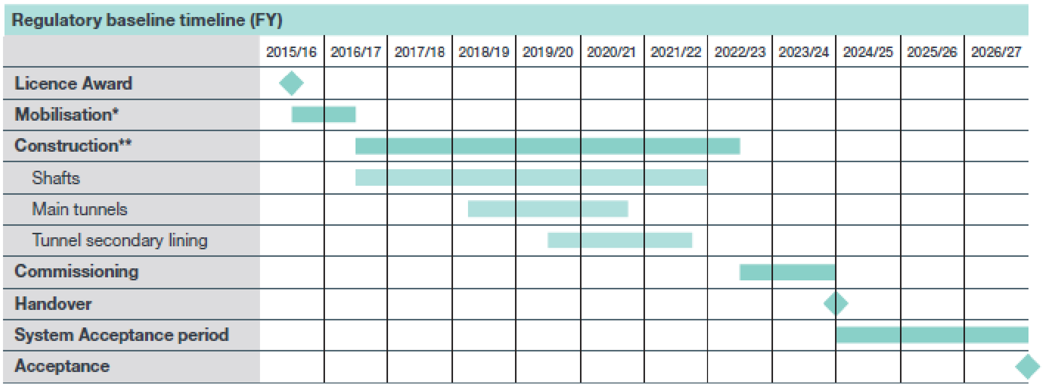
All the worksites and tunnels will be connected to the London Tideway Tunnels (LTT) system and tested. Once this is complete, the MWCs hand over the Thames Tideway Tunnel (TTT) Works to Tideway. At this stage, the MWCs' activities will be complete, and the contractors will be demobilised.

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).*

Our Business Model

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.

VALUES – How we do it

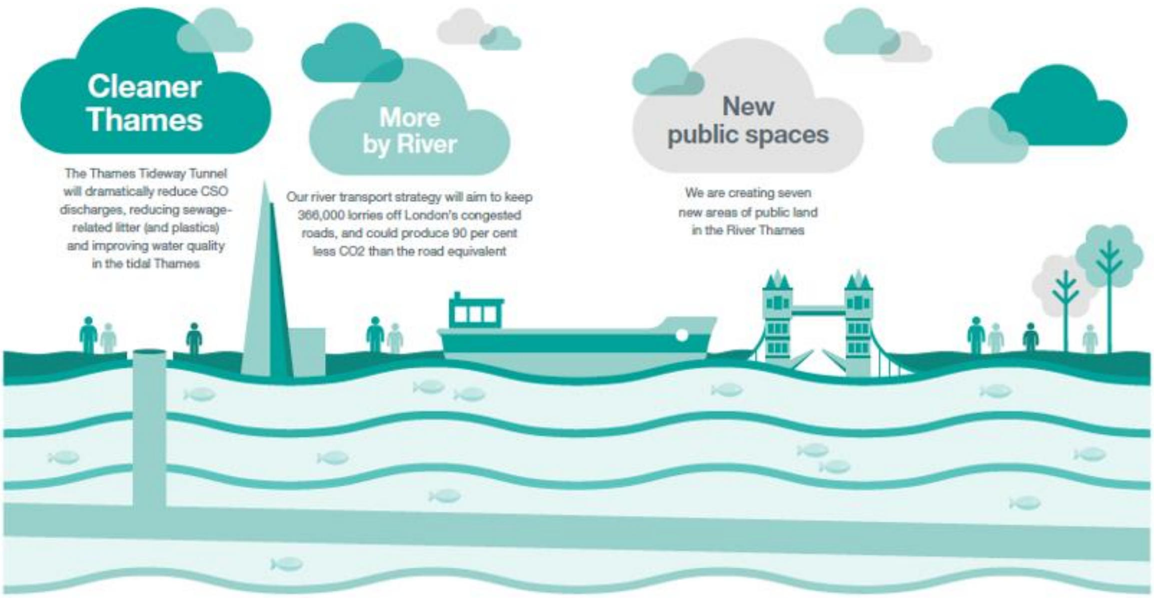
SAFETY
Transform the health, safety and wellbeing of all

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



STAKEHOLDER VALUE

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

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

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

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

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

INVESTORS
- An appropriate return on investment

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

Our Strategy

Tideway has made significant progress to deliver the Thames Tideway Tunnel in line with its purpose, vision, values and 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 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 and Wellbeing	Schedule, Cost and Quality	Vision, Legacy and Reputation	Company and People	Financing
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	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	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.	A high-performing, motivated and engaged workforce will deliver better value and help us recruit and retain people.	We aim to deliver efficient sustainable financing and financial risk management, which minimises our cost of capital and supports our investment grade credit rating.
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	• 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	• 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 our legacy commitments • Work with the end in mind to have a structured 'successful delivery' communications and engagement plan, which includes a clear narrative • Continue to engage with internal audiences to maintain a 'one-team' culture	• 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 incentives • Delivering systems, processes and tools to support an effective organisation	• 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
2020/21 Priorities	• 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	• 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	• 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	• Continue to evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team	• 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

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’.

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 interests 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 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 and Wellbeing

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

Priority for 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

Maintain strong HSW Performance

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

Number of major injuries

Target	Actual
0	0

Marine Operations
Significant incidents

Target	Actual
0 significant incidents due to marine activities	0

Number of reportable accidents*
Accident Frequency Rate 3 (AFR-3)

Target	Actual
0.00	0.11

Accident Frequency Rate 7 (AFR-7)

Target	Actual
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 during the year included 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.

Fatigue Management

During the year we focused on fatigue management as one of the highest risks associated with 24hr 7days 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.

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**

Schedule, Cost and Quality

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

Priorities for 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
£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 (MWCs) 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.

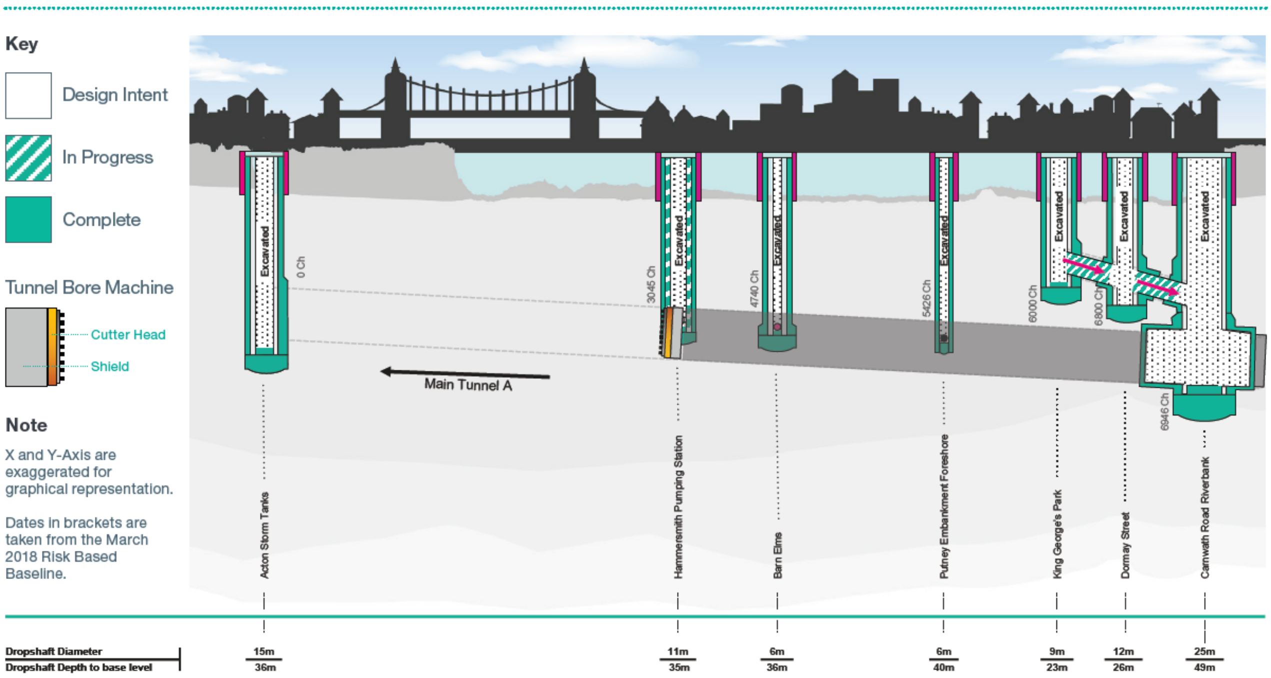
More by River

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 2.4 m tonnes of material on London's roads, bringing the total to 3.3m tonnes transported by river. To date our More Strategy has avoided 200,000 HGV arrivals, 400,000 journeys resulting in more than 10m HGV road miles, and avoiding in the region of 10,000 tonnes of CO2.

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.

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.

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, 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.

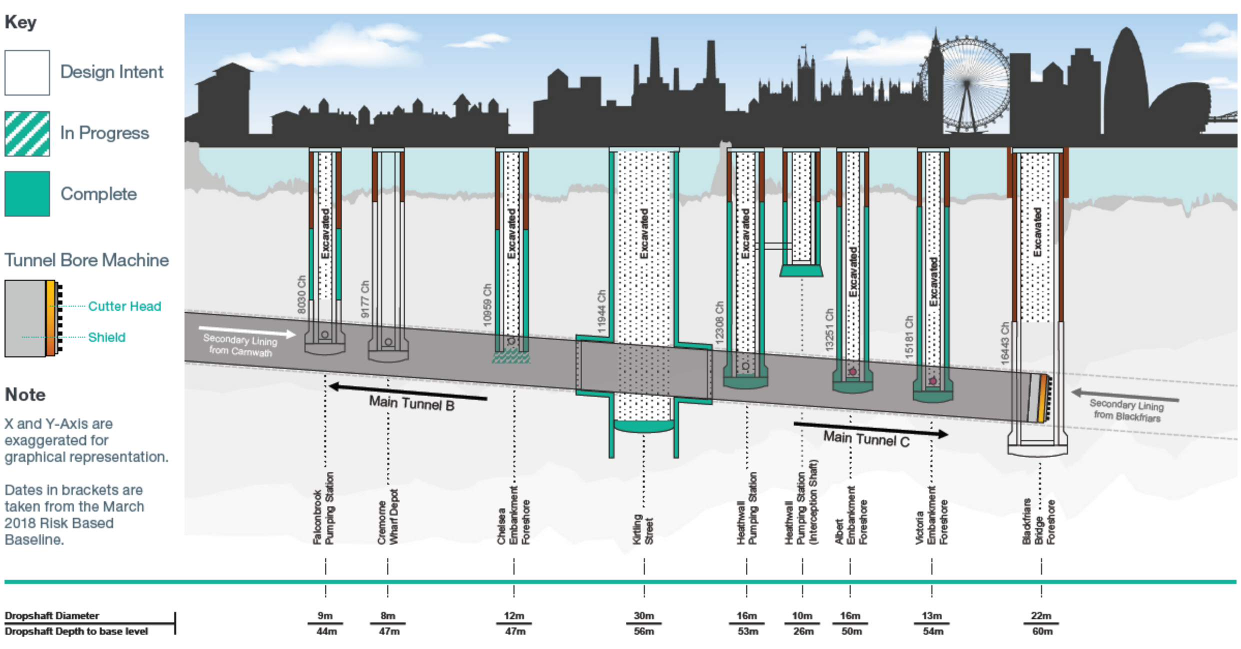
Further milestones include:

- 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.

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.

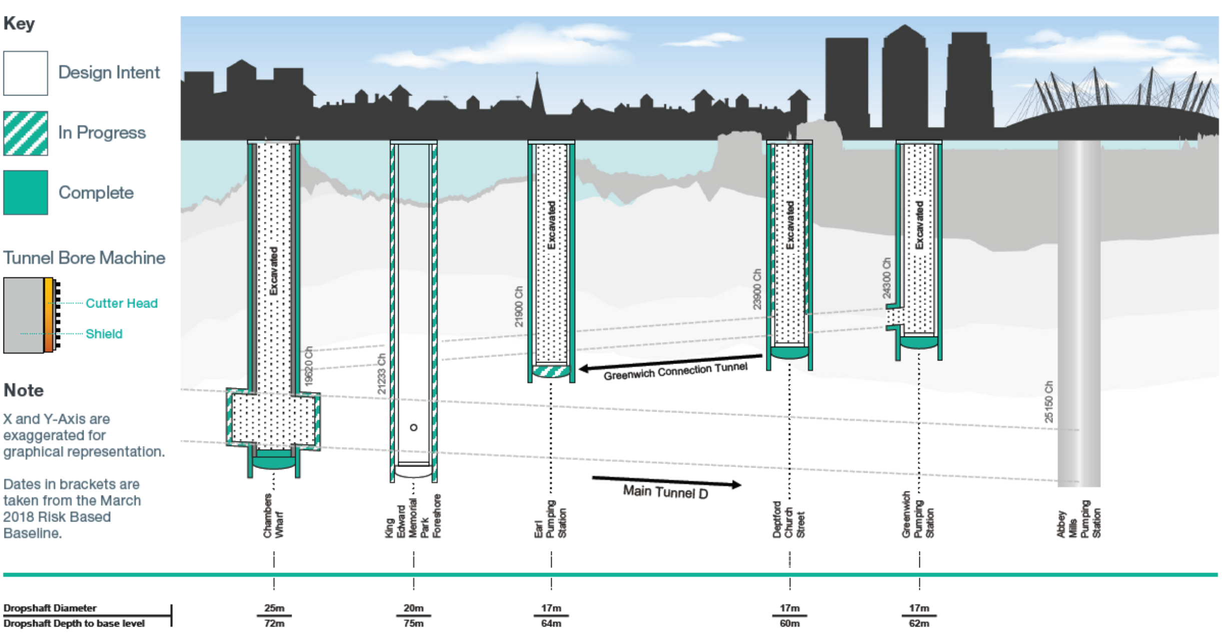
TBM Ursula, launched in March 2019, has completed over 4.4km from Kirtling Street and reached the shaft at the Blackfriars Bridge Foreshore site where we will change the cutting tools and complete other essential maintenance before she continues deep below east London to complete her journey at Chambers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

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 1,500m3 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.

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

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 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.

Vision, Legacy and Reputation

Objective

We want to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. Looking after our neighbours and stakeholders 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 55% according to stakeholder research findings 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.
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.

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 [1]. 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% cement replacement compared to the predicted average of 25% 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% 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 C02e 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% of the predicted CAPEX carbon.

[1] 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 and 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.

Educational Outreach

Our education programme is in its seventh successful year.

- Tideway project had 125 STEM volunteers (Science Technology Engineering and Mathematics)
- Who delivered 3,094 hours of STEM activities
- To over 8,798 young people

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.

[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.

Our supply chain spend to date has reached:

- around 1500 companies
- 12 UK regions
- 19 London Boroughs

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

Company and 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 63%
Actual 69%
64% 2018/19 | 63% 2017/18

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 74%
Actual 81%
71% 2018/19 | 67% 2017/18

Employee diversity**
Percentage of women within Tideway at 31 March 2019
Target 40%
Actual 36%
34% 2018/19 | 36% 2017/18

Preserving a values driven, skilled, diverse and engaged workforce
Target Subjective
Actual Green
N/A 2018/19 | N/A 2017/18

* 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.

> "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

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%

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

Diversity and Inclusivity

We were proud to maintain our exceptionally strong Engagement survey scores across all aspects of diversity, inclusivity and work life balance with90% 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 in Construction

Working with us, Women into Construction (WiC), a not for project 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*

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.

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.

Note: use of the term ex-offenders has been changed to people with convictions, in line with good practice.

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 by Forever Manchester 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. We are working hard to identify and resolve outstanding cases.

Appointment of a non-executive director representing workforce matters

In March 2019 the Board concluded its considerations on 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 Tideway 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 management and initiatives such as EPIC, the whistle-blowing helpline, and the annual project-wide health, safety and wellbeing survey.

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.

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.

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

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

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.

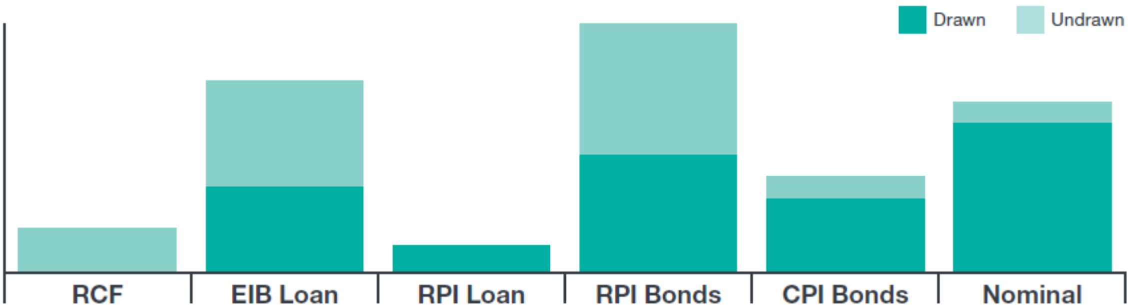
Financing activity

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 Group 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.

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

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.

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 unrestricted 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 TTT 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 £33.1m (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 Group’s derivative financial instruments. These are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Groups’s debt. The swaps fix finance costs for the Group’s regulatory period and ensure that we benefit from low-cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because, under 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

At 31 March 2020, costs of £2,593.9m were capitalised within the asset under construction in the Statement of Financial Position. This represents £765.1m costs during the year and £1,828.8m for the prior periods to 31 March 2019.

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

Net Debt and Financing

Net debt at 31 March 2020 was £1,326.5m, which was £692.2m higher than the £634.3m net debt at 31 March 2019.

Cash and cash equivalents at 31 March 2020 were £391.5m, which was £173.0m lower than the £564.5m cash and cash equivalents at 31 March 2019.

At 31 March 2020, the Group's borrowings were £2,431.4m being £720.4m of shareholder loans and £1,711.0m 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 £1,079.0m of fixed rate and index linked bonds and loans.

In addition, the Group 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 Group'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.

Financial KPIs

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

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.

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.

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 group'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 group.
- 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.

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.

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Group's activities, both as the client or through the PM and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities.

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.

	1 Health, Safety and Wellbeing (includes marine)		2 Programme Delivery
	Overall	**Marine**	
Description	The health, safety and wellbeing of our employees and the public is paramount. There is a risk that incidents could cause harm to individuals and delay progress.	There is a risk that a single marine incident could lead to multiple persons being affected or harmed and delay progress	We are delivering a capital investment programme of £3.9bn. 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: • World-class contractors, with experience of tunnelling in London. • Contracts that transfer certain risks to our contractors that they are better placed to manage. • Establishment of the Alliance, to encourage co-operation and support across the project. • An integrated, proactive approach to risk management.
Relevant Objective	• Health, Safety and Wellbeing	• Health, Safety and Wellbeing	• Schedule, Cost and Quality • Financing
Commentary	**No change in risk level** **COVID-19 potential increase in risk**	**No change in risk level** **COVID-19 potential increase in risk**	**No change in risk level** **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. Our contractors operate in a very competitive environment and may experience financial difficulties through the delivery of the project.	Major investment programmes are complex and challenging, and we could suffer incidents that were highly unlikely but have a significant impact. These could affect the tunnel or assets belonging to others.	Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.
Effect	If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on budget.	HILP events could have a significant effect on cost, schedule, health and safety or our reputation. Their financial impact could exceed our insurance cover, damaging our financial position and our ability to deliver the tunnel.	The loss of an investment grade credit rating would affect our ability to raise debt.
Mitigation	The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. The contracts contain step-in rights, whereby one contractor could replace another, which would help mitigate against financial failure. The members of all three consortia are joint and severally liable.	We minimise the chance of these events occurring by using best-in-class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and we mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.	We have a robust delivery model, within a regulated framework, and a GSP. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.
Relevant Objective	• Schedule, Cost and Quality	• Health, Safety and Wellbeing • Company and People • Schedule, Cost and Quality • Financing • Vision, Legacy and Reputation	• Financing
Commentary	**No change in risk level** We continue to monitor the supply chain closely and have undertaken appropriate contingency planning. **COVID-19 potential increase in risk**	**No change in risk level** **COVID-19 unlikely to have an impact**	**Risk level reduced** **COVID-19 unlikely to have an impact**

	6 Inflation Risk	7 Reputation Risk	8 Thames Water Performance
Description	There is a risk of inflation that is lower than assumed in our business plan.	We are particularly focused on the risk that poor performance on our sites, on the river or with our neighbours could damage our reputation and support.	Thames Water is a key partner for Tideway. We have a number of important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period, the Handover and Acceptance process and in the operational period. Thames Water also passes revenue through to Tideway.
Effect	Our revenues are directly linked to the Retail Price Index (RPI). Lower inflation would therefore reduce our cash flow, unless our costs moved on the same basis. Our RCV is indexed to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.
Mitigation	Tideway has issued RPI and CPI-indexed debt. Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.	We actively develop relationships with key stakeholders. For example, through our CLWGs we seek to find the best ways of addressing neighbours' concerns, in advance of works happening. The More by River strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river. We have established the Tideway brand, as part of our efforts to build trust and confidence and communicate the legacy and long-term benefits we aim to deliver.	Tideway and Thames Water have worked closely together through all key milestones to date and have developed a joint approach to System Commissioning, Handover and Acceptance. The Alliance Agreement incentivises Thames Water to help us deliver the programme. Thames Water is also incentivised to deliver its share of the works in a timely manner, through its regulatory settlement. We have also engaged Ofwat and Thames Water on the 2019 Periodic Review and the design of its future regulatory incentives. We have worked with Thames Water to develop and agree arrangements for managing the revenue process.
Relevant Objective	• Financing	• Company and People • Vision, Legacy and Reputation	• Schedule, Cost and Quality
Commentary*	**No change in risk level** **COVID-19 potential increase in risk**	**No change in risk level** We continue to conduct a proactive communication strategy, to manage the reputational impact of our works. Tideway's annual stakeholder survey showed high levels of support and improvements from the previous year. **COVID-19 potential increase in risk**	**No change in risk level** **COVID-19 potential increase in risk**

	9 Regulatory and Political Risk		10 Brexit Risk
Description	**Political climate** 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** Tideway operates under a licence granted by Ofwat, which places restrictions and obligations on us. Changes to the regulatory framework may affect our performance. 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. 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. 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. 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. We focus on being a compliant and high-performing regulated company, with positive regulatory relationships.	We will closely monitor the supply chain and establish a dialogue to address labour issues in a timely manner.
Relevant Objective	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing
Commentary*	**No change in risk level** We note considerable volatility and uncertainty in the political sphere and continuing pressure on the regulation of the water sector. **COVID-19 uncertain**	**No change in risk level** **COVID-19 uncertain**	**No change in risk level** We continue to include this as a principal risk, given the scale of uncertainty and the potential impact on the business. **COVID-19 uncertain**

Long term viability statement

The long term viability statement included here is the statement that is reflected in the Bazalgette Tunnel Limited Annual Report. 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. It is included here for reference given the overall importance of Bazalgette Tunnel Limited to the Group. References to 'the Company' and 'Board' in this statement refer to Bazalgette Tunnel Limited and the Bazalgette Tunnel Limited Board.

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 resilience 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.

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, 2, 3, 8, 9, 10	Programme delivery (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory, Brexit risks)	Scenario 1. An increase of 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. 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. 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 35 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 Strategic Report was approved by the Board on 25 June 2020 and was signed on its behalf by:

Valmai Barclay
Company Secretary

Directors' report

The Directors present their report and the audited Group and Company financial statements of Bazalgette Equity 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 09553394 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.

Financial results and dividends

The Group recorded a loss of £33.1m for the year (2019: loss of £31.0m). The Directors do not consider that the reported loss in the year reflects the business performance as the loss reflects the fair value movement of the Group's derivative financial instruments. These are long-term swaps which are entered into with commercial banks to economically hedge the interest costs of the Group debt. The swaps fix finance costs for the Group's regulatory period and ensure that it benefits from low-cost financing. The detailed financial results of the Group are set out in the financial performance review within the Strategic report.

During the year, the Group's subsidiary, Bazalgette Ventures Limited, paid £47.8m (2019: £57.1m) of shareholder loan interest to the Group's shareholders. Furthermore, £9.4m (2019: £nil) of unpaid shareholder loan interest was capitalised as shareholder loan principal, and £nil loan principal was received and repaid during the period (2019: £3.4m repaid). Further details of the shareholder loan notes are set out in note 11 of the financial statements.

The Company recorded £nil profit for the year ended 31 March 2020 (2019: £nil) and did not pay any dividends in the year (2019: £nil).

Financial risk management

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

Directors

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

Nicholas Axam (Appointed 6 November 2019)

Andrew Cox

Javier Falero (Appointed 6 November 2019)

Scott McGregor

Joseph Philipsz (Resigned 6 November 2019)

Alistair Ray

Angela Roshier (Resigned 6 November 2019)

Gavin Tait

Amanda Woods

Directors' Indemnities

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

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

Employees

The average number of persons employed by the Group (including Directors) during the year was 157 (2019: 164), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

Directors' report (continued)

Details relating to the Group's employment policies and values and how it undertakes engagement with its employees are set out in the Strategic report.

Greenhouse gas emissions

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

Charitable and political donations

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

The Group did not make any political donations or incur any political expenditure during the year (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 this is monitored to ensure compliance.

The creditor days for the year ending 31 March 2020 are approximately 27 days (2019: 22 days).

Events occurring after the reporting period

No material events have occurred between the year-end date and the signing of these financial statements that would require the Group to adjust the financial statements or require disclosure in these financial statements.

Future Outlook

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

Disclosure of information to auditor

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

Other information

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

Auditor

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

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

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

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

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

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

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

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

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

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 undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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

Valmai Barclay
Company Secretary

Cottons Centre
Cottons Lane
London
SE1 2 QG

25 June 2020

Independent auditor's report

to the members of Bazalgette Equity Limited

1. Our opinion is unmodified

We have audited the financial statements of Bazalgette Equity Limited ("the Company") for the year ended 31 March 2020 which comprise the Group Income Statement, Group Statement of Other Comprehensive Income, Group and Company Statement of Financial Position, Group and Company Statement of Changes in Equity, Group and Company Cash Flow Statements, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Overview		
Materiality: Group financial statements as a whole		£10.0m (2019:£7.0m) 0.3% (2019: 0.3%) of total assets
Coverage		100% (2019:100%) of group total assets
Key audit matters		**vs 2019**
Recurring risks	Completeness and existence of capitalised costs and creditors	◄►
	Recoverability of Parent Company's investment in subsidiary	◄►

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. 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 Group.

	The risk	Our response
Completeness and existence of capitalised costs and creditors *Capitalised costs:* (£765.1m; 2019: £673.9m) *Refer to page 59 (accounting policy) and page 64 (financial disclosures).*	**Capital costs** The Group incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalised costs and capital creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effects on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: **Control design** Testing controls over the payment/ cost verification process which includes observing that for a sample of payments they were agreed to certificates, the amounts matched the invoices received and payments by the Group were authorised. **Test of detail** Inspecting a sample of invoices received before and subsequent to the year end to consider the timing of work performed and therefore whether costs and creditors have been recorded in the correct year. **Test of detail** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred. **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 Manager's assessment of these claims and disallowed costs for reasonableness. **Our results** We consider the recorded balances to acceptable (2019: acceptable).

KPMG

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

	The risk	Our response
Recoverability of Parent Company's investment in subsidiary (£509.7 million; 2019: £509.7 million) *Refer to page 60 (accounting policy) and page 65 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company's investments in subsidiaries represents 100% of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included: **Tests of detail** Comparing the carrying amount of 100% of investments representing 100% of the total investment balance with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making or if they have potential to generate returns. **Assessing subsidiary audits** Assessing the work performed by the subsidiary audit team and considering the results of that work, on the subsidiary's profits and net assets. **Our results** We consider the assessment of the recoverability of the Parent Company's investment in subsidiary to be acceptable (2019: acceptable).

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

Materiality for the group financial statements as a whole was set at £10.0m, determined with reference to a benchmark of group total assets, of which it represents 0.3% (2019: 0.3%).

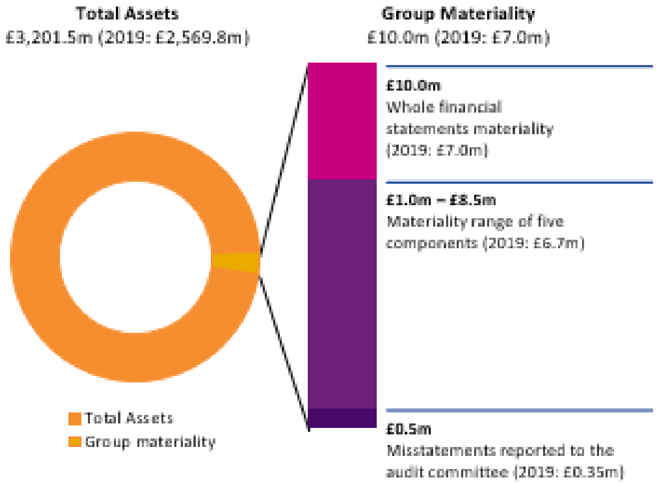
Materiality for the Parent Company financial statements as a whole was set at £1.0m (2019: £6.7m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.2% (2019: 1.3%).

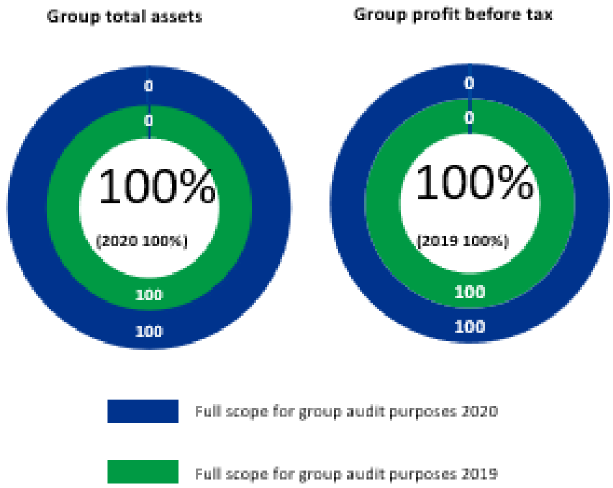
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's five (2019: five) reporting components, we subjected five (2019: five) to full scope audits for group purposes.

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

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





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 Group or the Company, or to cease their operations, and as they have concluded that the Group and 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 Group and Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and Company's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group and Company's available financial resources over this period was significant cost overruns on tunnel construction.

As these were risks that could potentially cast significant doubt on the Group and Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group and 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 strategic report and the directors' report

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

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

— we have not identified material misstatements in those reports;

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

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

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

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

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 46, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

KPMG

Group 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*	(33.1)	(31.0)
Loss before tax		**(33.1)**	**(31.0)**
Taxation	*5*	-	-
Loss for the year		**(33.1)**	**(31.0)**

Group Statement of Other Comprehensive Income
For the year ended 31 March 2020

	2020 **£m**	**2019** **£m**
Loss for the year	(33.1)	(31.0)
Other comprehensive income for the year	-	-
Total comprehensive income for the year attributable to owners of the parent	**(33.1)**	**(31.0)**

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

Group and Company Statement of Financial Position

As at 31 March 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Non-current assets					
Property, plant and equipment	*6*	2,601.3	1,828.8	-	-
Trade and other receivables	*8*	44.0	47.3	-	-
Investment in subsidiary undertakings	*7*	-	-	509.7	509.7
		2,645.3	1,876.1	509.7	509.7
Current assets					
Trade and other receivables	*8*	40.7	39.2	-	-
Cash and cash equivalents	*9*	391.5	564.5	-	-
Short-term cash deposits	*9*	157.5	90.0	-	-
		589.7	693.7	-	-
Total assets		**3,235.0**	**2,569.8**	**509.7**	**509.7**
Current liabilities					
Trade and other payables	*10*	(89.1)	(37.2)	-	-
Lease Liabilities		(2.1)	-	-	-
		(91.2)	(37.2)	-	-
Non-current liabilities					
Other Payables	*10*	(48.1)	(21.2)	-	-
Lease Liabilities		(4.9)	-	-	-
Advance payment liability	*10*	(149.5)	(91.9)	-	-
Borrowings	*11*	(2,431.4)	(1,909.8)	-	-
Derivative financial instruments	*12*	(89.0)	(55.7)	-	-
		(2,722.9)	(2,078.6)	-	-
Total liabilities		**(2,814.1)**	**(2,115.8)**	**-**	**-**
Net assets		**420.9**	**454.0**	**509.7**	**509.7**
Equity					
Share capital	*13*	507.4	507.4	507.4	507.4
Share Premium	*13*	2.3	2.3	2.3	2.3
Retained earnings	*13*	(88.8)	(55.7)	-	-
Total equity		**420.9**	**454.0**	**509.7**	**509.7**

Notes 1 to 17 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:

Andrew Cox
Director
Company registered number: 09553510

Group and Company Statement of Changes in Equity

	Group				Company			
	Share capital £m	**Share premium £m**	**Retained earnings £m**	**Total equity £m**	**Share capital £m**	**Share Premium £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 April 2018	507.4	2.3	(24.7)	485.0	507.4	2.3	-	509.7
Loss for the year	-	-	(31.0)	(31.0)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(31.0)**	**(31.0)**	**-**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2019	**507.4**	**2.3**	**(55.7)**	**454.0**	**507.4**	**2.3**	**-**	**509.7**
Balance at 1 April 2019	507.4	2.3	(55.7)	454.0	507.4	2.3	-	509.7
Loss for the year	-	-	(33.1)	(33.1)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(33.1)**	**(33.1)**	**-**	**-**	**-**	**-**
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2020	**507.4**	**2.3**	**(88.8)**	**420.9**	**507.4**	**2.3**	**-**	**509.7**

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

Group and Company Cash Flow Statements

For the year ended 31 March 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Cash flows from operating activities before working capital movements		**-**	**-**	**-**	**-**
Decrease in trade and other receivables	*8*	1.8	0.8	-	-
Increase in trade and other payables	*10*	78.8	15.8	-	-
Increase in advance payment liability	*10*	57.6	38.4	-	-
Cash flows from operations		**138.2**	**55.0**	**-**	**-**
Net cash flow from operating activities		**138.2**	**55.0**	**-**	**-**
Cash flows (used in)/from investing activities					
Construction of infrastructure asset	*6*	(734.5)	(661.0)	-	-
Transfer to short-term deposits	*9*	(67.5)	(32.5)	-	-
Net cash flows (used in)/from investing activities		**(802.0)**	**(693.5)**	-	-
Cash flows from/(used in) financing activities					
Proceeds from loans		493.1	360.0	-	-
Repayment of shareholders loan principal		-	(3.4)	-	-
Interest received		0.1	-	-	-
Lease liability payments		(2.4)	-	-	-
Net cash flows from/(used in) financing activities		**490.8**	**356.6**	-	-
Net decrease in cash and cash equivalents during the year		**(173.0)**	**(281.9)**	**-**	**-**
Cash and cash equivalents at the start of the year	*9*	**564.5**	**846.4**	**-**	**-**
Cash and cash equivalents at the end of the year	*9*	**391.5**	**564.5**	**-**	**-**

Group: Construction of infrastructure asset includes capitalised interest paid of £63.2m (2019: £71.1m) and capitalised interest received of £6.3m (2019: £4.5m)

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

Notes to the financial statements

1 Significant accounting policies

Basis of preparation

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

As at the 31 March 2020, the Bazalgette Equity Group comprised the Company, Bazalgette Venture Limited, Bazalgette Holdings Limited, Bazalgette Tunnel Limited and Bazalgette Finance plc. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as “the Group”). The Company financial statements present information about the Company as a separate entity and not about its Group.

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

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Judgements and Estimates

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

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

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

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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

Going concern

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

New Accounting Standards

With effect from 1 April 2019, the Group 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 Group's property leases were classified as operating leases under IAS 17 and the Group recognised the lease payments as an expense when incurred. IAS 17 required the Group 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 Group 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 Group 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 Group'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 Group 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.
- The Group separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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 Group.

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

The directors consider all expenditure in the year ended 31 March 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.

Asset 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.

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 Group reviews the individual carrying amount of those assets to determine whether there is any indication of impairment in those assets. If any such impairment exists, the recoverable amount of the asset is calculated in order to determine the extent of any impairment loss.

Financial assets under IFRS 9 are assessed under the forward looking 'expected loss model' at each reporting date to determine whether there are impairment losses.

Any impairment losses are recognised in the Income Statement.

Revenue

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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the Group to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

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

Employee benefits

Defined contribution pension plans

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

Other employee benefits

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

Provisions

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

Financial instruments

The Group determines the classification of financial instruments at initial recognition and re-evaluates this designation at each financial year end. The initial and subsequent measurement of financial instruments depends on their classification as follows:

Trade and other receivables

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

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

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

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.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

Derivative financial instruments

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

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

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

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

Taxation

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

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

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

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

Recently issued accounting standards not yet applied by the Group

At the date of authorisation of these financial statements, the Group has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Group as at 31 March 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

Notes to the financial statements (continued)

2 Auditors' remuneration

	2020 £000	2019 £000
Audit services		
Statutory audit – Group and the Company	3	3
Statutory audit - subsidiaries	102	100
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	11	10
Other non-audit services		
Review of interim financial information		
Other regulatory assurance services	41	29
	157	**142**

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

3 Employee costs

The average number of persons employed by the Group (including directors) during the year was 157 (2019: 164).

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)
	-	**-**

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

Directors remuneration

The directors of the Company did not receive any payment for their services during the year ended 31 March 2020. Any qualifying services the directors perform in respect of the Company are considered to be incidental and part of the director's overall management responsibilities within the Group.

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

Notes to the financial statements (continued)

4 Finance income and costs

	Group 2020 £m	Group 2019 £m
Finance income		
Interest income	(5.4)	(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	(90.9)	(83.2)
Net finance costs/(income)	**33.1**	**31.0**

5 Taxation

	Group 2020 £m	Group 2019 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

The Company's current tax charge was £nil (2019: £nil).

Reconciliation of effective tax rate

	Group 2020 £m	Group 2019 £m
Loss before tax	(33.1)	(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

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

Unrecognised deferred tax assets

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

Notes to the financial statements (continued)

6 Property, plant and equipment

Group 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[i]	1,828.8	1,837.6
Additions	-	765.1	765.1
Re-measurement of ROU asset	0.5	-	0.5
Balance at 31 March 2020	9.3	2,593.9	2,603.2
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**	**2,593.9**	**2,601.3**
Net book value at 31 March 2019	**-**	1,828.8	1,828.8

i. The Right-of-use assets opening balance at 1 April 2019 reflects the modified retrospective transition approach of IFRS 16 applied by the Group 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 £86.8m (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 Group 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 Group's existing property leases under IFRS 16.

Notes to the financial statements (continued)

7 Investments in subsidiaries

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

	Country Incorporation in	Class of shares held	Direct ownership 2020	Indirect ownership 2020	Direct ownership 2019	Indirect ownership 2019
Direct subsidiaries						
Bazalgette Ventures Limited	UK	Ordinary	100%	-	100%	-
Indirect subsidiaries						
Bazalgette Holdings Limited	UK	Ordinary	-	100%	-	100%
Bazalgette Tunnel Limited	UK	Ordinary	-	100%	-	100%
Bazalgette Finance plc	UK	Ordinary	-	100%	-	100%

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

8 Trade and other receivables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade receivables	5.0	7.2	-	-
Accrued Income	14.7	8.9	-	-
Other receivables	12.0	13.2	-	-
Prepayments	53.0	57.2	-	-
	84.7	**86.5**	**-**	**-**
Non-current assets	**44.0**	**47.3**	**-**	**-**
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.

Notes to the financial statements (continued)

9 Cash and cash equivalents

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Cash and bank balances	42.5	38.0	-	-
Cash equivalents	349.0	526.5	-	-
Cash and cash equivalents per cash flow statement	**391.5**	**564.5**	**-**	**-**

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 Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £16.8m at 31 March 2020 (2019: £22.0m).

10 Trade and other payables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade payables	60.1	1.1	-	-
Contract retentions payable	27.0	16.5	-	-
Accrued expenses	31.4	26.1	-	-
Deferred income	18.7	14.7	-	-
Advance payment liability	149.5	91.9	-	-
	286.7	**150.3**	**-**	**-**
Non-current liabilities	**197.6**	**113.1**	**-**	**-**
Current liabilities	**89.1**	**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.

11 Borrowings

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

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

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

Notes to the financial statements (continued)

11 Borrowings (continued)

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

	2020 £m	2019 £m
Third party borrowings		
£250m 2.375% fixed-rate bond 2027	247.7	247.5
£75m 0.828% index-linked bond 2047 [a, b]	78.9	77.9
£200m 0.740% index-linked bond 2042 [a, c]	208.7	205.4
£100m 0.688% index-linked bond 2050 [a]	104.5	102.2
£100m 0.755% index-linked bond 2051 [a, d]	101.5	-
£100m 0.249% index-linked bond 2040 [a, d]	102.7	100.4
£125m 0.192% index-linked bond 2049 [a, e]	134.6	-
£300m 2.860% fixed-rate loan 2032 [f]	305.0	303.4
£320m Libor+0.360% floating-rate loan 2051 [g]	327.0	162.0
£100m 0.010% index-linked loan 2049 [a]	100.4	-
Intra-group borrowings		
Shareholder loan notes 8.000 % fixed rate 2064 [h]	720.4	711.0
Total borrowings	**2,431.4**	**1,909.8**
Current liabilities		
Non-current liabilities	**2,431.4**	**1,909.8**

a) 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)

b) This debt amortises (requires repayment of debt accretion) from 2038

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

d) This debt amortises from 2036

e) This debt amortises from 2045

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

g) The Company has entered into swap agreements that convert £320m of this debt into index-linked debt

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

Deferred loans

The Group 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

The Group 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.

Notes to the financial statements (continued)

12 Financial instruments

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

Financial Assets

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Financial assets:				
Trade and other receivables	31.7	29.3	-	-
Cash and cash equivalents	391.5	564.5	-	-
Short-term deposits	157.5	90.0	-	-
Total	**580.7**	**683.8**	-	-

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

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Liabilities at fair value through profit and loss:				
Derivative financial instruments	89.0	55.7	-	-
Other financial liabilities:				
Trade and other payables	286.7	150.3	-	-
Lease Liabilities	7.0	-	-	-
Borrowings	2,431.4	1,909.8	-	-
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 Group has not disclosed the fair values for cash and cash equivalents, short-term deposits, trade receivables and trade payables as their carrying amounts are a reasonable approximation of the fair value.

	31 March 2020 Book value £m	31 March 2020 Fair value £m	31 March 2019 Book value £m	31 March 2019 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 sterling bonds	247.7	260.8	247.5	254.3
Borrowings – index-linked sterling bonds and loans	831.3	1,000.1	485.9	579.4
Borrowings – floating-rate loans	327.0	278.6	162.0	145.4

Notes to the financial statements (continued)

12 Financial Instruments (continued)

Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives - index-linked swaps	89.0	89.0	55.7	55.7
Total	**2,520.4**	**2,799.7**	**1,965.5**	**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 Group.

Financial instruments at fair value through profit and loss

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

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 Group'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 Group 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 Group 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 2 £m	2019 Level 3 £m
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps	89.0	55.7
	89.0	**55.7**

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values.

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2019	55.7
Loss recognised in finance costs	
- Net change in fair value (unrealised)	33.3
- Transfer out of level 3 and into level 2	(89.0)
Balance at 31 March 2020	**-**

As at 31 March 2020, the Group did not have any liabilities classified at level 3 of the fair value hierarchy.

Capital risk management

The Group's principal objectives in managing capital are:

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

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

The Group'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 Group's funding needs. This £160m RCF facility remained undrawn at the Statement of Financial position date (2019: £nil draw down).

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

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2020, the Group 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 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 requirements to the end of construction.

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

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

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

	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)**

	2020 £m	**2019 £m**
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)**

Credit risk

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

Credit risk for the Group principally arises from trading (the supply of services) and treasury activities (the depositing of cash). The Group's exposure to trading risk is predominantly with Thames Water which is the Group's only significant trading counterparty and who constitute the full outstanding balance of trade receivables at the Statement of Financial Position date. As part of its licenced activities, the Group generates an annual revenue return on its RCV, which it subsequently invoices to Thames Water

Notes to the financial statements (continued)

12 Financial Instruments (continued)

periodically through the financial year. At any time the outstanding trade receivable balance is approximately one month's revenue collection and represents amounts already collected by Thames Water from its customers so the risk of default is considered low.

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

The Group's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2020 was £580.7m (2019: £683.8m). Analysis of this amount can be found in the financial assets section of this note.

Market risk - Interest rate risk

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

The Group's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 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.

Market risk - Inflation rate risk

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

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

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

The table below summarises the sensitivity at 31 March 2020 of the Group's profit and equity to changes in RPI for the Group's index-linked derivatives only. Due to the adopted accounting policy of capitalising borrowing costs that are directly attributable to the construction of the TTT, the sensitivity analysis excludes the Group's index-linked borrowings. This analysis also excludes any RPI impact on the Group's revenues and RCV. The fair value of the Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an increase or decrease in RPI as shown in the table below. This analysis assumes all other variables remain constant.

	2020 £m +1%	2020 £m -1%	2019 £m +1%	2019 £m -1%
(Loss)/profit	(63.4)	70.8	(71.6)	66.2
Equity	(63.4)	70.8	(71.6)	66.2

Notes to the financial statements (continued)

13 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	507,366,749	507,366,749
Issued for cash	-	-
At the end of the year	**507,366,749**	**507,366,749**

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

Share premium was unchanged in the year at £2.3m (2019: £2.3m).

Retained earnings	2020 £m	2019 £m
Group		
At the beginning of the year	(55.7)	(24.7)
Loss for the year	(33.1)	(31.0)
At the end of the year	**(88.8)**	**(55.7)**

14 Contingent liabilities

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

15 Related parties

Group

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

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

Key management personnel

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

	2020 £m	2019 £m
Short-term benefits	2.3	3.5
Long-term benefits	1.4	-
	3.7	**3.5**

Notes to the financial statements (continued)

15 Related parties (continued)

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

Company

The directors of the Company are considered to be the key management personnel. They did not receive any payment for their services during the year ended 31 March 2020 (2019: £nil).

16 Ultimate parent company and parent company of larger group

The Company has no ultimate controlling party. The Company is indirectly owned by Allianz Infrastructure Luxembourg I S.a.r.l, Dalmore Capital 14 GP Limited, IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK).

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

17 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.