Bazalgette Equity Limited

Annual report and financial statements

For the year ended 31 March 2021

Registered number 09553394

Contents

Directors and advisors

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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 2021.

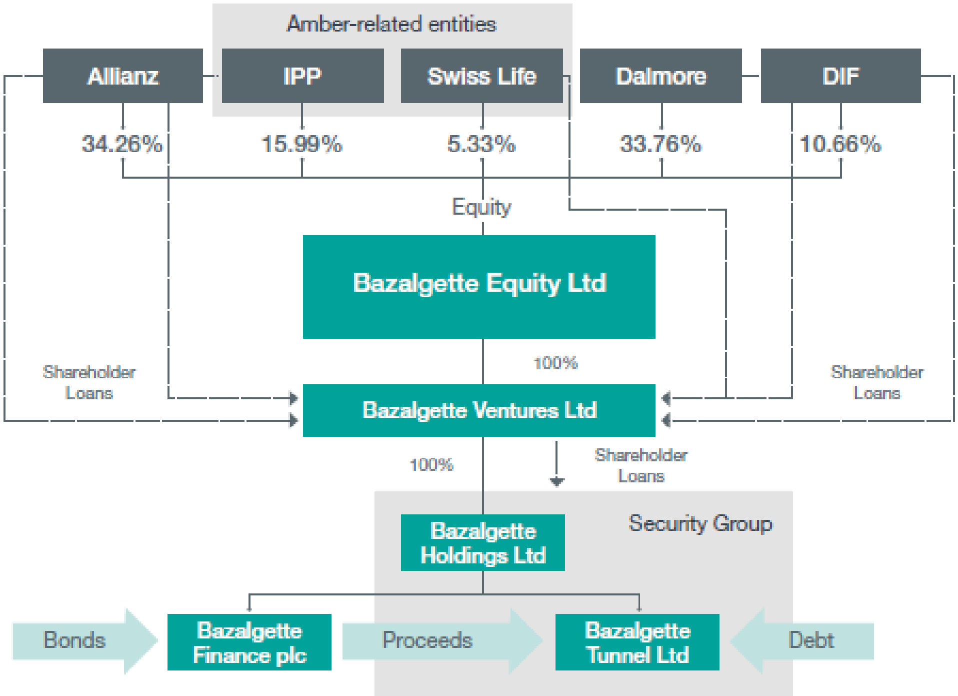
Introduction

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

As at the 31 March 2021, 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 the Company and loan notes of BVL is entitled to appoint one director to the Boards of the Company, BVL and BHL. Each shareholder controlling 20% or more of the ordinary shares of the Company and loan notes of BVL is entitled to appoint an additional director to the Boards of the Company, BVL and BHL. 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.

Delivering our Purpose and Vision

We bring our purpose and values to life through what we do and how we do, the way we treat each other, and our stakeholders is important to us successfully delivering the project. We want to see a step change in the health and wellbeing of everyone involved in 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, collaborating with our partners, engaging local residents on what we are doing or supporting people to develop skills and find employment. The Covid-19 pandemic has presented specific challenges over the last year however we have found different ways of delivering our Purpose and Vision consistent with our values of safety, legacy, collaboration, respect and innovation. Here we outline how examples of our work align to our Values and the UN Sustainable Development Goals.

VALUES

Examples	Safety	Legacy	Collaboration	Respect	Innovation
Build the Thames Tideway Tunnel	✓	✓	✓	✓	✓
Engaging with Our Stakeholders & Partners	✓		✓	✓	✓
Covid-19 Health and Wellbeing	✓		✓	✓	✓
Mental Health	✓	✓		✓	✓
EPIC	✓	✓	✓		✓
More by River	✓	✓	✓		
Blackfriars floating culvert	✓		✓		✓
Community investment and charitable giving		✓	✓	✓	
Inspiring the next generation		✓	✓	✓	✓
Ethical supply chain	✓	✓		✓	
Staff Engagement	✓		✓	✓	
Diversity and Inclusivity			✓	✓	✓
People with convictions		✓	✓	✓	✓
Women in Construction			✓	✓	
Our People			✓	✓	✓
Sustainable finance framework		✓	✓		✓

VALUES — **SUSTAINABLE DEVELOPMENT GOALS**

Examples	3 Good health and well-being	4 Quality education	5 Gender equality	6 Clean water and sanitation	8 Decent work and economic growth	9 Industry, innovation and infrastructure	11 Sustainable cities and communities	12 Responsible consumption and production	13 Climate action	17 Partnerships for the goals
Build the Thames Tideway Tunnel				✓		✓	✓			
Engaging with Our Stakeholders & Partners										✓
Covid-19 Health and Wellbeing	✓									
Mental Health	✓									
EPIC	✓									
More by River	✓						✓		✓	
Blackfriars floating culvert						✓	✓			
Community investment and charitable giving							✓			✓
Inspiring the next generation		✓			✓			✓	✓	
Ethical supply chain					✓			✓		
Staff Engagement										
Diversity and Inclusivity			✓		✓					
People with convictions					✓					
Women in Construction			✓							
Our People		✓			✓					
Sustainable finance framework					✓					✓

Our Commitment to Legacy & Sustainability

In line with our Purpose and Vision, Tideway has made long term and public commitments as to the value and benefits it is seeking to achieve. These 54 legacy commitments as set out in our Legacy plan are organised under five themes (environment, health, safety and wellbeing, economy, people and place). We have aligned our commitments to the UN Sustainable Development Goals (SDG), identifying the main ten SDGs to which Tideway makes a direct contribution.

The project's core environmental benefits 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. We have mapped our 54 commitments against 27 SDG targets that we are actively contributing to through delivery of our legacy commitments.

We have illustrated the linkages between our legacy commitments and the SDGs, showing the progress we have made during the period towards achieving the targets. We have completed five of our 54 legacy commitments this year; one related to creating 4,000 sustainable jobs (4,295) (SDG8) and completion of our Thames ecology research programme (SDG 4 and SDG 13).

We acknowledge that we have a negative impact on some of the SDGs, in particular SDG 13 Climate Action in acknowledgement of our carbon footprint (see Vision, Legacy & Reputation section for further information), however we are actively seeking to minimise and mitigate the impact. We are also having a temporary negative impact during construction on certain SDGs such as SDG 15 Life on Land. While we have had to fell mature trees to proceed with construction, we have committed to replacing 2 trees for every 1 tree removed working in partnership with Trees for Cities. The Sustainable Finance Report describes more fully the targets that we are working towards and the progress towards them.

The next year will see the completion of some of our commitments related to People & Economy as we pass peak construction, thereby delivering our contributions to SDG 4 Quality Education and SDG 8 Decent Work and Economic Growth. Our Place legacy commitments related to SDG 11 Sustainable Cities and Communities and SDG 17 Partnerships for the Goals, will be stepped up as our landscape and public realm, public arts and heritage commitments progress.

In this decade of action to deliver the UN SDGs, the graphic shows the progress we have made to delivering our legacy programme in relation to our contribution to 10 UN SDGs and 27 targets. Our 54 legacy commitments have been mapped across multiple SDGs. 11 of our commitments are complete, 5 of which were completed this financial year. The majority of our legacy commitments, 34, are in progress and will be delivered over the next few years as construction completes. Nine of our legacy commitments will be measured at completion. These relate to some of our long-term legacies like improved river water quality and reduction in sewage derived litter that will be realised once the tunnel is operational.

"The beauty of the UN Sustainable Development Goals is that they provide a framework to address all of these problems together in a consistent and coherent way maximising the effectiveness of action. I have been particularly interested in what Tideway has been doing around the areas of carbon, education and gender equality."

Dr Ashok Sinha, Chief Executive, London Cycling Campaign and Chair, London Sustainable Development Commission (LSDC)

Who We Are & What We Do

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' to stop 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.

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

Tideway has an alliance comprising Tideway, Thames Water, the Programme Manager (PM), three consortia known as the Main Works Contractors (MWCs) and our System Integrator. We work closely with Thames Water and their team co-located at our offices. Thames Water is responsible for important elements of the project and will ultimately operate the system.

The Alliance Agreement incentivises collaboration towards achieving the construction aims, milestones and outcomes, including the objective of meeting overall cost challenges. We have an experienced and competitive supply chain and we share lessons learned that enable us to best deliver the project.

Role	Partners
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 Projets • Bachy Soletanche Ltd
System Integrator	• Amey OWR Ltd

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.

Engaging with Our Stakeholders & Partners

In delivering a major infrastructure project across London we recognise the importance of engagement, transparency and trust. We listen to our stakeholders' views directly and through their representatives such as local councillors, MPs and Members of the London Assembly. We ensure that the communities we are working in are kept up to date on the progress being made and potential impacts. At the three main drive sites there are dedicated community relations teams and we hold regular Community Liaison Working Groups and other forums. These methods, plus a 24-hour Helpdesk, ensure that we are always accessible to our neighbours.

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 these is independently chaired and reports annually to the Reporting Group about their activities. The reports are available on Tideway's website.

Our most recent community survey showed that many of our neighbours remain engaged with the project and are keen to know more as work progresses. There were positive comments about our communication with residents, our work with charities, the appearance of our sites and the behaviour of our staff including our security staff and traffic marshals. The main issues for respondents were noise, dust and lighting and the site teams continue to look at how these can be mitigated.

“Tideway continues to take a proactive approach to engaging with its stakeholders, including people directly affected by its activities. In the last year, the pandemic has made this engagement more challenging – for example with many more people working from home, or home-schooling their children, the potential for impacts from construction sites has understandably been greater. Tideway, supported by the independent bodies – the Thames Tideway Tunnel Forum, the Independent Compensation Panel and the Independent Complaints Commissioner – has adapted its approach to ensure it continues to provide appropriate support, information and meaningful stakeholder engagement. In turn, the three independent bodies have continued to provide expert advice and constructive challenge to the project.”

The Right Honourable Nick Raynsford, Chair, Tideway Reporting Group

The Tunnel Route

The ‘super sewer’ tunnel will run from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, mostly 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.

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.

OUR VALUES
HOW WE DO IT

SAFETY
Transform the health, safety and wellbeing of all

LEGACY
Create a healthier future for London

COLLABORATION
Work together as an effective team

RESPECT
For people, places and resources

INNOVATION
Strive for excellence in project delivery

STAKEHOLDER VALUE

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

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

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

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

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

INVESTORS
- An appropriate return on investment

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

The Timeline

Tideway maintains a schedule with our partners for delivery of the project. 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 site, followed by tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.

Commissioning

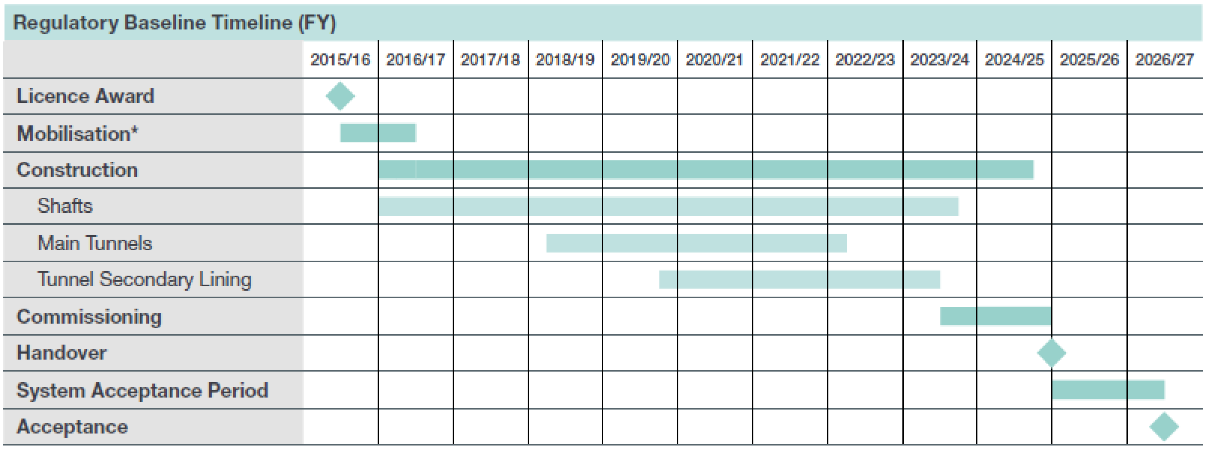
All the worksites and tunnels will be connected to the London Tideway Tunnels (LTT) system and tested. Once this is complete, the MWCs hand over the Thames Tideway Tunnel (TTT) Works to Tideway. At this stage, the MWCs' activities will be complete, and the contractors will be demobilised.

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 schedule

The outline schedule sets out our current view on the schedule. It reflects out latest view following significant engagement with our delivery partners and includes the expected impact of Covid-19.



* *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).*

Our Strategy for 2021/22

The Executive Team and the Board have reviewed and developed targets and aspirations for 2021/22. In doing so, they reflected on the impact that Covid-19 has had on the project, its people and those we engage with and the impact it would continue to have. The safety of those involved on the project and public health would remain paramount as we note the positive steps the country has taken on its vaccination programme and the potential for further lifting of government restrictions and guidance. We also look to complete our discussions with Ofwat on the appropriate treatment of the pandemic on our costs and schedule. Furthermore, we continue to have discussions with Ofwat on the extreme macro-economic environment and interactions with our regulatory mechanisms.

Our intent was always to review the delivery programme at this stage in the project. The opportunity is to work alongside our delivery partners to find the best opportunities for construction completion and commissioning of the project. This activity is called T-24 and is standard practice for major project companies wishing to clarify and begin to finalise their schedule to completion and expected out-turn costs.

By the end of March 2022 construction will be over three-quarters complete, the near completion of primary tunnelling and half of secondary lining complete. This year will see a transition in the organisation as we embed changes. In terms of delivery we will need to:

- Retain our focus on Health, Safety and Wellbeing while seeking to achieve safety improvements from the previous year.
- Maintain high performing tunnelling and marine operations whilst securing good secondary lining performance ensuring that lessons are shared across the programme.
- Progress Worksite Close Out Strategies.
- Focus on System Commissioning with our partners in particular Thames Water.

HEALTH, SAFETY & WELLBEING

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

Key Long Term Activities
- A HSW programme which is recognised as transformational in comparison to previous projects.
- Delivering HSW the 'RightWay', in line with the delivery programme, verified by appropriate assurance.
- Maintain a focus on Health & Wellbeing to achieve relative parity with Safety.
- Drive for an equivalent high level of HSW performance in the marine environment.

Priorities for 2021/22
- Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas but specifically high-risk activities including marine, tunnelling and secondary lining.
- Implement the HSW strategy for MEICA installation and site commissioning risks and review to determine effectiveness

Relevant Principal Risks:
- Health, safety and wellbeing
- High impact, low probability events

SCHEDULE, COST & QUALITY

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

Key Long Term Activities
- Enabling all our delivery partners to safely deliver the project more efficiently and at lower cost, and using the Alliance to best effect.
- Maintaining our focus on delivering a high-quality, fit for purpose asset and its integration into the wider sewer network.

Priorities for 2021/22
- Working with the Programme Manager, all three MWCs, the SIC and TWUL to deliver the best value for money schedule developed through the T-24 reviews.
- Start to handback areas on completion of construction (including architecture and landscaping) and/or worksite testing & commissioning (as applicable)
- Securing TWUL's commitment, through the joint approach, to the earliest possible SCCD, Start of Systems Activation, Handover and Acceptance.
- Seeking and implementing all appropriate opportunities to increase efficiency, mitigate risk, and minimise the impact of COVID.
- Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous quality certification.
- Commercial status of all three MWCs, SIC and TWUL aligned to Tideway's objectives for cost and schedule.

Relevant Principal Risks:
- Programme delivery
- Supply chain failure
- High impact, low probability events
- Interfaces with Thames Water infrastructure
- Regulatory and political
- Financing Cost Adjustment [new].

VISION, LEGACY & REPUTATION

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

Key Long Term Activities
- To ensure continued good relations with stakeholders including the consent granting bodies.
- Promote the Tideway story to a broad range of audiences.
- Address the needs and concerns of our neighbours.
- Continue to deliver 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.
- Maintain political consensus through engagement with local, regional and national stakeholders.

Priority for 2021/22
- 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
- Ensure we deliver on our ESG commitments and fulfil our reporting and governance requirements

Relevant Principal Risks:
- High impact, low probability events
- Reputation

COMPANY & PEOPLE

Objective
Deliver effective organisation change in line with project requirements. Continue to support a high-performing, motivated and engaged workforce which will deliver better value and help us recruit and retain people with key skills.

Key Long Term Activities
- Reinforcing values and behaviours.
- Maintaining our commitment to diversity.
- Maintaining a clear strategy for preserving organisational capability in critical roles.
- Providing training and development and succession planning.
- Offering competitive terms and conditions, benefits and incentives.
- Delivering systems, processes and tools to support an effective organisation.

Priority for 2021/22
- Continue to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team and deliver restructuring activities in line with project requirements

Relevant Principal Risks:
- High impact, low probability events
- Reputation

Brexit Risk removed for 2021/22, see **Risk Management** section

FINANCING

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

Key Long Term Activities
- Maintaining a low risk financing position by preserving our Baa1/BBB+ credit ratings and strengthening financing sustainability/ ESG performance.
- Maintaining appropriate levels of liquidity.
- Optimise our cost of finance to increase our return to shareholders.
- Drive strong financial control and discipline across the company.
- To continue to build trust and confidence with our stakeholders through high quality reporting, engagement and assurance.

Priorities for 2021/22
- 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
- To achieve appropriate regulatory treatment of Covid-19 impacts and an improvement in the FCA mechanism

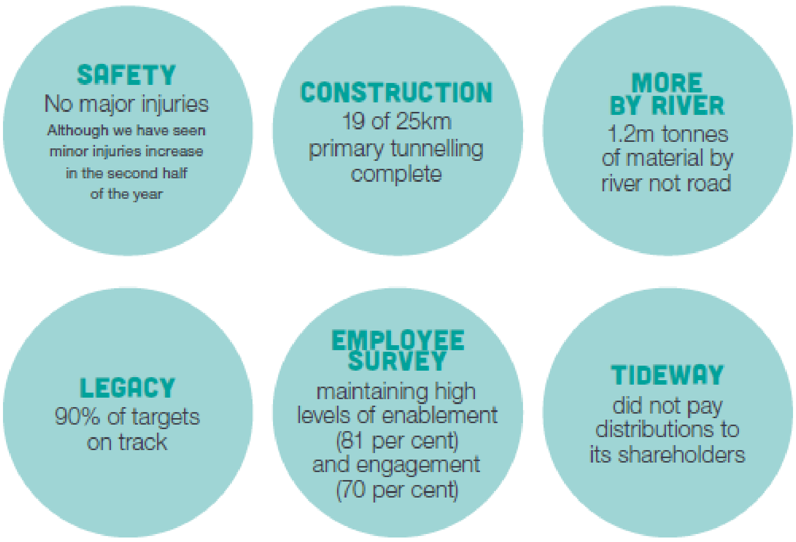
Relevant Principal Risks:
- Programme delivery
- High impact, low probability events
- Credit risk rating
- Inflation
- Regulatory and political
- Financing Cost Adjustment [new]

Our Performance

Excavation of the main tunnel has been completed in both the West and Central areas, and all our shafts have now been fully excavated.

Covid-19 has impacted the project and our expectations for the year. We sought to act responsibly and in line with Government Covid-19 guidance during the year. In the Spring 2020, we paused activities on our sites for between 6 to 8 weeks where it was safe to do so and introduced a wide range of new measures to keep our people and the public safe. In August 2020, we announced a 9 month delay to Handover and [£233m] increase to our costs.

Our performance during the year included:



Our Response to the Covid-19 Pandemic

At the start of the national lockdown in spring 2020 we took the decision to temporarily pause almost all work across our construction sites. All staff who could work from home started doing so.

We took an immediate decision to support our MWCs commercially in order to protect our supply-chain. This was the right thing to do and proved to be critical in enabling work to re-start efficiently when the time came, without a loss of expertise and resource.

Tideway, working with the MWC teams used the pause in operations to carry out extensive planning to enable work to re-start safely. A comprehensive assurance review took place for every site, to assess risks and establish new safety protocols. The site plans were prepared in consultation with the workforce and followed the Construction Leadership Council's Site Operating Procedures which were developed specifically for the pandemic. Measures included personal travel plans, social distancing, welfare and hygiene controls, emergency planning and community impact analysis. Almost all activities had re-started within six to eight weeks.

When the national lockdown started, the CEO led daily executive-level review meetings (reducing to three a week in July 2020) to ensure oversight of the site demobilisation and re-mobilisation plans; and also, to ensure communication flows throughout the organisation. We established a working strategy to manage the situation which was reviewed each week and all decisions relating to the pandemic were centrally logged. Covid-19 cases among the workforce were tracked and reported weekly, as were any supply-chain issues and risks.

New construction activities were assessed to ensure they could be safely sustained or stopped if the pandemic situation worsened and/or official advice changed.

The systems we put in place enabled us to prepare for the second wave of the pandemic and we continue to regularly review our strategy so that it can be adapted as restrictions are eased.

There was significant collaborative planning to achieve several major milestones during the year while working safely and adhering to Covid-19 guidelines. Ofwat agreed that Tideway had acted appropriately to protect its supply chain.

Tideway and its contractors have supported staff, communities and charities, in London and beyond, during the pandemic. Regular community meetings were moved online and we kept our neighbours informed through regular communications, virtual drop-in sessions and meetings.

Keeping our staff connected with each other has been critical and we adapted our internal communication channels with this in mind. Our aim has been to support mental health and wellbeing; maintain a strong connection to the company; and ensure leaders remain visible and accessible to everyone.

At the start of the year, we gave immediate donations to each of our staff charity partners' emergency appeals: to South London Cares, who created a new programme to tackle loneliness in older people; to Single Homeless Project, who created isolation units in their hostels; and to the Drive Forward Foundation (DFF), who supported hundreds of care-experienced young people facing significant financial and mental wellbeing challenges.

We also supported our 'river reconnection' charity partners Thames21 and London Youth Rowing, bringing forward payments for community programmes that we fund. Our Main Works Contractors also supported their local communities with various donations and support to local charities, including Sands End Associated Projects In Action, based in Fulham; St Mary's Hospital in Paddington; Project Hope, an appeal from Greenwich and Lewisham Councils tot support staff at the Queen Elizabeth Hospital in Greenwich and Nigerian Diaspora Connect (NDC) volunteers, who support young adults from ethnic minorities in London and across the UK.

Tideway supported construction workers' mental health making a £15,000 donation to Mates in Mind, which promotes mental wellbeing in construction, which allowed the charity to run mental health training for managers and to increase support for the self-employed and small businesses, who are among those who have been hit hardest by the crisis.

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 2020/21

- 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

2020/21 Measure

Maintain strong HSW performance

Target	Actual
Safety record better than recent major projects	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	0.24

Accident Frequency Rate 7 (AFR-7)

Target	Actual
0.00	0.18

** 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

No major injuries occurred during construction activities during the year. Additionally, there were no significant incidents as a result of our marine activities. The first half of the year saw the three-day Accident Frequency Rate (AFR-3) maintained in the region of 0.1 which is broadly consistent with prior year performance, however from October onwards an increase to above 0.2 was seen for the first time since the commencement of the project. The deterioration in AFR performance coincided with the second wave of Covid-19 although the link cannot be proved.

The programme's three-day Accident Frequency Rate (AFR-3), despite the additional challenges of the last year, has remained below the highs experienced during other large infrastructure projects. There were 24 lost time incidents in the year, of which 10 resulted in RIDDOR reportable injuries. 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 highlight their best practices and the best submission is recognised in each pillar. Quarterly, the winning site team is presented with an award. The initiative was a collaborative development by the Project Managers and the MWC teams. We celebrate and promote enthusiastic ownership of good practice by the site teams and encourage them to adopt best practices from other sites.

Health and Wellbeing

We actively engaged in promoting and improving the Health and Wellbeing of our workforce as well as mitigating the health risks associated with our works. Recognitions include finalist:

- Employer Initiative of the Year – Inside Out Mental Health Awards 2020.

Covid-19 Management – Health and Wellbeing

Covid-19 led Tideway to re-examine its approach to HSW in order to address the unique challenges presented by the pandemic and ensure traditional construction risks could be managed whilst implementing appropriate Covid-19 controls.

We worked closely with our Occupational Health Service Provider, Duradiamond to ensure we were implementing evidence -based, support services across the programme which included:

- Lateral Flow and PCR testing – to identify asymptomatic employees.
- Covid-19 Vulnerability risk assessment – to identify workers who may have increased vulnerability and required additional safeguards in work, or who would be considered sufficiently vulnerable to be out of the physical workplace during times of regionally higher levels of circulating virus.
- Management of long Covid and returning to work.

We adapted our wellbeing programme to support individuals working from home. Some of the additional initiatives included:

- TimeAway - staff were given 30 minutes a day to dedicate to their wellbeing of which 79 per cent of staff completing the wellbeing survey in March 2021, said they had used and rated the initiative as 8/10 in terms of how beneficial it had been.
- Creation of #InItTogether "Tribes" to allow individuals with similar challenges, (e.g. home-schooling, living alone, caring for others) to meet virtually, share experiences and discuss coping techniques
- Nudge – the financial wellbeing app was launched in December 2020 and has sent 160 financial education "nudges" to employees who registered their specific financial interests.
- Nature, resilience and wellbeing team sessions, which encouraged staff to find ways to reconnect with the natural world around them and each other during the pandemic.

Occupation Health Inspections (OHI)*

We have evolved our OHI[1] approach to focus on task-based inspections combined with a coaching programme delivered by our Occupational Hygienists. The health risk profile has shifted significantly across the alliance during the last year, with West and Central areas completing TBM operations and moving into secondary lining activities and commencement of tunnel drives in the East. We saw 92 per cent of all observations made were positive, which is consistent with previous years, however the quality of the data has been significantly improved allowing more targeted interventions to be included, such as the correct selection and implementation of control measures.

[1] 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.

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, more than 100 Mental Health First Aiders, Mental Health First Aider Networks, Mental Health focused RightWay Live sessions and initiatives and use of 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 needed to take, both now and in the future, to improve mental health at Tideway (and wider industry).

"The support from Tideway was invaluable during a critical year - we were able to enhance our existing suite of Covid workshops and engage with a vulnerable, hard-to-reach cohort of workers."
James Rudoni, Managing Director, Mates In Mind

Initiatives include:

- Collaboration with Mates in Mind on a managerial course for managers/supervisors, launched in October, 202 people have attended the training so far.
- Hosting a Supply Chain Event in October for World Mental Health Day bringing together the supply chain to share lessons learned from Tideway's approach to mental health and support smaller companies as they embark on the same journey.

Employer's Project Induction Centre (EPIC)

EPIC, our immersive induction programme, set out to make Tideway the safest and healthiest project yet. To date, over 21,000 people have attended the programme, which includes those working on Tideway but also other interested parties, supporting our aim to be transformational and to help improve health and safety across the construction sector. Now well established the EPIC centre has been used by many of our partners and is available for external industry days to promote the experience to the wider industry.

EPIC Logistics is FORS Silver accredited, designed to provide HGV drivers 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, in the region of 1,000 drivers. This supports our More by River strategy, which has already significantly reduced vehicle movements.

The full EPIC and EPIC Logistics days have been affected by the pandemic throughout the whole year, however, a restart is planned for June 2021, government advice permitting. During this period, an interim EPIC was created to ensure behavioural safety training continues across the project. The interim session is a 2-hour, socially distanced, reduced capacity version, that has been rolled out at our EPIC training centre and on site - over 750 people have attended to date.

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 2020/21

- 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

2020/21 Measure

Delivery against the regulatory baseline – schedule

Target	Forecast
Handover by end of calendar quarter 1 2024	Handover by end of calendar quarter 1 2025

Delivery against the regulatory baseline – cost*

Target	Forecast (2021)
£3.4bn	£4.1bn

** 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.

Following the onset of the pandemic, Tideway announced in August 2020 our programme schedule had been impacted by 9 months and costs increased by £233m. Our planned handover date is now March 2025 with an overall cost estimate of £4.1bn.

Our construction progress has been affected by the pandemic, which initially caused us to bring all of our construction to a pause in a safe manner. We then took time to work out how to re-open our sites in a Covid-19 secure way. This involved setting our sites up to ensure safe distancing and adjusting and increasing our welfare facilities and cleaning regimes to keep our workforce safe. Once we completed the modifications, we carried out safe start reviews for all activities and re-opened our sites. With the measures in place we have returned to work on our all sites, albeit at lower production levels.

Our workforce has been excellent in adjusting and we have managed to achieve some major milestones during the year across all three contract areas.

We have continued to develop our plans to handback parcels of land as soon as the project no longer requires the use of the land. Our teams have worked closely with all of the stakeholders and we start to handback some land parcels in the next financial year.

As we move close to starting commissioning in late 2023 our planning for this has increased, this involves dedicated teams from Tideway and Thames Water working together. This work is being monitored by using a joint approach to Handover and Acceptance. This strategic document is being used as a framework for both companies to plan future activities and ensure that they are correctly resourced. This joint effort continues to 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.

Construction Quality

The level of non-conformance and re-work on the project has remained at a satisfactory level, with no critical defects being reported. Construction quality is the responsibility of the 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.

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

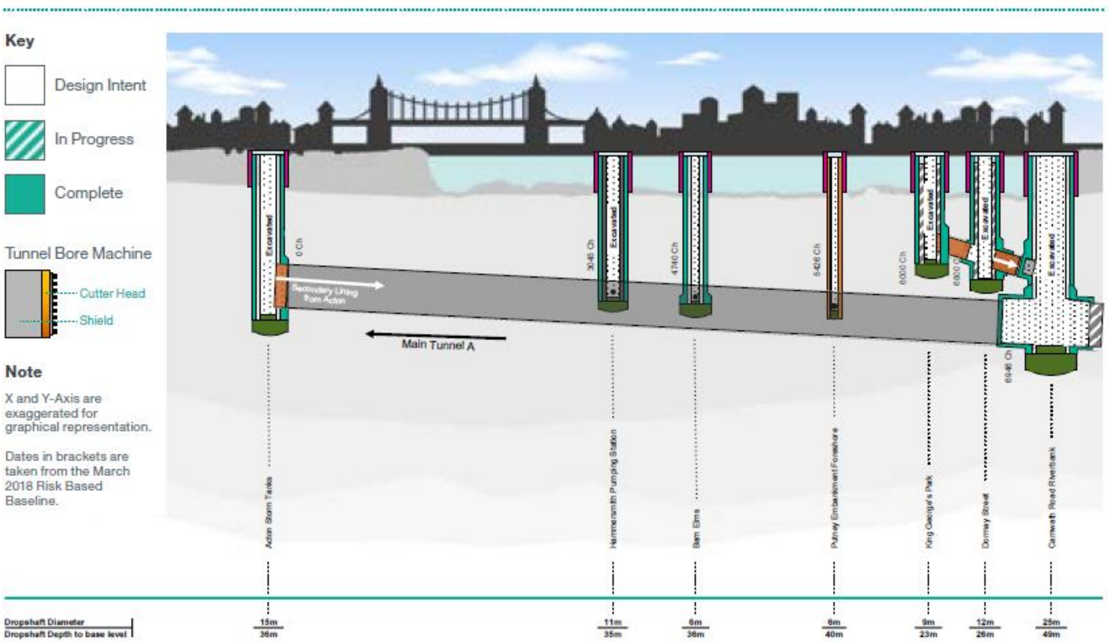
In line with the provisions of the MWCs each of the MWCs' target prices have been adjusted to reflect Compensation Events (risks retained by Tideway). The primary areas of change to the MWCs relates to finalisation of the construction and programme interfaces between the main works packages including the introduction of incentives for efficient delivery and the settlement of outstanding claims in respect of entitlement to target price adjustment for historical events. Tideway is working collaboratively with the MWCs to finalise their construction schedules for the next twenty-four months and to completion and where appropriate to resolve outstanding claims.

More by River

This year we have continued the use of river transport 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 and to go beyond our planning requirements. The project's use of the river over the period has avoided carrying 1.2 m tonnes of material on London's roads, bringing the total to 4.5m tonnes transported by river. This includes 190,000 tonnes of additional materials being transported in the year under the More by River strategy, bringing the total to 855,000 tonnes. To date our More by River Strategy has avoided 275,000 HGV arrivals, 550,000 journeys resulting in more than 14m HGV road miles and avoiding in the region of 14,500 tonnes of CO2.

Progress by Area

West Area



The west team saw the successful completion of tunnelling in September 2020 with Tunnel Boring Machine (TBM) Rachel safely arriving at Acton after starting her 7km journey from Carnwath Road in May 2019. The 1.1km Frogmore connection tunnel was also completed by TBM Charlotte in July 2020. Both TBMs were safely removed from site to be refurbished for future projects.

At Putney Embankment the team completed the 46.5m connection tunnel which links the shaft to the main tunnel, including both the primary and secondary lining.

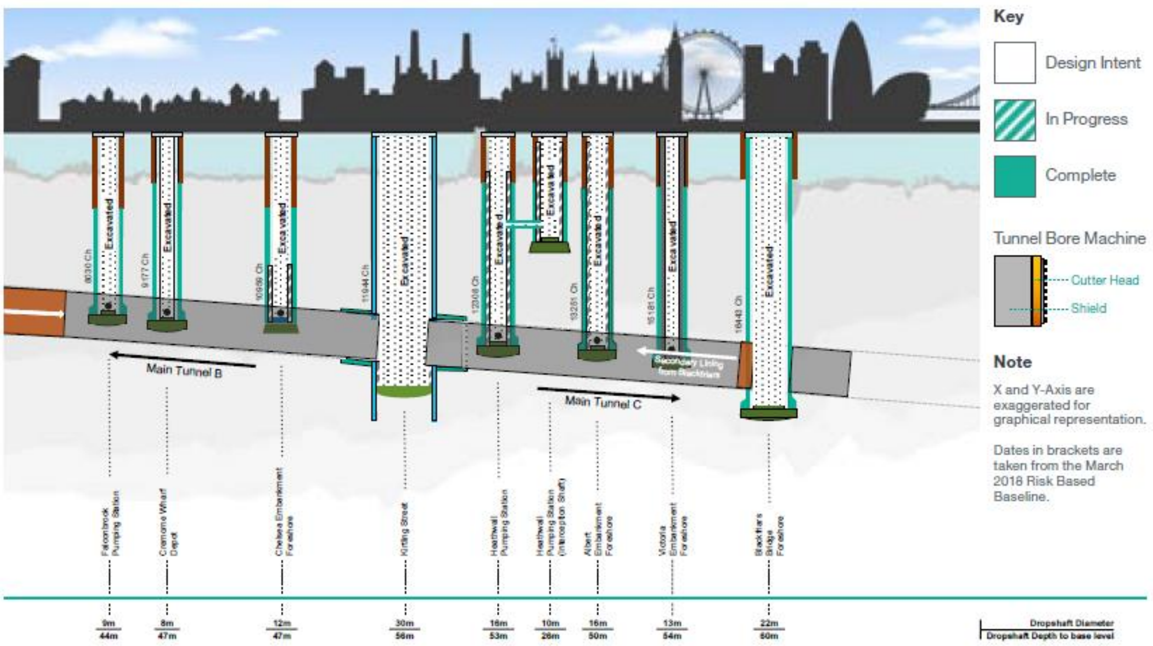
In July the team at Barn Elms saw the completion of their 212m long connection tunnel which broke through to connect to the main tunnel.

Further milestones included:

- Secondary lining of the Dormay street shaft in December 2020
- The installation of a 65-tonne vortex tube at Hammersmith pumping station in summer 2020

- Preparation for secondary lining has begun at Acton

Central Area



TBM Ursula broke through into the shaft at Tideway's Chambers Wharf site in November 2020, marking the safe completion of the Central section of the main tunnel which stretches from Fulham to Bermondsey. This 12.6km stretch of tunnel was constructed by two TBMs tunnelling in different directions from the shaft at Kirtling Street. Since the completion of tunnelling the team have started casting the concrete secondary lining in the westbound stretch of tunnel.

Blackfriars floating culvert

The Blackfriars site was home to one of the most innovative and complex engineering solutions on the project in the summer of 2020, when a 100m-long, 9m-high, approximately 3,500-tonne concrete culvert was 'floated' into position.

The manoeuvre was described as like 'floating a three-storey building down the Thames,' and was thought to be one of the largest structures ever to float through Central London.

Blackfriars is home to the largest cofferdam on the project. A twin-walled, sheet-piled structure was initially planned to run the entire length of the site upriver from Blackfriars Bridge. But analysis showed that the weight of the cofferdam may cause an issue for the existing embankment – which housed a Victorian gas main, supplying the City of London. Our engineers developed a solution that reduced the twin-wall cofferdam to just the western end of the site, which houses the shaft. The longer, eastern part of the site then became a 'dry dock' in which the concrete culvert linking the site to the Fleet CSO beneath Blackfriars Bridge was cast. Over a period of three months, the on-site team used around 1,200m3 of concrete to form the culvert. Once the culvert was cast, the dry dock was opened and flooded, allowing the culvert to rise with the tide and be carefully manoeuvred into place, linking with the CSO further downstream.

In August when the approximately 3,500-tonne concrete culvert was floated into place. The culvert is connected into the Fleet CSO located directly below Blackfriars Bridge and will redirect the overflows towards the site's shaft some 200m away.

Peter Rouzel, Tideway's Project Manager for Blackfriars Bridge Foreshore, said "After more than four years of planning, design and innovative engineering, it's amazing to see this giant culvert come to life and float along the Thames. Through outstanding collaboration and teamwork, we've managed to achieve a unique solution that puts us one step closer to cleaning up the Thames. This feat of engineering will be looked at for years to come in the engineering world."

Viv Jones, Project Director for Tideway Central, added: "This is an historic milestone for the future of the River Thames. Our team, applying its ingenuity and a whole host of engineering expertise, has executed a bold and innovative solution to the significant challenges posed by this part of the river and London's existing infrastructure. What we've accomplished here is a fitting addition to the system Bazalgette pioneered over 160 years ago."

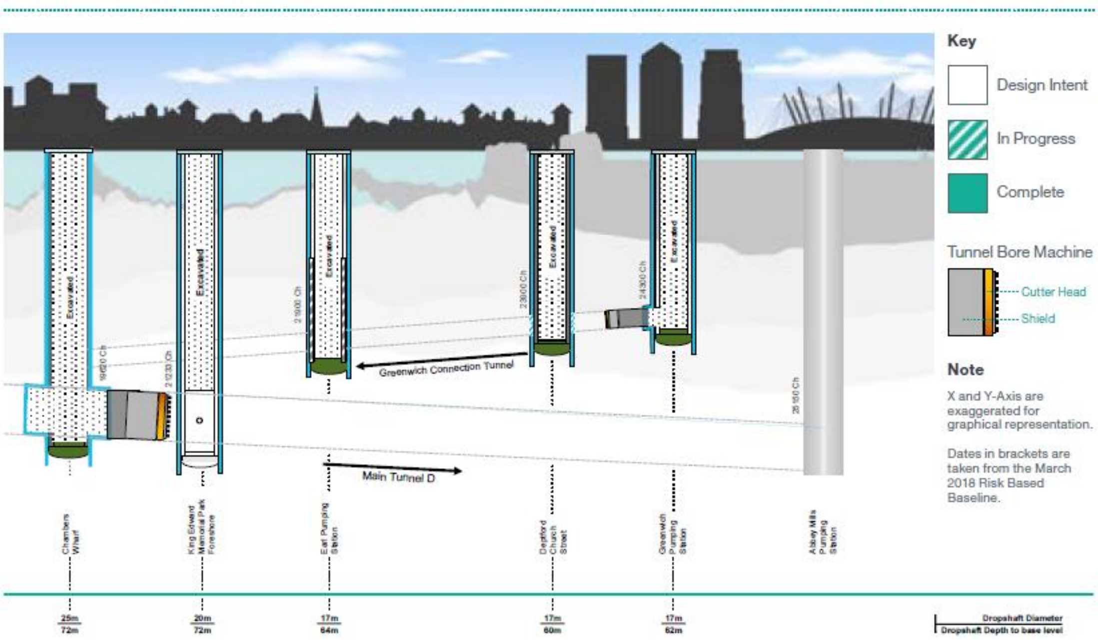
At Victoria Embankment Foreshore, the secondary lining in the shaft was completed in January and the outline of the new area of public realm is beginning to take shape as work has commenced on the new river wall for this location.

The new land built by Tideway, to the west of Blackfriars Bridge, will include a new City Walkway as well as open space for recreation and leisure, it is planned to be named Bazalgette Embankment in honour of the Victorian engineer Sir Joseph Bazalgette who designed the existing system in the 19th century.

Further milestones included:

- All of the central connection tunnels, which connect the base of shafts to the main super sewer, have been excavated.
- Secondary lining of the Albert, Chelsea, and Heathwall shafts are underway.
- The final and longest connection tunnel in the Central section of the project was completed at Falconbrook Pumping Station. The 249m-long tunnel was excavated using a sprayed concrete lining method. The team will now begin installing a concrete secondary lining in the tunnels to protect the structure against erosion and increase the design life.
- Construction of the new river wall was successfully started at Victoria.

East Area



The biggest milestone for the east section of the project was the start of the final section of tunnelling with the launch of the final two TBMs on the project. In December 2020 TBM Annie began her journey from Greenwich Pumping Station to Chambers Wharf to construct the 4.6km Greenwich connection tunnel while TBM Selina began tunnelling in January 2021 from Chambers Wharf towards Abbey Mills to construct the final 5.5km of the main tunnel.

At King Edward Memorial Park Foreshore the team have completed the shaft; completing the diaphragm walls in August 2020 and the shaft excavation in May 2021.

At Greenwich pumping station the team completed dredging works in Deptford Creek to maximise the tidal flow of the creek. This means more barges can gain access to remove tunnel spoil by River rather than by road.

Further milestones included:

- Completion of the sewage interception chamber diaphragm walls at King Edward Memorial Park Foreshore.
- Completion of the sewer diversion works at Earl Pumping Station.
- The slurry treatment plant at Greenwich was completed in advance of the start of tunnelling.
- Chambers Wharf saw the arrival of TBM Ursula from Kirtling Street.
- Completion of the shaft and tunnel portals at Deptford Church Street including the secondary lining of the shaft.

Vision, Legacy and Reputation

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

Priority for 2020/21
- 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

2020/21 Measure

Measure	Target	Actual
Support from Stakeholders	No material schedule impact as a result of stakeholder intervention	no impact
Percent of live legacy commitments on track	85%	90%
Apprentices per project staff	Target FTE: 1 in 50	Actual FTE: 1 in 43 (Monthly Average)
STEM* volunteer hours per project staff**	Target (per 3 FTE): 1 hour	Actual (per 3 FTE): 1.6 hours
Community volunteer hours per project staff**	Target (per 3 FTE): 1 hour	Actual (per 3 FTE): 1.6 hours

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

Performance

Delivering a positive legacy is essential to the success of the Tideway project and significant progress was made through the year. Tideway continued to take a proactive approach to stakeholder engagement and communication, with the aim of reaching a wide range of audiences through our communication channels, some of which were adapted to take account of the pandemic restrictions. We continued with our corporate responsibility programmes, through which we provided practical advice and support to our charity partners during a challenging year.

Legacy

Our legacy programme is organised under five themes – environment; health, safety and wellbeing; economy; people; and place. We have 54 measurable commitments and this year, on average, 90 per cent were on track, against a target of 85 per cent.

Several of the commitments were fully achieved, for example we surpassed our target of creating 4,000 sustainable jobs (4,295) and we completed our Thames ecology research programme. The programme funded or contributed data to five research papers on how smelt fish use the estuary as a breeding ground; the early life stages of fish within the Thames; investigating how habitat interventions could assist fish migration; population and breeding seal surveys and a study on microplastics in the Thames.

We made progress against many of the other commitments, for example we achieved the target of 25 per cent of our workforce (measured by Full Time Equivalent roles) living in the 14 London Boroughs we operate in; at year end this figure was 26 per cent. Our work to deliver a sustainable legacy received public recognition with a series of award wins:

- Global Good Awards 2020: Company of the Year
- Business In The Community Responsible Business Awards 2020 – Responsible Business Champion for Outstanding Employment.
- edie Sustainable Business Leaders' Awards 2021: Building/Infrastructure Project of the Year

Carbon

Reducing our carbon footprint is a key element of the environment theme of our legacy programme. This year we continued to work with our supply chain to reduce the embodied carbon of materials used in the construction of the tunnel, which account for most of our carbon footprint.

One example of reducing our carbon footprint this year was through our work with GPS Marine, the main marine contractor for the Central area, to deliver materials via tugs using 100 per cent Green D+ hydrotreated vegetable oil (HVO). Green D+ HVO generates several benefits including approximately 30 per cent NOx reduction, particulates reduction of 70 per cent and the reduction of greenhouse emissions by approximately 90 per cent. It is estimated that Green D+ HVO produces 2.82 kg less CO2e for each litre used compared with traditional B7 diesel.

At the end of the period, GPS Marine had used more than 140,000 litres of the product, which avoided more than 400,000 kgCO2e, or 400 tCO2e compared with B7 diesel. The entire GPS fleet is now using this fuel, which is an important step towards the marine industry aligning with the government's net-zero carbon target.

Details of our More By River strategy can be found in the Schedule, Cost & Quality section.

We have aligned ourselves to the World Resources Institute and the World Business Council for Sustainable Development definitions of Scope 2 and 3 emissions*. As expected, with tunnelling work increasing, Scope 3 emissions have begun to rise. Our scope 1 – 3 emissions are detailed in the table below.

	2020/21	
Scope 1 Emissions - Operational (OPEX)	**FY tCO2e**	**PTD tCO2e**
Operation of the tunnel		
Total Scope 1 Emissions	**N/A until operation**	
Scope 2 Emissions		
Grid electricity used by Tideway (Bazalgette Tunnel Ltd) controlled offices at Camelford House and the Cottons Centre	40.58	355,67
Total Scope 2 Emissions	**40.58**	**355,67**
Scope 3 Emissions		
Construction materials	84,075	291,125
Site accommodation and welfare	1,123	9,076
Material transport	1,366	13,417
Waste disposal	659	2,891
Plant and Machinery	7,090	31,516
Personnel transport	116	3,127
Total Scope 3 Emissions	**94,429**	**351,152**

* *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.*

** *Until operational.*

At the end of the financial year, we have consumed 46% of the predicted CAPEX (Scope 3) carbon, which is in line with our original carbon footprint target. We continue to work with our MWCs and supply chain to find solutions to reducing, and mitigating, our carbon footprint.

Innovation

Tideway's Innovation Programme, "the Great Think", encouraged and incentivised innovation through our supply chain and has now generated a return on investment (ROI) based on cost savings for the project of 4.8:1, exceeding the original 3:1 target.

We forecast that the total ROI of the programme will be in excess of 8:1 which will include a £3m saving by using autonomous vehicles for 10-year tunnel inspections, avoiding the need to close the tunnel for manual inspections.

Tideway shares its innovations through the industry-wide Infrastructure Innovation Partnership (i3P) and we have had an integral role in developing a new i3P 'membership model' and online portal which was launched in February 2021. To date, Tideway has shared 180 innovations on the i3P site and we will continue to share and track the benefits of our innovations via this portal.

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)
- Paying SMEs within 30 days of invoice under the Fair Payment Charter
- Ensuring staff have job security by working under contracts
- Maintaining a leading position on tackling Modern Slavery including having a robust Modern Slavery and Human Trafficking Statement, being signatories to the Gangmasters & Labour Abuse Authority (GLAA) Construction Protocol and remaining on the UK Modern Slavery Registry

We were verified to the Building Research Establishment (BRE) Ethical Labour Sourcing Standard (ELS) (BES 6002) for a third year and are proud to report that we have achieved the highest level of performance in eight of the twelve categories.

We are also committed to ensuring that 100 per cent 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 must be certified as FSC and/or PEFC standard.

Our supply chain spend to date has reached:

- Around 1800 companies
- 12 UK regions
- 19 London Boroughs

Since Licence Award c93 per cent of our supply chain spend has been within the UK.

Skills and employment

The pandemic has thrown the issues of climate emergency, biodiversity and social justice into greater focus. With people, policy makers, and businesses across the world collectively seeking to reset the global economy for a fairer and greener future, Tideway partnered with the Institute of Public Policy Research (IPPR) to take an in-depth look at our skills programme. The final report, Skills for a Green Recovery, was published in February 2021, with major construction organisations urging the Government to do more to close the green skills gap and to improve the skills pipeline in order to achieve its 2050 net-zero carbon target.

The report identifies that 750,000 UK-based construction workers are planning to retire in the next 15 years, more than the number likely to enter the sector within this timeframe. Tideway provided two panellists at the report's launch and CEO Andy Mitchell signed a letter to the Chancellor calling for Government support in promoting these skills so the UK can play a leading role in the green recovery.

Inspiring the next generation – virtually

With government statistics showing that more than half of the job losses during the pandemic have been among the under-25s, the need to encourage and inspire those starting their careers has never been greater.

With face-to-face events and work experience not possible, Tideway adapted its Science Technology Engineering and Maths (STEM) engagement programme to offer a range of virtual opportunities for young people. We also promoted Tideway's free educational resources through our [Tunnelworks website] to support remote teaching and home schooling.

Partnerships with educational outreach organisations such as Uptree, Skills Builder, My Spiral and Urban Synergy were at the heart of our virtual STEM programme. Tideway funded and provided volunteers for events engaging young people from disadvantaged backgrounds, from London and beyond. Our MWCs collaborated on these events, as well as running their own.

As well as STEM workshops, career talks and mentoring, online work experience gave young people a flavour of life on Tideway. Before a 'work taster' session in May, four per cent of the 35 students from 26 London schools who attended said they were thinking about an apprenticeship, by the end almost 90 per cent said they would seriously consider it.

A Virtual Careers Week event in August gave 17 to 18-year-old London students a project overview from the team at Tideway's King Edward Memorial Park Foreshore site; a careers session with professionals working in sustainability, architecture, corporate responsibility and digital communications; and concluded with a sustainable design challenge.

> "Thank you for the most incredible few days of work experience. It was so beneficial to hear the Tideway team's journeys into their role as well as their day-to-day jobs".
> Phoebe Anderson, 18

The project engaged around 3,000 young people during the year. Our STEM partnerships also engaged diverse groups - for example, of 1,529 young people at the two schools (Rotherhithe Primary in Southwark and Sacred Heart High in Hammersmith) who took part in our Skills Builder Accelerator programme, 36.7 per cent had English as an additional language and 48 per cent came from ethnically diverse backgrounds.

Project staff volunteered 1,209 STEM hours in the year, or 1.6 hours per 3 FTE per year, above the target of 1 hour per 3 FTE. Tideway also partnered with the Construction Youth Trust on its Higher Level and Degree Apprenticeship (HLDA) programme, which aims to raise the profile of the vocational route into construction and to enable young people from disadvantaged backgrounds to take up these opportunities.

The HLDA programme engaged more than 1,000 young people in 2020 and mentored 55. Of those mentored, 80 per cent were from ethnically diverse backgrounds, 15 were young women and 22 self-identified with an indicator of disadvantage such as being eligible for free school meals. One success story is Tideway project apprentice Muaaz Ul-Haq, who joined the HLDA programme after attending a masterclass session and is now with BAM Nuttall.

"From the day-to-day support to the mock assessment centres, I was given assistance and feedback every step of the way." Muaaz Ul-Haq

Engagement and communication

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. We see this proactive approach to engagement and communication as being key to public accountability and also to helping us understand and respond to our stakeholders' needs. For more details on how we engage with our stakeholders see our section Engaging With Our Stakeholders & Partners.

We use a range of communication channels to inform the public about the project and this year we introduced new channels, including a YouTube series called 'Tunnel Vision' and a new podcast called 'Tidal Waves'. We also launched several online campaigns to bring awareness of the super sewer to new, younger audiences. One of these, involving musician Professor Green and grime artists generated high levels of reach on social media as well as national media coverage. Engagement with our social media channels continues to grow year on year.

During the year there were 4,892 contacts with our 24-hour Helpdesk (compared with 5,784 in the previous year), including 810 complaints, which were primarily around noise and vibration issues. All complaints were dealt with promptly.

Community Investment, Charitable Giving and Volunteering

Community investment and charitable giving are crucial to our legacy and engagement aims – and were a vital part of our responsible business approach to the pandemic, supporting charities who faced major reductions in income alongside increased demand for their services.

For Tideway's support for the community in Covid-19, see page 11. For staff volunteering and fundraising, see the people case study in Company and People section.

Across the year our community investment programme benefited a total of 180 organisations and more than 11,000 people. Tideway gave £56,704 in charitable donations and £2,000 worth of in-kind donations, with an additional £11,830 in donations from staff fundraising.

With our charity partners pausing almost all community volunteering activity during the lockdowns, project staff volunteered 2,197 hours which was reduced from last year but at 1.6 hours per 3 FTE was ahead of our target. Tideway's 864 hours included 534 skilled or professional hours as we shifted our focus to remote help, giving pro bono advice or strategic support as Trustees and Governors.

Our 'river reconnection' partnership Thames River Watch, in which environmental charity Thames21 engages volunteer groups to collect and count litter, held limited events after the first lockdown. Activity during this period showed that the pandemic appeared to drive an increase in single-use plastic pollution - more than 1,600 plastic cups were recovered from clean-ups between July and September, twice as many as the same period last year. The programme surveyed more than 1km of River Thames foreshore in September, showing an average of 322 pieces of plastic per 100m surveyed, with discarded plastic gloves and masks found on 70 per cent of the stretches monitored.

Active Row, our partnership with youth engagement charity London Youth Rowing engaged more than 6,000 young people in indoor and on-water rowing up to March 2020. In 20/21 it was significantly affected by the pandemic with schools closed and access limited. LYR took their programme online, focussing on weekly workout videos and training packs for teachers so that they could run sessions themselves. One young rower said: "I found it extremely helpful as it helped me get my physical level up as well as motivating me to get back into sports."

Company and People

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

Priority for 2020/21
- Continue to evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

2020/21 Measure

Employee engagement*

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

Target	Actual	2019/20	2018/19	2017/18
63%	70%	69%	64%	63%

Employee enablement*

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

Target	Actual	2019/20	2018/19	2017/18
74%	81%	81%	71%	67%

Employee diversity**

Percentage of women within Tideway at 31 March

Target	Actual	2019/20	2018/19	2017/18
40%	36%	36%	34%	36%

Preserving a values driven, skilled, diverse and engaged workforce

Target	Actual	2019/20	2018/19	2017/18
Subjective	Green	Green	N/A	N/A

* *Tideway employee survey: percentage of favourable responses*
** *Includes Tideway employees and our programme manager. 88 per cent of those eligible took part in the survey.*

Performance

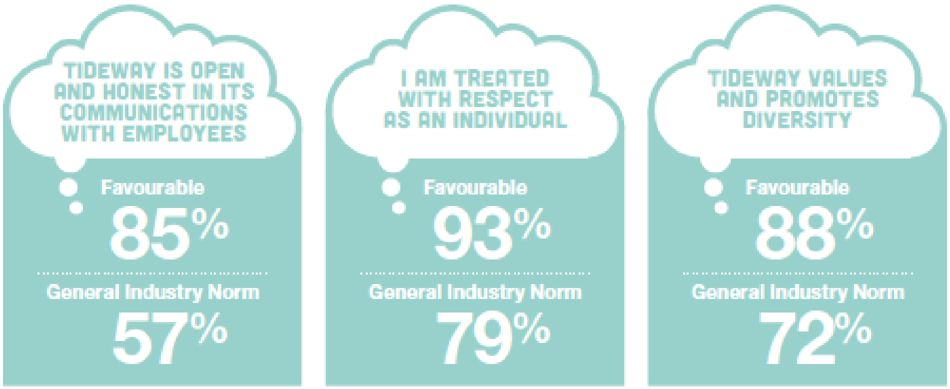
Our employee survey is in its fifth year and our performance remains strong with 61 out of 63 questions outperforming Korn Ferry General Industry benchmarks. With the majority of staff working from home over the year, we were particularly proud that we have continued to see a year-on-year improvement in the effectiveness of our internal communications, with an 85 per cent positive response to the question “the Company is open and honest in communications with employees”, an increase of 8 per cent.

In line with the continued progress of the project the company engaged in a consultation process with employees, electing an Employee Forum to consult on proposed organisation changes and redundancies. Whilst it is sad to see colleagues leave, this reflects the need to organise in line with the changing phases of the project. During this time, we have seen an increase in the favourable engagement survey scores to 73 per cent, for “When changes are made where I work communications are handled well”.

Tideway has continued to live and promote our values and during the last twelve months of largely remote working we have continued to receive very favourable scores across a range of questions including, Ethical operation 91 per cent, Social responsibility 95 per cent, showing concern for our employees, 91 per cent and respectful treatment of individuals, 93 per cent.

“I believe that Tideway always tries to do the right thing. This is why I think staff recognise Tideway as a great company to work for. The opportunities available to staff in terms of training, informative sessions, flexible working and benefits all contribute to the satisfaction and retention of good staff, who in turn help create the great culture that Tideway has.”

Staff Engagement Survey 2021



Diversity and Inclusivity

Tideway has active staff network groups which help to drive our work around diversity and inclusion as well as providing support. Under the ‘Encompass’ umbrella, they include a Carers Network, LGBTQ+, gender equality and disability action. Following employee feedback our Cultures network group was relaunched and renamed the Race Equality Group. With a very clear mandate it set about a series of activities to encourage self-learning, reflection and open dialogue. We developed Race Conversation discussion guides which encouraged all teams to have open discussions, initially around privilege, micro aggressions and allyship. We had external speakers including, Afua Hirsch, author and broadcaster; Professor David Olusoga OBE, historian and producer; engage with our people around the history and pervasive presence of racism to help broaden and deepen understanding and encourage dialogue. We shared data and analysis of our Minority Ethnic populations with all our employees and are now using this increasingly to drive actions. These have included the publishing of our Ethnicity Pay Gap data and the training of 15 colleagues, including three members of the Executive Management Team as Diversity and Inclusivity Champions. Their purpose is to share their observations regarding people decisions or activities and make our unconscious biases conscious to improve decision making.

Our Employee Engagement score question “The Company values and promotes diversity” has seen a decline from the high of 2019 of 96 percent to 89 percent in 2021, and whilst this is higher than all external benchmarks, we know that we cannot be complacent and our work and focus continues.

Women into Construction

Women into Construction (WiC), a small organisation, was hit hard both financially and on their operations during the pandemic. Nevertheless, WiC were able to successfully overhaul their operations to support women into construction training and jobs. Tideway has mentored 10 women and has funded the development of a self-assessment tool to help further the gender diversity progress of smaller organisations. The tool is being piloted by HS2.

“Since I started the mentorship… I have had an increase in progression with job applications. This has further increased my confidence in being able to get back to work.”

Tideway mentee

	2018			2019			2020			2021		
Headcount as at 31 March*	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**
Board**	2	11	13	2	11	13	1	12	13	1	12	13
Senior Management	20	33	53	18	22	40	19	23	42	14	21	35
Other Employees	153	271	424	128	250	378	125	226	351	109	191	300
Total *	**175**	**315**	**490**	**148**	**283**	**431**	**145**	**261**	**406**	**124**	**224**	**348**

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

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. 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.

Our People

Tideway staff gave their time as local communities tackled the Covid-19 crisis and joined many different fundraising campaigns to raise much-needed money for charity. Tideway and MWCs staff came together for a giving campaign called Make A Difference, which engaged staff working from home and site teams with fundraising events, volunteering and opportunities to donate. It included the 'Tunnel Challenge' - to walk, run, cycle, swim or row as many 25km 'lengths' of the Thames Tideway Tunnel as possible. The 70 challengers covered 16,176km, or 647 tunnel lengths, over five weeks. Make a Difference raised £20,844 for over 20 charities and helped 58 organisations and over 950 people. Campaign surveys showed that 97 per cent of staff improved job satisfaction; 97 per cent improved wellbeing; 91 per cent had fun; and 61 per cent learnt new skills.

The virtual 'Race The Thames' challenge was another highlight, in which six Tideway teams raised more than £10,000 for London Youth Rowing (LYR) and Tideway's three staff charities by walking, running and rowing 346km, the length of the Thames from source to sea. Tideway Programme Manager Andrew Triggs Hodge volunteered as event director and the whole event raised £120,000 for LYR and about 40 other charities.

"The flexibility and confidence that Tideway gave us at the start of lockdown allowed us to focus on what we would want and like to do after it was lifted, rather than 'how do we get through this?', which a lot of charities had to focus on. That shift of focus directly helped us to secure new funding for the next phase of Active Row and is hugely appreciated. This is what real partnership looks like."
Matt Rostron, CEO, LYR

Tideway staff were supported to volunteer locally and they took up the challenge by working at food banks, testing and vaccination centres and for other community services.

"As for so many others, the pandemic has played its part in impacting my mental health. Just starting my first shift made me feel better mentally, but this was nothing compared to the positive energy generated by those leaving the hospital after their vaccination - even the most nervous were leaving with a cheery wave and a smile on their face."
Martin Turner, GIS Manager
volunteer at a vaccination centre in Farnham, Hampshire

"I get out of it way more than I put in. People find themselves needing the food hub for very different reasons and we make no judgement. Over 2,000 families accessed the hub in 2020 and we were also one of the network of organisations that provided school meals during the holidays."
Jennifer Dalby, Strategy Manager
volunteer at Daily Bread food hub, Brentwood, Essex

"To be able to be a friendly voice at the end of a phone whilst young families are going through such trauma, emotionally and in some cases physically, is the least I can do during lockdown."
Kathryn Nethersole, Senior Project Manager
phone support for a domestic violence refuge for women and children

"The patients were excited, some even arriving with chocolates, freshly baked bread and other goodies for the staff. For others it was their first day out since last March and the longest conversation and face-to-face interaction they had had in nearly a year."
Celia Carlisle, General Counsel
volunteer at a vaccination centre in North Kensington, London

Financing

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

Priorities for 2020/21
- Maintain the Company credit rating and deliver shareholder distributions in line with the financing plan
- Maintain strong liquidity position

2020/21 Measure	Target	Actual
Company credit rating	Baa1/BBB+	Baa1/BBB+
Distribution	Achieve 20/21 financing plan	Deferred
Liquidity	18 months liquidity	> 4 years

Performance

We achieved most of our financing priorities for the year with the exception of distributions. These were fully deferred in 2020/21 due to the uncertainty on cost and schedule arising from the impact of Covid-19 and uncertainty as to the regulatory response to these.

The maturity of the Revolving Credit Facility (RCF) was extended by one year. As a sustainability-linked loan it includes a rebate linked to a sustainability key performance indicator (KPI) of meeting at least 85 per cent of the live legacy commitments. This year we exceeded the target by meeting 90 per cent of the live commitments. Cash and liquidity continued to be managed effectively and prudently, in accordance with our Investment Management Strategy, while achieving 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 within the parameters set in the Government Support Package, the financing documents and the Licence.

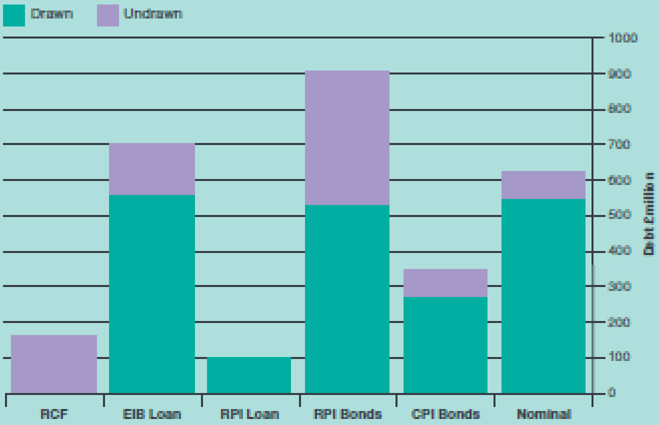
Financing Activity

Tideway has reached a point of financial resilience, where sufficient liquidity has been secured to cover construction costs. The pandemic related revised cost estimate announced in August 2020 added c.£100m to the long-term financing needs at current gearing targets. We continued to monitor the market to identify debt raising opportunities, but given our adequate level of liquidity, there was no requirement to borrow additional funds in the year.

The RCF remained undrawn.

Tideway has secured total committed debt funding of £2,843m. Of these committed debt facilities, £2,018m has been settled and the funds have been received, and £825m is still undrawn.

Debt £m	RCF	EIB Loan	RPI Loan	RPI Bonds	CPI Bonds	Nominal Debt	Totals
Drawn	-	560	100	533	275	550	2018
Undrawn	160	140	-	375	75	75	825
Total	**160**	**700**	**100**	**908**	**350**	**625**	**2843**



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.

Given the discontinuation of Libor planned for the end of 2021, we are working with our counterparties to agree and finalise the fallback approach for all of our transactions that currently reference Libor.

Sustainable Financing

Our sustainable financing strategy aligns Tideway's financing both with the long-term target of cleaning the river and with the significant ESG efforts during construction which have been captured in Tideway's legacy commitments. All bonds issued to date are green and are listed in the London Stock Exchange Green Segment. Tideway's total green debt issuance stands at £1,583m, which includes the bonds and a £75m green US private placement. The £160m RCF is structured as a sustainability-linked loan.

The sustainable financing strategy is supported by the Sustainable Finance Framework. It is aligned with the International 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.

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

Tideway recognises the importance and fully supports the Task Force on Climate-related Financial Disclosures (TCFD). We are committed to ensuring that our climate change disclosures align with TCFD recommendations and are publishing this year our first TCFD report.
Our bond programme and the bond series issued under it are covered by a Green Evaluation from S&P Global ratings with a score of E1 - 95/100, which is published on our website.

We were recognized as the Top Corporate Treasury Team of the Year for CSR/ESG 2020 in the Treasury4Good Awards for our continuous focus on sustainability and our significant efforts in supporting ESG initiatives.

tmi Treasury4Good AWARDS 2020

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 2020/21.

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 investments are being debt financed now. As a result, our gearing is increasing to our target capital structure as we deliver our investment programme and risks are gradually retired.

Prior to System Acceptance, Tideway will not generate distributable profits and as such it will not be able to pay dividends to its shareholders. As a result, during construction Tideway's shareholders 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.

Tideway deferred all distributions in the year. This was the result of the company recognising the uncertainties caused by the Covid-19 disruption and delays and uncertainty as to the regulatory response.

Liquidity

At 31 March 2021, we had total liquidity of £1.2bn, comprising £382m of cash, the £160m undrawn RCF, the £140m undrawn part of the EIB loan, £450m 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

Fitch affirmed the credit rating at BBB+ with stable outlook. Moody's maintained the Baa1 rating, but changed the outlook from stable to negative following the operational announcement on the impact of Covid-19 on cost and schedule published in August. This is further discussed in the Long Term Viability Statement section.

S&P Global Ratings completed an Environmental, Social and Governance 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.

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 £445m 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) and our key accounting policies are outlined in note 1 to the financial statements.

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

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.

Income Statement

During the year Tideway reported a profit of £6.0m (2019/20: £33.3m loss), with no dividends paid or proposed (2019/20: £nil). We did not recognise any taxable profits in the period (2019/20: £nil) and the resulting corporation tax charge for the period was £nil (2019/20: £nil).

We do not consider that the reported profit in the year reflects our business performance, as it results from the movement in the fair value in the Company’s derivative financial instruments. These are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Company’s debt. The swaps fix finance costs for the Company’s regulatory period and ensure that we benefit from low-cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because, under International Accounting Standards (IAS) 23, these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 11 to the financial statements provides more detail on the financial instruments.

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

Statement of Financial Position

At 31 March 2021, costs of £3,231.1m were capitalised within the asset under construction in the Statement of Financial Position. This represents £637.2m costs during the year and £2,593.9m for the prior periods to 31 March 2020.

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 2021 was £1,731.0m, which was £404.5m higher than the £1,326.5m net debt at 31 March 2020.

Cash and cash equivalents at 31 March 2021 were £342.7m, which was £48.8m lower than the £391.5m cash and cash equivalents at 31 March 2020.

At 31 March 2021, the Company's total borrowings excluding shareholder loans were £2,068.6m and lease liabilities outstanding totalled £5.1m. Shareholder loans outstanding at 31 March 2021 were £720.4m. In addition, the Group has secured deferred loans of £215.0m and deferred bond issuances of £450.0m which will be reflected in the financial statements when they are drawn down in the future. The Revolving Credit facility of £160.0m remained undrawn during the period.

Financial Key Performance Indicators (KPIs)

Under its Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (Senior RAR) and Funds from Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios for 2020/21 are provided in Tideway's Annual Report within the Financial Performance Review. .

Revenue

Within the financial statements, all regulated revenue is deferred in the Statement of Financial Position, in line with our revenue recognition accounting policy. During the year, we received cash inflows of £68.9m (2019/20: £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 maintained on our 'Active Risk Manager' database. This includes quantification of project risks, and the potential cost and impact to the schedule and allows us to challenge the effectiveness of our mitigating actions.

Risk Management Framework

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

The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. It considers:

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

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

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

Principal Risks

Tideway currently has ten principal risksi. Since the last Annual Report, we have removed Brexit as a principal risk and added the Financing Cost Adjustment.

Notable changes in the external risk environment included:

- The end of the transition period for the UK's exit from the EU and implementation of the new EU-UK Trade and Cooperation Agreement in January 2021. While certain aspects of the new arrangements between the UK and EU are still subject to refinement, several months' experience of operating within the new framework has provided Tideway with greater clarity on the nature of Brexit-linked risks and how they can be monitored and mitigated. Linked risks include direct impacts on the supply chain and labour force, and indirect impacts via the effect of Brexit on capital markets and the political environment. We are confident that each of these is captured within other principal risks and have therefore removed 'Brexit Risk' as a standalone principal risk.
- The Financing Cost Adjustment has been added due to extreme macro-economic conditions and the potential impact on our revenues. It is a regulatory mechanism in Tideway's licence that seeks to mitigate certain finance risks Tideway may be exposed to during construction.

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 the risk levels should remain unchanged with the exception of Inflation Risk and Regulation Risk which were increased and Political Risk which was reduced.

We continued to consider our principal risks in light of the Covid-19 pandemic. The pandemic has had a significant effect on our activities and in particular how we have had to manage and mitigate impacts across health, safety and wellbeing as well as cost and programme. During the coming year we will continue to review, manage, revise and mitigate our principal risks reflecting the phase of the project, current and new activities and a greater focus towards commissioning.

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.

1 HEALTH, SAFETY & WELLBEING

OVERALL

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.

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.

Mitigation

Our RightWay programme, which is aligned to the delivery programme includes the RightStart approach establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites.

We developed and implemented procedures aligned to Construction Leadership Council and Government guidance to minimise the risks of Covid-19 exposure. Assurance undertaken has highlighted that the risks have been well controlled. Working with Tideway MWCs have taken action to address the rise in incidents during the second half of the year.

Relevant Objective

HEALTH, SAFETY & WELLBEING

Commentary

NO CHANGE IN RISK LEVEL

MARINE

Description

There is a risk that a single marine incident could lead to multiple persons being affected or harmed and delay progress.

Effect

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.

Mitigation

- Tideway continues to monitor marine risks and has implemented a Marine Assurance Plan and marine safety action plan

Relevant Objective

HEALTH, SAFETY & WELLBEING

Commentary

NO CHANGE IN RISK LEVEL

2 PROGRAMME DELIVERY

Description

We are delivering a capital investment programme £4.1bn. 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 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

Our approach to working with our contractors will help us to deliver the programme on time and to budget.

This includes:

- World-class contractors, with experience of major infrastrucuture / tunnelling projects in London
- Contracts that transfer certain risks to our contractors that they are better placed to manage
- An integrated, proactive approach to risk management
- Commerical settlements to ensure MWCs teams remain focused on delivery
- Tideway continues to pursue schedule opportunities and cost savings across the programme. In dialogue with contractors. It has been revising its cost estimates to reflect the current position on the project

Relevant Objective

SCHEDULE, COST & QUALITY
FINANCING

Commentary

NO CHANGE IN RISK LEVEL

** The change in risk level is in comparison to last year'*

3 SUPPLY CHAIN FAILURE

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.

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.

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.

Relevant Objective
SCHEDULE, COST & QUALITY

Commentary
NO CHANGE IN RISK LEVEL

We continue to monitor the supply chain closely and have undertaken appropriate contingency planning.

4 HILP – HIGH IMPACT, LOW PROBABILITY EVENTS

Description
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.

Effect
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.

Mitigation
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 conduct detailed Readiness Reviews before the commencement of major activities. We also 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 Government Support Package provides support.

Relevant Objective
HEALTH, SAFETY & WELLBEING
COMPANY & PEOPLE
SCHEDULE, COST & QUALITY
FINANCING
VISION, LEGACY, & REPUTATION

Commentary
NO CHANGE IN RISK LEVEL

5 CREDIT RATING RISK

Description
Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.

Effect
The loss of an investment grade credit rating would affect our ability to raise debt, prevent distributions and would be a breach of our licence.

Mitigation
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
FINANCING

Commentary
NO CHANGE IN RISK LEVEL

6 INFLATION RISK

Description

There is a risk of inflation that is lower than assumed in our business plan or that the Retail Price Index (RPI) reform impacts Tideway's business.

Effect

Our RCV is indexed to RPI until 2030, and lower inflation would reduce nominal cash-flows and returns which are directly linked to RPI.

Mitigation

Tideway has issued 80% of its long-term debt indexed to RPI and Consumer Prices Index (CPI). 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 interest cover ratios and equity returns.

The RPI reform will be implemented from 2030, at which time Tideway's licence will have transitioned to CPIH indexation thereby not impacting our revenue. The impact on debt is expected to be neutral.

Relevant Objective

FINANCING

Commentary

INCREASED RISK LEVEL

Inflation decreased sharply in the past year with RPI averaging 1.2% in the year versus 2.6% the previous year.

7 REPUTATION RISK

Description

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.

Effect

The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.

Mitigation

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 uses 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 communicate the legacy and long-term benefits we aim to deliver.

Relevant Objective

COMPANY & PEOPLE

VISION, LEGACY & REPUTATION

Commentary

NO CHANGE IN RISK LEVEL

We continue to conduct a proactive communication strategy, to manage the reputational impact of our works.

8 THAMES WATER PERFORMANCE

Description

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

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 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.

Rehearsal of Concept exercises for commissioning, handover and acceptance periods have been undertaken to provide early identification of future issues.

We have worked with Thames Water to develop and agree arrangements for managing the revenue process.

Relevant Objective

SCHEDULE, COST & QUALITY

Commentary

NO CHANGE IN RISK LEVEL

* *The change in risk level is in comparison to last year'*

9 REGULATORY AND POLITICAL RISK

POLITICAL CLIMATE

Description

Institutional and policy changes pursued by the Government may have legal, regulatory, reputational and relationship impacts on Tideway.

Covid-19 impacts may affect Tideway's relationship with Defra.

Effect

Brexit will lead to changes in government and regulatory oversight, and potentially to legislation impacting the Tideway project.

Gaps in scope or implementation of post-Brexit arrangements could generate legal/regulatory uncertainty.

Any institutional reforms could affect Tideway's relationship with key stakeholders such as Defra and/or its legal and regulatory environment.

Greater engagement with HMG related to Covid-19 impacts.

Mitigation

Mitigations include information gathering and relationship building with political stakeholders, legal horizon scanning, and Defra/ Ofwat engagement. In some cases intensity of engagement has increased in light of Covid-19.

Relevant Objective

SCHEDULE, COST & QUALITY

FINANCING

Commentary

REDUCED RISK LEVEL

Recent Government announcements in are supportive of greater infrastructure investment and a continued role for the private sector in major projects. The re-election of the Mayor of London in May 2021 removes an important element of uncertainty for the Tideway project.

REGULATIONS

Description

Tideway must comply with regulatory requirements, including those in our licence granted by Ofwat. We also aim to meet other regulatory expectations, such as those set out in Ofwat's Vision and Strategy.

There is a risk that Ofwat does not fairly recognise the impact of Covid-19 and extreme macro economic conditions on Tideway.

Effect

If we do not meet Ofwat's requirements, we could face enforcement including financial penalties or the loss of our licence.

Failure to align with regulatory expectations could damage Tideway's relationship with Ofwat and other key stakeholders.

A revised regulatory framework could affect financial performance and investors' returns.

Ofwat failure to fairly recognise Covid-19 impacts or address unintended impacts of the Financing Cost Adjustment (FCA), could lead to undue costs/revenue reductions falling on shareholders.

Mitigation

Tideway's focus is on compliance, high performance, and positive regulatory relationships. We have considered carefully how Ofwat's Vision and Strategy apply to Tideway, including in relation to public value. Ofwat has consulted on revised regulatory arrangements that will mitigate Covid-19 impacts on Tideway's cost and financial resilience. We are working to agree the details of implementation. Mitigations in relation to FCA are set out in principal risk 10.

Relevant Objective

SCHEDULE, COST & QUALITY

FINANCING

Commentary

INCREASED RISK LEVEL

While good progress has been made with Ofwat, Covid-19 may have significant impacts on shareholders.

10 IMPACT OF FINANCING COST ADJUSTMENT (FCA)

Description

The FCA is a building block in our licence revenue calculation that tracks an observable index as a proxy for Tideway's cost of debt and applies the movement of the index to increases in Tideway's net debt. As part of its financing strategy, Tideway seeks to lock in debt and rates to manage liquidity risk and interest rate risk. The cost of debt that Tideway locks for future issuances is driven by markets expectations at the time the price of the debt is agreed. There is a risk that market expectations will not materialize and the proxy index moves in a different direction or by a different quantum thereby impacting Tideway".

Effect

The impact of a mismatch between the FCA and the cost Tideway pays for its debt is a potential higher or lower revenue than anticipated.

Mitigation

The extraordinary macroeconomic events of recent years in response to exiting the EU and the pandemic and subsequent policy response, including quantitative easing, led to the mechanism not delivering the intended outcomes.

We have initiated discussions with Ofwat regarding mitigation.

Relevant Objective

FINANCING

Commentary

NEW

Long-Term Viability Statement

The long term viability statement included here is the statement that is reflected in the Bazalgette Tunnel Limited Annual Report. 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. Tideway has now raised £2.7bn of long-term financing since Licence Award. As of 31 March 2021, this represented 100 per cent of third party funding needs to Handover (March 2025) taking into account the available revolving credit facility. 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 events (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 Government Support Package;
- Credit Rating Risk: Our credit ratings have remained unchanged since Licence award at Baa1 by Moody's and BBB+ by Fitch, being two levels above the covenants in the CTA and Licence. Moody's changed the outlook from stable to negative following the operational announcement on the impact of Covid-19 on cost and schedule published in August 2020; Fitch maintained a stable outlook. The factors that could lead to a downgrade remain material construction delays or other significant delivery problems and unfavourable regulatory developments. Moody's added an additional factor being failure to reach a settlement with Ofwat that substantially mitigates the Covid-19 impact, absent other measures to strengthen the balance sheet. This matter has been the subject of a recent consultation by Ofwat and is ongoing. The financial impact of any downgrade is indirectly captured in the programme delivery scenarios 1 and 2 below; and

- 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 four 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, iii) an increase in bad debt; and iv) impact of the FCA (Financing Cost Adjustment) 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 £4.1bn compares to our regulatory baseline of £3.4bn (£3.1bn in 2014/15 prices). For our plausible downside scenario, we modelled a 12% increase in the remaining costs to complete, taking the total to £4.3bn. This is consistent with our most recent internal scenarios. We consider a severe downside case to be a 20% increase in the remaining costs to complete, which equates to a total cost of £4.4bn. Two cost scenarios (current and plausible downside) include the estimated impacts of the current Covid-19 pandemic. They incorporate the impact experienced during the financial year and make reasonable assumptions about the ability of the Company to agree an appropriate cost allocation with our stakeholders. Although it is not possible to know the precise impact of any future pandemic crisis, our severe downside cost scenario is intended to be sufficient to cover any significant disruption from a future Covid-19 (or equivalent) event. However, if such an event occurred, then the Company would re-engage with the regulator and other stakeholders regarding potential additional cost allocation, as well as implementing its own cost mitigation measures.
  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 £200m and £100m, respectively, on the basis of a reasonable sharing of Covid-19 related costs between all stakeholders.
- 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 current (March 2021) low inflation, below the target set by the Government to the Bank of England and the Bank of England's policy of managing inflation within 1% of the target.
- As the bad debt impact has a limited 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.
- The FCA is a building block in our licence revenue calculation that tracks an observable index as a proxy for Tideway's cost of debt and applies the movement of the index to increases in Tideway's net debt. The impact of a mismatch between the FCA and the cost Tideway pays for its debt is a potential higher or lower revenue than anticipated. For the impact of FCA risk we have modelled a scenario where interest rates are 50bps and iBoxx credit margin 25bps lower than the current forecasts, as well as a scenario where interest rates are 100bps and iBoxx credit margin 25bps lower than the current forecasts.
- Finally, we have modelled a combined scenario with 12% cost increase, 2% lower inflation, 50% revenue under recovery for 2 years and 50bps lower interest rates with 25bps lower credit margins, 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	Mitigation Strategies
1, 2, 3, 8, 9	Programme delivery (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory risks)	Scenario 1. An increase of 12% £0.2bn in the remaining cost to complete the project (net of any sharing of costs assumed with the Main Works Contractors). Scenario 2. An increase of 20% £0.3bn 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 and Scenario 2 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.	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 36. The mitigation strategies for Scenarios 1 and 2 include the raising of new debt (within our gearing ratio requirement) and flexing the level of distributions to our shareholders.
6	Inflation risk	Scenario 3. Outturn inflation 1% lower than current forecast for 4 years then reverts to the long term forecast. 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.	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.	The inflation risk is expected to be more significant in the short term with lower inflation forecasts in the next few years. The key mitigation strategy for Scenarios 3, 4 and 5 is that 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.
8	Thames Water performance - Revenue collection (Bad debt)	Scenario 6. A 50% under recovery in one year. Scenario 7. A 50% under recovery in two years. Scenario 8. A 50% under recovery in four years.	Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary and limited. After mitigation gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.	The value of the revenue collection increases each year as revenue is driven by the RCV which accumulates each year. However, the main mitigation strategy for Scenarios 6, 7 and 8 is that there is a building block that deals with the under recovery of revenue which mitigates the risk to an immaterial level.
10	Impact of Financing Cost Adjustment (FCA)	Scenario 9: Base interest rates 50bps lower than the current forecast and iBoxx credit margin 25bps lower than the current forecast.	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.	We have initiated discussions with Ofwat regarding mitigation measures. Any FCA forecast improvements would increase revenue and likely reduce the need for a change in capital.

		Scenario 10: Base interest rates 100bps lower than the current forecast and iBoxx credit margin 25bps lower than the current forecast.		
	Combined Scenario	Scenario 11: (1, 4, 7 and 9)	After mitigation gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.	See above

Note: For scenarios 8 & 11 our modelling projects a change in capital will be required during 2023/24 to be compliant with our gearing financing covenant. However, as the values required are small, we would look at other actions, such as re-profiling some of the non critical path expenditure, as a sufficient alternative.

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 adversely 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 Board statement on accuracy and completeness of data and information within this report.

On the basis of the robust assessment of our principal risks and on the assumption that we manage or mitigate them in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of our sensitivity analysis and assurance described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 2030.

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

The Strategic Report was approved by the Board on 1 July 2021 and was signed on its behalf by:

Valmai Barclay

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 2021. 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 profit of £6.0m for the year (2020: loss of £33.1m). The Directors do not consider that the reported profit in the year reflects the business performance as the profit 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.

During the year, the Group's subsidiary, Bazalgette Ventures Limited, paid £nil (2020: £47.8m) shareholder loan interest to the Group's shareholders. Furthermore, £nil (2020: £9.4m) unpaid shareholder loan interest was capitalised as shareholder loan principal in the year. 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 (2020: £nil) and did not pay any dividends in the year (2020: £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

Andrew Cox

Javier Falero

Scott McGregor

Alistair Ray

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 155 (2020: 157), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

Details relating to the Group's employment policies and values 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.

Directors' report (continued)

Charitable and political donations

The Group made charitable donations totalling £56,704 during the year (2020: £63,664). 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 (2020: £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 2021 are approximately 26 days (2020: 27 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 accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with requirements of the Company Act 2006;
- 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.

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

1 July 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAZALGETTE EQUITY LIMITED

Opinion

We have audited the financial statements of Bazalgette Equity Limited ("the company") for the year ended 31 March 2021 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 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements 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.

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's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's available financial resources and metrics relevant to debt covenants over this period were:

- Adequacy of funding available to the Group including its ability to generate liquid funds to honour its commitments under its lending agreements with reference to management's budgets/forecast; and
- Significant cost overruns to estimate to complete the project that reduces the returns generated from the asset.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment assumptions.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and 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 the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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.

Directors' responsibilities

As explained more fully in their statement set out on page 48, the directors are responsible for: the preparation of the financial statements and for 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.

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.

Anna Jones
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
2 July 2021

Group Income Statement
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Net operating costs	*2, 3*	-	-
Operating result		**-**	**-**
Net finance income/(costs)	*4*	6.0	(33.1)
Profit/(loss) before tax		**6.0**	**(33.1)**
Taxation	*5*	-	-
Profit/(loss) for the year		**6.0**	**(33.1)**

Group Statement of Other Comprehensive Income
For the year ended 31 March 2021

	2021 £m	2020 £m
Profit/loss for the year	6.0	(33.1)
Other comprehensive income for the year	-	-
Total comprehensive income for the year attributable to owners of the parent	**6.0**	**(33.1)**

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Statement of Financial Position

As at 31 March 2021

	Note	**Group 2020 £m**	**Group 2020 £m**	**Company 2021 £m**	**Company 2020 £m**
Non-current assets					
Property, plant and equipment	*6*	3,236.5	2,601.3	-	-
Trade and other receivables	*8*	37.7	44.0	-	-
Investment in subsidiary undertakings	*7*	-	-	509.7	509.7
		3,274.2	2,645.3	509.7	509.7
Current assets					
Trade and other receivables	*8*	42.6	40.7	-	-
Cash and cash equivalents	*9*	342.7	391.5	-	-
Short-term cash deposits	*9*	55.0	157.5	-	-
		440.3	589.7	-	-
Total assets		**3,714.5**	**3,235.0**	**509.7**	**509.7**
Current liabilities					
Trade and other payables	*10*	(149.9)	(89.1)	-	-
Lease Liabilities		(2.1)	(2.1)	-	-
		(152.0)	(91.2)	-	-
Non-current liabilities					
Other Payables	*10*	(42.2)	(48.1)	-	-
Lease Liabilities		(3.0)	(4.9)	-	-
Advance payment liability	*10*	(218.4)	(149.5)	-	-
Borrowings	*11*	(2,789.0)	(2,431.4)	-	-
Derivative financial instruments	*12*	(83.0)	(89.0)	-	-
		(3,135.6)	(2,722.9)	-	-
Total liabilities		**(3,287.6)**	**(2,814.1)**	**-**	**-**
Net assets		**426.9**	**420.9**	**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*	(82.8)	(88.8)	-	-
Total equity		**426.9**	**420.9**	**509.7**	**509.7**

Notes 1 to 18 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 1 July 2021 and were signed on its behalf by:

Javier Falero
Director
Company registered number: 09553394

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 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)**	**-**	**-**	**-**	**-**
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 2020	**507.4**	**2.3**	**(88.8)**	**420.9**	**507.4**	**2.3**	**-**	**509.7**
Balance at 1 April 2020	507.4	2.3	(88.8)	420.9	507.4	2.3	-	509.7
Profit for the year	-	-	6.0	6.0	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**6.0**	**6.0**	**-**	**-**	**-**	**-**
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2021	**507.4**	**2.3**	**(82.8)**	**426.9**	**507.4**	**2.3**	**-**	**509.7**

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Cash Flow Statements
For the year ended 31 March 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash flows from operating activities before working capital movements		**-**	**-**	**-**	**-**
Decrease in trade and other receivables	*8*	4.4	1.8	-	-
Increase in trade and other payables	*10*	54.9	78.8	-	-
Increase in advance payment liability	*10*	68.9	57.6	-	-
Cash flows from operations		**128.2**	**138.2**	**-**	**-**
Net cash flow from operating activities		**128.2**	**138.2**	**-**	**-**
Cash flows (used in)/from investing activities					
Construction of infrastructure asset	*6*	(617.5)	(734.5)	-	-
Transfer to short-term deposits	*9*	102.5	(67.5)	-	-
Net cash flows (used in)/from investing activities		**(515.0)**	**(802.0)**	-	-
Cash flows from/(used in) financing activities					
Proceeds from loans		340.0	493.1	-	-
Repayment of shareholders loan principal		-	-	-	-
Interest received		-	0.1	-	-
Lease liability payments		(2.0)	(2.4)	-	-
Net cash flows from/(used in) financing activities		**338.0**	**490.8**	-	-
Net decrease in cash and cash equivalents during the year		**(48.8)**	**(173.0)**	**-**	**-**
Cash and cash equivalents at the start of the year	*9*	**391.5**	**564.5**	**-**	**-**
Cash and cash equivalents at the end of the year	*9*	**342.7**	**391.5**	**-**	**-**

Group: Construction of infrastructure asset includes capitalised interest paid of £15.9m (2029: £63.2m) and capitalised interest received of £1.7m (2020: £6.3m)

Notes 1 to 18 form an integral part of these financial statements.

Notes to the financial statements

1 Significant accounting policies

Basis of preparation

Bazalgette Equity Limited (the “Company”) is a private company incorporated, domiciled and registered in England, UK. The registered number is 09553394 and the registered office address is Cottons Centre, Cottons Lane, London SE1 2QG.

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

As at the 31 March 2021, 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 accounting standards (IAS) in conformity with the requirements of the Companies Act 2006 (“Adopted IFRSs”). 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

After considering the current financial projections and facilities available, and through modelling plausible and severe sensitivities, the Directors of the Company are satisfied that the Company and Group has sufficient resources for its operational needs and will remain in compliance with relevant financing covenants for at least the next 12 months from the date of approving these financial statements.

Cash flow forecasts modelled included current, plausible downside and severe downside cost scenarios. The current scenario is consistent with our estimate at completion (EAC) of £4.1bn. For our plausible downside scenario, we modelled a 12% increase in the remaining costs to complete, taking the total to £4.3bn. We consider a severe downside case to be a 20% increase in the remaining costs to complete, which equates to a total cost of £4.4bn. Under the current, plausible and severe downside scenarios the group continues to have sufficient liquidity and is in compliance with covenants throughout the going concern period.

The current and plausible downside include the estimated impacts of the current COVID-19 pandemic. Although it is not possible to know the precise impact of any future pandemic crisis, our severe downside cost scenario is intended to be sufficient to cover any significant disruption from a future COVID-19 (or equivalent) event. However, if such an event occurred, then the Company has sufficient liquidity via its available cash balances and undrawn financing facilities to cover the going concern period.

At 31 March 2021, the Group had total liquidity of £1.2bn, comprising £382m of cash and short term deposits, the £160m undrawn RCF, £140m undrawn part of the EIB loan, £450m of deferred bonds and £75m deferred US private placement. This, combined with expected revenue collections, provides liquidity for the Group over the going concern period.

The Company has no liabilities falling due in the going concern period.

Consequently, the Directors are satisfied that the Company and Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

Lease accounting – Lessee

Right-of-use assets and lease liability – Recognition and measurement

The Group assesses whether its leases are within scope of IFRS 16 using the single recognition model for lessees and applies practical expedients available under the standard. If the Group concludes that a lease is within scope and not excluded via practical expedients, the Group recognises a right-of-use (ROU) asset and a lease liability at lease commencement date.

The ROU asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the outstanding lease payments at commencement date, discounted using either implicit interest rate in the lease or the Group's incremental borrowing rate if the interest rate cannot be easily determined from the lease.

The Group applies the following practical expedients under IFRS 16:

- The same discount rate to all property leases as they share similar characteristics. The Group used an incremental borrowing rate of 2.375% at transition to IFRS 16;
- Excludes short-term leases with lease terms of less than 12 months;
- Excludes leases of identifiable low-value assets from consideration; and
- The Group separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

Right-of-use assets – Depreciation and interest costs on lease liability

The ROU assets recognised on transition to IFRS 16, being the Group's existing property leases at 1 April 2019, continue to be depreciated over the remaining lease terms.

The Group continues to incur interest costs calculated periodically on the outstanding lease liabilities on these property leases.

Borrowing costs

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

Impairment

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

The carrying value of the Group's asset under construction is reviewed at each reporting date to determine whether there is objective evidence the asset is impaired by reference to its recoverable amount. The recoverable amount of the asset is deemed to be the Group'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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

revenue is the regulated return on the Group's RCV. The Group's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Group. Through the construction period, revenue is deferred as the services associated with this revenue have not satisfied all the conditions of the five-step revenue recognition model under IFRS 15. Therefore, revenue will be recognised at the point that all conditions are satisfied which will not be until System

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

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

Employee benefits

Defined contribution pension plans

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

Other employee benefits

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

Provisions

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

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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Derivative financial instruments

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

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

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

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

Taxation

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

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

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

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

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

New accounting standards and future changes

The Group has adopted the following accounting standard amendments during the year which were effective 1 April 2020:

- Definition of Material (Amendments to IAS 1 and IAS 8);
- Amendments to IFRS 3 – Definition of a Business;
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- Covid-19 Related Rent Concessions (Amendment to IFRS 16).

None of these amendments had any material effect on the Group at adoption.

At the date of authorisation of these financial statements, there were certain new or revised IFRS's that will be applicable in future years, but the Group does not expect any material impact on the Group's Financial Statements at future adoption. These new or revised IFRS's are noted below:

- IAS 1 Amendments on Classifications; and
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 16).

Notes to the financial statements (continued)

2 Auditors' remuneration

	2021 £000	2020 £000
Audit services		
Statutory audit – Group and the Company	3	3
Statutory audit - subsidiaries	130	102
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	11	11
Other non-audit services		
Other regulatory assurance services	30	41
	174	**157**

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 155 (2020: 157).

The aggregate employment costs of these persons were as follows:

	2021 £m	2020 £m
Wages and salaries	9.8	16.5
Termination benefits	1.0	-
Social security costs	1.6	2.5
Contributions to defined contribution pension plan	0.6	0.6
Capitalised into asset under construction	(13.0)	(19.6)
	-	-

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 2021. 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 2021 £m	Group 2020 £m
Finance income		
Interest income	(0.8)	(5.4)
Finance costs		
Interest expense on borrowings	90.8	92.0
Interest expense on lease liabilities	0.1	0.2
Financing fees	1.8	3.9
Financial instruments at fair value through profit or loss:		
- Index linked swaps	(6.0)	33.3
Capitalised finance interest and expense into asset under construction	(91.9)	(90.9)
Net finance costs/(income)	**(6.0)**	**33.1**

5 Taxation

	Group 2021 £m	Group 2020 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

The Company's current tax charge was £nil (2020: £nil).

Reconciliation of effective tax rate

	Group 2021 £m	Group 2020 £m
Profit/(loss) before tax	6.0	(33.1)
Expected tax credit using UK corporation tax rate of 19% (2020: 19%)	(1.1)	6.3
Items not taxable[1]	1.1	(6.3)
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 £82.4m (2020: £65.3m) 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. 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. The UK corporation tax rate is expected to increase to 25% from 1 April 2023 as proposed by the UK government (Finance Bill 2021) and any future increase in the UK corporation tax rate would result in an increase in the value of unrecognised deferred tax assets.

Notes to the financial statements (continued)

6 Property, plant and equipment

Group property, plant and equipment comprised the following at 31 March 2021:

	Right-of-use assets (ROU) £m	Asset under construction £m	Total £m
Cost			
At 1 April 2020	9.3	2,593.9	2,603.2
Additions	-	637.2	637.2
Balance at 31 March 2020	9.3	3,231.1	3,240.4
Accumulated depreciation			
At 1 April 2020	(1.9)	-	(1.9)
Depreciation charge	(2.0)	-	(2.0)
Balance at 31 March 2021	(3.9)	-	(3.9)
Net book value at 31 March 2021	**5.4**	**3,231.1**	**3,236.5**
Net book value at 31 March 2020	7.4	2,593.9	2,601.3

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 2021. The amount of net borrowing costs capitalised during the year was £90.1m (2020: £86.8m) with a capitalisation rate of 100%.

Right-of-use Assets

The right-to-use assets are being depreciated over the remaining lease terms on the Group's existing property leases under IFRS 16. There were no new leases entered into during the year.

7 Investments in subsidiaries

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

	Nature of entity	Country of Incorporation	Class of shares held	Direct ownership 2021	Indirect ownership 2021	Direct ownership 2020	Indirect ownership 2020
Direct subsidiaries							
Bazalgette Ventures Limited	Holding	UK	Ordinary	100%	-	100%	-
Indirect subsidiaries							
Bazalgette Holdings Limited	Holding	UK	Ordinary	-	100%	-	100%
Bazalgette Tunnel Limited	Operating	UK	Ordinary	-	100%	-	100%
Bazalgette Finance plc	Financing	UK	Ordinary	-	100%	-	100%

Notes to the financial statements (continued)

7 Investments in subsidiaries (continued)

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 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Trade receivables	5.0	5.0	-	-
Accrued Income	19.9	14.7	-	-
Other receivables	8.3	12.0	-	-
Prepayments	47.1	53.0	-	-
	80.3	**84.7**	**-**	**-**
Non-current assets	**37.7**	**44.0**	**-**	**-**
Current assets	**42.6**	**40.7**	**-**	**-**

Accrued income of £19.9m (2020: £14.7m) 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 £20.2m (2020: £23.6m) in relation to the Government Support Package and £7.7m (2020: £8.9m) in relation to insurance contracts and £18.6m (2020: £19.6m) financing related costs.

The Group's non-current assets represent £37.7m of prepayments at 31 March 2021. The table below analyse both the Group and Company's non-current assets at 31 March 2021 into recovery maturity groupings based on the remaining periods up to their expected future recovered date.

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Between one and two years	-	-	-	-
Between two and five years	3.1	3.3	-	-
After more than 5 years	34.6	40.7	-	-
Total	**37.7**	**44.0**	-	-

9 Cash and cash equivalents

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash and bank balances	27.7	42.5	-	-
Cash equivalents	315.0	349.0	-	-
Cash and cash equivalents per cash flow statement	**342.7**	**391.5**	**-**	**-**

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.

Notes to the financial statements (continued)

9 Cash and cash equivalents (continued)

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 £55.0m (2020: £157.5m).

Restricted Cash

The Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £15.7m at 31 March 2021 (2020: £16.8m) which is sufficient to cover the next 12 months of financing costs payments.

10 Trade and other payables

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Trade payables	45.6	60.1	-	-
Contract retentions payable	34.6	27.0	-	-
Accrued expenses	87.9	31.4	-	-
Deferred income	24.0	18.7	-	-
Advance payment liability	218.4	149.5	-	-
	410.5	**286.7**	**-**	**-**
Non-current liabilities	**260.6**	**197.6**	**-**	**-**
Current liabilities	**149.9**	**89.1**	**-**	**-**

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £24.0m (2020: £18.7m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

The Trade payables balance at 31 March 2021 mainly represents invoices payable to the Company's main works contractors totalling £44.0m (2020: £58.9m).

The table below analyse both the Group and Company's non-current liabilities at 31 March 2021 into relevant maturity groupings based on the remaining periods up to their future payable date.

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Between one and two years	1.5	1.9	-	-
Between two and five years	3.9	7.8	-	-
After more than 5 years	255.2	187.9	-	-
Total	**260.6**	**197.6**	-	-

Notes to the financial statements (continued)

11 Borrowings

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

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

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

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

	2021 £m	2020 £m
Third party borrowings		
£250m 2.375% fixed-rate bond 2027	248.0	247.7
£75m 0.828% index-linked bond 2047 [a, b]	79.4	78.9
£200m 0.740% index-linked bond 2042 [a, c]	209.9	208.7
£100m 0.688% index-linked bond 2050 [a]	106.0	104.5
£100m 0.755% index-linked bond 2051 [a, d]	103.0	101.5
£100m 0.249% index-linked bond 2040 [a, d]	104.2	102.7
£125m 0.192% index-linked bond 2049 [a, e]	136.4	134.6
£25m 1.035% index-linked bond 2048 [a, f]	25.3	-
£25m 0.951% index-linked bond 2054 [a, g]	25.3	-
£50m 0.787% index-linked bond 2052 [a]	50.7	-
£300m 2.860% fixed-rate loan 2032 [h]	305.9	305.0
£320m Libor+0.360% floating-rate loan 2051 [i]	572.7	327.0
£100m 0.010% index-linked loan 2049 [a]	101.8	100.4
Intra-group borrowings		
Shareholder loan notes 8.000 % fixed rate 2064 [h]	720.4	720.4
Total borrowings	**2,789.0**	**2,431.4**
Current liabilities	-	-
Non-current liabilities	**2,789.0**	**2,431.4**

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) This debt amortises from 2043

g) This debt amortises from 2049

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

i) The Company has entered into swap agreements that convert £560m of this debt into index-linked debt

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

Notes to the financial statements (continued)

11 Borrowings (continued)

Deferred loans

The Group raised no loans with a deferred period during the year (2020: £75.0m).

As at 31 March 2021, a total of £215.0m (2020: £455.0m) of third-party loans are still deferred. The loan proceeds will be received over the next two years and these loans have maturities of 2041 to 2051. Proceeds of £240.0m (2020: £160.0m) from deferred loans were received during the period.

Deferred purchase bonds

The Group placed no deferred purchase bonds during the year ended 31 March 2021 (2020: £75.0m).

As at 31 March 2021, a total of £450.0m (2020: £550.0m) of bonds are still deferred. The bond proceeds will be received over the next two years and these bonds have maturities of 2032 to 2054. Proceeds of £100.0m (2020: £233.1m) from deferred bonds were received during the period.

12 Financial instruments

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

Financial Assets

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Financial assets:				
Trade and other receivables	33.2	31.7	-	-
Cash and cash equivalents	342.7	391.5	-	-
Short-term deposits	55.0	157.5	-	-
Total	**430.9**	**580.7**	-	-

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 2021 and therefore not recognised within the period.

Financial Liabilities

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Liabilities at fair value through profit and loss:				
Derivative financial instruments	83.0	89.0	-	-
Other financial liabilities:				
Trade and other payables	410.5	286.7	-	-
Lease Liabilities	5.1	7.0	-	-
Borrowings	2,789.0	2,431.4	-	-
Total	**3,287.6**	**2,814.1**	-	-

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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 2021 Book value £m	31 March 2021 Fair value £m	31 March 2020 Book value £m	31 March 2020 Fair value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings – fixed-rate sterling loans	1,026.3	1,110.3	1,025.4	1,171.2
Borrowings – fixed-rate sterling bonds	248.0	265.9	247.7	260.8
Borrowings – index-linked sterling bonds and loans	942.0	1,303.5	831.3	1,000.1
Borrowings – floating-rate loans	572.7	531.0	327.0	278.6
Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives - index-linked swaps	83.0	83.0	89.0	89.0
Total	**2,782.0**	**3,293.7**	**2,520.4**	**2,799.7**

Financial liabilities at amortised cost

Borrowings include index-linked bonds, fixed-rate bonds, floating-rate loans and fixed-rate loans. The fair value of borrowings is determined using observable quoted market prices where this is available or by discounting the expected future cashflows using appropriate available market data and a credit risk adjustment representative of the Group.

Financial instruments at fair value through profit and loss

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

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)

Notes to the financial statements (continued)

12 Financial Instruments (continued)

If the inputs used to measure the fair value of an asset or liability are categorised across different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The 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 2021:

	2021 Level 2 £m	2020 Level 2 £m
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps	83.0	89.0
	83.0	**89.0**

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

Capital risk management

The Group's principal objectives in managing capital are:

- To finance the Group while minimising risk. The Group 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 Group'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 Group will not engage in speculative treasury activity; and
- The Group will manage its financing activities in compliance with the constraints imposed by the Government Support Package, financing documents and the Group'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 although Moody's changed the Group's outlook from stable to negative following the operational announcement on the impact of Covid-19 on cost and schedule published in August 2020; Fitch maintained a stable outlook. 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 extended by one year during the period, with the facility now maturing in 2026. This £160m RCF facility remained undrawn at the Statement of Financial position date (2020: £nil draw down).

The Group's subsidiary Bazalgette Finance plc did not issue any further bonds during the year (2020: £75.0m) and the total bond issuance is maintained at £1.5bn (2020: £1.5bn). The bond issuance includes deferred purchase bonds where bond proceeds will be received over the next two 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 financing strategy.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

The Group also has an executive level Funding and Financing Committee, chaired by the CFO, which considers financial, treasury. Compliance, tax and regulatory matters in detail on a monthly basis.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2021, the Group had total liquidity in excess of £1.2bn, comprising £382.0m of unrestricted cash and short-term deposits, the £160m undrawn RCF, the £140m undrawn EIB loan, £450m 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.

	2021 £m	**2020 £m**
Borrowings		
Within one year	(140.3)	(80.0)
Between one and two years	(84.0)	(80.1)
Between two and five years	(260.1)	(242.1)
After more than 5 years	(6,241.8)	(5,710.8)
Total	**(6,726.2)**	**(6,113.0)**
Derivative financial instruments		
Within one year	10.2	7.7
Between one and two years	12.2	11.5
Between two and five years	41.0	38.3
After more than 5 years	(147.7)	(167.6)
Total	**(84.3)**	**(110.1)**

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.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

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

The Group's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2021 was £430.9m (2020: £580.7m). 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 2021 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 Company has recognized Ofwat's proposals to transition from RPI to CPIH from the next regulatory period starting in 2030 as the underlying measure of inflation for price control periods. In the year, HM Treasury and the UK Statistic Authority confirmed that RPI will be aligned with CPIH from February 2030, which aligns well with Ofwat's transition.

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 2021 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.

	2021	**2021**	**2020**	**2020**
	£m	**£m**	**£m**	**£m**
	+1%	**-1%**	**+1%**	**-1%**
(Loss)/profit	(58.9)	64.4	(63.4)	70.8
Equity	(58.9)	64.4	(63.4)	70.8

Notes to the financial statements (continued)

12 Financial Instruments (continued)

The Financing Cost Adjustment (FCA) is a building block in our licence revenue calculation that tracks an observable index as a proxy for Tideway's cost of debt and applies the movement of the index to increases in Tideway's net debt. The impact of a mismatch between the FCA and the cost Tideway pays for its debt is a potential higher or lower revenue than anticipated. The extraordinary macroeconomic events of recent years in response to exiting the EU and the pandemic and subsequent policy response, including quantitative easing, led to the mechanism not working as intended which is negatively impacting Tideway's revenue until 2032, part of which is realised and part is forecast as it is subject to future movements in market rates. We have initiated discussions with Ofwat regarding mitigation.

13 Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	**Ordinary shares 2021 No.**	**Ordinary shares 2020 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 (2020: £2.3m).

Retained earnings	**2021 £m**	**2020 £m**
Group		
At the beginning of the year	(88.8)	(55.7)
Profit/(loss) for the year	6.0	(33.1)
At the end of the year	**(82.8)**	**(88.8)**

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 Contingent assets

As at 31 March 2021 there were ongoing commercial negotiations arising in the ordinary course of business under the NEC3 Engineering and Construction Contract. At present the Directors consider an inflow of economic benefit is possible from one or more of the Main Works Contractors. However, the outcome is contingent on the conclusion of the negotiations and more certainty of the total contract values as the project nears completion. The Company has taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information in the extremely rare case where this can be expected to seriously prejudice the entity in a dispute with other parties.

Notes to the financial statements (continued)

16 Related parties

Group

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

Key management personnel

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

	2021 £m	2020 £m
Short-term benefits	2.6	2.3
Long-term benefits	-	1.4
	2.6	**3.7**

Short-term benefits represent the amount of base salary and fees, taxable benefits and annual bonus received by the directors during the year.

Long-term benefits represent the value of long-term incentive plan (LTIP) schemes that have been awarded to directors in the year based on the performance conditions.

Included in the above aggregate remuneration value are contributions made under the Group's defined contribution pension plan totalling £8k (2020: £20k). The number of Directors for whom pension contributions were made totalled two (2020: two).

The aggregate remuneration of key management personnel disclosed above include the following amounts to the highest paid director within the Group:

	2021 £m	2020 £m
Remuneration for qualifying services	0.9	1.6
	0.9	**1.6**

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

During the year ended 31 March 2021, the CEO and COO of Bazelgette Tunnel Limited received an overpayment in relation to the deferred element of LTIP Tranche 1 which was awarded in the prior financial year. This overpayment was due to an administrative error which resulted in the CEO and COO being overpaid £206k and £143k respectively. The overpayments were fully recovered by the Group by 31 March 2021.

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 2021 (2020: £nil).

17 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 at www.tideway.london.

Notes to the financial statements (continued)

18 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.