

# TIDEWAY – HOLDCO GROUP INVESTOR REPORT H2 2020/21

August 2021



Tideway



# Notice

## IMPORTANT NOTICE

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

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

## BASIS OF PREPARATION

Investor Reports relate to the performance of the Holdco Group which includes Bazalgette Holdings Limited (“BHL” or “Holdco”), Bazalgette Finance plc (“Finco”) and BTL. This Investor Report comments on the historical financial performance of the Holdco Group for the period to 31 March 2021.

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

# Contents

- Overview
- Business Update
  - Health, Safety, and Wellbeing
  - Vision, Legacy, and Reputation
  - Regulatory update
  - Interface with Thames Water
- Investment programme
- System integration
- Financing Activity and Sustainable Finance
- Historical Financial Performance
- Debt portfolio
- Financial ratios
- Other Reportable Matters
- Appendix – Swap Portfolio
- Appendix – CTA Confirmation



# Overview

This Investor Report provides an update of the Holdco Group's activities for the period to 31 March 2021 with some delivery updates up to July 2021. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2021.

## H2 2020/21 Highlights:

- Construction is progressing with the project now 68% complete as of June 2021. This was 63% in March 2021 behind our target of 71% reflecting the impact of the pandemic.
  - We completed 21.4km of cumulative primary tunnelling as of June 2021 (70% of total) and 5.8km of secondary lining (19% of total). The last two of the six tunnel boring machines are in operation in the East section
  - All shafts are fully excavated
  - Systems integration works are 65% complete
- Commissioning is expected to start in late 2023 and the Handover date remains March 2025.
- Total project costs for the six-month period to March 2021 were £320m, taking the total capitalised costs relating to the tunnel, the Regulatory Capital Value, at 31 March 2021 to £3,230.6m.
- The Estimate at Completion (EAC) as of March 2021 is £4,142m (versus £3.4bn regulatory baseline) and this figure includes the forecast impact of COVID-19 on the delivery of the works.
- The cost and schedule revision announced in August 2020 reflecting the expected impact of the pandemic has not impacted the £20-25 annual cost range for Thames Water bill-payers.
- Post period end, Ofwat consulted on proposed regulatory mechanisms to mitigate the impact of COVID-19 on cost, financial resilience and the risk of schedule penalties. The related licence modifications are expected to come into effect in Q3 FY22.



## Overview (continued)

- The T-24 re-baselining process with our delivery partners, an activity undertaken by major projects at this stage of delivery in preparation for system commissioning, is nearing conclusion. We expect minimal impact on schedule and a small cost impact.
- We are exceeding our 85% target for live Legacy commitments – including jobs, skills and environment – with 90% on track.
- No major injuries although we have seen minor injuries increase in the second half of last year, which have been investigated and lessons learned are being implemented.
- The Company has secured total committed debt funding of £2,843m and reached a point of strong financial resilience, where sufficient liquidity has been secured to cover anticipated construction costs until Handover in March 2025.
- Gearing remains low at 57% in line with our equity-first approach. The interest coverage ratio stood at 4.6x, well above the covenant level.
- Tideway deferred all distributions in the year and also the first quarter of FY22. 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.
- Fitch affirmed the credit rating at BBB+ with stable outlook. Moody's maintained the Baa1 rating. Outlook remains negative following the COVID-19 operational announcement published in August 2020. The negative outlook could lead to the Company being put on negative watch, which could in turn lead to a consequent rating downgrade. It should be noted that the Company's rating is presently two notches above the requirements of the covenants in its financing documents and licence. S&P published an ESG evaluation of Tideway with a score of 74/100 with our culture deemed excellent.
- We published our 3rd Sustainable Finance Report and our first Climate Related Financial Disclosures Report aligned with the TCFD recommendations.



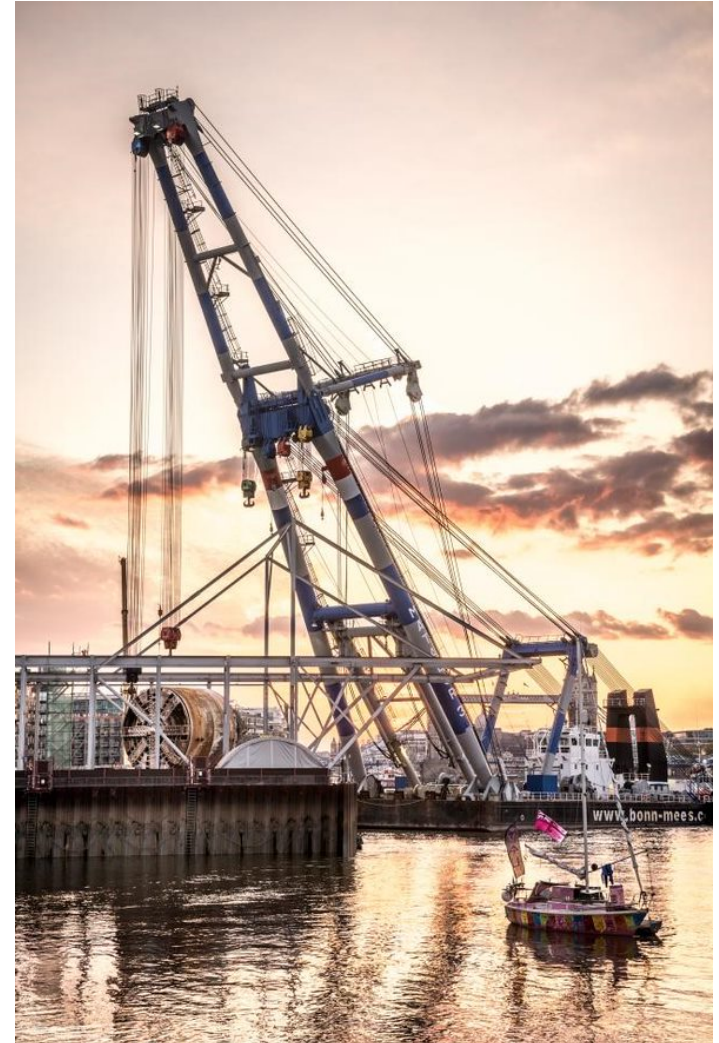
## Business Update – Health, Safety, and Wellbeing

- No major injuries occurred during construction activities during the period. Additionally, there were no significant incidents as a result of our marine activities. Overall, the programme's over-three-day Accident Frequency Rate (AFR, measuring lost-time injuries over a rolling 12-month window) 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 strong 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.
- 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 and a number of other initiatives aimed to improve staff's wellbeing including a number of initiatives adapted to support those working from home.
- 1.2m tonnes of material was moved by river rather than road during the year. 4.5m tonnes have been transported by river to date and 550,000 HGV journeys have been avoided to date which is equivalent to 14m miles or 14,500 tonnes of CO2.



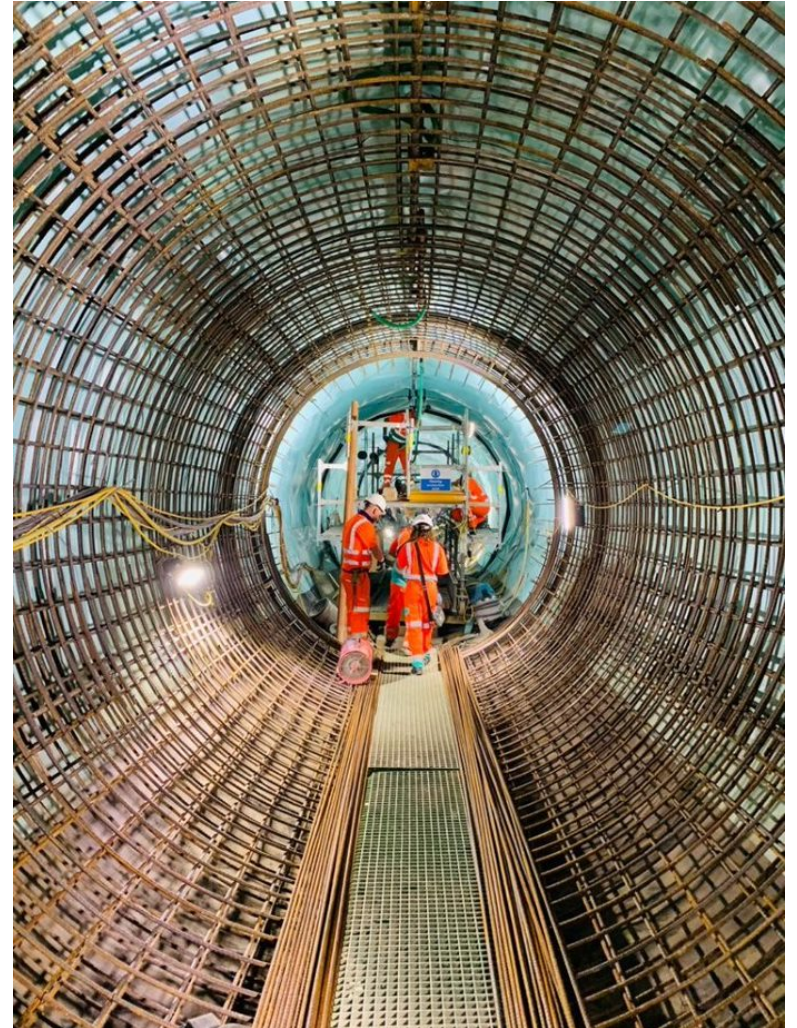
## Business Update – Vision, Legacy, and Reputation

- Tideway continues to deliver a proactive engagement and communications strategy through a range of channels, to inform all stakeholders of progress and the ultimate benefits of the project.
- Many of our stakeholder engagement activities continued to happen online in the second half of the year in response to the pandemic and we also supported virtual stakeholder events.
- The Employer's Project Induction Centre (EPIC) has now reopened and Tideway's compulsory Health, Safety and Wellbeing training programme has resumed.
- Legacy commitments are 90% on track against the current target of 85%. This period saw final reporting for several legacy commitments which are now marked as complete, including: delivering at least 4,000 sustainable jobs (we have delivered 4,295 to date); supporting industry organisations TUCA and the i3P; and, providing STEM learning resources.
- Our annual community survey generated the highest response rate since the start of the project, with commendations for site appearance, site staff and keeping impacts under control, as well as our communications and work with charities.
- Tideway was named "Project of the Year" at the 2021 Edie Sustainability Leaders Awards. The judges said: "Despite its scale, Tideway has integrated environmental and social impacts into its core approach from day one, championing a number of innovative approaches which really push the boundaries and to show a positive way forward for future infrastructure projects".



## Regulatory Update

- Since March 2020, Tideway has regularly updated Ofwat and Government on its response to COVID-19. During 2020/21 we held discussions with Ofwat on a package of measures that could appropriately address the related costs of COVID-19, the impact on Tideway's financial resilience and risk of schedule penalties. In April 2021 Ofwat consulted on changes to Tideway's licence, which are currently expected to come into effect in Q3 FY22: <https://www.ofwat.gov.uk/wp-content/uploads/2021/04/Consultation-on-amending-Tideways-project-licence.pdf>. We anticipate that the changes will support the delivery capability and resilience of Tideway and its supply chain, while maintaining investor confidence in the project and sector.
- The impact of Financing cost adjustment (FCA), which is a building block in our licence revenue, has been added to our Principal risks. Extraordinary macroeconomic circumstances have increased the risk of a mismatch between the FCA and the cost Tideway pays for its debt and have led to the FCA not delivering the intended outcomes. Tideway has initiated discussions with Ofwat regarding mitigation.





## Interface with Thames Water

- Thames Water continues to facilitate access to the Sewer Network to enable Tideway to construct the connections to the TTT, with demand for sewer accesses required for the construction phase now past its peak. A new isolation valve 'Temple Valve' in the Thames Water network was jointly implemented that has enabled the successful completion of complex flume installation works at Blackfriars Bridge Foreshore. Thames Water and Tideway are working jointly on the planning for sewer accesses required in the project's system activation phase.
- Tideway and Thames Water continue to implement robust asset protection arrangements for the Sewer Network during the carrying out of Tideway's Works. A significant proportion of the asset protection phase is now complete with all shafts excavated and over 21km of primary tunnelling complete.
- Thames Water and Tideway continue to deliver the Joint Approach with the development of the requirements and working relationships for the final phases of the TTT project including those relating to land hand-back and system commissioning.
- Significant progress has been made in the planning for land hand-back with the agreement of the Land Hand-back Process and Acquisition & Lease Strategy with Thames Water. Preparations are underway for the first transfer of as-built data to enable permanent acquisition of tunnel subsoil by Thames Water.
- Tideway and Thames Water have jointly taken part in a successful three-part Rehearsal of Concept (RoC) exercise resulting in the identification of detailed agreed actions and informing coordination for the System Commissioning phase.
- Tideway and Thames Water have had significant engagement on the assumptions, risks and logic related to the preparation of the T-24 baseline.



# Investment Programme – Overview

- Progress stands at overall 63% complete as of March 2021 (68% as of June 2021), although this is behind our original expectations due to the impact of COVID-19.
- In August 2020 we announced that the Handover date would be pushed back by 9 months from June 2024 to March 2025. The System Acceptance date remained the same as the regulatory baseline at February 2027. There has been no subsequent change to these dates.
- The Estimate at Completion (EAC) as of March 2021 is £4,142m, broadly in line with the £4,133m figure provided in the H1 investor report. The latest forecast includes an assessment of the ongoing commercial discussions for the T-24 re-baseline and shows a slightly higher EAC figure of £4,181m, a £39m increase from the £4,142m at 31 March 2021.
- Completed 20.8km of cumulative tunneling as of March 2021 (21.4km as of June 2021)
  - All six TBMs launched of which four have completed their journeys
  - The main tunnel primary lining built is 19.2km of the 25 km as of March 2021
- Completed 5.8km of secondary lining (19% of total) as of June 2021.
- Shaft excavation works progressed to 96% as of March 2021 and since then all shaft excavation works has been completed following the completion of the last shaft excavation at King Edward Memorial Park.
- Shaft secondary lining works progressed to 39% as of March 2021 (49% as of June 2021) and as of June 2021 the Shaft Secondary lining is now complete at 10 of the 21 sites.



# Investment Programme - T-24

- Our intent was always to review the delivery programme at this stage in the project:
  - all shaft excavation completed across the programme
  - secondary lining underway in West and Central
  - primary lining underway on the two tunnel drives in East and
  - preparation of MEICA (Mechanical, Electrical, Instrumentation, Controls, Automation) site installation works.
- 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 minus 24 (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.
- T-24 activities related to preparations for systems commissioning and handover involving the Main Works Contractors, the System Integrator, Thames Water and the Environment Agency.
- These stakeholders have a good understanding of the conditions required to successfully deliver the programme to the revised schedule and the part that they are needed to play in that successful delivery.
- The T-24 re-baseline activity has provided a new Integrated Project Master Programme (iPMP) which maintains the previously reported key programme dates, whilst removing a significant number of schedule challenges. This revised schedule was independently assured by Gardiner & Theobald, a well known construction and property consultancy for the built environment. Gardiner & Theobald have offered reasonable assurance, a level of assurance where it feels that documentation, plans and processes are of a good standard.
- The T-24 re-baseline activity is nearing conclusion. A small cost increase of £39m is expected, taking the EAC to £4,181m as per page 10. We expect to conclude the T-24 activities with stakeholders in the autumn.



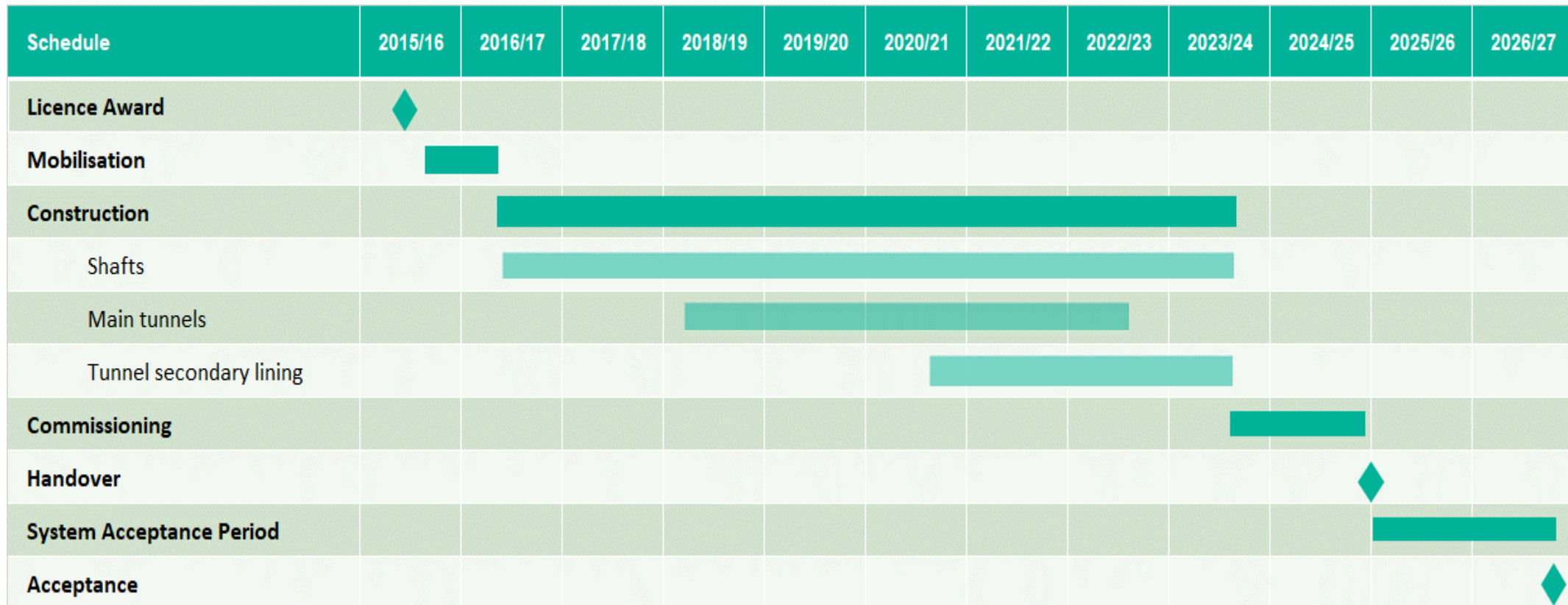
# Investment Programme – Cost and Contingency

- Total project costs for the six-month period to March 2021 were £320m, taking the total capitalised costs relating to the tunnel at 31 March 2021 to £3,230.6m.
- The Estimate at Completion (EAC) as of March 2021 is £4,142m (versus £3.4bn regulatory baseline) and this figure includes the forecast impact of COVID-19 on the delivery of the works.
- The cost increase announced last year was predominantly linked to the impact of the pandemic in terms of the cost involved in protecting the health and wellbeing of the workforce and the delivery capability of the supply chain, the reduced productivity and the associated impact from the delay.
- There has been no change to the key milestones of Start of Commissioning in September 2023 and Handover in March 2025, which had been updated last August as a result the impact of COVID-19 on productivity.
- All sites continued to follow COVID-19 control measures. Strong progress and performance continued in H2 for the key activities, despite being impacted by the pandemic measures to restrict the spread of the virus. Resilience planning and measures put in place in anticipation of a second wave appeared to have protected the overall performance on the project over the second half of the year.
- The announcement of the UK Government roadmap to easing restrictions has been used as the basis for planning the return to the new norm across the programme.
- 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.
- The MWCs continue to reserve their commercial and contractual positions under their respective contracts in relation to COVID-19. We continue to believe that any potential claim will not have a material impact on the project.

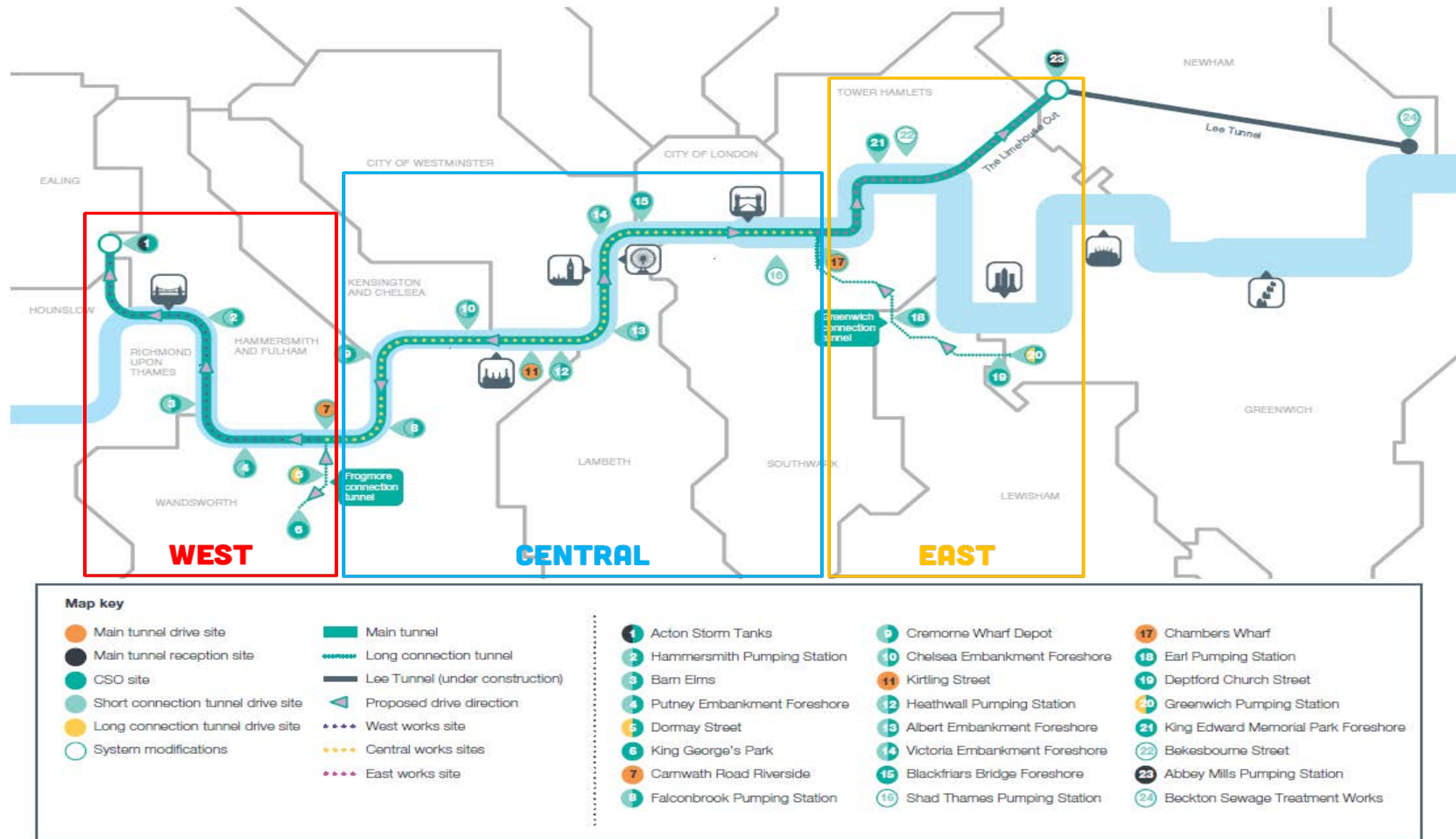
# Investment Programme – Project Schedule Update

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

As we continue to deliver the project we will make further changes to specific site schedules.



# Investment Programme – Route and Sites



# Investment Programme – West

## Tideway Schedule – West Delivery Area The Slice Report

11

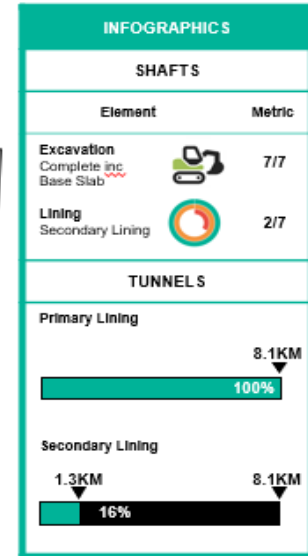
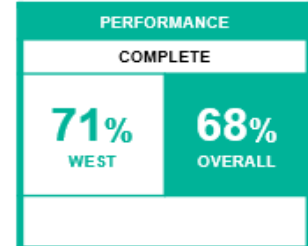
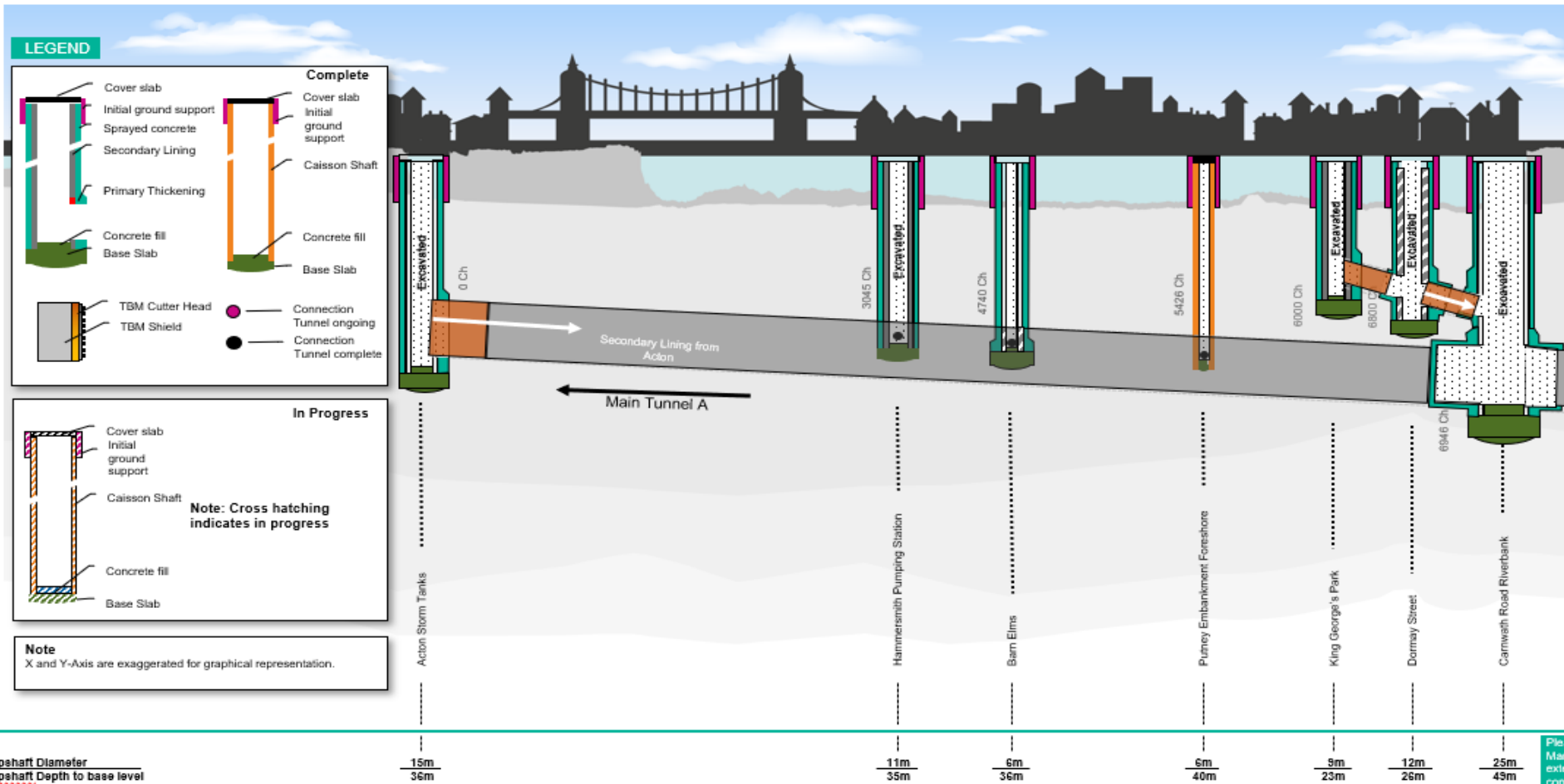
June

2021



Programme Management Office

### PROGRESS TAKEN FROM RISK ADJUSTED PROJECT MANAGEMENT PLAN



Please seek approval from the relevant Tideway Project Manager before sharing this document with any parties external to the Tideway Project and its Main Works contractors

## Investment Programme – West (continued)

- Overall works were 68% complete as of March 2021, 71% as of June 2021.
- All seven shafts have been excavated.
- All primary tunnelling of 8.1km has been concluded.
- TBM A Rachel which constructed the main western part of the main tunnel completed its journey of 6.7km and arrived at Acton in September 2020. The TBM tunnelling demobilisation concluded in December 2020.
- TBM Charlotte finished constructing the Frogmore Connection Tunnel in July 2020. The 1.1km connection tunnel will take sewage overflows from King George's Park into the main 25km tunnel at Carnwath Road.
- The area shaft secondary lining works were at 36% complete as at March 2021.
- Tunnel secondary lining works progressed to 0.7km as of March 2021 and 1.3km as of June 2021.
- Secondary lining of Frogmore Connection Tunnel progressed to 1.1km and was completed in June 2021.
- **Further milestones include:**
- The Interception Chamber Wall at Hammersmith has been completed.
- At Carnwath Road the mining of the connection tunnel from the Carnwath Road Shaft to Main Tunnel B has been completed.
- Barn Elms Connection Tunnel secondary lining is complete.
- At Acton enabling works for the syphon main pipejack has commenced, with excavation of the launch and reception pits.
- At King George's Park the shaft secondary lining was completed in June 2021.





# Investment Programme – Central

## Tideway Schedule – Central Delivery Area

### The Slice Report

11

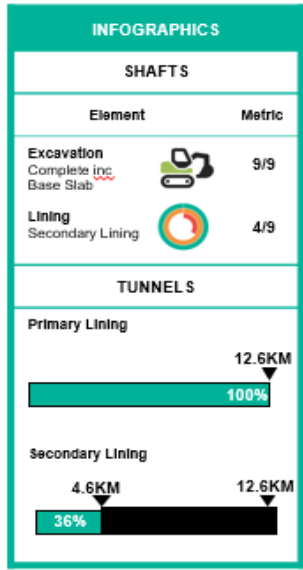
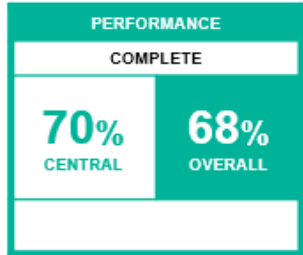
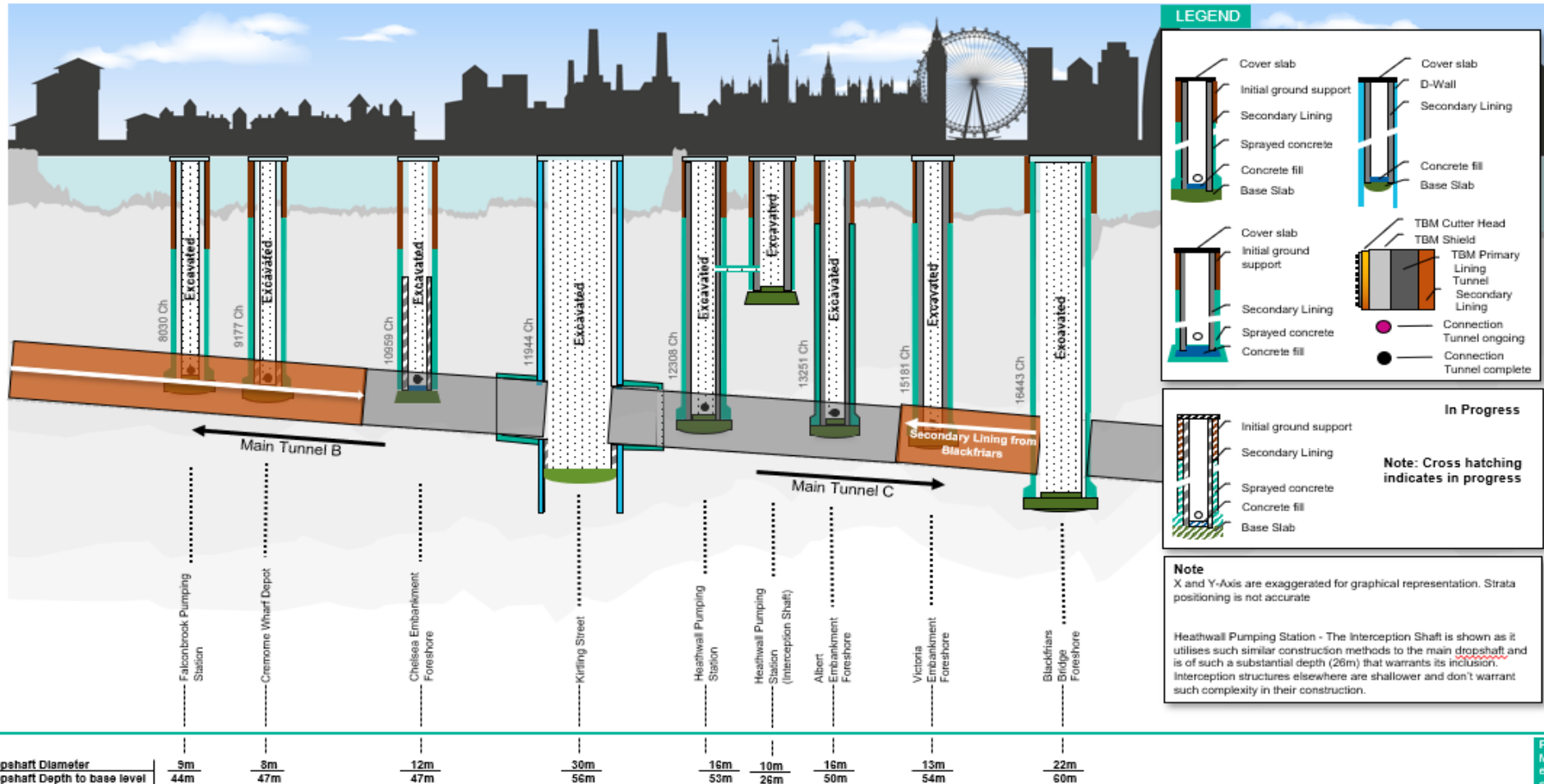
June

2021



Programme Assurance Office

#### PROGRESS TAKEN FROM RISK ADJUSTED PROJECT MANAGEMENT PLAN



Please seek approval from the relevant Tideway Project Manager before sharing this document with any parties external to the Tideway Project and its Main Works contractors.

## Investment Programme – Central (continued)

- Overall works were 65% complete as of March 2021, 70% as of June 2021.
- All primary tunnelling of 12.6km has been concluded in Central.
- TBM B Millicent, the westbound 4.9km long tunnel drive from Kirtling Street to Carnwath Road was completed in November 2019.
- TBM C Ursula, launched from Kirtling Street completed its journey of 7.6km to Chambers Wharf in November 2020.
- All shafts have been excavated.
- The secondary lining works on the Central have been going well with 3.1km of Main Tunnel B secondary lining complete and 1.5km of Main Tunnel C as of June 2021.
- The excavation of the 145m long Cremorne Wharf connection tunnel was completed at the end of October 2020. The primary lining of the short connection at Falconbrook has also been completed and the secondary lining works is underway.

### Further milestones include:

- Cremorne Connection Tunnel secondary lining work is complete.
- Heathwall Pumping Station shaft secondary lining work is complete.
- The Shaft Base Slab at Blackfriars has been completed.



# Investment Programme – East

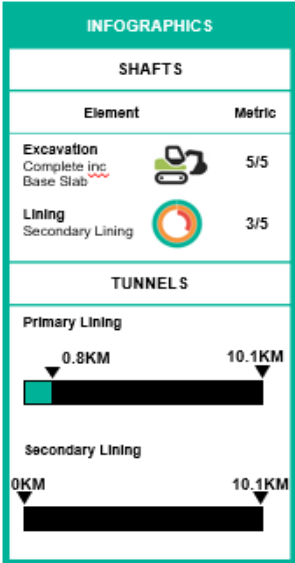
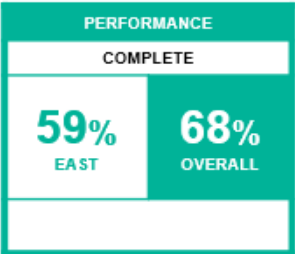
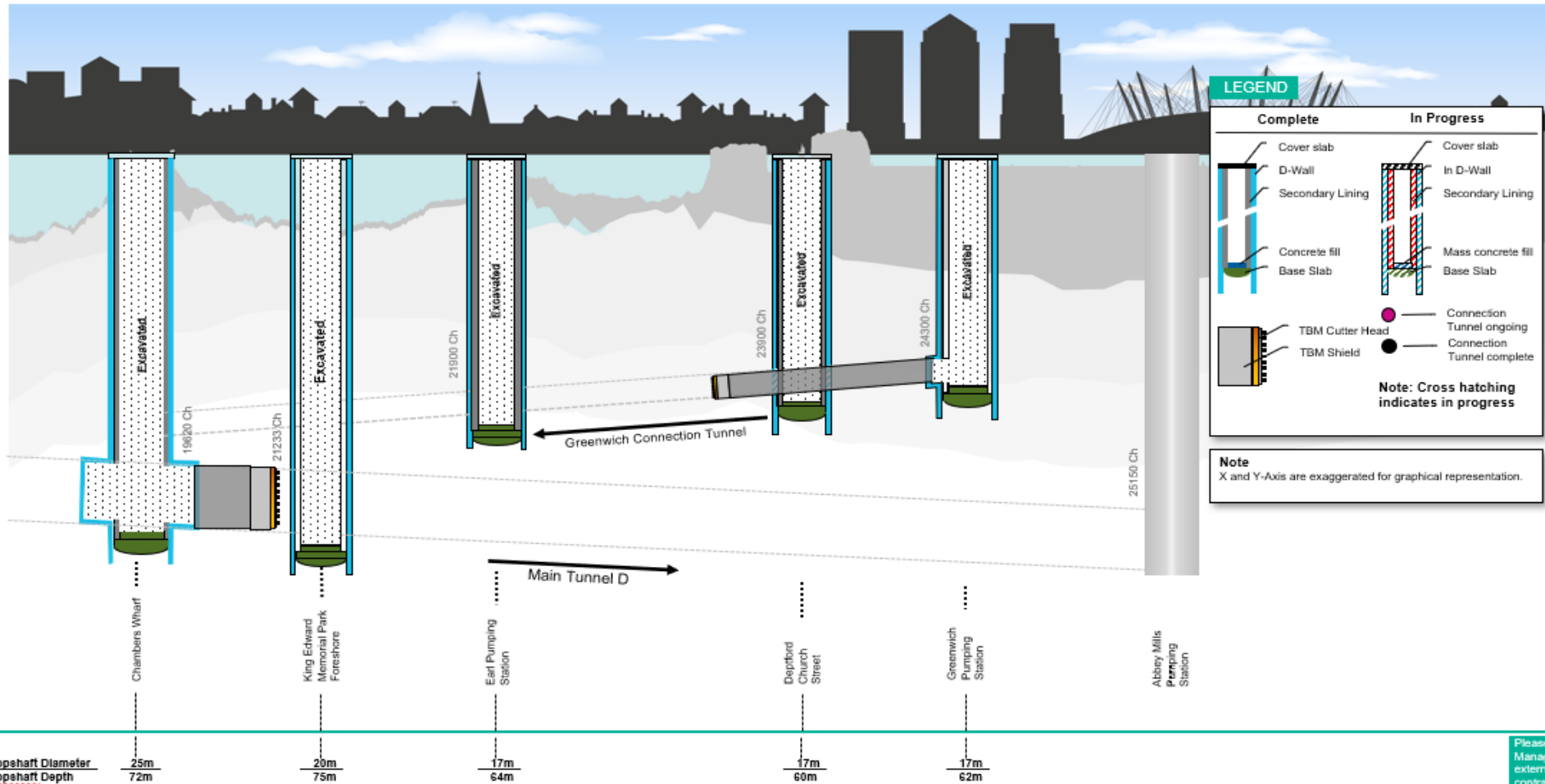
## Tideway Schedule – East Delivery Area

The Slice Report

11 June 2021

Programme Management Office

### ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



Please seek approval from the relevant Tideway Project Manager before sharing this document with any parties external to the Tideway Project and its Main Works contractors.

## Investment Programme – East (continued)

- Overall works are 54% complete as of March 2021, 59% as of June 2021.
- The East team continue working on five of the six construction sites. Works in the remaining site at Abbey Mills will start later in 2021.
- TBM D (Selina) was delivered to site in July 2020 and tunnelling at Main Tunnel D has commenced.
- The removal methodology of TBM C was changed to lifting out the TBM with a stoppage to TBM D as opposed to dismantling TBM C, during tunnelling of Main Tunnel D with prolonged disruption to tunnelling productivity. To mitigate this delay Main Tunnel D shift pattern is now 24/7 as opposed to the previous 24/5.
- After months of detailed planning and collaboration across our teams as well as precise timing working within tidal conditions, the removal of TBM C (Ursula) was completed in May 2021.
- The Greenwich Connection Tunnel TBM (Annie) was launched at the beginning of December 2020. Annie is set to create the 4.5km connection tunnel between Greenwich Pumping Station and Chambers Wharf and 600m have already been completed.

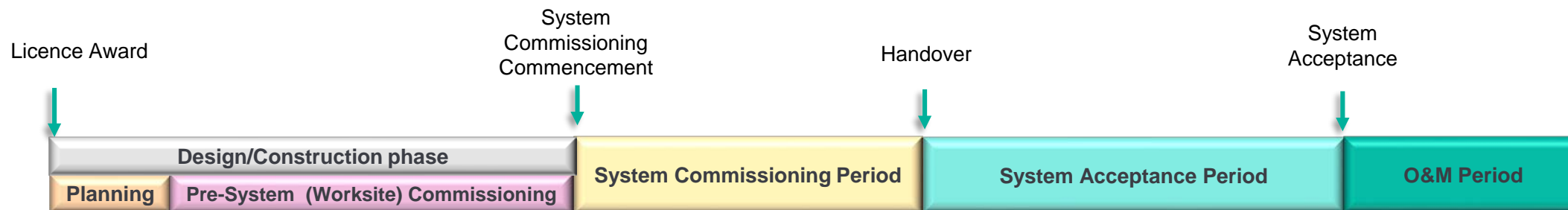
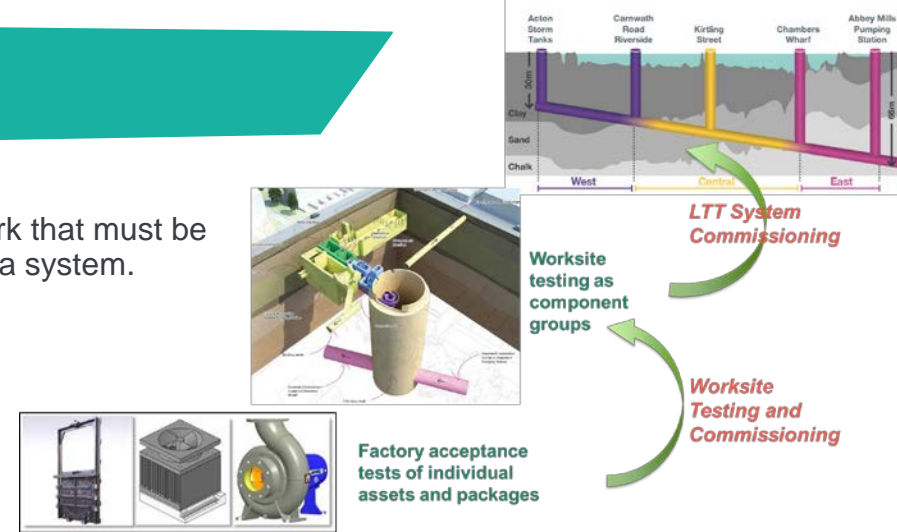
### Further milestones include:

- King Edward Memorial Park was the last shaft in the area to commence shaft excavation and the works completed in June 2021. The steel reinforcement is being installed for the base slabs in the CSO interception structure and main shaft.



# System Integration and System Commissioning

- In addition to the major civil construction works, there are several mechanical and controls elements of work that must be undertaken to enable the tunnel to be integrated with the existing sewer network and therefore operate as a system.
- The area MWCs are responsible for providing the assets and packages that make up an individual worksite and the associated testing. They are making good progress in conducting factory acceptance testing (FAT) for the penstocks, flap valves, isolation gates, access covers and air treatment units. These tests has been witnessed by the PM and the Commissioning lead. The use of technology to allow the completion and remote witnessing of factory acceptance tests continues to be necessary and is a good example of the work to maintain progress on the project through the COVID-19 challenges.
- The System Integrator (Amey) covers system-wide control integration including telemetry, IT systems, control room interfaces and software. Their work is 65% complete overall as of June 2021 and system software development is nearing completion. Formal factory acceptance testing (FAT) of the core software and site equipment has commenced and enabling installation works are progressing well at Beckton Sewage Treatment Works in preparation for the hardware installation.
- Plans for system commissioning have continued to be developed and refined including identifying the detailed activities and assets that will be constraints in governing the commissioning process according to agreed criteria for achieving key milestones. The more flexible commissioning approach will help us improve the maturity of the commissioning programme and sequence, and build resilience in the programme to mitigate potential risks that might delay the testing and commissioning process.
- Following completion of the worksite and controls testing, a period of system commissioning will take place in order to ensure that the TTT is integrated into the wider sewer network. In the commissioning period, the physical separation between the TTT and the Lee Tunnel will be removed, flows will be progressively allowed into the TTT and the Company will, with Thames Water's assistance, conduct a number of system commissioning tests. When the tests have been completed and the handover criteria met, Thames Water will issue a Handover certificate.
- Following Handover, system acceptance tests will be conducted by Thames Water with the support of the Company to optimise operation and maintenance activities (in particular in relation to storm events that were not able to be observed during the commissioning period). When the system has been monitored over a range of climatic and operational scenarios and certain system acceptance criteria have been met, Thames Water will issue a system acceptance certificate.



# Financing Activity

- Since Licence Award, Tideway has made significant progress in the implementation of its financing strategy, raising £2.7bn of long-term debt of which £2,018m has been drawn and is outstanding.

## Debt facilities

Debt £M	RCF	EIB	RPI loan	RPI bonds	CPI bonds	Nominal	Total
Drawn		560	100	533	275	550	<b>2,018</b>
Undrawn	160	140		375	75	75	<b>825</b>
<b>Total</b>	<b>160</b>	<b>700</b>	<b>100</b>	<b>908</b>	<b>350</b>	<b>625</b>	<b>2,843</b>

- This represents 100% of long-term funding needs to cover anticipated construction costs to Handover (March 2025) taking into account the undrawn £160 million Revolving Credit Facility.
- During the period we received £80m from Tranche 6 and £80m from Tranche 7 of the EIB loan.
- At 31 March 2021, we had total liquidity of £1.2bn, comprising £398m of cash and £825m of undrawn debt facilities. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target.
- There were no new derivative transactions in the period – our derivative portfolio continues to include the swaps hedging the first eight tranches of our £700m EIB loan and £70m of our £300m USPP 2017 notes.
- As at 31 March 2021, we had received £1,274m from our shareholders in the form of equity and shareholder loans, which was the full commitment at Licence Award. Part of the shareholder loans have been repaid and the balance at 31 March was £720.4m. The Board approved the deferral of 2020/21 distributions and the first quarter of FY22.
- Given the discontinuation of Libor planned for the end of this calendar year, we are working with our counterparties to agree and finalize the fallback approach for all of our transactions that currently reference Libor. No material impact is expected.
- 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.

# Financing Activity

£2.7bn long term debt

£160m RCF

100% needs to Handover as of March 2021

Refinancing from 2025 (EIB) and 2027 (bond)

£1.3bn of debt portfolio matures or resets around 2030 (2027-2032)

Index Linked debt as % of RCV

Mar 2021  
53.76%

Index Linked debt as % of total debt

Mar 2021  
76.82%

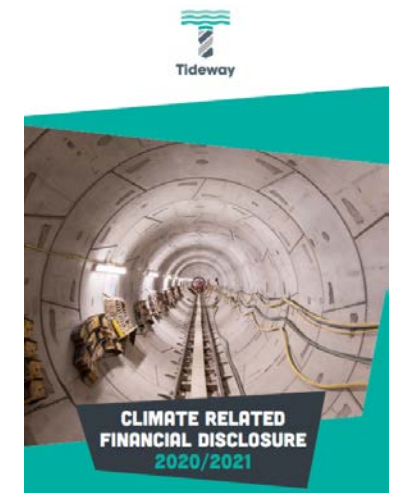
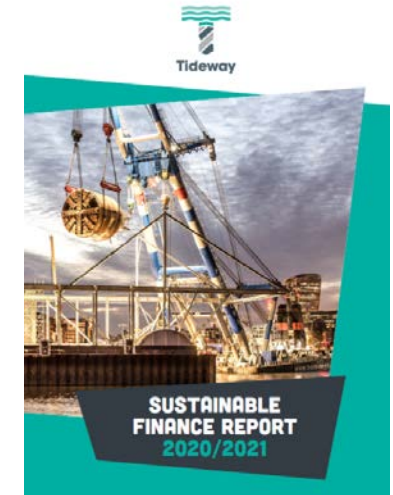
Gearing remains low in line with our equity-first approach. This will grow in the coming years as we progress through construction and draw on the deferred committed debt. The interest coverage ratio remains well above the covenant level.

Mar 2021  
Net debt/  
RCV  
57.10%

Mar 2021  
ICR  
4.61x

# Financing Activity – Sustainable Finance

- Tideway has 17 green bonds totalling £1.5bn, a £75m green USPP and a £160m Sustainability-Linked RCF. Our bond programme, the bond series issued under it and the £75m USPP are covered by a Green Evaluation from S&P Global ratings with a score of E1 - 95/100.
- The agreed KPI in the Sustainability-Linked RCF is the meeting of at least 85% of the live Legacy Commitments and as at 31 March 2021 we exceeded the target by meeting 90% of the live commitments.
- S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway with a score of 74/100 score.
- In July we published our 3rd [Sustainable Finance Report](#) providing information on our use of debt proceeds, and how the £1.7 billion sustainable financing supports Tideway's programme delivery and legacy commitments. This year's report expands on the work we have done on legacy and the ten UN Sustainable Development Goals (SDGs) and 27 targets we are delivering. It also shows how we are starting to close out some of our legacy commitments and a more mature approach to reporting performance. For the first time, we also report on those SDGs where we have a negative impact and our mitigation efforts.
- 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 in July we published our first [Climate Related Financial Disclosures Report](#), which we believe is a first for a project of this nature. The report discusses how the tunnel was designed to withstand changes in climate and population scenarios until at least 2080 and how it is expected to continue to provide a good level of service in a plausible range of future conditions. During construction, we detail how we have sought to reduce our construction phase carbon footprint through design decisions, materials specification and using the river to transport materials.
- 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 are significant efforts in supporting ESG initiatives.



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# Historical Financial Performance

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

The Company recorded a £6.0m profit for the year ended 31 March 2021 (31 March 2020: £33.3m loss). This is a result of fair value movements on the Company's derivative financial instruments. The tunnel asset under construction totalled £3,230.6m at 31 March 2021 (31 March 2020: £2,593.5m).

## Allowable Costs

Our Allowable Costs of £543.6m (31 March 2020: £673.5m) includes £478.5m Direct costs and £65.1m of Indirect costs.

## Direct Costs

Direct costs are primarily the Main Works Contractor costs and the System Integrator contract so reflect costs directly related to the tunnelling programme and other related construction activities such as shaft and cofferdam construction. The direct costs incurred in the year have decreased compared with 2019/20, reflecting the impact of COVID-19 on our works during the period. The COVID-19 impact primarily caused our planned works to be temporarily paused as we implemented new COVID-19 secure working requirements across our sites.

## Indirect Costs

The largest indirect cost is Resource Costs of £49.0m. This represents the cost to employ the c359 average FTEs (2019/20 c394 average FTEs) either employed or contracted by the Company. Other Indirect Costs totalled £16.1m in the year and this includes the cost of information systems, insurance, Government Support Package, office and other running costs. Overall Indirect costs have decreased compared with 2019/20 due to budget controls and cost cutting measures.

## Excluded Costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2021 were £93.5m. These comprise £90.8m of interest expense (including shareholder loans), £3.6m of costs which mainly relate to financing, partly offset by £0.9m interest income.

Analysis of Project Costs and the equivalent Net Cash Outflows (£m)	Year ended 31 March 2021			Year ended 31 March 2020		
	Costs	Timing Differences	Cash Outflow	Costs	Timing Differences	Cash Outflow
Direct Costs	478.5	(3.2)	475.3	593.1	(61.7)	531.4
Indirect Costs	65.1	1.8	66.9	80.4	(6.9)	73.5
<b>Total Allowable</b>	<b>543.6</b>	<b>(1.4)</b>	<b>542.2</b>	<b>673.5</b>	<b>(68.6)</b>	<b>604.9</b>
Excluded Costs	93.5	(62.0)	31.5	91.4	(19.6)	71.8
<b>Total</b>	<b>637.1</b>	<b>(63.4)</b>	<b>573.7</b>	<b>764.9</b>	<b>(88.2)</b>	<b>676.7</b>

Analysis of Capitalised Costs (£m)	Year ended 31 March 2021	Year ended 31 March 2020
Direct Costs	478.5	593.1
Indirect Costs	65.1	80.4
<b>Total Allowable</b>	<b>543.6</b>	<b>673.5</b>
Excluded costs	93.5	91.4
<b>Total Capitalised Costs</b>	<b>637.1</b>	<b>764.9</b>

# Historical Financial Performance (continued)

## Cash Flow

Net cash flows from operating activities of £136.6m (2019/20: £149.1m) represent movements in working capital and are mainly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water.

Net cash flows used in investing activities of £524.2m (2019/20: £813.8m) show the gross cash outflows used in constructing the Thames Tideway Tunnel as well as movements to short-term deposits which represent money market funds where cash is held on deposit.

The net cash inflows from financing activities of £338.0m (2019/20: £490.7m) are largely the result of new borrowings drawn in the period which included £100.0m of index linked bonds and £240.0m of floating rate loans.

## Net Debt and Financing

Net debt at 31 March 2021 was £1,710.4m, which was £396.0m higher than the £1,314.4m net debt at 31 March 2020.

At 31 March 2021, the Company's total borrowings were £2,756.9m being £720.4m of shareholder loans and £2,036.5m of other borrowings which include third party borrowings and intra group debt. In addition, the Company 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.

A list of Tideway's external debt facilities can be found on page 28.

Cash Flow (£m)	Year ended 31 March 2021	Year ended 31 March 2020
<b>Cash generated from operations before changes in working capital</b>	-	-
Decrease in trade and other receivables	3.5	0.8
Increase in trade and other payables	64.2	90.7
Increase in advance payment liability	68.9	57.6
<b>Net cash from operating activities</b>	<b>136.6</b>	<b>149.1</b>
Construction of infrastructure asset	(626.7)	(746.3)
Transfers from/(to) short-term deposits	102.5	(67.5)
<b>Net cash used in investing activities</b>	<b>(524.2)</b>	<b>(813.8)</b>
Proceeds from new borrowings	340.0	493.1
Repayment of lease liabilities	(2.0)	(2.4)
<b>Net cash from financing activities</b>	<b>338.0</b>	<b>490.7</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(49.6)</b>	<b>(174.0)</b>
Cash and cash equivalents at the start of the period	380.8	554.8
<b>Cash and cash equivalents at the end of the period</b>	<b>331.2</b>	<b>380.8</b>

# Historical Financial Performance (continued)

## Fair value measurements and valuation

Tideway has entered into long-term swaps with commercial banks to hedge the interest rate for tranches one to eight of the £700m EIB loan secured in May 2016 and £70m of the £300m US Private Placement notes secured in September 2017.

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

During the last six months, there was a positive movement of £29.8m in the fair market value of the index-linked swaps. This was primarily driven by an increase in the implied forward LIBOR rates which impacted the receive leg of the swaps.

## Tax

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.

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).

Further information on the financial performance of the Group can be found on our website.

# Debt Portfolio – March 2021

## Drawn Debt Portfolio - March 2021

Facility	Drawn amount	Type	Drawdown date	Maturity (CY)
£75m CPI + 0.828%	75	Green Bond	Aug-17	2047
£300m 2.86%	300	USPP Loan Note	Sep-17	2032
£250m 2.375%	250	Green Bond	Nov-17	2027
£200m CPI+ 0.74%	200	Green Bond	Nov-17	2042
£100m RPI + 0.688%	100	Green Bond	Jun-18	2050
£80m Tranche 1	80	EIB	Jul-18	2051
£100m RPI + 0.249%	100	Green Bond	Dec-18	2040
£80m Tranche 2	80	EIB	Jan-19	2051
£100m RPI + 0.755%	100	Green Bond	Jun-19	2051
£80m Tranche 3	80	EIB	Jul-19	2051
£125m RPI + 0.192%	133	Green Bond	Jul-19	2049
£100m RPI + 0.01%	100	Loan	Sep-19	2049
£80m Tranche 4	80	EIB	Jan-20	2051
£25m RPI + 1.035%	25	Green Bond	Jun-20	2048
£50m RPI + 0.787%	50	Green Bond	Jun-20	2052
£25m RPI + 0.951%	25	Green Bond	Jun-20	2054
£80m Tranche 5	80	EIB	Jul-20	2051
£80m Tranche 6	80	EIB	Jan-21	2051
£80m Tranche 7	80	EIB	Mar-21	2051
<b>Subtotal</b>	<b>2,018</b>			

## Committed and Undrawn Debt Portfolio - March 2021

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
RCF	160	Revolver	N/A	2025
EIB	140	Loan	Various 2021-2022	2051
£25m RPI + 1.042%	25	Bond	Jun-21	2048
£25m RPI + 0.954%	25	Bond	Jun-21	2054
£75m RPI + 0.01%*	75	Green Bond	Aug-21	2036
£75m 2.418%	75	Green USPP Loan Note	Sep-21	2041
£150m RPI + 0.01%**	150	Green Bond	Apr-22	2032
£75m CPI + 0.949%	75	Green Bond	May-22	2052
£50m RPI + 0.074%	50	Green Bond	May-22	2049
£50m RPI + 0.174%	50	Green Bond	May-23	2049
<b>Subtotal</b>	<b>825</b>			

(\*) re-offer price of 112.157% reflecting negative yield of -0.754%

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

## Financial Ratios

We confirm that in respect of this Investor Report as of 31 March 2021, by reference to the most recent Financial Statements that we are obliged to deliver in accordance with paragraph 1 (Financial Statements) of Part A (Information Covenants) of Schedule 3 (Holdco Group Covenants) of the CTA:

- a) the Senior RAR<sup>(1)</sup> in respect of the relevant Test Period is equal to 57.10%
- b) The FFO ICR<sup>(2)</sup> in respect of the relevant Test Period is equal to 4.61
- c) The average FFO ICR in respect of the relevant Test Period is equal to 4.81

(together ***the Ratios***)

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

## Other Reportable Matters

### Significant management and board changes H2 2020/21

Post period end it was announced that Tideway's Chief Technical Officer, Roger Bailey, is joining the board of Bazalgette Tunnel Limited effective 2 August 2021.

Post period end it was announced that Mark Sneesby will be standing down as Chief Operating Officer and Director of Bazalgette Tunnel Limited at the end of September.

### Acquisitions and disposals H2 2020/21

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

### Current Hedging Position

The current swap portfolio can be found on slide 32 in the appendix.

# Confirmation

We confirm that:

- a) no Default or Trigger Event has occurred and is continuing;
- b) the Borrower is in compliance with the Hedging Policy;
- c) the statements set out in this Investor Report are accurate in all material respects; and
- d) the insurances are being maintained in accordance with paragraph 28 (Insurance) of Part C (General Covenants) of Schedule 3 (Holdco Group Covenants) to the CTA.



Mathew Duncan,  
Chief Financial Officer

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

# APPENDICES



## Swap Portfolio – March 2021

- During FY16/17 Tideway swapped tranches 1-8 of the EIB loan with various banks to index linked (RPI) format and agreed to draw tranches 9-10 in index linked format directly from the EIB.
- In September 2017, Tideway swapped £70m notional of the USPP.
- The swaps mature in 2030-2032 which is the beginning of Tideway's next regulatory period where the regulatory framework is expected to change to CPIH from RPI.
- There were no new hedges in the period.

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

## Reference to the CTA

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

Requirement	Reference
General overview	Page 4-5, Overview
Regulatory and Business update	Page 6-9, Regulatory and Business Update Page 10-21, Investment Programme
Capital Expenditure	Pages 25-27, Historical Financial Performance
Financing	Page 22-24, Financing Activity Appendix
Acquisitions or Disposals	Page 30, Other Reportable Matters
Current Hedging Position	Page 30, Other Reportable Matters Appendix
Ratios	Page 29, Ratios



**Tideway**

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