

# TIDEWAY – HOLDCO GROUP INVESTOR REPORT H1 2022/23

December 2022



# Notice

## IMPORTANT NOTICE

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

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

## BASIS OF PREPARATION

Investor Reports relate to the performance of the Holdco Group which includes Bazalgette Holdings Limited (“BHL” or “Holdco”), Bazalgette Finance plc (“Finco”) and BTL. This Investor Report comments on the historical financial performance of the Holdco Group for the period to 30 September 2022.

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

This Investor Report provides an update of the Holdco Group’s activities for the period to 30 September 2022 with some delivery information as of 31 October 2022 or as indicated. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Interim Report and Accounts for the six months ended 30 September 2022.

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# Overview

## H1 2022/23 Highlights:

- Construction is progressing with the project now 83% complete as of September 2022, in line with the Business Plan, this includes:
  - The completion of all primary tunnelling - 30.7km (100%) - and 20.2km of secondary tunnel lining (66% of total)
  - All shafts are fully excavated, shaft secondary lining works progressed to 83% complete and complete at 18 of 21 sites
  - Systems integration works are 71% complete, system commissioning is now expected to start in early 2024.
- We are holding completion (Handover) as March 2025. However, issues relating to the connection between the Thames Tideway Tunnel and the Lee Tunnel at Abbey Mills Pumping Station have added approximately 12 weeks to the schedule reflected in the change to the start of system commissioning date. These issues, reference the tunnel connection, have now been resolved and we are working with Thames Water and the East Main Works Contractor (MWC) to identify opportunities for mitigating the potential 12-week delay.
- The handback of areas to Thames Water on completion of construction has continued with the successful handback of two areas in the period.
- The Estimate at Completion (EAC) is £4,384m. The annual bill impact for Thames Water customers remains unchanged and within £20-25 (2014/15 prices).
- In October, Ofwat modified Tideway's licence to move the Planned System Acceptance Date to 31 August 2027 from 28 February 2027, primarily reflecting the impact of Covid-19 on schedule.



## Overview (continued)

- We are exceeding our 85% target for live Legacy commitments – including jobs, skills and environment – with 93% on track.
- There were no major injuries during the year and no significant incidents as a result of our marine activities.
- The Borrower continues to have a strong liquidity position, has secured total committed debt funding of £3,143m and reached a point of strong financial resilience, where sufficient liquidity has been secured to cover anticipated construction costs until Handover in 2025.
- Gearing remains low at 64% in line with our equity-first approach. The interest coverage ratio stood at 5.33x, well above the covenant.
- Distributions paid in the period were £17m while £24m was capitalised, taking the overall shareholder loan balance to £823m.
- We published our Sustainability Report, combining the previously published Sustainable Finance Report and the Climate Related Financial Disclosures Report aligned with the TCFD recommendations.
- In September, DIF Capital Partners completed the process to divest its 10.66% stake in the Bazalgette group of companies, which was acquired by the group's other existing shareholders. Page 23 shows the current structure.
- Investment grade credit ratings were affirmed at Baa1 by Moody's and BBB+ by Fitch with both agencies having a stable outlook.



## Business Update – Health, Safety, and Wellbeing

- Tideway remains committed to completing the programme with zero fatalities or serious injuries on or off site. There were no major injuries in the six-month period ended 30 September 2022 and no significant incidents as a result of our marine activities. The period saw the three-day Accident Frequency Rate (AFR-3\*) improving from 0.16 to 0.13. AFR-7 worsened during the period to 0.11 from 0.09. There have been six lost time injuries (LTI) during 2.6 million hours worked, four of which resulted in +7-day lost time and two +1-day lost time.
- Despite the continued additional challenges, particularly early in the year, the programme's three-day Accident Frequency Rate has remained below the highs experienced during other large infrastructure projects.
- Supporting the health and wellbeing of the workforce continues to be a major driver for the project and has been supported with the Mates in Mind charitable programme and our Occupational Health Service provider. A number of campaigns have taken place to support the workforce. A successful hypertension project was rolled out over 4 phases, with 1200 blood pressure checks taken. This project identified 23% of individuals at risk. Education and support was provided to those involved leading to positive behaviour change and a reduction of blood pressure levels.
- The overarching Health, Safety and Wellbeing Strategy continues to be appraised and is evolving as the project progresses. Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) and worksite testing and commissioning became a focus for the second half of the year. A specific MEICA sub-group of the Transformational Health & Safety Group (THSG) has begun working to identify opportunities for implementation of industry best practices, with respect to safety during the design, manufacture, testing, installation and commissioning of the MEICA elements of the Tideway Programme.

\* 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

## Business Update – Vision, Legacy, and Reputation

- Tideway has continued with its proactive engagement and communications strategy, with the aim of building positive relationships and a positive project delivery environment. Sewage pollution continues to be high on the public agenda and Tideway has sought to inform all audiences of how the project will tackle the issue in relation to the River Thames.
- We have continued to promote awareness and understanding of the project through our internal and external communication channels. In April we marked the completion of the tunnelling phase of the project with a campaign based on an underground musical performance.
- Our legacy programme, underpinned by 54 measurable commitments, remains on track with a total of 93% of our live legacy commitments on track against a target of 85%. We closed out one commitment during the period, taking the total number closed to 15.
- We published a Sustainability Report summarising progress against our legacy plan and how our commitments are aligned to the UN Sustainability Development Goals (SDGs). The Sustainability Report incorporates our assessment against the Task Force on Climate Related Financial Disclosures (TCFD) framework and our previous Sustainability Finance Report.



## Regulatory Update

- In October 2022, Ofwat modified the Planned System Acceptance Date in Tideway's licence from 28 February 2027 to 31 August 2027, reducing the company's risk of schedule penalties. The Longstop Date, by which Tideway is required to achieve System Acceptance, moved from 31 August 2028 to 28 February 2029. The change reflects 5 months of Covid-19 schedule impacts (consistent with Tideway's assessment) and 1 additional month acknowledging an inconsistency in the original licence drafting. Ofwat has published a document setting out its reasons for making the change: <https://www.ofwat.gov.uk/publication/reasons-for-amending-tideways-project-licence-october-2022/>
- In July 2022, Ofwat published a consultation on strengthening the ring fencing provisions of the largest undertakers, including proposals to raise the cash lock-up trigger by one notch to BBB/Baa2 with negative outlook, and to introduce a licence requirement for dividends to take account of delivery for customers and the environment. Ofwat has confirmed that the changes will not apply to Tideway.
- Tideway responded to Ofwat's consultation on its draft methodology for PR24, focusing on how the methodology can support best value delivery of major projects and the importance of ensuring TWUL retains regulatory incentives for the project. PR24 does not apply to Tideway.





## Interface with Thames Water

- Thames Water's commitment to the schedule continues with a focus on agreeing the System Commissioning Plan which was submitted in October. We will now focus on resolving comments on the System Commissioning Plan ready for formal acceptance ahead of the Preliminary Commissioning Commencement Date.
- Thames Water continues to facilitate access to the Sewer Network to enable Tideway to construct the connections to the Thames Tideway Tunnel (TTT). Thames Water and Tideway are continuing the joint 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.
- The Tideway and Thames Water property teams are jointly identifying the land and rights requirements for the long-term lease which enables Thames Water to finalise land acquisition.
- As we move closer to starting commissioning in early 2024, Tideway and Thames Water continue to collaborate and implement the 'Joint Approach' to deliver the earliest possible commencement of system commissioning activities, system activation, handover and system acceptance.
- Dedicated teams from Tideway and Thames Water are working together on the detailed planning for System Commissioning including refining assumptions and mitigating risks.
- Joint priorities for the coming period include:
  - Progressing worksite close out strategies and planning land hand back land to Thames Water and third parties; and
  - Finalising the System Commissioning Plan at T-12 (the 12 months prior to start of Commissioning) ensuring alignment with partners and stakeholders.



# Investment Programme (I)

- Tideway continues progress on construction and by end of H1 2022/23 83% of the programme was completed .
- In April 2022, a major milestone was achieved with the completion of all primary tunnelling, when the last two tunnel boring machines finished their drives.
- As of September 2022, 66% of secondary lining completed, or 20.2 km of the total 30.7km.
- The project remains on track for completion (Handover) in 2025 despite delays incurred at our Abbey Mills site of approximately 12 weeks, related to the connection between our tunnel and the Lee tunnel. We are working closely with Thames Water and the East MWC to consider mitigation opportunities related to commissioning, handover and system acceptance.
- The key Business plan project dates:
  - January 2024 – Start of Commissioning
  - March 2025 – Handover
  - August 2027 – Planned System Acceptance Date
- All shafts are fully excavated with shaft secondary lining works progressed to 83% complete (September 2022), complete at 18 of 21 sites.
- The level of non-conformance and re-work on the project has remained at a satisfactory level, with no critical defects being reported.
- Systems integration works are 71% complete (September 2022).
- Focus is now also on connecting the new system up with the existing infrastructure and we have now as much work happening above ground as below.



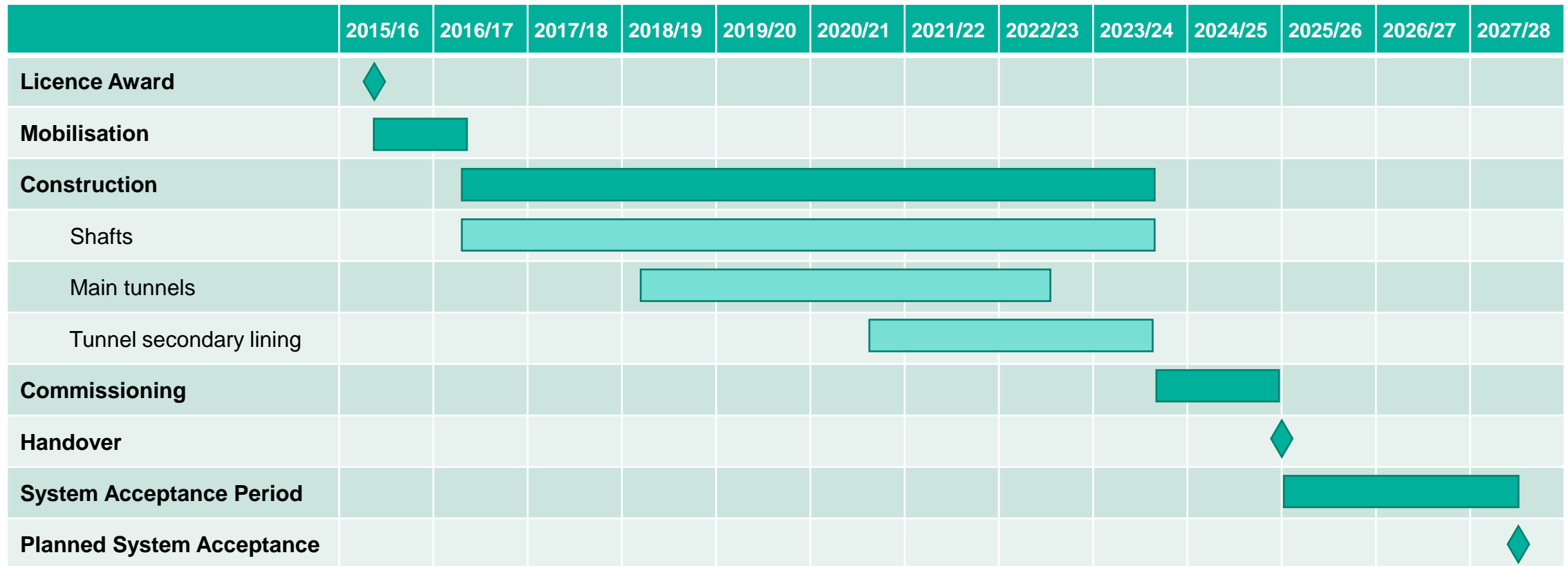
## Investment Programme (II)

- Total project costs for the six-month period to September 2022 were £418m.
- The EAC as of September 2022 is £4,384m (versus £3.5bn regulatory baseline), a £96m (2%) increase over the last six months. The primary reason for the increase in outturn costs is inflation, given the substantial increase in rates over the last six months, plus higher costs being incurred by our East MWC.
- We have seen construction and commissioning activities impacted by delays incurred at our Abbey Mills site related to the connection between our tunnel and the Lee tunnel. While a solution has been implemented, it has impacted the removal of Tunnel Boring Machine (TBM) Selina and the start of secondary lining works on Main Tunnel D. We are working closely with Thames Water and our East MWC to consider opportunities related to System Commissioning, Handover and System Acceptance that could mitigate these delays, which represent approximately 12 weeks.
- As a result of these activities, all three MWCs are collaboratively working with Tideway to finalise the detailed construction schedules to align with key milestone dates for the overall programme. Subject to final commercial discussions, all parties are incentivised and substantially aligned in their commercial approach for delivering the remaining works on the programme.
- The handback of land on completion of construction has continued with the successful handback of two areas in the period, the changing rooms at Barn Elms and Area A1 at Dormay Street. Preparations for three handbacks (Dormay Street, Causeway Island / access road and park land within King George's Park) planned for the next six months are well progressed.
- Tideway has continued to progress the implementation of commercial agreements with the MWCs and the System Integrator resolving historical commercial issues, aligning their schedules with the Tideway Business Plan whilst ensuring objectives remain aligned through effective cost and schedule incentives.

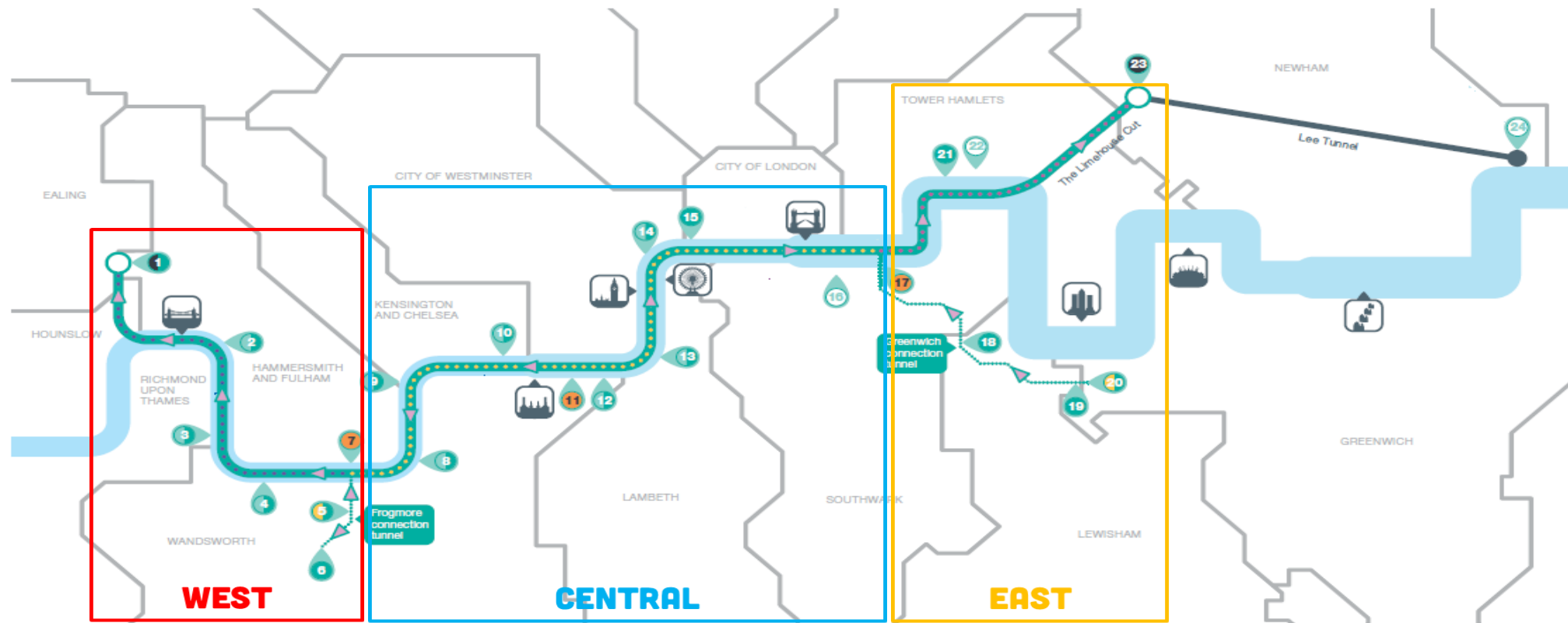
# Investment Programme – Project Schedule Update

The outline schedule sets out our current view on the schedule. It reflects our latest view following significant engagement with our delivery partners.

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



# Investment Programme – Route and Sites



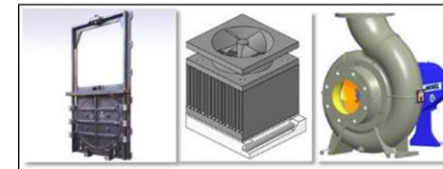
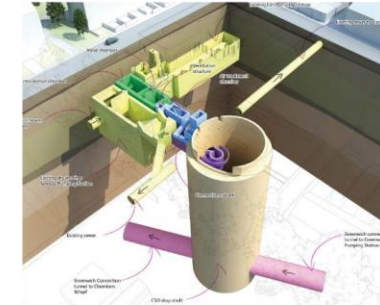
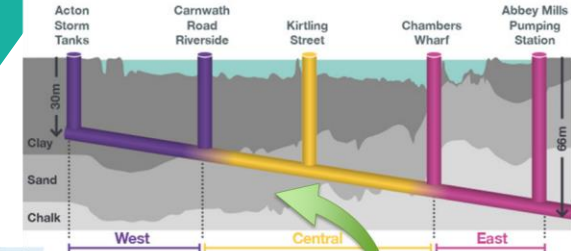
## Map key

- Main tunnel drive site
- Main tunnel reception site
- CSO site
- Short connection tunnel drive site
- Long connection tunnel drive site
- System modifications
- ▬ Main tunnel
- ⋯ Long connection tunnel
- ▬ Lee Tunnel (under construction)
- ▬ Proposed drive direction
- ⋯ West works site
- ⋯ Central works sites
- ⋯ East works site

- 1 Acton Storm Tanks
- 2 Hammersmith Pumping Station
- 3 Barn Elms
- 4 Putney Embankment Foreshore
- 5 Dormay Street
- 6 King George's Park
- 7 Carnwath Road Riverside
- 8 Falconbrook Pumping Station
- 9 Cremorne Wharf Depot
- 10 Chelsea Embankment Foreshore
- 11 Kirtling Street
- 12 Heathwall Pumping Station
- 13 Albert Embankment Foreshore
- 14 Victoria Embankment Foreshore
- 15 Blackfriars Bridge Foreshore
- 16 Shad Thames Pumping Station
- 17 Chambers Wharf
- 18 Earl Pumping Station
- 19 Deptford Church Street
- 20 Greenwich Pumping Station
- 21 King Edward Memorial Park Foreshore
- 22 Bekesbourne Street
- 23 Abbey Mills Pumping Station
- 24 Beckton Sewage Treatment Works

# System Integration and System Commissioning (I)

- 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 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 for the penstocks, flap valves, isolation gates, access covers and air treatment units. These tests have been witnessed by the Project Manager and the System Commissioning Manager. Site Acceptance Testing have also begun for the mechanical assets installed on site, and this will increasing be the focus as the MWCs begin Worksite Testing.
- The System Integrator (Amey) covers system-wide control integration including telemetry, IT systems, control room interfaces and software. Their work is 71% complete overall as of September 2022 and system software development is nearing completion. Formal factory acceptance testing 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.
- The System Commissioning Plan (SCP), which is a set of 83 documents was submitted 14-Oct to Thames Water for review and acceptance. Tideway proposed a new review process – plan for agreement – to resolve outstanding issues and to manage updates to the SCP documents that require further details.
- The SCP documents identify the detailed activities, roles and responsibilities in governing the commissioning process to achieve key milestones. The **Phased Commissioning** approach provides resilience to mitigate potential programme risks that might delay the testing and commissioning process.
- System Commissioning occurs once the Pre-system Commissioning and Worksite Testing has been completed. Commissioning brings the constructed assets into actual operation through a series of tests and activations. The Phases for Commissioning are discussed next.

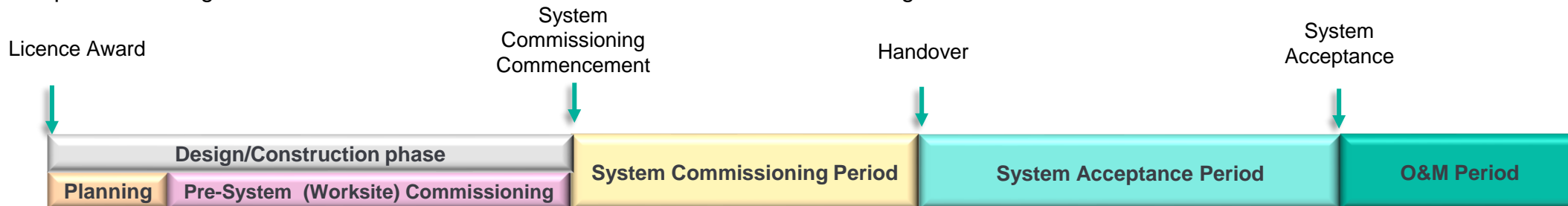


Factory acceptance tests of individual assets and packages

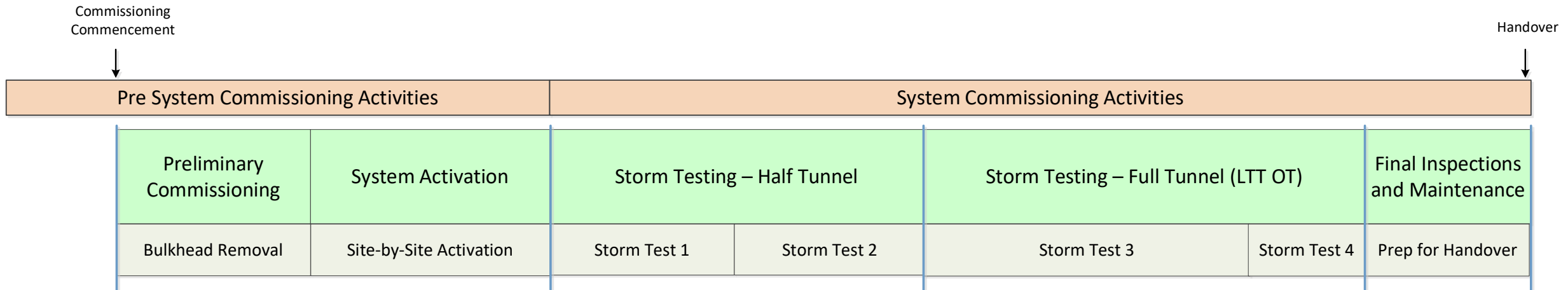
Worksite testing as component groups

LTT System Commissioning

Worksite Testing and Commissioning



# System Integration and System Commissioning (II)



- The **Phased Commissioning** consists of the following phases:
  - Preliminary Commissioning in which the bulkhead / wall will be removed between the Tideway Tunnel and the Lee Tunnel, forming the London Tideway Tunnels (LTT)
  - System Activation in which the sites, starting with Abbey Mills, are allowed to direct storm flows into the tunnel. The Tideway Tunnel sites will follow a logical, timed sequence that has been agreed with Thames Water (TWUL) to steadily increase flow into the tunnel.
  - Storm Testing in two phases.
    - Half-tunnel levels to ensure the integrated LTT system is performing as expected prior to introducing more volume into the tunnel
    - Full tunnel levels to test and demonstrate that the system can be operated as per the Operating Techniques and is Fit for Purpose
  - Final inspections and maintenance, including a tunnel inspection, prior to transferring maintenance from MWCs to Tideway's maintenance contractor and achieving Handover.
- When commissioning activities have completed, documentation and records transferred, and the Handover Criteria met, TWUL will issue a Handover Certificate
- Following Handover, System acceptance tests will be conducted by Thames Water with the support of Tideway to optimise operation and maintenance activities and to demonstrate System capacity in relation to intense storm events. 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 £3bn of long-term debt of which £2.9bn has been drawn and £50m is outstanding.

| Debt facilities £m | RCF        | EIB        | RPI loan   | RPI bonds  | CPI bonds  | Nominal    | Total        |
|--------------------|------------|------------|------------|------------|------------|------------|--------------|
| Drawn              |            | 700        | 100        | 858        | 350        | 925        | 2,933        |
| Undrawn            | 160        |            |            | 50         |            |            | 210          |
| <b>Total</b>       | <b>160</b> | <b>700</b> | <b>100</b> | <b>908</b> | <b>350</b> | <b>925</b> | <b>3,143</b> |

- This represents 100% of long-term funding needs to cover anticipated construction costs to Handover (2025) taking into account the undrawn £160m Revolving Credit Facility.
- During the period we received £322m, comprising £150m from Series 13 (April 22), £132m from Series 14 and 15 (May 22) and £40m from EIB T10 (July 22).
- At 30 September 2022, total liquidity stood at £778 million, comprising £568m of unrestricted cash, the £160m undrawn RCF and the £50 million undrawn index linked bond.
- 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 of 30 September 2022, we had received £1,274m from our shareholders in the form of £509.7m in equity and £764.5m as shareholder loans, which was the full commitment at Licence Award. The total distributions paid in the half year were £17.1m and £23.7m were capitalized and added to the shareholder loans taking the overall balance to £823.2m.
- The transition from LIBOR to SONIA concluded in the first quarter of the period and we have already successfully settled many of the transactions that now reference SONIA.
- Investment grade credit ratings were affirmed at Baa1 by Moody's and BBB+ by Fitch with both agencies having a stable outlook.



# Financing Activity

£3bn long term debt

£160m RCF

100% needs to Handover

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

Sep 2022  
57.2%

Sep 2022  
Net debt/  
RCV  
64.0%

Index Linked debt as % of total debt

Sep 2022  
73.7%

The interest coverage ratio remains well above the covenant trigger / default levels (1.30x / 1.10x)

Sep 2022  
ICR  
5.33x

## Financing Activity – Sustainable Finance

- Tideway has 18 green bonds totalling £1.8bn listed in the London Stock Exchange Sustainable Bond Market, a £75m green USPP and a £160m Sustainability-Linked Revolving Credit Facility.
- Our bond programme and the bond series issued under it are covered by a Green Transaction Evaluation from S&P Global ratings which was updated in February 2022 giving us an Environmental benefit score of 95/100 and a governance and reporting opinion rated as advanced.
- S&P Global Ratings completed an updated Environmental, Social and Governance Evaluation of Tideway in January 2022. Tideway achieved a score of 76/100, a two-point uplift from the previous assessment in 2020.
- The agreed KPI in the Sustainability-Linked RCF is the meeting of at least 85% of the live Legacy Commitments and as at 30 September 2022 we exceeded the target by meeting 93% of the live commitments.
- Our Sustainability Report combines our previous Sustainable Finance and Climate-related Financial Disclosure reports. This report shows the progress against our legacy commitments and is aligned with the United Nations Sustainable Development Goals at target level. It also includes information for investors on the allocation of proceeds and impact of the project in line with ICMA's Green Bond Principles and LMA's Sustainability-linked Loan Principles. It includes a compliance statement, which highlights how our disclosures align with Taskforce on Climate-related Financial Disclosures (TCFD) but also the limited areas in which we do not align due to the nature and advanced stage of the project.
- The sustainable financing strategy is supported by the Sustainable Finance Framework which was updated in February 2022. It is aligned with the International Capital Markets Association (ICMA) Green Bond Principles and the Loan Market Association (LMA) Green Loan Principles, as well as with the Loan Market Association Sustainability Linked Loan Principles.



# 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.

During the six-month period ended 30 September 2022, the Group reported a gain of £172.6m (2021: £13.1m loss) This is a result of fair value movements on the Company's derivative financial instruments. The tunnel asset under construction totalled £4,434.9m at 30 September 2022 (2021/22: £3,596.5m).

## Allowable Costs

Allowable Costs of £232.9m (2021/22: £284.0m) include £201.4m of Direct costs and £31.5m of Indirect costs.

## Direct Costs

Direct costs are primarily the MWCs costs and the System Integrator Contract so reflect costs directly related to the tunnelling programme such as primary tunnelling and secondary lining works and also other related construction activities such as shaft construction and marine works.

## Indirect Costs

The largest indirect costs are resource costs of £22.5m. This represents the cost to employ an average of 258 Full Time Equivalents (FTEs) across the six-month period. These FTEs are either employed directly by the Group or contracted by the Group via our programme manager Jacobs. Other indirect costs include non-resource costs such as information systems, office, insurance, Government Support Package and other running costs. Indirect costs have increased compared with 2021, largely because of higher Insurance & GSP costs due to an increase in the OCIP premiums.

## Excluded Costs

Excluded costs for the six-month period to 30 September 2022 were £185.1m (2021: £81.4m). These comprise £183.5m of net interest expense (including shareholder loan interest of £32.4m) and £1.6m of costs which mainly related to financing activities. These costs have increased compared with 2021 as rising inflation indices have increased our index linked debt interest costs.

| Analysis of Project Costs and the equivalent Net Cash Outflows (£m) | 6 months ended 30 September 2022 |                    |              | 6 months ended 30 September 2021 |                    |              |
|---|----------------------------------|--------------------|--------------|----------------------------------|--------------------|--------------|
|   | Costs                            | Timing Differences | Cash Outflow | Costs                            | Timing Differences | Cash Outflow |
| Direct Costs  | 201.4                            | 17.6               | 219.0        | 253.9                            | (19.0)             | 234.9        |
| Indirect Costs  | 31.5                             | 1.1                | 32.6         | 30.1                             | (1.0)              | 29.1         |
| <b>Total Allowable</b>  | <b>232.9</b>                     | <b>18.7</b>        | <b>251.6</b> | <b>284.0</b>                     | <b>(20.0)</b>      | <b>264.0</b> |
| Excluded Costs  | 185.1                            | (161.4)            | 23.7         | 81.4                             | (70.3)             | 11.1         |
| <b>Total</b>  | <b>418.0</b>                     | <b>(142.7)</b>     | <b>275.3</b> | <b>365.4</b>                     | <b>(90.3)</b>      | <b>275.1</b> |

| Analysis of Capitalised Costs (£m) | 6 months ended 30 September 2022 | 6 months ended 30 September 2021 |
|------------------------------------|----------------------------------|----------------------------------|
| Direct Costs                       | 201.4                            | 253.9                            |
| Indirect Costs                     | 31.5                             | 30.1                             |
| <b>Total Allowable</b>             | <b>232.9</b>                     | <b>284.0</b>                     |
| Excluded costs                     | 185.1                            | 81.4                             |
| <b>Total Capitalised Costs</b>     | <b>418.0</b>                     | <b>365.4</b>                     |

# Historical Financial Performance (continued)

## Cash Flow and Cash

Net cash flows from operating activities of £22.9m (2021: £90.9m) represent movements in working capital and are chiefly driven by timing of payments to our MWCs and the receipt of regulated revenue payments from Thames Water which are deferred on the Statement of Financial Position during the construction phase of the project.

Net cash flows used in investing activities of £332.0m (2021: £410.0m) show the gross cash outflows used in constructing the TTT as well as movements to and from short-term deposits which represent money market funds where cash is held on deposit for a period longer than three months.

The net cash inflows from financing activities of £322.2m (2021: £268.0m) are largely the result of new borrowings drawn in the period which included £275m of index linked bonds and £40.0m of floating rate loans.

## External Debt

Net debt at 30 September 2022 was £2,687.4m, which was £733.2m higher than the £1,954.2m net debt at 30 September 2021.

At 30 September 2022, the Company's total borrowings were £4,085.0m being £823.2m of shareholder loans and £3,261.8m of other borrowings which include third party borrowings and intra group debt. In addition, the Company has secured deferred bond issuance of £50.0m which will be reflected in the financial statements when it is 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 22.

| Cash Flow (£m)  | Six months ended 30 September 2022 | Six months ended 30 September 2021 | Year ended 31 March 2022 |
|---|------------------------------------|------------------------------------|--------------------------|
| Cash generated from operations before changes in working capital              | -                                  | -                                  | -                        |
| Decrease/(Increase) in trade and other receivables                            | 8.3                                | 2.7                                | (1.1)                    |
| Increase in trade and other payables  | (32.2)                             | 49.3                               | 8.1                      |
| Increase in advance payment liability   | 46.8                               | 38.9                               | 72.9                     |
| <b>Net cash from operating activities</b>                                     | <b>22.9</b>                        | <b>90.9</b>                        | <b>79.9</b>              |
| Construction of infrastructure asset  | (252.0)                            | (320.0)                            | (583.8)                  |
| Transfers (to)/from short-term deposits                                       | (80.0)                             | (90.0)                             | (90.0)                   |
| <b>Net cash used in investing activities</b>                                  | <b>(332.0)</b>                     | <b>(410.0)</b>                     | <b>(673.8)</b>           |
| Proceeds from new borrowings  | 323.2                              | 269.1                              | 607.8                    |
| Repayment of lease liabilities  | (1.0)                              | (1.1)                              | (2.1)                    |
| <b>Net cash from financing activities</b>                                     | <b>322.2</b>                       | <b>268.0</b>                       | <b>605.7</b>             |
| <b>Net (decrease)/increase in cash and cash equivalents during the period</b> | <b>13.1</b>                        | <b>(51.1)</b>                      | <b>11.8</b>              |
| Cash and cash equivalents at the start of the period                          | 354.5                              | 342.7                              | 342.7                    |
| <b>Cash and cash equivalents at the end of the period</b>                     | <b>367.6</b>                       | <b>291.6</b>                       | <b>354.5</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 year, there was a positive movement of £172.6m in the fair market value of the index-linked swaps. This was primarily driven by an increase in the SONIA rate which increased the asset on the receive leg of the swaps and significantly decreased the present value of the liability on the pay leg.

## Tax

We have made a 'disregard election' to HMRC effective 1 April 2016, which means that any gains or losses arising from the movement in the fair value will be disregarded for current tax purposes.

We did not recognise any taxable profits in the period (2021/22: £nil) and the resulting corporation tax charge for the period was £nil (2021/22: £nil).

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

# Debt Portfolio – September 2022

## BTL Debt Portfolio - September 2022

| Facility                 | Amount (£m) | Type                           | Drawdown date | Maturity (CY) |
|--------------------------|-------------|--------------------------------|---------------|---------------|
| £80m Tranche 1           | 80          | EIB                            | Jul-18        | 2051          |
| £80m Tranche 2           | 80          | EIB                            | Jan-19        | 2051          |
| £80m Tranche 3           | 80          | EIB                            | Jul-19        | 2051          |
| £80m Tranche 4           | 80          | EIB                            | Jan-20        | 2051          |
| £80m Tranche 5           | 80          | EIB                            | Jul-20        | 2051          |
| £80m Tranche 6           | 80          | EIB                            | Jan-21        | 2051          |
| £80m Tranche 7           | 80          | EIB                            | Mar-21        | 2051          |
| £60m Tranche 8           | 60          | EIB                            | Jul-21        | 2051          |
| £40m Tranche 9           | 40          | EIB                            | Jan-22        | 2051          |
| £40m Tranche 10          | 40          | EIB                            | Jul-22        | 2051          |
| <b>Subtotal EIB Loan</b> | <b>700</b>  |                                |               |               |
| £300m 2.86%              | 300         | USPP Loan Note                 | Sep-17        | 2032          |
| £75m 2.418%              | 75          | Green USPP Loan Note           | Sep-21        | 2041          |
| <b>Subtotal Nominal</b>  | <b>375</b>  |                                |               |               |
| £100m RPI + 0.01%        | 100         | Loan                           | Sep-19        | 2049          |
| RCF                      | 160         | Sustainability-linked Revolver | N/A           | 2027          |

Drawn facilities

Undrawn facilities

## BFP Debt Portfolio - September 2022

| Facility                | Amount (£m)  | Type       | Drawdown date | Maturity (CY) |
|-------------------------|--------------|------------|---------------|---------------|
| £75m CPI + 0.828%       | 75           | Green Bond | Aug-17        | 2047          |
| £200m CPI+ 0.74%        | 200          | Green Bond | Nov-17        | 2042          |
| £75m CPI + 0.949%       | 75           | Green Bond | May-22        | 2052          |
| <b>Subtotal CPI</b>     | <b>350</b>   |            |               |               |
| £100m RPI + 0.688%      | 100          | Green Bond | Jun-18        | 2050          |
| £100m RPI + 0.249%      | 100          | Green Bond | Dec-18        | 2040          |
| £100m RPI + 0.755%      | 100          | Green Bond | Jun-19        | 2051          |
| £125m RPI + 0.192%      | 133          | Green Bond | Jul-19        | 2049          |
| £25m RPI + 1.035%       | 25           | Green Bond | Jun-20        | 2048          |
| £50m RPI + 0.787%       | 50           | Green Bond | Jun-20        | 2052          |
| £25m RPI + 0.951%       | 25           | Green Bond | Jun-20        | 2054          |
| £25m RPI + 1.042%       | 25           | Green Bond | Jul-21        | 2048          |
| £25m RPI + 0.954%       | 25           | Green Bond | Jul-21        | 2054          |
| £75m RPI + 0.01%**      | 75           | Green Bond | Aug-21        | 2036          |
| £150m RPI + 0.01%*      | 150          | Green Bond | Apr-22        | 2032          |
| £50m RPI + 0.074%       | 50           | Green Bond | May-22        | 2049          |
| £50m RPI + 0.174%       | 50           | Green Bond | May-23        | 2049          |
| <b>Subtotal RPI</b>     | <b>908</b>   |            |               |               |
| £250m 2.375%            | 250          | Green Bond | Nov-17        | 2027          |
| £300m 2.75%             | 300          | Green Bond | Mar-22        | 2034          |
| <b>Subtotal Nominal</b> | <b>550</b>   |            |               |               |
| <b>Total</b>            | <b>1,808</b> |            |               |               |

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

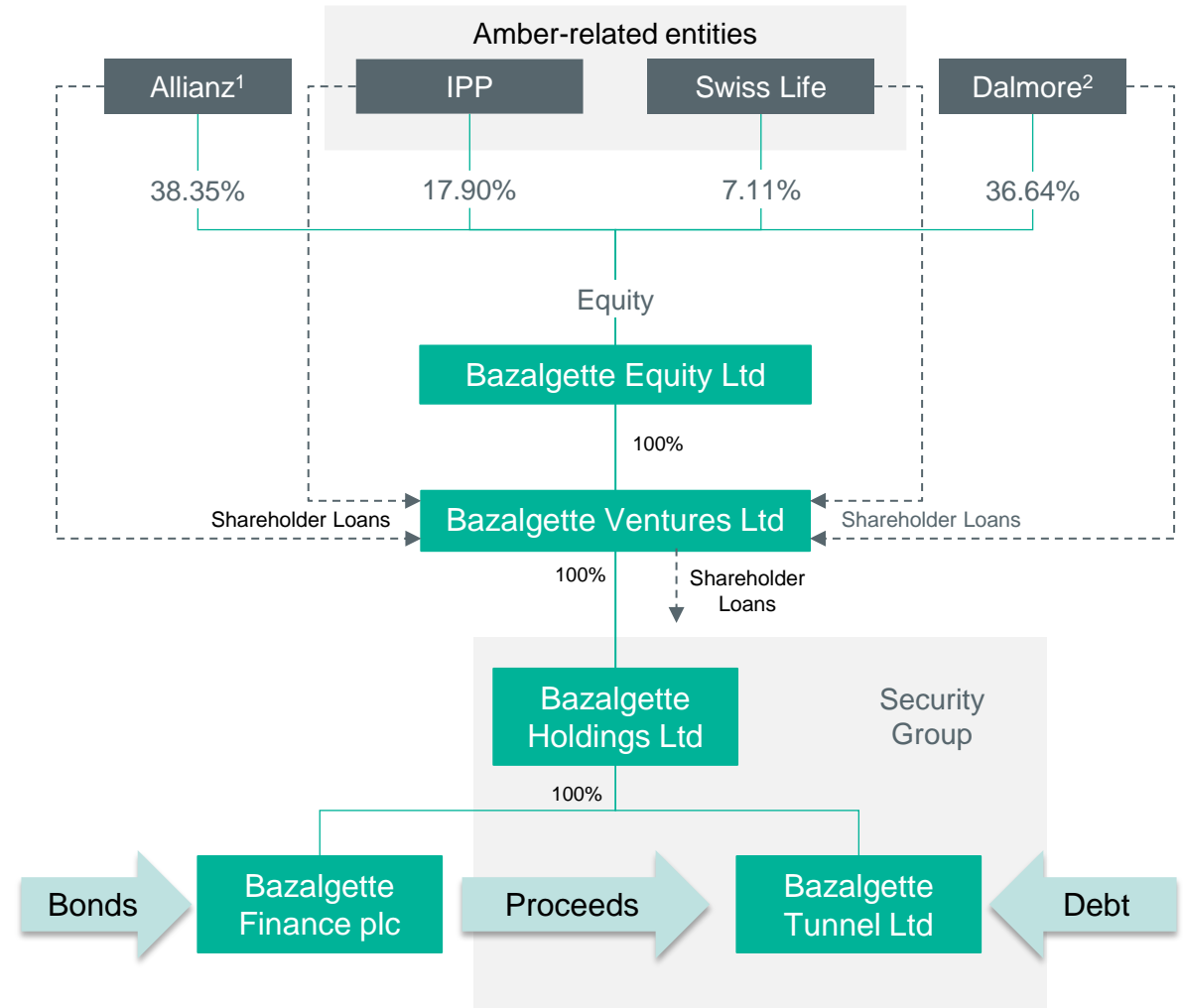
(\*\*) re-offer price of 112.157% reflecting negative yield of -0.754%

Drawn facilities

Undrawn facilities

# Tideway Corporate Structure

- In September, DIF Capital Partners divested its 10.66% stake in Tideway.
- The stake was acquired by the company's other existing shareholders, an affiliate of Allianz Capital Partners, an affiliate of Dalmore Capital and two Amber Infrastructure-related entities (International Public Partnerships and Swiss Life Asset Managers).
- The transaction has come about as one of DIF's underlying investment funds is coming to the end of its fund life.



Notes:

1 Allianz's shareholding in Tideway is held by two funds: Allianz European Infrastructure II Acquisition Holdings S.a.r.l. & Allianz Infrastructure Luxembourg I S.a.r.l.

2 Dalmore's shareholding in Tideway is held by two entities: Dalmore Capital 14 GP Ltd & Auger Bore Investments Ltd

# Financial Ratios

We confirm that in respect of this Investor Report as of 30 September 2022, 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 64.0%
- b) The FFO ICR<sup>(2)</sup> in respect of the relevant Test Period is equal to 5.33x
- c) The average FFO ICR in respect of the relevant Test Period is equal to 4.77x

(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 2021/22

- In September 2022 Javier Falero resigned as a DIF Director of the following companies of the Holdco Group: Bazalgette Holdings Limited, Bazalgette Tunnel Limited and Bazalgette Finance plc following the DIF divestment of its stake in Tideway.
- There have been no other significant management or board changes in the period.

### Acquisitions and disposals H1 2021/22

- DIF Capital Partners divested its 10.66% stake in Tideway, which was acquired by the company's existing shareholders and their affiliates.
- There have no other acquisitions and disposals in the period.

### Current Hedging Position

The current swap portfolio can be found on page 28 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 – September 2022

- 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<br>Page 10-15, Investment Programme |
| Capital Expenditure            | Pages 19-22, Historical Financial Performance                                |
| Financing                      | Page 16-18, Financing Activity<br>Appendix                                   |
| Acquisitions or Disposals      | Page 25, Other Reportable Matters  |
| Current Hedging Position       | Page 28, Swap Portfolio  |
| Ratios                         | Page 24, Ratios  |



**Tideway**

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