# Bazalgette Equity Limited

Annual report and financial statements

For the year ended 31 March 2023

Registered number 09553394

## Contents

# Directors and advisors

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# Strategic report

The Directors present their Strategic report for Bazalgette Equity Group (the Group) and Bazalgette Equity Limited (the Company) for the year ended 31 March 2023.

### Introduction

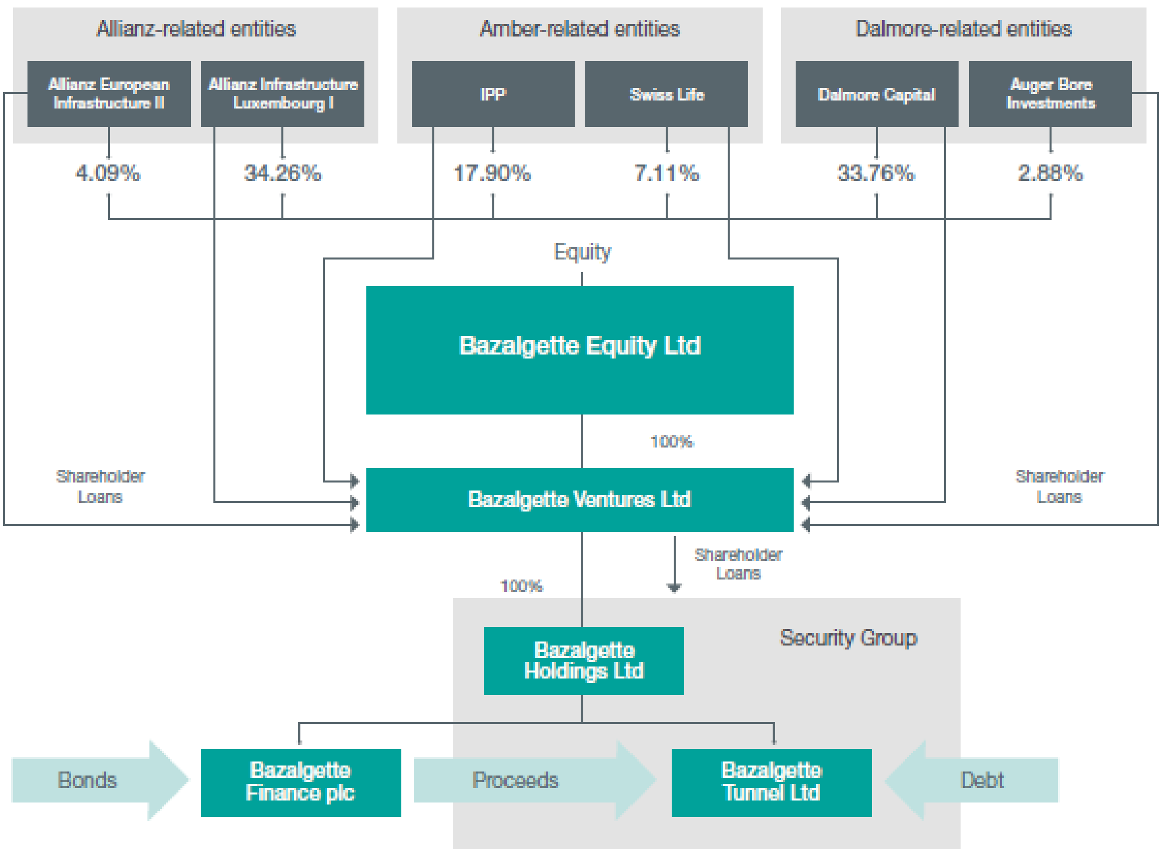
The Bazalgette Equity Limited is the ultimate controlling company of the Bazalgette Equity Limited group of companies.

As at the 31 March 2023, the Group comprised the Company, Bazalgette Ventures Limited (BVL), Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited (BTL) and Bazalgette Finance plc (BF). BTL, trading under Tideway, is an independent regulated company operating within the water sector since it was awarded a licence by Ofwat in August 2015. The emphasis given to BTL, which trades under the name 'Tideway', throughout this report reflects its importance to the overall performance of the Group.

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

In September 2022, 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, 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).

As at 31 March 2023, the Bazalgette Equity Limited Group's investors include Allianz Infrastructure Luxembourg I S.a.r.l, Allianz European Infrastructure II Acquisition Holdings S.a.r.l, Dalmore Capital 14 GP Limited, Auger Bore Investments Limited, IPP (Bazalgette) Limited and Bazalgette (Investments) Limited.. The Group structure is set out below:




### Company governance

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

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

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

## Business review

### Our Purpose

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

### Our Vision

Reconnecting London with the River Thames.

### Delivering our Purpose and Vision

We bring our purpose and values to life through what we do and how we do it. The way we treat each other and our stakeholders is important to us successfully delivering the project. We have always aimed to transform the way the industry operates so we see a step change in the health and wellbeing of everyone involved in the project, whether that is through our focus on safety and wellbeing in the workplace, volunteering with our charity partners, collaborating with our partners, engaging local residents on what we are doing or supporting people to develop skills and find employment.

Our examples below reflect our values and how we align to the UN Sustainable Development Goals (SDG).

VALUES

| Examples | Page | Safety | Legacy | Collaboration | Respect | Innovation | SUSTAINABLE DEVELOPMENT GOALS |
|---|---|---|---|---|---|---|---|
| Build the Thames Tideway Tunnel | 00 | ✓ | ✓ | ✓ | ✓ | ✓ | 6, 9, 11 |
| Stakeholders Engagement | 00 | ✓ | | ✓ | ✓ | ✓ | 17 |
| Mental Health | 00 | ✓ | ✓ | | ✓ | ✓ | 3 |
| Employers Project Induction Centre (EPIC) | 00 | ✓ | ✓ | ✓ | | ✓ | 3 |
| More by River | 00 | ✓ | ✓ | ✓ | | | 3, 11, 13 |
| New Wetlands in the Thames Estuary | 00 | ✓ | ✓ | | ✓ | | 3, 11 |
| Ethical Supply Chain | 00 | ✓ | ✓ | | ✓ | | 8, 12 |
| Community Investment, Charitable Giving & Volunteering | 00 | | ✓ | ✓ | ✓ | | 11, 17 |
| Enhancing Biodiversity | 00 | | ✓ | | ✓ | | 11 |
| Staff Engagement | 00 | ✓ | | ✓ | ✓ | | |
| Diversity and Inclusivity | 00 | | | ✓ | ✓ | ✓ | 5, 8 |
| Delivering a People Legacy – Supporting People With Convictions | 00 | | ✓ | ✓ | ✓ | ✓ | 8 |
| Sustainable Financing | 00 | | ✓ | ✓ | | ✓ | 8, 17 |

### Our Legacy Commitments & Sustainability

In line with our Purpose and Vision, Tideway has made long term and public commitments as to the broader value and benefits it is seeking to achieve. We are progressing the delivery of our 54 legacy commitments and the contributions they make to the SDG. As we near completion of the construction phase, we continue to complete ('close out') our legacy commitments. This year, with completion of our STEM programme we completed our contribution to UN SDG 4 Quality Education. S&P Global Ratings updated our Environmental, Social and Governance (ESG) Evaluation, providing us with an evaluation of 77 out of 100.

Further details in the Vison, Legacy, Reputation section and Sustainability Report.

We also completed a two-year journey to uncover the social value created by our Legacy Programme. We appointed a third party to undertake a robust social cost benefit analysis of the benefits beyond our legally binding requirements and the core benefits of the tunnel's operation. The report showcased Tideway's 'ripple effect', reflecting both the benefits of the Tideway legacy programme for London and beyond but also what we are leaving for industry in sharing our learnings on social value measurement.

In line with best practice, we appointed a third party to undertake a critical review of our carbon data following the Greenhouse Gas Protocol. This provides us, and our  stakeholders, with confidence in our data.

A comprehensive review of our Legacy and Sustainability performance is in our 2022/23 Sustainability Report.


## Who We Are & What We Do

Tideway is a privately financed company responsible for building, commissioning, financing and maintaining the Thames Tideway Tunnel (TTT). However, our ambition for this engineering endeavour goes beyond building a 25km tunnel, 'the super sewer', to stop tens of millions of tonnes of sewage polluting the Thames each year. We want to transform the River Thames, leaving it cleaner and changing how Londoners use it. We want people to enjoy the Thames in their leisure time, participating in water sports and appreciating the views and walks along the foreshore. The joy and prosperity a cleaner river will provide for Londoners will be our legacy once the project is complete.

### Our Shareholders

Our shareholder groups are represented on our Board, enabling them to support decision making and provide important project oversight and governance. They bring with them extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas, knowledge that supports us in the delivery of the project.

Since Licence Award, our Shareholders have invested £1.3bn. Close to half the total equity has come from UK investors, including many pension funds, giving 2.7 million UK pension holders a stake in Tideway.

### Delivering With Our Partners

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

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

| Role | Partners |
|---|---|
| **Programme Manager** | • Jacobs |
| **West Contract** BMB Joint Venture | • Bam Nuttall Ltd<br>• Morgan Sindall Plc<br>• Balfour Beatty Group Ltd |
| **Central Contract** FLO Joint Venture | • Ferrovial Agroman UK Ltd<br>• Laing O'Rourke Construction Ltd |
| **East Contract** CVB Joint Venture | • Costain Ltd<br>• Vinci Construction Grands Projets<br>• Bachy Soletanche Ltd |
| **System Integrator** | • Amey OWR Ltd |

**The Delivery Model**

The Thames Tideway Tunnel's innovative delivery model, was established to attract private sector capital to finance infrastructure and deliver value for money to customers. It includes a bespoke regulatory framework, with a contingent Government Support Package, which recognises the unique nature of Tideway's business. This framework provides a revenue stream during both the construction and operational periods. Revenues are billed and collected by Thames Water from its wastewater customers and passed to Tideway.

For the period until 2030, our revenues are calculated according to the framework set out in our Licence, which is primarily based on a percentage return (2.497 per cent) on the regulatory value of our company (Regulatory Capital Value or RCV). From 2030, we expect to be regulated in line with the rest of the water industry.

**Engaging with Our Stakeholders & Partners**

In delivering a major infrastructure project across London we recognise the importance of engagement, transparency and building trust.

We listen to our stakeholders' views directly and through their representatives such as MPs and Members of the London Assembly. We continue to ensure that the communities we are working in are kept up to date on the progress being made, potential impacts and how best they are being mitigated. Each of the three Main Works Contractors has dedicated community relations teams and we hold regular forums to give updates to, and get feedback from, our neighbours. These methods, plus a 24-hour Helpdesk, ensure that we are always accessible.

To support the project, we have established a range of independent parties and roles to ensure we engage fairly and effectively with each of our stakeholder groups and to support trust in the project. We have increased the frequency of some of our key forums as we get closer to the completion of the project. Since the start of 2023 our Liaison Committee (with government and regulatory stakeholders) meets monthly and the Thames Tideway Tunnel Forum (with consenting bodies and delivery partners) meets once every two months.

**Rt Hon Nick Raynsford, Independent Chair of the Tideway Reporting Group**

*"Tideway has remained committed to engaging with those impacted by the project. Tideway works hard to understand the experiences of individuals and I appreciate its willingness to work with us to identify and resolve issues and deliver this project successfully for all those involved.*

*The more frequent meetings of the Thames Tideway Tunnel (TTT) Forum enable greater opportunities for dialogue and issue resolution where needed. The Forum meetings were well-attended by stakeholders and the topics discussed included the project's legacy, updates on construction progress and preparedness for commissioning and handover.*

*Tideway received fewer complaints compared with the previous 12 months. The Independent Complaints Commissioner (ICC) received no appeal requests on ICP decisions. Two complaints were escalated to the Commissioner, one of which was upheld with remedies now being put in place. Claims to the Independent Compensation Panel (ICP) reduced (98 vs 108 in 2021/22) reflecting the nature and volume of work on site. The Reporting Group notes that there may be an increase in claims as de-mobilisation works are carried out and the project and the ICP will need to be prepared for this."*


## The Tunnel Route

The 'super sewer' tunnel will run from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, mostly under the River Thames. The flow from over 30 combined sewer overflows (CSOs) will be diverted from the sewerage network into the main tunnel. From there it will run to the Tideway Pumping Station, to be pumped to Beckton sewage treatment works.

The main tunnel construction used Tunnel Boring Machines (TBMs) in four drives from three main sites. The primary tunnelling concluded in April 2022.

# Our Business Model

## PURPOSE
### WHAT WE DO

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

## OUR VALUES
### HOW WE DO IT

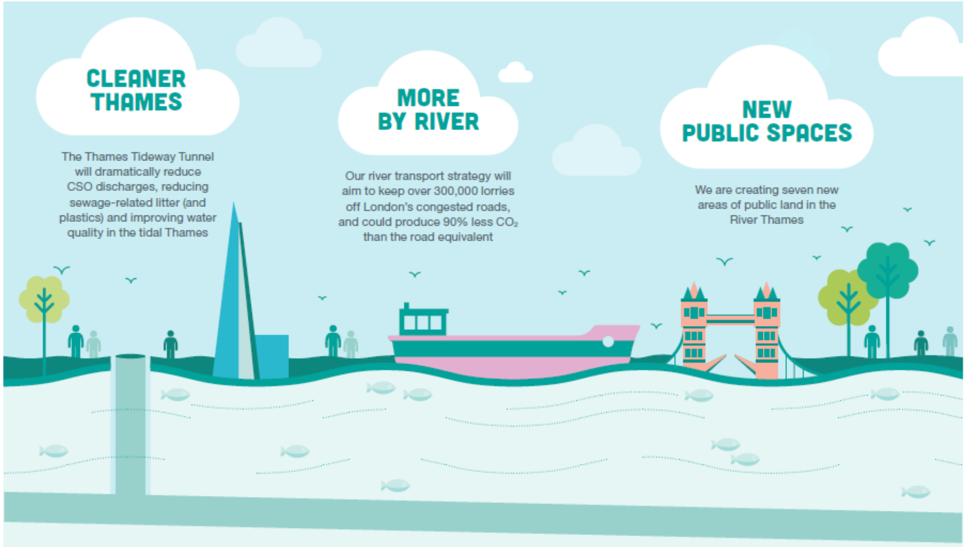
**SAFETY**
Transform the health, safety and wellbeing of all

**LEGACY**
Create a healthier future for London

**COLLABORATION**
Work together as an effective team

**RESPECT**
For people, places and resources

**INNOVATION**
Strive for excellence in project delivery




## ENABLERS

**SAFE OPERATIONS/DELIVERY**
We strive to create and maintain a culture of doing things safely or not at all
See Health, Safety & Wellbeing

**COLLABORATIVE PROCESSES**
Tideway and Thames Water collaborate closely, while we maintain an experienced, competitive supply chain
See Who We Are & What We Do – Delivering with our partners

**EFFECTIVE GOVERNANCE, RESILIENCE AND OVERSIGHT**
Our risk management systems and policy provide a clear framework for managing and reporting risks
See Risk Management section & Governance section

**STAKEHOLDER FOCUS**
We aim to build enduring relationships with government, local authorities, our neighbours, partners, suppliers and others we impact
See Engaging with our Stakeholders & Partners section

**TALENTED AND PASSIONATE PEOPLE**
We work to attract, motivate, develop and retain the best talent
See Company & People section

**EFFICIENT FINANCING**
We aim to finance the project as efficiently as possible to ensure that we minimise our impact on bill-payers
See Financing section

## STAKEHOLDER VALUE

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

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

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

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

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

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

### INVESTORS
- An appropriate return on investment

## The Timeline

Tideway maintains a schedule with our partners for delivery of the project. There are four main stages.

**Mobilisation of the MWCs**

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

**Construction**

Excavating deep shafts at the three drive sites and each CSO interception shaft, followed by tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.

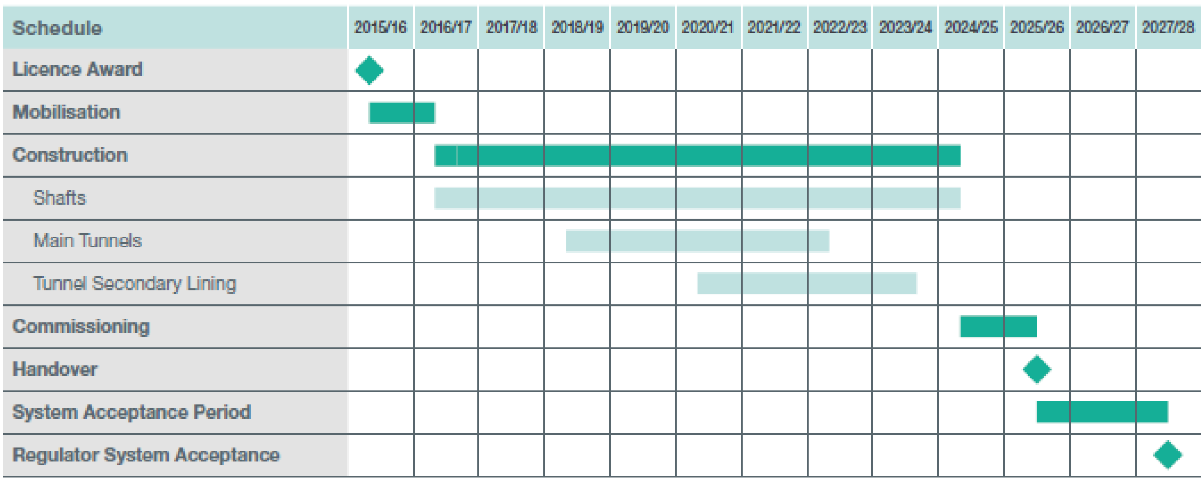
**System Commissioning**

After testing of the mechanical and electrical equipment at the worksites by the MWCs' the SIC completes the connection of these sites to the overall London Tideway Tunnels (LTT) control system. All the elements of this system then undergo extensive testing in the dry before any sewage flows are received. Once this is complete, the final physical isolation is removed between the existing Lee Tunnel and the new Thames Tideway Tunnel. The CSOs along the Tideway starting with the Abbey Mills CSO are activated to the new LTT system. Once these are all activated a series of storm tests are carried out in a gradually incremental manner over several weeks culminating in a 30-day period of automated operation. After this final test the tunnel is inspected, and the operation of the system handed over to Thames Water. At this Handover the MWCs' activities will be complete, and the contractors will be demobilised.

**System Acceptance Period**

Following Handover is the System Acceptance Period. This is a proving period of between 18 and 36 months in which the LTT will be operated across a variety of climatic conditions to demonstrate that it fulfils the project requirements. Once this is complete, Thames Water will become responsible for maintaining the near-ground structures and assets. Tideway will retain responsibility for the deep shafts and tunnel structures and ensure the TTT is available to allow flow to pass to the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, performing any maintenance as required.

OUTLINE SCHEDULE



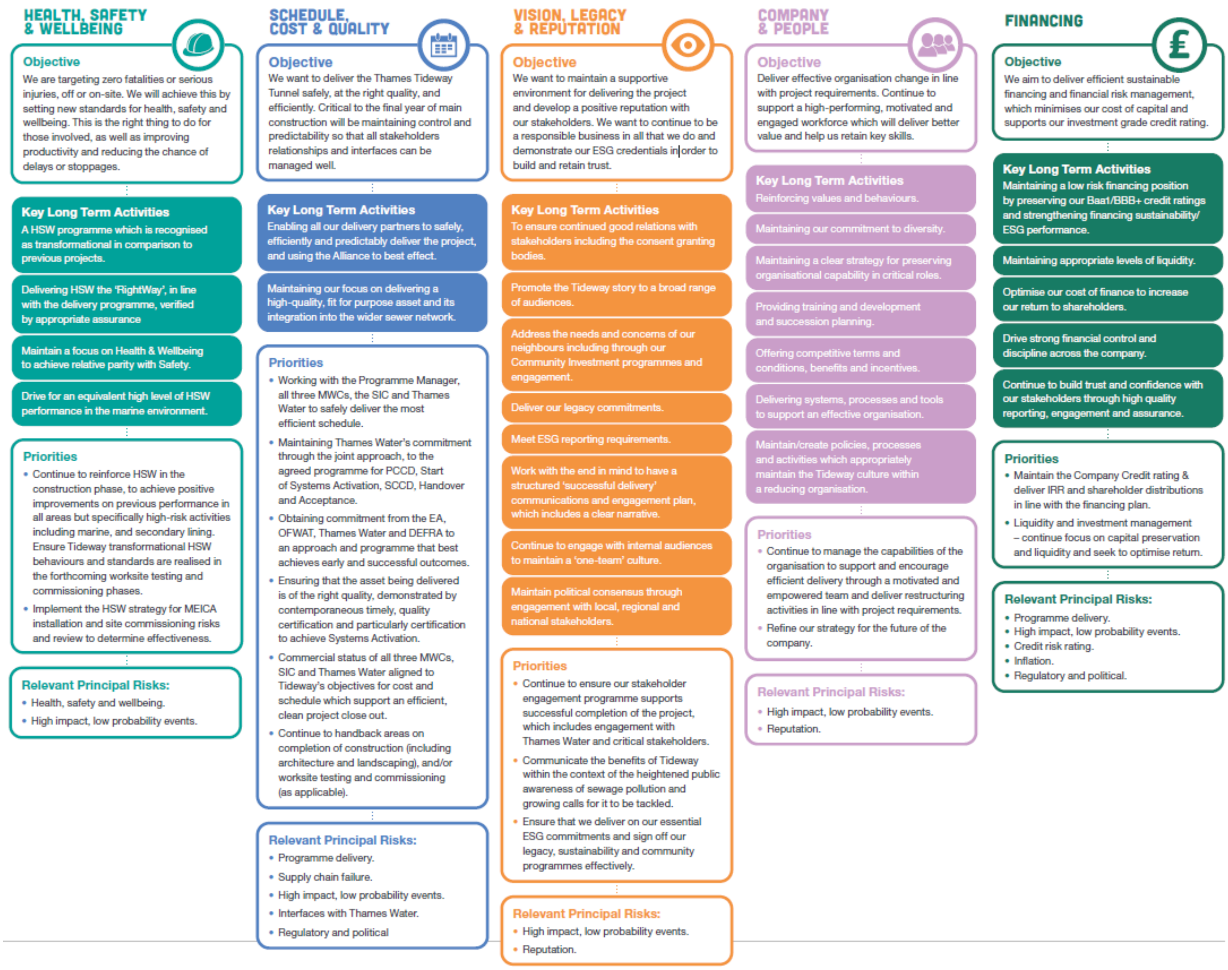

## Our Strategy & Priorities for 2023/24

The Executive Team and the Board have reviewed and developed targets and aspirations for 2023/24. Reflecting on a year we have been able to evidence successful completion of many aspects of the project. With the vast majority of construction now behind us we can be increasingly confident about our final phase of delivery and focus on Commissioning. We are confident that we will start cleaning up the river in 2024, with full operation in 2025.

For the coming year we will:

- Retain our focus on Health, Safety and Wellbeing seeking to achieve safety improvements from the previous year with an increasing focus on worksite testing and commissioning;

- Achieve successful completion of the secondary lining of the tunnel;
- Progress Worksite Close Out Strategies, handback land to Thames Water and for Thames Water to confirm our assets as ready for acceptance;
- Agree the approach with Environment Agency (EA), Ofwat (Water Services Regulation Authority), Thames Water and The Department for Environment, Food and Rural Affairs (DEFRA) and other stakeholders to System Commissioning;
- Maintain the positive stakeholder environment – with engagement through the Liaison Committee, TTT Forum and other channels and partners; and
- Increase emphasis on our Vision of reconnecting London with the River Thames and local effective engagement for site close out and openings.




## Health, Safety and Wellbeing

| | |
|---|---|
| Objective | We are targeting zero fatalities or serious injuries, off or on-site. We will achieve this by setting new standards for health, safety and wellbeing. This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages. |
| Priorities | Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas but specifically high-risk activities including marine, tunnelling and secondary lining. Ensure Tideway transformational HSW behaviours and standards are realised in the forthcoming worksite testing and commissioning phases.<br><br>Implement the HSW strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) installation and site commissioning risks and review to determine effectiveness. |

| Measure | Target | Actual |
|---|---|---|
| Maintain strong HSW Performance, including Marine | Safety record better than recent major projects<br>Improved performance on 2021/22 | On Track |
| Number of major injuries | 0 | 0 |
| MEICA and Architecture and Landscaping Works | Zero significant incidents due to activities | 0 |
| *Accident Frequency Rate 3 (AFR-3) | 0 | 0.14 |
| *Accident Frequency Rate 7 (AFR-7) | 0 | 0.13 |

*Definitions: Major injury; any injury that could potentially lead to death, prolonged disability or permanently diminished quality of life.
AFR-3 12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than three days lost time for the individual involved. Excludes Road-Traffic accidents to ensure alignment with RIDDOR 2013
AFR-7: as above, for over seven days lost time for the individual involved. Excludes Road-Traffic accidents to ensure alignment with RIDDOR 2013. Injuries contributing to AFR-7 will automatically be included in AFR-3.

**Performance**

There were no major injuries during construction in the year and no significant incidents as a result of our marine, MEICA or architecture and landscaping activities.

The project's three-day Accident Frequency Rate (AFR-3) of 0.14 is less than half the highest level seen on the project in 2021/22 and continues to be lower than comparable projects at an equivalent stage of construction. This is testament to the continued efforts, made at every level, to eliminate and reduce accident and injury occurrences.

During the year, there were 13 lost-time incidents (compared to 19 in 2021/22), of which five were RIDDOR specified injuries, and four high-potential near misses. Any incident classified as significant, including the above categories, are subject to thorough investigation to identify immediate and root causes, so we can implement actions to prevent recurrence and ensure lessons are shared and learned.

Tideway is proud of the open and transparent reporting culture on the project and the depth of investigations that are subsequently undertaken.

We recognise the importance of nurturing this positive culture and are committed to continuing to strive for transformational performance as we progress further into the project.

Tideway's recent Social Impact Study, undertaken to evaluate our legacy programme, concluded that the social value of accident prevention accounted for almost a fifth of the project's social value – more than any other category measured. The study concluded that this was in part attributable to the rigorous health and safety training, delivered through the immersive EPIC (Employer's Project Induction Centre) experience.

**RightWay**

RightWay is our health, safety and wellbeing approach, that continues to be embedded in the construction phase and specifically high-risk activities, including marine, tunnelling and secondary lining and has now been incorporated within the MEICA installation and site commissioning project phases.

The RightWay in Delivery initiative, introduced in 2018/19 continues to provide an opportunity for site teams to showcase innovations and good practices against Tideway's six pillars of Health, Safety and Wellbeing. The initiative was developed in collaboration with the Project Managers and the MWC teams, it ensures that we celebrate and promote ownership of good practices on site, it encourages teams to consider and adopt best practices from other sites and provides smaller sites with an opportunity to contend with the larger hub sites fairly.

Deptford Church Street was the stand-out site this year winning two quarterly and five monthly awards across the Competency, Leadership and Safe Worksite pillars. The team consistently exceeded the high health, safety and wellbeing expectations the project has set, demonstrating excellent leadership and communication throughout.

**Health and Wellbeing**

We continue with our aim to maintain a focus on Health and Wellbeing to achieve relative parity with Safety and to minimise and mitigate any health risks arising from our work, whilst supporting the wider health and wellbeing of our workforce.

**Occupational Health Inspections (OHI)**

With our Occupational Health (OH) Service Provider we continue to deliver targeted health and wellbeing education and support. A project to identify and address hypertension was concluded with over 1,200 assessments carried out. Twenty three per cent of the workforce were recorded as ‘at risk’ and were referred to their General Practitioners for longer term management. All the workforce were offered ongoing monitoring, support and education to reduce their risk of cardiovascular disease. The project proved extremely successful and has been shared with other construction projects.

The OHI is used to record observations, both positive and negative, related to occupational health on site. They may include reviews of the effects of noise and vibration, manual handling, substances hazardous to health, thermal comfort and lighting.

We have continually looked to improve the inspections which now target key risks. Whilst the continuous improvement on managing health risks is important, the coaching programme with the Occupational Hygienists that accompanies the inspection is invaluable. Improved knowledge and understanding of our construction teams benefits site activities during the inspection but also at the activity design stage.

**Mental Health**

Mental Health of the workforce continues to be a major driver for the project and has been supported with the Mates in Mind programme, Mental Health First Aiders, Mental Health First Aider Networks, and support from local services.

Tideway set up the Mental Health Working Group (MHWG) in 2018 to inform the actions we need to take, both now and in the future, to improve mental health at Tideway and within the wider industry. Initiatives include:

- Mates in Mind ‘Start the Conversation’ and ‘Manage the Conversation’ training.
- Mental health action plans using the Tideway Mental Health Maturity Matrix tool.
- Providing information sessions to support individuals, including arranging access to specialist advisers to help minimise the impacts through the cost of living crisis.

**Employer’s Project Induction Centre (EPIC)**

Working with Active Training Team, Tideway developed and launched the EPIC programme in 2015 and, to date, over 23,000 people have attended EPIC and over 1,400 have attended EPIC Logistics, a Fleet Operator Recognition Scheme - FORS - Silver accredited course for HGV drivers. This includes people working on Tideway and from other interested companies, which supports our aim of being transformational and further improving health and safety in the wider construction industry.

The induction sees new starters on the project immersed in an on-site storyline, supported by a cast of actors, working in specially designed sets. Characters are introduced and those on the course can see, first-hand, the causes and effects of a fictional accident on site. Participants are then invited to discuss the events that led to the accident and learn the importance of individual responsibility in keeping themselves and their colleagues safe on site.

EPIC has evolved since its launch, with each iteration designed to reflect a change in the phase of the works on site. This year Tideway launched the fourth and final iteration of the storyline as the project moves into installation and commissioning phases.

Earlier in the programme researchers from Loughborough University described EPIC as ‘an excellent example of Tideway’s ‘transformational’ approach to occupational health and safety and has been very well received’ which provides important lessons for the construction industry and OSH practitioners in other sectors.

Feedback remains overwhelmingly positive, with people taking away three key lessons from the day: personal responsibility; communication skills; and the importance of safety.

## Schedule, Cost and Quality

| | |
|---|---|
| Objective | We want to deliver the Thames Tideway Tunnel safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, and deliver environmental benefits more quickly and reduce disruption to local residents. |
| Priorities | Working with the Programme Manager, all three Main Works Contracts (MWCs), the System Integrator Contractor (SIC) and Thames Water to deliver the best value for money schedule. |
| | Continue to handback areas on completion of construction (including architecture and landscaping), and / or worksite testing and commissioning (as applicable). |
| | Maintaining Thames Water's continued support through the joint approach to the earliest possible Preliminary Commissioning Commencement Date (PCCD), Start of Systems Activation, system Commissioning Commencement Date (SCCD), Handover and Acceptance. |
| | Obtaining commitment from the EA, OFWAT, Thames Water and DEFRA to the most flexible approach for bulkhead removal that minimises the impact of sewage discharges into the River Lee whilst enabling the best value for money schedule to be achieved. |
| | Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous quality certification and particularly certification to achieve Systems Activation. |
| | Commercial status of all three MWCs, SIC and Thames Water aligned to Tideway's objectives for cost and schedule. |

| Measure | Target | Forecast |
|---|---|---|
| Delivery against the best value for money schedule – Schedule Handover | Handover by quarter one 2025 | Fully operational in 2025 with the 'handover' date likely to be in the second half of that year. |
| Delivery against the regulatory baseline – cost* | £3.5bn | £4.5bn |

*Tideway's element of the programme in outturn prices (based on current inflationary expectations), up to System Acceptance. Ofwat set a regulatory baseline of £3.1bn (in 2014/15 prices) which is equivalent to £3.5bn in outturn prices.

### Performance

Tideway continues to progress the construction activities and by end of 2022/23, we had completed 87 per cent of our programme. The change in the expected Handover date to the second half of 2025, compared with Q1 2025 last year, was due to a slower than expected start to secondary lining and early production rates being low in the East area. We have seen improvements since year end in secondary lining rates in Main Tunnel D which could mitigate part of this forecast delay. This provides a higher level of confidence in achieving the forecast commissioning commencement date in 2024 and for the system to come into full operation in 2025. The cost estimate is currently £4.5bn which is a five per cent increase from the previous year (two per cent since the interim accounts), with the cost of prolongation and cost inflation being the most significant contributors to change. While there remain uncertainties, which are typical for projects at this stage that could impact on future costs, we remain confident that the impact on customer bills will remain well within the pre-Licence award estimate of £20-25 (in 2014/15 prices).

As we move closer to starting commissioning in 2024, Tideway and Thames Water continue to collaborate and implement the 'Joint Approach' to deliver the earliest possible Preliminary Commissioning Commencement Date (PCCD), Start of System Activation, Handover and Acceptance. Dedicated teams from Tideway and Thames Water are continuing to work together on finalising the plans for System Commissioning and preparing the teams to operate and test the tunnel system. 2024 will see the system commissioning plan finalised and formally submitted to Thames Water leading to the process of officially commencing the system commissioning phase of the project agreed. The progress of the 'Joint Approach' is reported on a monthly basis to the Interface Committee and continues to set good foundations to work together over the coming years.

### Construction Quality

The level of non-conformance and re-work on the project has continued to remain at a satisfactory level, with no critical defects being reported this year and to date on the project. Construction quality is the responsibility of the System Integrator Contractor and Main Works Contractors who self-certify their works.

This self-certification is overseen through regular surveillance by the Programme Manager. Further technical assurance is provided by inspections from Tideway's NEC Supervisor team with regular oversight by Tideway's Chief Technical Officer. Tideway's Quality Management System is subject to annual senior management review and internal audit. These levels of assurance provide the project with a robust framework to drive construction quality compliance and enable an integrated approach for dealing with quality related issues.

**Commercial**

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 programme to contractual completion and the introduction of Tideway's Phased Commissioning Plan to the MWCs' scope of work. This includes the introduction of incentives for ongoing programme alignment between the MWCs and efficient delivery meeting Tideway's objectives. 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. Furthermore, the Systems Integration Contractor's incentivised dates schedule has been aligned with the MWCs' programme for meeting the Phased Commissioning Plan. Subject to final commercial discussions, all parties are incentivised and substantially aligned in their commercial approach for delivering the remaining works on the programme and in line with our health and safety objectives.

**System Commissioning**

During the year significant progress was made in preparing for system commissioning with the completion of the initial version of the System Commissioning Plan by Tideway including contributions from all other Tideway Alliance members. The Plan was submitted to Thames Water in October 2022 and then approved in principle in March 2023 in accordance with the agreed programme. The Plan is expected to be finalised and agreed formally during the first half of the 2023/24 financial year. It comprises a suite of around 80 documents that provide the integrated approach for the Alliance to work collaboratively together for the successful achievement of System Commissioning.

Alongside the System Commissioning Plan Tideway and Thames Water have also made significant progress in developing and agreeing a newly produced Strategic Intent that is supplemental to the original suite of project documents. The Strategic Intent is designed to increase the resilience of the programme leading to the formal Handover to Thames Water at the end of the System Commissioning period. It also contains provisions that streamline the processes which support the efficient and effective final Acceptance of the project by Thames Water in the following phase. Formal agreement of the Strategic Intent is also expected during the first half of the 2023/24 financial year.

**West Area**

**Headline:** Secondary lining has been completed and landscaping works on several sites are entering their final phase before opening in 2023-24.

The secondary lining required to provide additional strength and to create a smooth surface over which flows will travel once the sewer is operational was completed, a major below-ground milestone for the 7km west section.

On the surface, works to create new areas of public realm have progressed well, including at Putney and King George's Park. The project's first installation of a riverside signature ventilation column - required to regulate the gases within the super sewer - was completed at Putney. Public art installations at Dormay Street and King George's Park were also completed.

Further highlights included:

- The shaft at Carnwath Road was secondary lined. (All 21 shafts on the project have now been secondary lined.)
- The handback of areas after completion of construction continued with the project handing back the changing rooms at Barn Elms Sports Centre and parts of the Dormay Street site.

**Central Area**

**Headline:** Secondary lining has been completed and sites with new areas of public realm have begun to take shape.

As well as completing secondary lining across the central section of the tunnel, there were several other significant below-ground achievements, including the completion of the 50-metre connection tunnel linking the shaft at Chelsea to the main tunnel and the secondary lining of the shaft at Kirtling Street.

Above ground, key elements of the public realm at many of the riverside sites were installed, including signature ventilation columns at the Victoria and Albert sites. The river walls at Victoria and Chelsea were completed and at the Chelsea site, intertidal terraces were constructed and planted with species to provide a biodiverse habitat when the terracing 'floods' at high tide.

Further highlights included:

- At our Kirtling Street 'drive' site, the 21-metre high acoustic shed – built to contain noise and dust to allow for 24-hour tunnelling – was dismantled and six precast concrete cover beams, each weighing 150 tonnes, were installed over the shaft.
- Shaft cover slabs were completed at Albert, Chelsea, Cremorne Wharf, Falconbrook and Victoria.
- The cofferdam at Heathwall was removed and work to remove the cofferdams at Chelsea, Victoria and Blackfriars got underway.

**East Area**

**Headline:** Primary lining on Main Tunnel D and the Greenwich Connection Tunnel was completed and the team are progressing secondary lining on both tunnels.

The year began with primary tunnelling on Main Tunnel D and the Greenwich Connection Tunnel being completed. Secondary lining then got underway in both tunnels and by the end of 22-23 the Main Tunnel D team was approaching one third distance and the Greenwich Connection team was approaching the half-way mark.

The connection to the Lee Tunnel originally required the removal of a concrete bulkhead between the two tunnels. During the year, an additional isolation wall was constructed. This new wall allows for the earlier removal of the original bulkhead and represents the final isolation between the tunnels. Engagement continues with stakeholders, including Liaison Committee, as to the approach to and timing of the removal of both the bulkhead and the wall which preserves the environmental benefits secured for the Channelsea Creek by the operation of the Lee Tunnel over the last 7 years.

Above ground, the team at King Edward Memorial Park in Wapping began installing the new river wall panels which, thanks to their irregular 'shelving' pattern, will encourage biodiversity to flourish in the area once the wall is exposed to the Thames River. For more information on how our structures are encouraging biodiversity, see page Vision, Legacy and Reputation.

Further highlights included:

- The secondary lining of the shaft at Greenwich Pumping Station was completed.
- Local authorities gave the green light to our above-ground plans at the Greenwich, Deptford and Earl sites. This includes our plans for artwork and architectural elements.
- Winning the Project of the Year award at the New Civil Engineer Tunnelling Awards.

**System Integration**

System Integration (SI) is the part of the programme that ensures the readiness of the system for operation, maintenance and reporting at all sites across the Thames Tideway Tunnel system.

The team completed the installation and testing of the server and control room elements of the supervisory control and data acquisition - SCADA - system at Beckton that will monitor and control the whole tunnel. Individual sites are being progressively integrated into this system with the first integrated system acceptance site test completed at King George's Park.

Work continued or got underway across all available sites during the year and the SI team achieved milestones on west and central sites, including local worksite system acceptance tests at Barn Elms, Dormay Street and Chelsea. This is a key test that all sites will need to pass before they are ready for system commissioning.

**More by River**

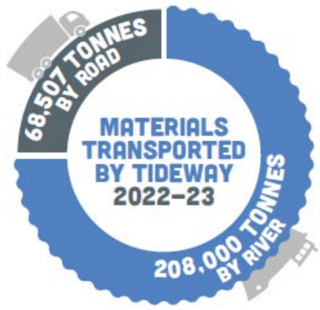
During the year we transported 208,000 tonnes of material by river compared with 68,507 tonnes by road.

Our river movements consisted of removing excavated material from the East section tunnels whilst also delivering secondary lining for Main Tunnel A at Carnwarth Road, and aggregates from demobilising cofferdams within West and Central sections. At Kirtling Street, we continued to support river use by importing aggregates for secondary lining of the main shaft.

The total quantities transported by river to date is 5,633,000 tonnes. This consists of 4,810,000 tonnes of specified materials that are required to be transported by river under the River Transport Strategy and 823,000 tonnes of additional materials that were transported as part of the More by River Strategy.

The benefits of this was to avoid around 336,000 HGVs or 672,000 HGV journeys on London's road network; saving over 17.1 million HGV miles; and avoiding in the region of 24,000 tonnes of CO2. These carbon savings have been subject to third party verification. See our Sustainability Report for more information.

With the completion of tunnelling we have exceeded our legacy commitment to transport 90 per cent of material excavated to create the main tunnel by transporting 100 per cent of main tunnel arisings by river. We have also completed our commitment to improve Health & Safety on the river for Tideway river transport workers. 103 individuals successfully passed the innovative boat master competency validation at HR Wallingford ship simulation centre. Further details of our Legacy progress can be found in the Vision, Legacy, Reputation section.




**TO DATE**

**5,633,000**
TONNES MOVED BY RIVER

**WHICH MEANS**

**336,000**
FEWER HGVS ON THE ROAD

**17.2 million**
HGV MILES SAVED – EQUAL TO 36 RETURN TRIPS TO THE MOON

**Saving 24,000 tonnes CO2 emissions**

case study

## CREATING NEW WETLANDS IN THE THAMES ESTUARY

Tideway is using clay excavated from the west of the project and chalk from our tunnelling in east London to enable a 110-hectare site on the Thames estuary to undergo a 'green transformation'.

New wetlands are being created at Rainham, which is owned by the RSPB, in what is thought to be largest habitat creation scheme inside the M25. It sits close to two existing RSPB-run sites – Rainham Marshes and the Wennington Marshes Nature Reserve – and although still being developed, the site is already home to a number of birds, including lapwing, little ringed plover and red shank.

As part of its legacy commitments, Tideway has transported nearly 1.5m tonnes of material by barge to the site. The clay is being used to create an impermeable layer to retain water in new lakes while the chalk is creating a varied landscape.

"To see this site being restored in this way, using material dug out from deep beneath London, is just fantastic. Many bird species are returning and we fully expect the wildlife here to flourish as the site develops over the coming years. Tideway's commitment to beneficially reuse their excavated material is great to see."

Alan Johnson, RSPB, Area Manager, Kent and Essex

## Vision, Legacy and Reputation

| | |
|---|---|
| Objective | We want to maintain a supportive environment for delivering the project and develop a positive reputation with our stakeholders.<br>We want to continue to be a responsible business in all that we do and demonstrate our ESG credentials in order to build and retain trust. |
| Priority | Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with TW and critical stakeholders to ensure a joined-up, 'one team' approach. |
| | Evolve the narrative to reflect Tideway's position as a leading environmental project and prepare for successful delivery. |
| | Ensure that we deliver on our essential ESG commitments. |

| Measure | Target | Actual |
|---|---|---|
| Support from Stakeholders | No material schedule impact as a result of stakeholder intervention | None |
| Percent of live legacy commitments on track | 85% | 92% |

### Performance

As our legacy programme continues, we completed or 'closed-out' several commitments that have enabled us to deliver wider benefits to London and beyond. Our work to engage the public and our stakeholders in the Tideway project stepped up in the context of an increased public focus on sewage pollution and the protection of waterways and, as we get closer to completing the project. Through our Programme Manager Jacobs, the project received external recognition with an international Sustainable Infrastructure Award at the 2022 Sustainable Consultancy Awards. Tideway's communication efforts were recognised with the 'Best In-House Communications Team' award in the private sector category of the PR Moment Awards and with a commendation in the same category at the PR Week Awards.

### Legacy

We completed ('closed out') nine of our 54 legacy commitments, bringing the total closed to 25. We achieved or exceeded our targets in eight of the nine commitments. In relation to health and safety training, we achieved the commitment which saw 118 supervisors trained to ILM Level 3 Certificate in Leadership and Management.

On apprenticeships, 151 individuals completed apprenticeships with Tideway, a ratio of 1 in 29, which was ahead of our 1 in 50 target.

On our commitment to employing people with convictions, we offered sustained employment to 37 individuals. We did not achieve our challenging target of employing 1 in 100 Full Time Equivalents however we did achieve positive outcomes for individuals and learned many lessons to inform other organisations who are seeking to support employment for people with convictions in the future. Further information on our work to support people with convictions into employment can be found here.

### Carbon

As the project gets nearer to completion, we appointed a third-party organisation to produce a critical review statement following the Greenhouse Gas Protocol guidance on assurance and verification. This review did not uncover any material issues and we are on track to stay within our original carbon footprint target of CAPEX (embedded) (Scope 3) ~770,000t$CO_2$e.

We have addressed areas in which our carbon data could be improved, we have also updated our SWOT analysis. More detail on our carbon approach can be found in our Sustainability Report. The disclosure of the above carbon data in this strategic report is on a voluntary basis.

| | | 2022/23 | |
|---|---|---|---|
| **Scope 1 Emissions – Operational (OPEX)** | | **FY tCO2e** | **PTD tCO2e** |
| Operation of the tunnel | | | |
| **Total Scope 1 Emissions** | | **N/A until operation** | |
| **Scope 2 Emissions – Indirect Emissions** Electricity consumption used by Tideway (Bazalgette Tunnel Ltd) controlled offices at Camelford House and the Cottons Centre | | | |
| Location based | | | |
| **Total Scope 2 Emissions** | | 40.4 | 485.93 |
| **Scope 3 Emissions – Embedded (Cradle to build)** | | | |
| **Materials (A1 – A3)** | Aggregates | - | 3680 |
| | Asphalt | - | 9 |
| | Concrete | - | 328,717 |
| | Timber | - | 1856 |
| | Steel | - | 84,043 |
| | Other | - | 16,436 |
| **Utilities (A5)** | Electricity | - | 30,894 |
| | Liquid Fuels | - | 26,834 |
| | HVO | - | 50 |
| | Waste | - | 6439 |
| | Water | - | 248 |
| **Logistics (A4 – A5)** | Road transport | - | 11,761 |
| | River transport | - | 7227 |
| **Total Scope 3 Emissions** | | | 518,193* |

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

*This year we are only reporting our Project Total to Date (PTD) figures, not our financial year figures. This is because the verification process assured PTD data that was submitted by our MWCs and Logistics teams via their carbon models. Within our Sustainability Report we provide more granular detail on the sources of our impacts.*

*The data we receive allows us to assess our impacts in line with A1 – A5 system boundaries set out in EN15978, from product development stages (A1-A3), logistics data which is a combination of transport of materials to site and waste away from site by road and river (A4 – A5) and construction site impacts (A5).*

**Subtotals may not sum up due to rounding.*

### Ethical Supply Chain

Tideway supports ethical practices in the supply chain by paying the London Living Wage (LLW), paying SMEs within 30 days of invoice, providing job security by working under contracts and by maintaining a strong position on tackling Modern Slavery by having a robust Modern Slavery and Human Trafficking Statement. This year we became members of Bright Future, an organisation that helps to place survivors of Modern Slavery into work.

We are also committed to ensuring that 100 per cent of our key building materials (cement, aggregates, steel) must be certified to either BES6001 Responsible Sourcing of Construction Products, CARES Sustainable Constructional Steel (SCS) or Eco-Reinforcement as applicable. All timber being used on site must be certified as FSC and/or PEFC standard.

### Engagement and communication

Tideway has a proactive communication strategy to keep its stakeholders informed about the benefits and progress of the project. We continued to host visits and meetings for stakeholders and regular fora with local residents to explain construction activities and potential impacts. Our 24-hour Helpdesk received 1,908 enquiries and 345 complaints - reductions of 24 per cent and 25 per cent respectively, compared with last year.

To inform the public about the project we engaged extensively with media with coverage in local, regional and national outlets demonstrating the progress of the project and what it will eventually deliver. Interest in the project was higher than ever, due to the significant increase in campaign activity on the issue of sewage pollution.

We were active across a range of social media with daily posts about progress and our legacy programme outcomes and our regular YouTube Tunnel Vision series. We distributed our River Times publication, directly to residents living close to our sites and we opened a new stakeholder engagement centre – the Tideway Hub – at our Abbey Mills site, enabling stakeholders to view the project at close quarters.

**STEM engagement**

Our programme to inspire young people into STEM was completed during the year. Our staff exceeded the volunteering target set for this legacy commitment at the start of the project, with 3.2 hours per 3 FTE year to date compared with a target of 1 hour/3 FTE. Since the start of the project we have supported 98,646 young people and 442 schools and other educational organisations

- From the start of the programme in August 2015 until it ended in March 2023 our teams volunteered 15,870 hours to inspire young people in STEM (Science, Technology, Engineering and Maths) careers.

**Community Investment, Charitable Giving and Volunteering**

We completed our community investment and volunteering programmes having delivered significant benefits to people and organisations across the capital and exceeded our targets for staff giving their time.

- Tideway's community investment programme helped a total of 48,216 people and 512 organisations
- From the start of the project our staff have given 33,268 hours of their time to support our communities.

We also completed our funding for the charity partnerships supporting our vision to Reconnect London with the River Thames. These partnerships which completed at different times during the past two years, covered different aspects of river connection for communities: leisure with London Youth Rowing; heritage with the Museum of London Archaeology; and environmental understanding and protection, with Thames21 and the Creekside Centre. Impact reports on all four of them are on our website

In autumn 2022 we developed a support package to help our 35 charity and community partners with the cost-of-living crisis. We funded mental health and financial wellbeing training for their staff and gave 17 small grants for those with a community-facing space to help with increased energy bills. We gave a total of £19,186 in charitable donations as well as £3,275 worth of in-kind donations. Staff across the project raised £29,309 for charity, including more than £11,000 in the 'Oarsome Challenge', a 16-mile row on the Thames through central London.

**Case study – Enhancing Biodiversity**

Tideway is an environmental project, which will dramatically reduce the volume of sewage being discharged into the Thames. This will result in improved river water quality which will have beneficial effects on fish and invertebrate density and abundance. Through our design process we have also sought to enhance biodiversity through the structures we are creating.

Most of our kiosks, which are home to the mechanical and electrical equipment required to operate the tunnel, support biodiversity through the inclusion of biodiverse roofs, as do our two large raised shafts at Greenwich and Earl Pumping Stations in East London. At our Barn Elms site in west London a bug hotel wraps around the kiosk, providing vital refuge for insects.

Within the river, our Chelsea and Albert Embankment sites, King Edward Memorial Park, Chambers Wharf and Dormay Street will be planted with native species in the intertidal terraces. These terraces will flood at high tide and will provide a richly biodiverse habitat of plants and marine life. The maintenance regime

will include ecological reporting to the Environment Agency to inform their 'Estuary Edges' research and share knowledge to other developments. In the east our river wall cladding at King Edward Memorial Park and Chambers Wharf has been specially designed with a rough texture, horizontal ledges and deeply recessed niches to encourage colonisation by flora and microorganisms, and walls elsewhere use rough textures and timber fenders to enhance ecological value.

Further information on this and our Community Investment and STEM programme can be found in our Sustainability Report.

## Company and People

| | |
|---|---|
| **Objective** | Deliver effective organisation change in line with project requirements. Continue to support a high-performing, motivated and engaged workforce which will deliver better value and help us retain key skills. |
| **Priority** | Continue to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team and deliver restructuring activities in line with project requirements.<br><br>Refine our strategy for the future of the company |

| Measure | Target | 2022/23 | 2021/22 | 2020/21 | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|---|---|---|---|
| Employee diversity* (percentage of women within Tideway at 31 March) | 40% | 33% | 36% | 36% | 36% | 34% | 36% |
| Preserving a values driven, skilled, diverse and engaged workforce | Subjective* | Green | Green | Green | Green | n/a | n/a |

*We assess our performance based on a number of indicators, including engagement survey and demographic data and agree our assessment with our Remuneration Committee.

### Performance

We returned to a full engagement survey in 2022 to get a sense of how our people were feeling post pandemic and with hybrid working. We are still performing well, with our scores close to our 2021 full survey results.

**Diversity and Inclusivity**

Tideway's active staff networks LGBTQ+, Gender, Race, Disability and Carers, help drive and set our diversity and inclusion agenda.

We missed our target of 40 per cent women on the project but we continue to focus on support to working women on the project, including blind recruitment, mentoring, coaching, targeted development activities, and using our inhouse inclusivity champions to ensure that no bias is present in internal activities; recruitment, succession planning, and appraisal moderation.

| | 2019 | | | 2020 | | | 2021 | | | 2022 | | | 2023 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Headcount** as at 31 March 2023* | Female | Male | Total | Female | Male | Total | Female | Male | Total | Female | Male | Total | Female | Male | Total |
| Board** | 2 | 11 | 13 | 1 | 12 | 13 | 1 | 12 | 13 | 1 | 12 | 13 | 1 | 11 | 12 |
| Senior Management | 18 | 22 | 40 | 19 | 23 | 42 | 14 | 21 | 35 | 14 | 17 | 31 | 10 | 17 | 27 |
| Other Employees | 128 | 250 | 378 | 125 | 226 | 351 | 109 | 191 | 300 | 90 | 168 | 258 | 78 | 158 | 236 |
| **Total *** | **148** | **283** | **431** | **145** | **261** | **406** | **124** | **224** | **348** | **105** | **197** | **302** | **89** | **186** | **275** |

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

**Talent**

We annually review our succession plans to ensure that we understand our strength at a senior leadership team level and identify those individuals who have potential to progress within the organisation or due to the nature of the project, externally.

Other recognitions during the year included:

- CVB winning the Skills and Workforce Initiative award at the 2022 Water Industry Awards.
- Tideway was a Race Equality Week spotlight company.


**Delivery A People Legacy – Supporting People With Convictions (case study)**

Many people with a previous conviction find it very hard to get a job – just 17 per cent are in salaried employment a year after release, according to the Government.

Tideway recognised that the scale of the project created an opportunity to tackle this issue and to show leadership within construction. Tideway established an ambitious target that 1 in every 100 jobs on the project would be filled by a person with a previous conviction. We signed up to the Ban the Box campaign in 2016 and removed any tick box from job application forms that asked about criminal convictions. We also worked with charities such as Bounce Back, Key4Life and Thames Reach to advertise roles on the project to people with a previous conviction.

Up to September 2022, when we closed-out the legacy commitment for this area, we provided sustained employment (i.e. for more than 26 weeks) for a total of 37 people with convictions. This 1 in 149 ratio was below our target of 1 in 100 - but the depth of this impact is significant: our impact assessment showed that it has a social value of £2.3 million. Tideway also had a series of initiatives to support our commitment:

We transferred unused Apprenticeship Levy funds to A Fairer Chance, a London-based Community Interest Company (CIC) which works to help those with experience of the criminal justice system. We funded two apprenticeships which helped the apprentices, through the work they did, and indirectly helped other people with convictions into employment.

We collaborated with the Corbett Network, that works with those in prison and after release, to create a Legacy Fund which gave grants to three organisations including a grant to the Hardman Trust to support six to eight Londoners to get into the construction industry - funding tools, training courses and tailored one-to-one support.

Tideway staff ran workshops in prisons designed to grow the confidence of inmates and teach skills needed to apply for jobs, such as interviewing and CV writing.

## Financing

| | |
|---|---|
| **Objective** | We aim to deliver efficient sustainable financing and financial risk management, which minimises our cost of capital and supports our investment grade credit rating. |
| **Priorities** | Maintain the Company Credit rating & deliver IRR and shareholder distributions in line with the financing plan.<br>Liquidity and investment management – continue to focus on capital preservation and liquidity and seek to optimise return.<br>Conclude consultations and Licence modifications with Ofwat and DEFRA relating to Covid-19's impact on schedule specifically extending the System Acceptance date. |

| Measure | Target | Actual |
|---|---|---|
| Company credit rating | Baa1/ BBB+ | Baa1/BBB+ |
| Distribution | Achieve 2022/23 financing plan | In Line |
| Liquidity | 12 months liquidity | 29 Months Liquidity |
| Licence Consultation | Finalise Licence changes related to extended System Acceptance date | Achieved |

**Performance**

We achieved all our financing priorities for the year. Tideway's licence was amended to reflect the agreed schedule impact of Covid-19. The Planned System Acceptance Date was changed from February to August 2027 primarily reflecting the impact of Covid-19 on schedule. With respect to our financing, we settled £323m of deferred funding in the year and £66m since the end of the financial year. We continued to monitor the market to identify opportunities for further funding.

The Revolving Credit Facility (RCF) is a sustainability-linked loan which includes a rebate linked to a sustainability key performance indicator (KPI) of meeting at least 85% of the live legacy commitments. This year we exceeded the target by meeting 92% of the live commitments. The savings were used to partly fund Tideway's contribution to Our Space Awards for London communities to green their neighbourhoods. The RCF remained undrawn during the year. Cash and liquidity continued to be managed effectively and prudently, in accordance with our Investment Management Strategy.

Debt covenants remain in line with our financing plan and fully compliant with our financing agreements, with Net debt/Adjusted RCV (gearing) at 67.0% (the trigger level is 70%, the covenant is 80%) and Interest Coverage Ratio at 4.8x (covenant is 1.3x) as at 31 March 2023.

Tideway has secured total committed debt funding of £3,167m. Of these committed debt facilities, £2,941m has been settled and the funds have been received, £66m has been settled since the end of the financial year and the £160m RCF is still undrawn. Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated sustainable market of the London Stock Exchange.

| Debt £m | RCF | EIB Loan | RPI Bonds | RPI Loan | CPI Bonds | Nominal Debt | Totals |
|---|---|---|---|---|---|---|---|
| Drawn | 0 | 700 | 866 | 100 | 350 | 925 | 2,941 |
| Undrawn | 160 | 0 | 66 | 0 | 0 | 0 | 226 |
| **Total** | **160** | **700** | **932** | **100** | **350** | **925** | **3,167** |

### Treasury Policy

Tideway's treasury policy incorporates the corporate objective to finance the company while minimising risk. Our target is to maintain a robust investment grade credit rating. We manage our financing activities within the parameters set in the Government Support Package, the financing documents, and the Licence.

### Sustainable Financing

Our sustainable financing strategy aligns Tideway's financing both with the long-term target of cleaning the river and with the significant ESG efforts during construction which have been captured in Tideway's legacy commitments. All bonds issued to date are green and are listed in the London Stock Exchange Sustainable Bond Market. Tideway's total green debt issuance stands at £1,907m, which includes the bonds and a £75m green US private placement. The £160m RCF is structured as a sustainability-linked loan.

The sustainable financing strategy is supported by the Sustainable Finance Framework which was updated in 2023. 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 LMA Sustainability Linked Loan Principles. Our Sustainable Finance Framework is available on our website. https://www.tideway.london

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 as well as describing how our climate change disclosures align with the Taskforce on Climate-related Financial Disclosures (TCFD).

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. It is published on our website.

### Hedging

Tideway has entered into long-term swaps with commercial banks to hedge the interest rate for tranches one to eight of the £700m EIB loan and £70m of the £300m US Private Placement notes. These transactions were completed in previous financial years and no swaps were executed in 2022/23.

### Distributions

At Licence Award our shareholders committed a total of £1,274m in the form of £509.7m in equity and £764.5m as shareholder loans. This amount has been fully injected into Tideway and investments are being debt financed now. As a result, our gearing is increasing to our target capital structure as we deliver our investment programme and risks are gradually retired.

Prior to System Acceptance, Tideway will not generate distributable profits and as such it will not be able to pay dividends to its shareholders. As a result, during construction Tideway's shareholders receive a cash return on their investment through a combination of payments of interest on the loan and partial repayments of those loans, which now stand at £836.1m. This mechanism was put in place during the Infrastructure Provider equity procurement process run by Thames Water and overseen by Ofwat and the UK Government and was key to achieving the low cost of capital bid by our shareholders. Ultimately, Thames Water's wastewater customers benefit from the low cost of capital achieved through the procurement through a lower charge in their bills.

The total distributions paid in the year were £20.8m (2022: £29.7m).

**Liquidity**

At 31 March 2023, we had total liquidity of £549m, comprising £323m of unrestricted cash and short-term deposits, the £160m undrawn RCF and a £66m undrawn bond. This, combined with expected revenue collections, provides liquidity significantly in excess of our 12-month target, including all liquidity required to the project handover.

**Credit Ratings and Environmental, Social and Governance Assessments**

Fitch affirmed the credit rating at BBB+ with a stable outlook. Moody's maintained the Baa1 rating with stable outlook. S&P Global Ratings completed an updated Environmental, Social and Governance Evaluation of Tideway. Tideway achieved a score of 77/100, a one-point uplift from the previous assessment in 2022.

**Investment Management**

We maintained substantial cash balances throughout the period, averaging £553m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield.

## Financial Performance Review

**Accounting Policies**

The Group and the Company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards (IAS) in conformity with the requirements of the Companies Act 2006 ("UK-adopted IFRSs"). The financial statements are prepared in accordance with the historical cost accounting convention except where UK adopted IFRS requires an alternative treatment. Our key accounting policies are outlined in note 1 to the financial statements.

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

**Non-GAAP Measures**

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP). We believe these measures are valuable to the users of the accounts in helping them understand our underlying business performance. Our principal non-GAAP measure is Allowable and Excluded Project Spend.

Under our Licence, our costs are classified as either 'Allowable Project Spend' or 'Excluded Project Spend'. Allowable Project Spend (on a cash basis) is added to our Regulatory Capital Value (RCV). Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

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

For the purposes of calculating net debt, borrowings include all intra-group and third-party borrowings with the exclusion of shareholder loan notes.

## Income Statement

During the year Tideway reported a profit of £144.7m (2021/22: £10.9m loss), with no dividends paid or proposed (2021/22: £nil). 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).

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

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

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

## Statement of Financial Position

At 31 March 2023, costs of £4,833.2m were capitalised within the asset under construction in the Statement of Financial Position. This represents £816.3m costs during the year and £4,016.9m for the prior periods to 31 March 2022.

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

## Net Debt and Financing

Net debt at 31 March 2023 was £3,265.1m, which was £818.9m higher than the £2,446.2m net debt at 31 March 2022.

Cash and cash equivalents at 31 March 2023 were £129.4m, which was £225.1m lower than the £354.5m cash and cash equivalents at 31 March 2022.

At 31 March 2023, the Group's total borrowings excluding shareholder loans were £3,393.1m and lease liabilities outstanding totalled £1.4m. Shareholder loans outstanding at 31 March 2023 were £836.1m.

## Financial Key Performance Indicators (KPIs)

Under its Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (Senior RAR) and Funds from Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios for 2022/23 are provided in Tideway's Annual Report within the Financial Performance Review.

## Revenue

Within the financial statements, all regulated revenue is deferred in the Statement of Financial Position, in line with our revenue recognition accounting policy. During the year, we received cash inflows of £86.7m (2021/22: £72.9m) from revenue, which includes some revenue from prior years.

## Tax

The Directors are responsible for ensuring that we comply with tax laws in the UK, which is the only territory we undertake our business activities in. We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with the tax authorities.

The scope of our business activities in the UK mean that we are subject to the scope of corporation tax, employment taxes, Value Added Tax (VAT) and other taxes such as environmental levies related to our project activities. Consequently, the Directors are responsible for ensuring that we calculate, collect and pay the appropriate taxes to HM Revenue & Customs and as a result the taxes we pay make an economic contribution to the UK. We believe we are compliant with all applicable UK tax legislation and pay the correct taxes on time and in full.

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

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

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

As a result of the accounting implications of the above, our Income Statement is unlikely to have taxable profits during the construction phase. This is in line with expectations at the time Tideway was procured and customers benefit in full from lower bills as a result of this. In the post construction taxation periods when the Tunnel asset is fully operational, we expect this position to change.

**Tax Strategy**

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

**1) Tax planning and compliance:** We will engage in tax planning that supports our business and reflects commercial and economic activity. We will not engage in artificial tax arrangements and will adhere to relevant tax laws and seek to minimise the risk of uncertainty or dispute. Tideway is part of the Bazalgette Equity Limited Group, of which all members are domiciled in the UK. We consider the interaction with company members when we implement our tax policies.

**2) Relationship with HM Revenue & Customs (HMRC)**:
We will seek to build and maintain a constructive relationship with HMRC. We will work collaboratively wherever possible with HMRC to resolve disputes and to achieve agreement and certainty. We will engage with the government on the development of tax laws where we can and where the tax law change is relevant to Tideway's business activities.

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

**4) Tax risk management:** We identify, assess and manage tax risks and account for them appropriately. Risk management measures are implemented including controls over compliance processes and monitoring of effectiveness.

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

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

## Risk Management

Our ability to deliver positive outcomes for our stakeholders depends on our risk management which is embedded in our culture and is central to achieving our objectives and priorities.

We have implemented a framework which gives us a defined process for identifying, analysing and controlling both corporate and project delivery risks. We actively monitor risks held on our 'Active Risk Manager' database. This includes quantification of project risks, and the potential cost and impact to the schedule and allows us to challenge the effectiveness of our mitigating actions.

**Risk Management Framework**


Our risk management approach ensures that we monitor and review the external environment and the uncertainties we face to ensure that we can respond appropriately to external changes, mitigate risks where we can and keep our project on track. We consider the emerging issues that may impact the project's future as part of our annual business planning.

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

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

The Board Risk committee is supported by a Corporate Risk Committee and an Executive Risk Committee that considers the programme risks across the West, Central and East areas as well as System Integrator and System Commissioning risks.

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

**Principal Risks**

The group performs a robust assessment of the emerging and principal risks facing the Group throughout the year, by assessing our principal risks regularly, updated our mitigations throughout the year and implemented changes to manage our risk exposure. We considered whether there were material changes to increase or decrease our risk exposure. There are eleven principal risks across nine categories and each is assessed against its target level.

The risk exposure of one risk was increased, the Thames Water Performance, Risk 8, the increase reflects the criticality of Thames Water to the project and its timescales over the coming year such as collaborating to approve the initial System Commissioning Plan.

**Our Risk Appetite**

Tideway's risk appetite remains unchanged. To manage the risks we face, we define our risk appetite, which is the level of residual risk that we are ready to take. Although this appetite recognises the agreements that underpin our delivery model, such as our Licence and the Government Support Package, our Board can further refine the residual risk through the strategies it sets.

Tideway's risk policy is to target an overall Company risk profile consistent with an independent UK regulated water company. This reflects our Board's risk appetite which is low and the importance of resilience. The Board's appetite for risk has been at the core of the main strategic decisions that it has taken to date.

**Climate Related Financial Disclosures**

For the third year, we continue to report our climate disclosures in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations on a voluntary basis. In our Sustainability Report, we have made disclosures consistent with TCFD recommendations for ten of the eleven recommendations. Given the nature (with most of carbon footprint during construction) and the advanced stage (87 per cent complete as of March 2023) of the project, Tideway is not able to fully comply with recommendation 2. c) namely the inclusion of a 2°C or lower scenario although we include a description of the resilience of the organisation's strategy, taking into consideration different climate-related scenarios (using UK Climate Projections) and population growth. These are discussed in our Sustainability Report.

## Risk Management *Principal Risks*

### 1 HEALTH, SAFETY & WELLBEING

#### OVERALL

**Description**

The health, safety and wellbeing of our employees and the public is paramount. There is a risk that incidents could cause harm to individuals and delay progress.

**Effect**

A safety failure could cause injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.

**Mitigation**

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

Several working groups have been established to identify how to manage emerging risks associated with MEICA works, increased interaction with Thames Water networks and architecture and landscaping e.g. Safe Asset Access Working Group a collaborative forum of MWC, Thames Water, PM and Client.

**Relevant Objective**

HEALTH, SAFETY & WELLBEING

**Commentary***

NO CHANGE IN RISK LEVEL

#### MARINE

**Description**

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

**Effect**

A safety failure could cause damage to third party assets, injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.

**Mitigation**

Tideway continues to monitor marine risks and has implemented a Marine Assurance Plan and Marine Safety Action Plan. Inspections and surveillance both on vessels and from riverbanks and bridges ensure compliance with Tideway requirements.

**Relevant Objective**

HEALTH, SAFETY & WELLBEING

**Commentary***

NO CHANGE IN RISK LEVEL

### 2 PROGRAMME DELIVERY

**Description**

We are delivering a capital investment programme of £4.5bn. While there is experience of delivering similar projects in London, it is possible that the construction could take longer than planned and/or cost more.

**Effect**

A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement.

Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water's, increase financing requirements and reduce returns for our investors.

**Mitigation**

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

**This includes:**

- World-class contractors, with experience of major infrastructure / tunnelling projects in London.
- Contracts that transfer certain risks to our contractors who are better placed to manage them.
- An integrated, proactive approach to risk management with a focus on the transition to new phases of work including MEICA, architecture/landscaping and testing and commissioning.
- Commercial settlements to ensure the contractors remain focused on delivery, quality and driving costs down.
- The Programme Manager will continue holding deep dive schedule reviews across all sites to reconfirm the schedule and ensure risks are actively managed.
- As works complete across West and Central sites, lessons are shared with East to de-risk the critical path to commissioning.

**Relevant Objective**

SCHEDULE, COST & QUALITY
FINANCING

**Commentary***

NO CHANGE IN RISK LEVEL

* *Compared to previous year*

## 3 SUPPLY CHAIN FAILURE

**Description**

Our delivery strategy is based on outsourcing works. Our ability to deliver therefore depends on our contractors' performance.

**Effect**

If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on plan.

**Mitigation**

The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. Within each consortia the contractors are joint and severally liable; the contracts also contain step-in rights, whereby one consortia could replace another, which helps mitigate against financial failure.

**Relevant Objective**

SCHEDULE, COST & QUALITY

**Commentary***

NO CHANGE IN RISK LEVEL

## 4 HILP – HIGH IMPACT, LOW PROBABILITY EVENTS

**Description**

Major investment programmes are complex and challenging, and we could suffer incidents that were highly unlikely but have a significant impact. These could affect the tunnel or assets belonging to others.

**Effect**

HILP events could have a significant effect on cost, schedule, health and safety or our reputation. Their financial impact could exceed our insurance cover, damaging our financial position and our ability to deliver the tunnel.

**Mitigation**

We minimise the chance of these events occurring by using best-in-class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and conduct detailed Readiness Reviews before the commencement of major activities.

We also mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support. With Tideway completing primary lining approximately half of the HILP risks have now been retired.

**Relevant Objective**

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

**Commentary***

NO CHANGE IN RISK LEVEL

## 5 CREDIT RATING

**Description**

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

**Effect**

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

**Mitigation**

We have a robust delivery model, within a regulated framework, and a GSP.

We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies. The credit ratings remain two notches above licence and financing documents covenants.

**Relevant Objective**

FINANCING

**Commentary***

NO CHANGE IN RISK LEVEL

## 6 INFLATION

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

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

### Mitigation
Tideway has issued 75 per cent of its long-term debt indexed to RPI and Consumer Prices Index (CPI). Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect interest cover ratios and equity returns. The current level of inflation has reduced the risk in the short term.

The RPI reform will be implemented from 2030 with RPI converging to Consumer Prices Index including owner occupiers' housing costs (CPIH), at which time Tideway's licence will have transitioned to CPIH indexation, with the similar timetable to transition into CPIH being a positive development for Tideway.

### Relevant Objective
FINANCING

### Commentary*
NO CHANGE IN RISK LEVEL

## 7 REPUTATION

### Description
We are particularly focused on the risk that poor performance on our sites, on the river or with our neighbours could damage our reputation and support.

Heightened scrutiny of major projects (costs and programme) means this is a greater risk for Tideway.

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

### Mitigation
We actively develop relationships with key stakeholders. For example, through our Community Liaison Working Group we seek to find the best ways of addressing neighbours' concerns, in advance of works happening.

The More by River strategy is a commitment to use the river wherever feasible to ease congestion and to promote the use of the river and the societal benefits the project.

Tideway delivers on a wide variety of community investment commitments which demonstrates Tideway's position as a responsible business.

We have established the Tideway brand as part of our efforts to build trust and communicate the legacy and long-term benefits we aim to deliver.

We have adapted our approach to take account of changes in the public policy environment, including the increase in awareness of the issue of sewage pollution and river health.

### Relevant Objective
COMPANY & PEOPLE
VISION, LEGACY & REPUTATION

### Commentary*
NO CHANGE IN RISK LEVEL

## 8 THAMES WATER PERFORMANCE

### Description
Thames Water is a key partner for Tideway. In addition to the Revenue Agreement, we have an Interface Agreement that governs several important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period and access to the Thames Water network to facilitate Tideway works. This year we need to agree with Thames Water the System Commissioning Plan, which is crucial to successfully fulfilling the future Handover and Acceptance milestones.

### Effect
Thames Water's failure to deliver its share of the works or support delivery of Tideway works could affect our ability to deliver our investment programme on time and on budget.

If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.

### Mitigation
Tideway and Thames Water have worked closely together through all key milestones to date and have developed a joint approach to System Commissioning, Handover and Acceptance.

Detailed planning of the works requiring access to the Thames Water network and System Commissioning is ongoing. The Alliance Agreement and Thames's regulatory settlement supports its commercial alignment with Tideway's interests.

The 'Strategic Intent' (to optimise the System Commissioning, Handover and System Acceptance of the TTT for the benefit of customers and the environment) has been jointly developed with Thames Water.

Thames Water has a licence obligation to pass revenues to Tideway under the Revenue Agreement. A licence breach by Thames Water is enforceable by Ofwat.

### Relevant Objective
SCHEDULE, COST & QUALITY
FINANCING

### Commentary*
INCREASED EXPOSURE
Given the forthcoming crucial System Commissioning planning phase and increase in Thames Water interface points.

* *Compared to previous year*

## 9 REGULATORY AND POLITICAL

### POLITICAL CLIMATE

**Description**

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

**Effect**

High levels of political, media and public focus on the negative impacts of sewage discharges may raise awareness of the need for the TTT. It could also increase scrutiny of Tideway's scope and schedule.

Any institutional reforms could affect Tideway's relationship with key stakeholders such as Defra and/or its legal and regulatory environment. Substantial legislative changes may create Defra resourcing challenges.

**Mitigation**

Mitigations include information gathering and relationship with political stakeholders, legal horizon scanning, and Defra/Ofwat engagement. Where appropriate we will highlight the benefits provided by the competitive bid process and Tideway model.

**Relevant Objective**

SCHEDULE, COST & QUALITY

FINANCING

**Commentary***

NO CHANGE IN RISK LEVEL

### REGULATION

**Description**

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

**Effect**

If we do not meet Ofwat's requirements, we could face enforcement including financial penalties or the loss of our licence. A revised regulatory framework could affect financial performance and investors' returns.

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

**Mitigation**

Tideway's focus is on compliance, high performance, and positive regulatory relationships. We monitor regulatory expectations of companies as they are relevant to Tideway and respond appropriately.

Ofwat changed Tideway's licence in October 2022 to reflect the schedule impacts of Covid-19.

Tideway has a robust licence compliance procedure that minimises the risk of non-compliance. If any contravention does occur, we work closely with Ofwat to agree and deliver appropriate mitigations.

**Relevant Objective**

SCHEDULE, COST & QUALITY

FINANCING

**Commentary***

NO CHANGE IN RISK LEVEL

The Strategic Report was approved by the Board on 24 August 2023 and was signed on its behalf by:

**Celia Carlisle**
Company Secretary

Cottons Centre
Cottons Lane
London
SE1 2 QG

24 August 2023

## Directors' report

The Directors present their report and the audited Group and Company financial statements of Bazalgette Equity Limited ("the Company") for the year ended 31 March 2023. The Company is incorporated and domiciled in the United Kingdom. The registered company number is 09553394 and the Company's registered address is 6th Floor, Cottons Centre, Cottons Lane, London, SE1 2QG.

The financial statements are the Company's statutory financial statements as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures as required under the Companies Act 2006.

**Financial results and dividends**

The Group recorded a profit of £144.7m for the year (2022: loss of £10.9m) of which £144.6m related to the fair value movements of the Group's derivative financial instruments and £0.1m of bank interest income. The Directors do not consider that the reported profit in the year reflects the business performance as the profit reflects the fair value movement of the Group's derivative financial instruments. These are long-term swaps which are entered into with commercial banks to economically hedge the interest costs of the Group debt. The swaps fix finance costs for the Group's regulatory period and ensure that it benefits from low-cost financing.

During the year, the Group's subsidiary, Bazalgette Ventures Limited paid £20.8m (2022: £29.7m) of shareholder loan interest to the Group's shareholders. Furthermore, £36.6m (2022: £79.1m) of unpaid shareholder loan interest was capitalised as shareholder loan principal in the year. Further details of the shareholder loan notes are set out in note 11 of the financial statements.

The Company recorded £nil profit for the year ended 31 March 2023 (2022: £nil) and did not pay any dividends in the year (2022: £nil).

**Financial risk management**

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

**Directors**

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

Andrew Cox

Javier Falero (Resigned 7 September 2022)

Scott McGregor (Resigned 6 June 2022)

Sebastian Schwengber (Appointed 6 June 2022)

Christopher Morgan

Alistair Ray

Margaret Weir (Resigned 17 March 2023)

Daniel Pires (appointed 17 March 2023)

Amanda Woods

**Directors' Indemnities**

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

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

**Going Concern**

The Directors believe, after due and careful enquiry, that the Company and Group has sufficient resources to continue in operational existence for at least one year after the financial statements were authorised for issue. Therefore, it is considered to be appropriate to adopt the going concern basis in preparing the 31 March 2023 financial statements. For more information see the basis of preparation in Note 1 to the financial statements.

# Directors' report (continued)

## Employees

The average number of persons employed by the Group (including Directors) during the year was 106 (2022: 120), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

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

## Greenhouse gas emissions

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

## Charitable and political donations

The Group made charitable donations totalling £19,186 during the year (2022: £27,325). Details of the Group's charitable partnerships are set out in the Strategic report.

The Group did not make any political donations or incur any political expenditure during the year (2022: £nil).

## Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Group's policy is to pay in accordance with these terms. The Group's Main Works Contractors originally signed up to the Fair Payment Charter which has since been superseded by the Prompt Payment Code, most of the Group's major suppliers are signatories to this. The creditor days for the year ended 31 March 2023 were approximately 3 days (2022: 11 days).

## Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 18 of the financial statements.

## Future Outlook

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

## Disclosure of information to auditor

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

## Auditor

The external auditor for the 2023 financial year was KPMG LLP. The Independent Auditors' Reporting starting on page 36 sets out the information contained in the financial statements which has been audited by the external auditor. In 2023 the Board of the parent company undertook an external audit tender and Pricewaterhouse Coopers LLP was proposed as the external auditor with the appointment to take effect from, and including, the 2024 financial year. Accordingly resolution to appoint PricewaterhouseCoopers LLP as external auditor from 2024 will be approved following completion of the 2023 financial statements.

## Other information

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

**Celia Carlisle**
Company Secretary

Cottons Centre
Cottons Lane
London SE1 2 QG
24 August 2023

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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

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

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

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

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

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

**Celia Carlisle**
Company Secretary

Cottons Centre
Cottons Lane
London SE1 2QG

24 August 2023

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

**Opinion**

We have audited the financial statements of Bazalgette Equity Limited ("the Company") for the year ended 31 March 2023 which comprise the group Income Statement, Group Statement of Other Comprehensive Income, Group and Company Statement of Financial Position, Group and Company Statement of Changes in Equity, Group and Company Cash Flow Statements and related notes, including the [accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

**Fraud and breaches of laws and regulations – ability to detect**

*Identifying and responding to risks of material misstatement due to fraud*

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

- Enquiring of directors and inspection of policy documentation as to the Group's high level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.

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

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

We did not identify any additional fraud risks.

We performed procedures including:

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

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

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

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

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

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

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

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

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

**Strategic report and directors' report**

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 35, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Anna Jones

**Anna Jones (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
London
24 August 2023

## Group Income Statement
***For the year ended 31 March 2023***

| | *Note* | **2023** **£m** | **2022** **£m** |
|---|---|---|---|
| Net operating costs | *2, 3* | - | - |
| **Operating result** | | **-** | **-** |
| Net finance income/(cost) | *4* | 144.7 | (10.9) |
| **Profit/(loss) before tax** | | **144.7** | **(10.9)** |
| Taxation | *5* | - | - |
| **Profit/(loss) for the year** | | **144.7** | **(10.9)** |

## Group Statement of Other Comprehensive Income
***For the year ended 31 March 2023***

| | **2023** **£m** | **2022** **£m** |
|---|---|---|
| Profit/(loss) for the year | 144.7 | (10.9) |
| Other comprehensive income for the year | - | - |
| **Total comprehensive income/(loss) for the year attributable to owners of the parent** | **144.7** | **(10.9)** |

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

## Group and Company Statement of Financial Position

***As at 31 March 2023***

| | Note | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | *6* | 4,835.0 | 4,020.7 | - | - |
| Trade and other receivables | *8* | 29.1 | 33.2 | - | - |
| Investment in subsidiary undertakings | *7* | - | - | 509.7 | 509.7 |
| Derivative financial instruments | *12* | 50.7 | - | - | - |
| | | 4,914.8 | 4,053.9 | 509.7 | 509.7 |
| **Current assets** | | | | | |
| Trade and other receivables | *8* | 59.8 | 48.2 | - | - |
| Cash and cash equivalents | *9* | 129.4 | 354.5 | - | - |
| Short-term cash deposits | *9* | 220.0 | 145.0 | - | - |
| | | 409.2 | 547.7 | - | - |
| **Total assets** | | **5,324.0** | **4,601.6** | **509.7** | **509.7** |
| **Current liabilities** | | | | | |
| Trade and other payables | *10* | (117.0) | (146.3) | - | - |
| Lease Liabilities | | (1.1) | (2.1) | - | - |
| | | (118.1) | (148.4) | - | - |
| **Non-current liabilities** | | | | | |
| Other Payables | *10* | (37.7) | (53.9) | - | - |
| Lease Liabilities | | (0.3) | (1.3) | - | - |
| Advance payment liability | *10* | (378.0) | (291.3) | - | - |
| Borrowings | *11* | (4,229.2) | (3,596.8) | - | - |
| Derivative financial instruments | *12* | - | (93.9) | - | - |
| | | (4,645.2) | (4,037.2) | - | - |
| **Total liabilities** | | **(4,763.3)** | **(4,185.6)** | **-** | **-** |
| **Net assets** | | **560.7** | **416.0** | **509.7** | **509.7** |
| **Equity** | | | | | |
| Share capital | *13* | 507.4 | 507.4 | 507.4 | 507.4 |
| Share premium | *13* | 2.3 | 2.3 | 2.3 | 2.3 |
| Retained earnings | *13* | 51.0 | (93.7) | - | - |
| **Total equity** | | **560.7** | **416.0** | **509.7** | **509.7** |

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

These financial statements were approved by the board of directors on 24 August 2023 and were signed on its behalf by:

**Chris Morgan**
Director
Company registered number: 09553394

# Group and Company Statement of Changes in Equity

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital £m** | **Share premium £m** | **Retained earnings £m** | **Total equity £m** | **Share capital £m** | **Share Premium £m** | **Retained earnings £m** | **Total equity £m** |
| Balance at 1 April 2021 | 507.4 | 2.3 | (82.8) | 426.9 | 507.4 | 2.3 | - | 509.7 |
| Loss for the year | - | - | (10.9) | (10.9) | - | - | - | - |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| **Total comprehensive loss for the year** | **-** | **-** | **(10.9)** | **(10.9)** | **-** | **-** | **-** | **-** |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Issue of ordinary shares | - | - | - | - | - | - | - | - |
| **Total contributions by and distributions to owners of the parent** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Balance at 31 March 2022** | **507.4** | **2.3** | **(93.7)** | **416.0** | **507.4** | **2.3** | **-** | **509.7** |
| Balance at 1 April 2022 | 507.4 | 2.3 | (93.7) | 416.0 | 507.4 | 2.3 | - | 509.7 |
| Profit for the year | - | - | 144.7 | 144.7 | - | - | - | - |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **144.7** | **144.7** | **-** | **-** | **-** | **-** |
| **Total contributions by and distributions to owners of the parent** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Balance at 31 March 2023** | **507.4** | **2.3** | **51.0** | **560.7** | **507.4** | **2.3** | **-** | **509.7** |

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

## Group and Company Cash Flow Statements
***For the year ended 31 March 2023***

| | Note | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|---|
| **Cash flows from operating activities before working capital movements** | | **-** | **-** | **-** | **-** |
| Increase in trade and other receivables | *8* | (4.3) | (1.1) | - | - |
| (Decrease)/increase in trade and other payables | *10* | (45.5) | 8.1 | - | - |
| Increase in advance payment liability | *10* | 86.7 | 72.9 | - | - |
| **Cash flows from operations** | | **36.9** | **79.9** | **-** | **-** |
| **Net cash flow from operating activities** | | **36.9** | **79.9** | **-** | **-** |
| **Cash flows (used in)/from investing activities** | | | | | |
| Construction of infrastructure asset | *6* | (508.2) | (583.8) | - | - |
| Transfer to short-term deposits | *9* | (75.0) | (90.0) | - | - |
| **Net cash flows (used in)/from investing activities** | | **(583.2)** | **(673.8)** | - | - |
| **Cash flows from/(used in) financing activities** | | | | | |
| Proceeds from loans | | 323.2 | 607.8 | - | - |
| Lease liability payments | | (2.0) | (2.1) | - | - |
| **Net cash flows from/(used in) financing activities** | | **321.2** | **605.7** | - | - |
| **Net (decrease)/increase in cash and cash equivalents during the year** | | **(225.1)** | **11.8** | **-** | **-** |
| Cash and cash equivalents at the start of the year | *9* | **354.5** | **342.7** | **-** | **-** |
| **Cash and cash equivalents at the end of the year** | *9* | **129.4** | **354.5** | **-** | **-** |

Group: Construction of infrastructure asset includes capitalised interest paid of £44.7m (2022: £45.7m) and capitalised interest received of £8.5m (2022: £0.3m).

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

# Notes to the financial statements (continued)

## 1 Significant accounting policies

**Basis of preparation**

Bazalgette Equity Limited (the "Company") is a private company incorporated, domiciled and registered in England, UK. The registered number is 09553394 and the registered office address is the 6th floor, Cottons Centre, Cottons Lane, London SE1 2QG.

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

As at the 31 March 2023, the Bazalgette Equity Group comprised the Company, Bazalgette Venture Limited, Bazalgette Holdings Limited, Bazalgette Tunnel Limited and Bazalgette Finance plc. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The Company financial statements present information about the Company as a separate entity and not about its Group.

The Group and the Company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards (IAS) in conformity with the requirements of the Companies Act 2006 ("UK-adopted IFRSs"). The financial statements are prepared in accordance with the historical cost accounting convention except where UK adopted IFRS requires an alternative treatment. Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Group and the Company's financial position.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss. The Company had £nil profit or loss for the financial year ending 31 March 2023 (2022: £nil).

**Basis of consolidation**

*Subsidiaries*

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

**Judgements and estimates**

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

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

Accounting for the Thames Tideway Tunnel as a finance lease – The judgement to account for the Thames Tideway Tunnel as a finance lease means that during the construction period of the project, the tunnel is accounted for as an asset under construction, with expenditure on the asset capitalised in the Statement of Financial Position. Following Systems Acceptance, which is when Thames Water accept the tunnel asset, the asset under construction will be de-recognised and a finance lease receivable will be recognised by the Group. In determining the appropriate accounting treatment one of the key questions was establishing which party has control over the asset. The applicability of both IFRS 16 'determining whether an arrangement contains a lease' and IFRIC 12 'service concession arrangements' were considered. It was concluded that the tunnel arrangements were outside the scope of IFRIC 12 and as the Group controls the asset the arrangements fall within the scope of IFRS 16. Consequently, the accounting policies applied to these financial statements reflect this arrangement.

## Notes to the financial statements (continued)

### 1 Significant accounting policies (continued)

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

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

**Going concern**

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

Cash flow forecasts modelled included current, plausible downside and severe downside cost scenarios. The current scenario is consistent with our estimate at completion (EAC) of £4.5bn. For our plausible downside scenario, we modelled a 15% increase in the remaining costs to complete, taking the total to £4.6bn. We consider a severe downside case to be a 20% increase in the remaining costs to complete, which equates to a total cost of £4.6bn. Under the current, plausible and severe downside scenarios the group continues to have sufficient liquidity and is in compliance with covenants throughout the going concern period.

At 31 March 2023, the Group had total liquidity of £549m, comprising £323m of unrestricted cash and short-term deposits, the £160m undrawn RCF and £66m of deferred bonds. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity required to the project handover.

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

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

**Property, plant and equipment**

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

*Assets under Construction – Recognition and measurement*

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

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

The Directors consider all expenditure in the year ended 31 March 2023 to have met the capitalisation criteria.

Assets under construction are measured at cost less any accumulated impairment losses.

Land and property acquired for the Thames Tideway Tunnel project by Thames Water is not included in the Statement of Financial Position because the economic benefit of such assets is retained by Thames Water.

*Asset under Construction - Depreciation*

Assets under construction are not depreciated.

# Notes to the financial statements (continued)

## 1 Significant accounting policies (continued)

**Lease accounting – Lessee**

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

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

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

The Group applies the following practical expedients under IFRS 16:

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

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

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

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

**Borrowing costs**

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

**Impairment**

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

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

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

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

Any impairment losses are recognised in the Income Statement.

# Notes to the financial statements (continued)

## 1 Significant accounting policies (continued)

**Revenue**

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

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

**Employee benefits**

*Defined contribution pension plans*

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

*Other employee benefits*

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

**Provisions**

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

**Financial instruments**

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

*Trade and other receivables*

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

*Trade and other payables*

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

*Cash and cash equivalents*

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

Short-term cash deposits disclosed in the Statement of Financial Position comprise cash deposited with a maturity of greater than three months on acquisition, a fixed interest rate and which do not constitute cash equivalents under IAS 7 'Statement of cash flows'.

# Notes to the financial statements (continued)

## 1 Significant accounting policies (continued)

*Borrowings*

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost. Any difference between the proceeds received (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

**Derivative financial instruments**

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

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

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

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

**Taxation**

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

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

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

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

# Notes to the financial statements (continued)

## 1 Significant accounting policies (continued)

### New accounting standards and future changes

The Group has adopted the following accounting standard amendment during the financial year:

- Amendments to IAS 37- Onerous contracts (Cost of fulfilling a contract).

The above amendment did not have any material effect on the Group at adoption.

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

- Amendments to IAS 12 – Deferred tax related to Assets and Liabilities arising from a single transaction;
- Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors: Definition;
- Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 making materiality judgements;
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current; and
- IFRS 17 Insurance Contracts.

# Notes to the financial statements (continued)

## 2 Auditors' remuneration

| | 2023<br>£000 | 2022<br>£000 |
|---|---|---|
| **Audit services** | | |
| Statutory audit – Company only | 4 | 3 |
| Statutory audit – Group Companies | 280 | 176 |
| **Audit related assurance services** | | |
| Regulatory audit services provided by the statutory auditor | 23 | 20 |
| **Other non-audit services** | | |
| Other non-audit services | 22 | 41 |
| | **329** | **240** |

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

## 3 Employee costs

The average number of persons employed by the Group (including directors) during the year was 106 (2022: 120).

The aggregate employment costs of these persons were as follows:

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Wages and salaries | 11.2 | 13.5 |
| Termination benefits | 0.7 | 0.3 |
| Social security costs | 2.0 | 1.7 |
| Contributions to defined contribution pension plan | 0.5 | 0.5 |
| Capitalised into asset under construction | (14.4) | (16.0) |
| | - | - |

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

**Directors remuneration**

The Directors of the Company did not receive any payment for their services during the year ended 31 March 2023 (2022: £nil). Any qualifying services the directors perform in respect of the Company are considered to be incidental and part of the director's overall management responsibilities within the Group.

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

# Notes to the financial statements (continued)

## 4 Finance income and costs

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| **Finance income** | | |
| Interest income | (10.9) | (0.5) |
| **Finance costs** | | |
| Interest expense on borrowings* | 364.1 | 197.4 |
| Interest expense on lease liabilities | 0.1 | 0.1 |
| Financing fees | 1.9 | 2.0 |
| Financial instruments at fair value through profit or loss: | | |
| - Index linked swaps | (144.6) | 10.9 |
| Capitalised finance interest and expense into asset under construction | (355.3) | (199.0) |
| **Net finance (income)/costs** | **(144.7)** | **10.9** |

* Includes accretion costs on index linked borrowings of £279.9m for the 12-month period to 31 March 2023 (2022: £121.0m).

## 5 Taxation

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| Total current tax | - | - |
| Total Income Statement tax expense | - | - |

The Company's current tax charge was £nil (2022: £nil).

The Group's effective tax rate for the year ended 31 March 2023 is 0% (2022: 0%) which is 19% lower than (2022: 19% lower than) the standard rate of corporation tax in the UK due to the items shown below.

### Reconciliation of effective tax rate

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| Profit/(loss) before tax | 144.7 | (10.9) |
| Expected tax (charge)/credit using UK corporation tax rate of 19% (2022: 19%) | (27.5) | 2.1 |
| Items not taxable[1] | 27.5 | (2.1) |
| Total Income Statement tax expense | - | - |

1 – Items not taxable solely relate to fair value movements on the Company's derivative liabilities which are disregarded for current tax purposes

### Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £212.4m (2022: £160.0m) have been calculated with regards to the Group's tax position based on the future tax rate of 25%. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse using tax rates enacted or substantively enacted at the reporting date.

# Notes to the financial statements (continued)

## 5 Taxation (continued)

*Factors affecting future tax charge:*

The UK corporation tax rate will increase from 19% to 25% effective from 1 April 2023 as the UK government's Finance Bill 2021 was enacted on 24 May 2021. This future increase in the UK corporation tax rate has been reflected in the value of unrecognised deferred tax assets.

## 6 Property, plant and equipment

Group property, plant and equipment comprised the following at 31 March 2023:

| | Right-of-use assets (ROU) £m | Asset under construction £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2022 | 9.7 | 4,016.9 | 4,026.6 |
| Additions | - | 816.3 | 816.3 |
| Balance at 31 March 2023 | 9.7 | 4,833.2 | 4.842.9 |
| **Accumulated depreciation** | | | |
| At 1 April 2022 | (5.9) | - | (5.9) |
| Depreciation charge | (2.0) | - | (2.0) |
| Balance at 31 March 2022 | (7.9) | - | (7.9) |
| **Net book value at 31 March 2023** | **1.8** | **4,833.2** | **4,835.0** |
| Net book value at 31 March 2022 | 3.8 | 4,016.9 | 4,020.7 |

### Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the year ended 31 March 2023. The total amount of capitalised finance interest and expense into the asset under construction during the year was £355.3m (2022: £199.0m) with a capitalisation rate of 100%. The cumulative total of finance interest and expense costs capitalised project to date at 31 March 2023 was £925.8m (2022: £570.5m).

### Right-of-use Assets

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

### Company

The Company did hold any property, plant and equipment at 31 March 2023 (2022: £nil).

## Notes to the financial statements (continued)

### 7 Investments in subsidiaries

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

| | Nature of entity | Country of Incorporation | Class of shares held | Direct ownership 2023 | Indirect ownership 2023 | Direct ownership 2022 | Indirect ownership 2022 |
|---|---|---|---|---|---|---|---|
| **Direct subsidiaries** | | | | | | | |
| Bazalgette Ventures Limited | Holding | UK | Ordinary | 100% | - | 100% | - |
| **Indirect subsidiaries** | | | | | | | |
| Bazalgette Holdings Limited | Holding | UK | Ordinary | - | 100% | - | 100% |
| Bazalgette Tunnel Limited | Operating | UK | Ordinary | - | 100% | - | 100% |
| Bazalgette Finance plc | Financing | UK | Ordinary | - | 100% | - | 100% |

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company which is the 6th Floor, Cottons Centre, Cottons Lane, London, SE1 2QG.

### 8 Trade and other receivables

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| Trade receivables | 7.5 | 13.2 | - | - |
| Accrued Income | 22.5 | 17.0 | - | - |
| Other receivables | 21.4 | 9.5 | - | - |
| Prepayments | 37.5 | 41.7 | - | - |
| | **88.9** | **81.4** | **-** | **-** |
| **Non-current assets** | **29.1** | **33.2** | **-** | **-** |
| **Current assets** | **59.8** | **48.2** | **-** | **-** |

Accrued income of £22.5m (2022: £17.0m) relates to cumulative revenue earned on the project to date that has not been invoiced to Thames Water as at the Statement of Financial Position date.

Prepayments include £14.7m (2022: £17.0m) in relation to the Government Support Package and £5.5m (2022: £5.9m) in relation to insurance contracts and £16.9m (2022: £18.1m) financing related costs.

The Group's non-current assets represent £29.1m (2022: £33.2m) of prepayments at 31 March 2023. The following table analyse both the Group and Company's non-current assets at 31 March 2023 into recovery maturity groupings based on the remaining periods up to their expected future recovered date.

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| Between one and two years | - | - | - | - |
| Between two and five years | 15.5 | 19.1 | - | - |
| After more than 5 years | 13.6 | 14.1 | - | - |
| **Total** | **29.1** | **33.2** | - | - |

# Notes to the financial statements (continued)

## 9 Cash and cash equivalents

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| Cash and bank balances | 35.4 | 26.0 | - | - |
| Cash equivalents | 94.0 | 328.5 | - | - |
| **Cash and cash equivalents per cash flow statement** | **129.4** | **354.5** | **-** | **-** |

Cash equivalents comprise deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

Short-term deposits with a maturity of greater than 3 months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £220.0m (2022: £145.0m).

**Restricted Cash**

The Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £26.0m at 31 March 2023 (2022: £23.5m) which is sufficient to cover the next 12 months of financing costs payments.

## 10 Trade and other payables

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| Trade payables | 38.6 | 57.4 | - | - |
| Contract retentions payable | 16.4 | 47.8 | - | - |
| Accrued expenses | 71.1 | 67.1 | - | - |
| Deferred income | 28.6 | 27.9 | - | - |
| Advance payment liability | 378.0 | 291.3 | - | - |
| | **532.7** | **491.5** | **-** | **-** |
| **Non-current liabilities** | **415.7** | **345.2** | **-** | **-** |
| **Current liabilities** | **117.0** | **146.3** | **-** | **-** |

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £28.6m (2022: £27.9m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

The Trade payables balance at 31 March 2023 mainly represents invoices payable to the Company's main works contractors totalling £37.6m (2022: £56.1m).

The table following analyse both the Group and Company's non-current liabilities at 31 March 2023 into relevant maturity groupings based on the remaining periods up to their future payable date.

# Notes to the financial statements (continued)

## 10 Trade and other payables (continued)

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| Between one and two years | - | 2.9 | - | - |
| Between two and five years | 415.7 | 342.3 | - | - |
| After more than 5 years | - | - | - | - |
| **Total** | **415.7** | **345.2** | - | - |

## 11 Borrowings

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

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

Where bonds are issued with deferred draw dates, the proceeds from these bonds are only received from the bond purchaser on the future settlement dates. This note provides information about the Group's borrowings, which are measured at amortised cost.

| | 2023 £m | 2022 £m |
|---|---|---|
| **Third party borrowings** | | |
| £250m 2.375% fixed-rate bond 2027 | 248.6 | 248.3 |
| £75m 0.828% index-linked bond 2047 [a, b] | 92.6 | 84.1 |
| £200m 0.740% index-linked bond 2042 [a, c] | 222.8 | 216.3 |
| £100m 0.688% index-linked bond 2050 [a] | 129.5 | 114.1 |
| £100m 0.755% index-linked bond 2051 [a, d] | 125.8 | 110.8 |
| £100m 0.249% index-linked bond 2040 [a, d] | 126.6 | 111.9 |
| £125m 0.192% index-linked bond 2049 [a, e] | 167.0 | 147.0 |
| £25m 1.035% index-linked bond 2048 [a, f] | 30.8 | 27.2 |
| £25m 0.951% index-linked bond 2054 [a, g] | 30.8 | 27.2 |
| £50m 0.787% index-linked bond 2052 [a] | 61.9 | 54.5 |
| £300m 2.860% fixed-rate loan 2032 [h] | 322.7 | 311.7 |
| £660m Libor+0.360% floating-rate loan 2051 [i] | 860.8 | 719.6 |
| £100m 0.010% index-linked loan 2049 [a] | 124.5 | 109.8 |
| £25m 1.042% index-linked bond 2048 [a, i] | 30.2 | 26.6 |
| £25m 0.954% index-linked bond 2054 [a] | 30.2 | 26.6 |
| £75m 0.010% index linked bond 2036 [a] | 97.9 | 87.9 |
| £300m 2.750% index linked bonds 2034 [a] | 298.8 | 298.7 |
| £75m 2.418% fixed-rate loan 2041 | 75.0 | 75.0 |
| £150m 0.010% Index linked bond 2032 [a] | 170.1 | - |
| £75m 0.949% Index linked bond 2052 [a, k] | 81.8 | - |
| £50m 0.074% index linked bond 2049 [a, l] | 64.7 | - |
| **Intra-group borrowings** | | |
| Shareholder loan notes 8.000 % fixed rate 2064 [h] | 836.1 | 799.5 |
| **Total borrowings** | **4,229.2** | **3,596.8** |
| **Current liabilities** | - | - |
| **Non-current liabilities** | **4,229.2** | **3,596.8** |

# Notes to the financial statements (continued)

## 11 Borrowings (continued)

a) The value of the capital and interest elements of these index-linked bonds and loans are linked to movements in either the Consumer Price Index (CPI) or Retail Price Index (RPI)

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

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

d) This debt amortises from 2036

e) This debt amortises from 2045

f) This debt amortises from 2043

g) This debt amortises from 2049

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

i) The Company has entered into swap agreements that convert £620.0m of this debt into index-linked debt

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

k) This debt amortises from 2042

l) This debt amortises from 2034

### Deferred loans

As at 31 March 2023, the Group had no third-party loans still deferred (2022: £40.0m). Proceeds of £40.0m (2022: £175.0m) from deferred loans were received during the year.

### Deferred purchase bonds

During the previous financial year ending 31 March 2022, the Group placed and received £300m of purchase bonds with no deferral period. No further bond issuances were placed during the year ended 31 March 2023. As at 31 March 2023, a total of £66.0m (2022: £325.0m) of bonds are still deferred. The bond proceeds were received in May 2023 and these bonds have maturities of 2049. Proceeds of £283.2m (2022: £125.0m) from deferred bonds were received during the year.

## 12 Financial Instruments

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

### Financial Assets

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| *Financial assets at fair value through profit and loss:* | | | | |
| Derivative financial instruments | 50.7 | - | - | - |
| *Financial assets:* | | | | |
| Trade and other receivables | 51.4 | 39.7 | - | - |
| Cash and cash equivalents | 129.4 | 354.5 | - | - |
| Short-term deposits | 220.0 | 145.0 | - | - |
| **Total** | **451.5** | **539.2** | - | - |

# Notes to the financial statements (continued)

## 12 Financial Instruments (continued)

Trade and other receivables above exclude prepayments. Trade and other receivables are classified and measured at amortised cost under IFRS 9. Impairment of these assets as assessed under the simplified expected credit loss model was immaterial at 31 March 2023 and therefore not recognised within the period.

**Financial Liabilities**

| | Group 2023 £m | Group 2022 £m | Company 2023 £m | Company 2022 £m |
|---|---|---|---|---|
| *Liabilities at fair value through profit and loss:* | | | | |
| Derivative financial instruments | - | 93.9 | - | - |
| *Other financial liabilities:* | | | | |
| Trade and other payables | 532.7 | 491.5 | - | - |
| Lease Liabilities | 1.4 | 3.4 | - | - |
| Borrowings | 4,229.2 | 3,596.8 | - | - |
| **Total** | **4,763.3** | **4,185.6** | **-** | **-** |

### Fair value measurements

The Fair value of financial instruments represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date.

The fair values of financial instruments and a comparison to their carrying value is shown in the table on the following page. The Group has not disclosed the fair values for cash and cash equivalents, short-term deposits, trade receivables and trade payables as their carrying amounts are a reasonable approximation of the fair value.

| | 31 March 2023 Book value £m | 31 March 2023 Fair value £m | 31 March 2022 Book value £m | 31 March 2022 Fair value £m |
|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | |
| **Non-current** | | | | |
| Derivatives - index-linked swaps | 50.7 | 50.7 | - | - |
| **Financial liabilities at amortised cost** | | | | |
| **Non-current** | | | | |
| Borrowings – fixed-rate sterling loans | (1,233.8) | (1,046.1) | (1,186.3) | (1,216.8) |
| Borrowings – fixed-rate sterling bonds | (547.4) | (466.6) | (547.0) | (546.7) |
| Borrowings – index-linked sterling bonds and loans | (1,587.2) | (1,361.5) | (1,143.9) | (1,605.5) |
| Borrowings – floating-rate sterling loans | (860.8) | (671.4) | (719.6) | (662.2) |
| **Financial liabilities at fair value through profit and loss** | | | | |
| **Non-current** | | | | |
| Derivatives - index-linked swaps | - | - | (93.9) | (93.9) |
| **Total** | **(4,178.5)** | **(3,494.9)** | **(3,690.7)** | **(4,125.1)** |

# Notes to the financial statements (continued)

## 12 Financial Instruments (continued)

### Financial liabilities at amortised cost

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

### Financial instruments at fair value through profit and loss

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

The valuation techniques for determining the fair values of financial instruments are classified under the hierarchy defined in IFRS 13 which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included for Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

The Group considers all its derivative financial instruments to fall within level 2 as the calculation of the estimated fair value is based on market data inputs which are observable directly or indirectly. The calculation does include unobservable inputs with regards to the determination of credit risk for the Group but these are not considered significant to the valuation. The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2023:

| | **2023 Level 2 £m** | **2022 Level 2 £m** |
|---|---|---|
| **Financial instruments at fair value** | | |
| Derivative financial assets: | | |
| - Index-linked swaps | 50.7 | - |
| Derivative financial liabilities: | | |
| - Index-linked swaps | - | (93.9) |
| | **50.7** | **(93.9)** |

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

### Capital risk management

The Group's principal objectives in managing capital are:

- To finance the Group while minimising risk. The Group will adopt a low risk financing strategy and maintain at all times a robust investment grade credit rating;
- Minimise financing risk through pre-funding, management of maturities and interest rate risk;

# Notes to the financial statements (continued)

## 12 Financial Instruments (continued)

- Financing will be a mix of some or all of commercial bank debt, bonds (public and private), EIB loans, lease financing and other instruments. Financing could be raised on a real and/or nominal basis;
- The Group's weighted average cost of capital will be minimised by reducing risk, including interest rate, inflation, credit spread, maturity risk, liquidity and currency risk;
- Hedging and pre-financing may be used to reduce risk. The Group will not engage in speculative treasury activity; and
- The Group will manage its financing activities in compliance with the constraints imposed by the Government Support Package, financing documents and the Group's Licence.

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

The Group's revolving credit facility (RCF) maturing in 2027 of £160.0m remained undrawn at the Statement of Financial position date (2022: £nil draw down).

The Group's subsidiary Bazalgette Finance plc did not issue any bonds during the year (2022: £300.0m) and the total bond issuance continues to stand at £1.8bn (2022: £1.8bn). The bond issuance includes deferred purchase bonds where the bond proceeds will be received within the next 6 months.

**Management of financial risk**

The Treasury team, which reports directly to the CFO, substantially manages the Group's financing, including debt, cash management and interest costs for the Group on a day to day basis The Audit & Finance Committee which includes the Directors of the Company, meets periodically to review and report on treasury policy, treasury strategies and financing strategy. The Group also has an executive level Funding and Financing Committee, chaired by the CFO, which considers financial, treasury, compliance, tax and regulatory matters in detail on a monthly basis.

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

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2023, the Group had total liquidity in excess of £549m, comprising £323m of unrestricted cash and short-term deposits, the £160m undrawn RCF and £66m of deferred purchase bonds. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity required to project handover.

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

The Secretary of State for Environment, Food and Rural Affairs, through the Government Support Package, has committed to provide certain contingent financial support during the construction period.

Such support is available in exceptional circumstances and includes the Market Disruption Facility providing the Company with a debt facility of up to £500m, for use where it is unable to issue debt in the debt capital markets as a result of market disruption.

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

# Notes to the financial statements (continued)

## 12 Financial Instruments (continued)

| | 2023 £m | 2022 £m |
|---|---|---|
| **Borrowings** | | |
| Within one year | (133.8) | (112.6) |
| Between one and two years | (130.9) | (116.5) |
| Between two and five years | (629.0) | (338.9) |
| After more than 5 years | (7,841.1) | (7,309.6) |
| **Total** | **(8,734.8)** | **(7,877.6)** |
| **Derivative financial instruments** | | |
| Within one year | 40.1 | 23.3 |
| Between one and two years | 36.8 | 27.2 |
| Between two and five years | 67.8 | 55.5 |
| After more than 5 years | (350.5) | (220.9) |
| **Total** | **(205.8)** | **(114.9)** |

### Credit risk

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

Credit risk for the Group principally arises from trading (the supply of services) and treasury activities (the depositing of cash).

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

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

The Group's maximum exposure to credit risk is the carrying amount of financial assets excluding the Derivative financial assets and therefore the maximum exposure at 31 March 2023 was £400.8m (2022: £539.2m). Analysis of this amount can be found in the financial assets section of this note.

### Market risk - Interest rate risks

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

During the previous financial year ending 31 March 2022, the Group had LIBOR (London Interbank Offered Rate) exposures on various financial instruments that required transitioning to SONIA (Sterling Overnight Index Average) following the confirmed discontinuation of LIBOR from 1 January 2022.

The Group's main LIBOR exposures related to the following:

- £620m floating-rate sterling loans (EIB loan tranches 1-8);
- Index-linked Swaps (linked to £620m EIB Loan tranches 1-8); and

# Notes to the financial statements (continued)

## 12 Financial Instruments (continued)

- £160m undrawn RCF.

The Group finalised the process of amending the relevant contractual terms in the EIB loan agreement and the RCF agreement to incorporate the transition to SONIA from January 2022.

The Group has also adhered to the ISDA 2020 IBOR Fallbacks Protocol which automatically transitioned the Company's above swaps from LIBOR to SONIA as at 1 January 2022 adopting the ISDA LIBOR fallback methodology and this was agreed and confirmed with all swap counterparties.

The Group's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2023 is either borrowed or hedged via swaps at fixed or index-linked rates. A sensitivity analysis has not been disclosed as the impact from interest rate movements is considered immaterial.

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

The Group continues to recognize the expected transition from RPI to CPIH from the next regulatory period starting in 2030 as the underlying measure of inflation for price control periods. HM Treasury and the UK Statistic Authority have confirmed that RPI will be aligned with CPIH from February 2030, which aligns well with Ofwat's transition.

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

The table below summarises the sensitivity at 31 March 2023 of the Group's profit and equity to changes in RPI for the Group's index-linked derivatives only. Due to the adopted accounting policy of capitalising borrowing costs that are directly attributable to the construction of the TTT, the sensitivity analysis excludes the Group's index-linked borrowings. This analysis also excludes any RPI impact on the Group's revenues and RCV. The fair value of the Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an increase or decrease in RPI as shown in the table below. This analysis assumes all other variables remain constant.

| | **2023<br>£m<br>+1%** | **2023<br>£m<br>-1%** | **2022<br>£m<br>+1%** | **2022<br>£m<br>-1%** |
|---|---|---|---|---|
| (Loss)/profit | (56.9) | 60.5 | (67.4) | 62.8 |
| Equity | (56.9) | 60.5 | (67.4) | 62.8 |

## 13 Capital and reserves

**Called-up share capital - Group and Parent Company**

| Allotted, called-up and fully paid ordinary shares of £1 each | **Ordinary shares<br>2023<br>No.** | **Ordinary shares<br>2022<br>No.** |
|---|---|---|
| Issued for cash at the beginning of the year | 507,366,749 | 507,366,749 |
| Issued for cash during the year | - | - |
| **Issues for cash as at the end of the year** | **507,366,749** | **507,366,749** |

# Notes to the financial statements (continued)

## 13 Capital and reserves (continued)

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of the Company in line with the details of the Shareholders agreement. Further information on the role of the shareholders is outlined in the Group's Strategic Report section of the Annual report.

Share premium was unchanged in the year at £2.3m (2022: £2.3m).

| **Retained earnings** | **Group 2023 £m** | **Group 2022 £m** | **Company 2023 £m** | **Company 2022 £m** |
|---|---|---|---|---|
| At the beginning of the year | (93.7) | (82.8) | - | - |
| Profit/(loss) for the year | 144.7 | (10.9) | - | - |
| **Total** | **51.0** | **(93.7)** | **-** | **-** |

## 14 Contingent liabilities

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

## 15 Contingent Assets

As at 31 March 2023 there were ongoing commercial negotiations arising in the ordinary course of business under the NEC3 Engineering and Construction Contract. At present the Directors consider an inflow of economic benefit is possible from one or more of the Main Works Contractors. However, the outcome is contingent on the conclusion of the negotiations and more certainty of the total contract values as the project nears completion. The Company has taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information in the extremely rare case where this can be expected to seriously prejudice the entity in a dispute with other parties.

## 16 Related parties

### Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.
The Group's related party transactions throughout the current financial year were made on terms equivalent to those that prevail in arm's length transactions.

### Key management personnel

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

| | **2023 £m** | **2022 £m** |
|---|---|---|
| Short-term benefits | 2.1 | 2.0 |
| Long-term benefits | 2.6 | 0.3 |
| | **4.7** | **2.3** |

## Notes to the financial statements (continued)

### 16 Related parties (continued)

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

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

Included in the above aggregate remuneration value are contributions made under the Group's defined contribution pension plan totalling £10k (2022: £27k). The number of Directors for whom pension contributions were made totalled two (2022: four).

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Remuneration for qualifying services | 2.7 | 0.9 |
| | **2.7** | **0.9** |

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

**Company**

The directors of the Company are considered to be key management personnel. They did not receive and payment for their services during the year ended 31 March 2023 (2022: £nil).

### 17 Ultimate parent company and parent company of larger group

The Company has no ultimate controlling party. The Company is indirectly owned by Allianz Infrastructure Luxembourg I S.a.r.l, Allianz European Infrastructure II Acquisition Holdings S.a.r.l, Dalmore Capital 14 GP Limited, Auger Bore Investments Limited, IPP (Bazalgette) Limited and Bazalgette (Investments) Limited.

Copies of the consolidated financial statements for the Bazalgette Equity Group are available at www.tideway.london.

### 18 Subsequent events occurring after the reporting date

Since the financial year end, the Group has signed an agreement for the private placement of £250m fixed rate notes which will be funded in October 2023.

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