

Bazalgette Finance plc

Annual report and financial statements

For the year ended 31 March 2018

Registered number 09698014

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Directors and advisors

Directors holding office

Andrew Cox

Alistair Ray

Angela Roshier

Gavin Tait

Company Secretary

Valmai Barclay

Registered office

Cottons Centre

Cottons Lane

London

SE1 2QG

Independent auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Strategic report

The directors present their Strategic report for Bazalgette Finance plc for the year ended 31 March 2018.

Business review

Bazalgette Finance plc ("the Company") operates for the sole purpose of raising finance through a multi-currency bond platform on behalf of the Company's sister company, Bazalgette Tunnel Limited, for the purposes of Bazalgette Tunnel Limited's licenced activities as the infrastructure provider for the design and construction of the Thames Tideway Tunnel ("TTT").

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited. As at the 31 March 2018, the Bazalgette Holdings Group ("the Group") comprised the Company, Bazalgette Tunnel Limited, Thames Tideway Tunnel Limited and Bazalgette Holdings Limited.

The proceeds from bonds issued under the multi-currency bond platform are on-lent to Bazalgette Tunnel Limited through a series of back to back loans which have substantively the same economic terms and effectively pass the financing arrangements of the external debt held by the Company to Bazalgette Tunnel Limited.

Some of the bonds issued by the Company are in a deferred format which means that the proceeds from the bond are not received from the bond purchaser until a future settlement date so as to align when funds are raised with the construction expenditure profile of the TTT project. The deferred purchase bonds have deferral periods of up to four years and maturities from 2040 to 2054.

The financing is innovative in applying the deferred purchase structure to a regulated utility company in the sterling market. This structure enables the Group to de-risk its finance plan and secure the best possible borrowing terms, by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding.

In the year ended 31 March 2018, the Company issued £400m of index-linked bonds, including a £125m deferred purchase bond. The Company also issued a £250m fixed-rate public bond, giving a total issuance in the year of £650m. As at the 31 March 2018, a total of £525m of bond proceeds had been settled by bond purchasers (2017: £nil).

The current year issuance is in addition to the £450m of deferred purchase bonds issued by the Company in the prior year and takes the overall total of bonds issued by the Company to £1.1bn.

In the year, the £250m public bond and a £200m index linked bond were issued under the Company's green bond platform.

Green bonds are debt instruments where the proceeds are applied to fund projects that have positive environmental benefits such as the TTT. As part of the execution of the green bond strategy, a Green Bond Framework was published which was aligned with the four core components of the International Capital Markets Association Green Bond Principles, a set of voluntary process guidelines that recommend transparency, disclosure and reporting. This included a description of the TTT project and the sustainable legacy programme as well as undertakings in terms of use of proceeds and reporting.

Fees and costs associated with the issue of the bonds were borne by Bazalgette Tunnel Limited.

As the Company acts solely for the purpose of raising finance for Bazalgette Tunnel Limited, for the purpose of its activities as infrastructure provider for the Thames Tideway Tunnel, further information on the performance of the Thames Tideway Tunnel project can be found in the Bazalgette Tunnel Limited Annual Report (available from www.tideway.london). This includes information on development, performance and position and the impact of activities in the areas of environmental matters, employees of the Group, social matters, respect for human rights, anti-corruption and anti-bribery.

Results and performance

The Company has recorded a £36k loss for the year (2017: £nil). The Company's net assets were £14k (2017: £50k). The loss in the year is due to interest expense on intra-group borrowings.

Strategic report (Continued)

Principal risks and uncertainties

The Company acts with the sole purpose of raising finance under a multi-currency bond programme and then on-lends the proceeds to Bazalgette Tunnel Limited. The execution of this strategy exposes the Company to a number of risks, the principal risks being credit risk, liquidity risk and inflation risk.

Credit risk

Credit risk exists in relation to the Company's financing activities. The Company has entered into a number of agreements with Deferred Bond Purchasers, under which there are long deferral periods for the purchase dates. The Company is therefore exposed to the credit risk of such counterparties on whom it relies to provide funds on the pre-agreed dates. The Company 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, the Company has agreed information requirements and covenants with the Deferred Bond Purchasers, and the Company 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.

Liquidity risk

As part of its financing arrangements to on-lend the proceeds of the deferred bonds, the Company has entered into back to back loans with Bazalgette Tunnel Limited. The Company's obligations to repay principal and interest on its borrowings are intended to be met primarily from the payment of principal and interest by Bazalgette Tunnel Limited under these loans. The Company therefore has liquidity risk with regards to not being able to service the debt commitments to the Deferred Bond Purchasers should Bazalgette Tunnel Limited fail to honour its obligations under the loans.

The Company has limited capitalisation and is therefore reliant on the support of the Group to meet any liabilities as they fall due.

Inflation risk

The finance costs of the Company's index-linked debt instruments vary with changes in RPI (Retail Price Index) and CPI (Consumer Price Index) rather than interest rates. The principal aim of funding under index-linked rates is to appropriately address the economic risks in Bazalgette Tunnel Limited, whose Regulatory Capital Value (RCV) and revenues are exposed to RPI fluctuations. The Group's financing strategy has involved issuing RPI and CPI linked debt to ensure that reductions in revenue due to low inflation will be partially offset by reductions in interest costs.

The Company has issued long dated CPI bonds recognising Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. There is a risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens.

Inflation risk is monitored and reported monthly to the Executive Funding and Financing Committee and subsequently to the Group's Treasury Committee.

Future outlook

The Company is expected to continue to act on behalf of the Company's sister company Bazalgette Tunnel Limited for the purpose of providing finance.

This Strategic report was approved by the board of directors on 21 June 2018 and signed on its behalf by:



Valmai Barclay
Company Secretary

Directors' report

The directors present their report and the audited financial statements for year ended 31 March 2018.
The registered company number is 09698014.

Results and dividend

During the year ended 31 March 2018 the Company reported a £36k loss (2017: £nil). The Company did not pay any dividends in the year (2017: £nil).

Directors

The directors serving during the year, and thereafter, are as follows:

Andrew Cox	Appointed 23 March 2018
Jaroslava Korpancova	Resigned 23 March 2018
Alistair Ray	
Angela Roshier	
Gavin Tait	

Directors' insurance and third-party indemnity

The Bazalgette Holdings Group of which the Company is a subsidiary operates a directors and officers insurance. There were no provisions for third party indemnities (2017: none).

Employees

The Company has no employees (2017: none). Employees of Bazalgette Tunnel Limited carry out all the activities of the Company and there is no specific recharge to the Company.

Charitable and political contributions

The Company made no charitable donations during the year (2017: £nil).

The Company made no political donations nor incurred any political expenditure during the year (2017: £nil).

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

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 Company financial statements in accordance with applicable law and regulations.

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

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 Company and of their profit or loss for that period. In preparing the 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 IFRSs as adopted by the EU;
- assess the 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 Company or to cease operations or have no realistic alternative but to do so.

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

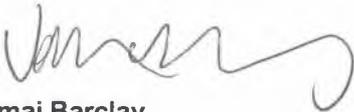
Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.


Valmai Barclay
Company Secretary

Cotton Centre
Cottons Lane
London
SE1 2QG

21 June 2018



Independent auditor's report

to the members of Bazalgette Finance plc only

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Bazalgette Finance plc ("the Company") for the year ended 31 March 2018 which comprise the Company Income Statement, Company Statement of Comprehensive Income, Company Statement of Changes in Equity, Company Balance Sheet, Company Statement of Cash Flows, and the related Notes including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

2. 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders 16 May 2018. The period of total uninterrupted engagement is for the 8 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by the standard were provided.

Overview

Materiality:	£5.2m (2017: £5.0k)
company financial statements	0.90% (2017: 1.00%) of total assets

Coverage	100% (2017:100%) of total assets
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Risks of material misstatement	vs 2017
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Recurring risks	Recoverability of intra-group receivable balance	▶
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2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Recoverability of intra-group receivable balance due from BTL £527m million; (2017: Enil)</p> <p><i>Refer to page 16 (accounting policy) and page 20 (financial disclosures).</i></p>	<p>Low risk, high value</p> <p>The carrying amount of the intra-group debtor balance represents 98% of the company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the company's financial statements, this is considered to be the area that had the greatest effect on our overall company audit.</p>	<p>Our procedures included:</p> <p>Tests of detail: Assessing 100% of intra-group debtors to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.</p> <p>Assessing BTL's ability to repay the receivable: Assessing the ability of BTL to obtain liquid funds and therefore the ability to fund the repayment of the receivable.</p> <p>Findings: We have not identified any issues as part of the recoverability of intra-group receivable.</p>

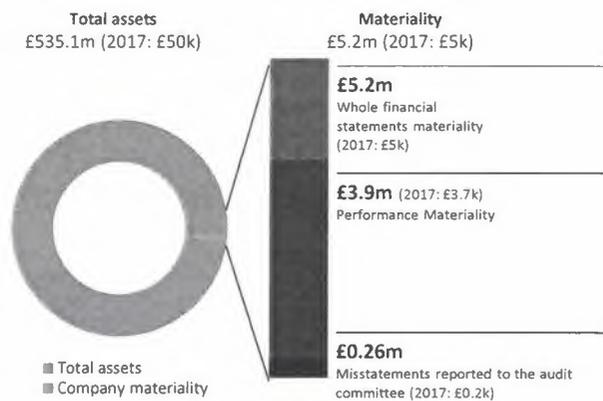
3. Our application of materiality and an overview of the scope of our audit

Materiality for the company financial statements was set at £5.2m (2017: £5.0k), determined with reference to a benchmark of total assets in the year, of which it represents 0.90% (2017: 1.00%).

We consider total assets to be the most appropriate benchmark as the company is a subsidiary within a Group that has significant investment in most of the Group's assets and its main purpose is to raise funds.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £260,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the head office in London.



4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

- 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.

Corporate governance disclosures

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
 - we have not identified material misstatements therein; and
 - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We are also required to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 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.



Irregularities – ability to detect

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

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

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

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

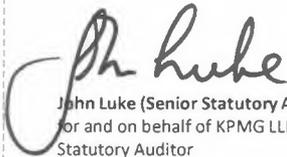
We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

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

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2018



Income Statement

For the year ended 31 March 2018

	<i>Note</i>	2018 £'000	2017 £'000
Net operating costs	2,3	-	-
Operating result		-	-
		<hr/>	<hr/>
Interest income	4	5,189	
Interest expense	4	(5,225)	-
Loss before tax		(36)	-
		<hr/>	<hr/>
Taxation	5	-	-
		<hr/>	<hr/>
Loss for the year		(36)	-
		<hr/> <hr/>	<hr/> <hr/>

Statement of Other Comprehensive Income

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Loss for the year	(36)	-
Other comprehensive income for the year	-	-
	<hr/>	<hr/>
Total comprehensive income for the year	(36)	-
	<hr/> <hr/>	<hr/> <hr/>

The notes 1 to 14 form an integral part of these financial statements.

Statement of Financial Position
As at 31 March 2018

	<i>Note</i>	2017 £'000	2017 £'000
Non-current assets			
Trade and other receivables	6	524,428	-
		<u>524,428</u>	<u>-</u>
Current assets			
Trade and other receivables	6	2,545	-
Cash and cash equivalents	7	8,143	50
		<u>10,688</u>	<u>50</u>
Total assets		535,116	50
Current liabilities			
Trade and other payables	8	(2,586)	-
		<u>(2,586)</u>	<u>-</u>
Non-current liabilities			
Borrowings	9	(532,516)	-
Total liabilities		(535,102)	-
Net assets		14	50
Total equity			
Share capital	11	50	50
Retained earnings	11	(36)	-
		<u>14</u>	<u>50</u>

These financial statements were approved by the board of directors on 21 June 2018 and were signed on its behalf by:



Gavin Tait
Director
Company registered number: 09698014

The notes 1 to 14 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2016	-	-	-
Result for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Transactions with owners recorded directly in equity:			
Issue of shares	50	-	50
Total contributions by and distributions to owners	50	-	50
Balance at 31 March 2017	50	-	50
Balance at 1 April 2017	50	-	50
Result for the year	-	(36)	(36)
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	(36)	(36)
Transactions with owners recorded directly in equity:			
Issue of shares	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance at 31 March 2018	50	(36)	14

The notes 1 to 14 form an integral part of these financial statements.

Cash Flow Statement
For the year ended 31 March 2018

	<i>Note</i>	2018 £'000	2017 £'000
Loss before income tax		(36)	-
Adjustments for:			
Other non-cash movements – finance costs	4	2,326	-
Changes in working capital			
Increase in trade and other receivables	6	(526,973)	-
Increase in trade and other payables	8	2,586	-
		<hr/>	<hr/>
Net cash used in operating activities		(522,097)	-
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from the issue of share capital		-	50
Proceeds from new borrowings		522,102	-
Proceeds from intra-group loans	9	8,088	-
Interest paid		(313)	-
Interest received		313	-
		<hr/>	<hr/>
Net cash from financing activities		530,190	50
		<hr/>	<hr/>
Net increase in cash and cash equivalents during the year		8,093	50
Cash and cash equivalents at the beginning of the year		50	-
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	7	8,143	50
		<hr/> <hr/>	<hr/> <hr/>

The notes 1 to 14 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

Bazalgette Finance plc ("the Company") is a private company domiciled in the UK. The Company's registered address is Cottons Centre, Cottons Lane, London, SE1 2QG. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

These financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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 Company's financial position.

In the process of applying the Company's accounting policies to the financial statements, the directors are required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The directors do not believe there are any areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

The Company's parent undertaking Bazalgette Holdings Limited includes the company in its consolidated financial statements. The consolidated financial statements of Bazalgette Holdings Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address disclosed in note 13.

Measurement convention

The financial statements are prepared in accordance with the historical cost accounting convention.

Going concern

The directors have undertaken a detailed review to assess the liquidity requirements of the Company compared against the cash and facilities available to the Company and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

Financial instruments

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as either derivative or non-derivative financial instruments. Derivative financial instruments comprise financial liabilities designated at fair value through profit or loss. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Company 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 are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Trade and other payables:

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

1 Accounting policies (continued)

Cash and cash equivalents:

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

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

Borrowings:

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

Deferred purchase bonds:

No financial asset or liability is recorded on the initial issue date. The commitment for the bond proceeds to be received from the bond purchaser on the future settlement date is accounted for as a loan commitment and thus as an executory contract it falls outside the scope of IAS 39. As a result, there is no Income Statement impact from any movements in the fair value between the initial issue date and the deferred settlement date.

Impairment

For financial and non-financial assets, the Company 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.

Any impairment losses are recognised in the Income Statement.

Taxation

Tax on the profit or loss for the year comprises the current tax charge or credit for the year. Tax is recognised in the profit and loss account 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 balance sheet 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 Company has the right of set off.

1 Accounting policies (continued)

Recently issued accounting standards

At the date of authorisation of these financial statements, the Company has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Company as at 31 March 2018 and in some cases are subject still to endorsement by the EU.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contract with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures
- IAS 40 Transfers of Investment Property
- IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Prepayment Features with Negative Compensation
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Improvements to IFRSs (2014–2016)
- Improvements to IFRSs (2015–2017)

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

The Company has completed an impact assessment of the adoption of IFRS 9 and has concluded that on adoption of the new standard, impairment losses against financial assets under the twelve-month expected credit loss model would be immaterial and there would not be a material change to the treatment of assets under the new IFRS 9 classifications. Therefore, the impact of adoption of the new standard is not likely to be significant.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

The Company has assessed the impact of applying the five-step model under IFRS 15 and concluded that it will have no material impact on the company's financial statements when it is adopted.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The Company has completed its initial assessment of the impact of applying the single recognition model for lessees and concluded there would be no material impact as the Company does not currently have any operating leases. The Company will continue to assess the impact of this standard as it approaches the adoption date.

2 Auditor's remuneration

The auditor's remuneration for the audit of these financial statements was £5,000 (2017: £2,000) and was borne wholly by Bazalgette Tunnel Limited.

3 Remuneration of directors

The directors of Bazalgette Finance plc did not receive any payments for their services during the year as they have not performed any qualifying services (2017: £nil).

4 Net finance costs

	2018 £'000	2017 £'000
Interest expense		
Interest expense on external borrowings	(2,858)	-
Intra-group interest expense	(41)	-
Other financial liabilities measured at amortised cost	(2,326)	-
Interest income		
Bank interest received	5	-
Intra-group interest income	5,184	-
	<u>(36)</u>	<u>-</u>
Net finance costs	<u>(36)</u>	<u>-</u>

The Company has a back to back arrangement with Bazalgette Tunnel Limited whereby all third party borrowings are replicated via loans to Bazalgette Tunnel Limited on identical economic terms, resulting in a neutral impact in the Income Statement.

5 Taxation

	2018 £'000	2017 £'000
Total current tax	-	-
Total Income Statement tax expense	<u>-</u>	<u>-</u>

Reconciliation of effective tax rate

	2018 £'000	2017 £'000
Loss before tax:	(36)	-
Expected tax credit using UK corporation tax rate of 19% (2017: 20%)	7	-
Deferred tax asset not recognised	(7)	-
Total Income Statement tax expense	<u>-</u>	<u>-</u>

6 Trade and other receivables

	2018 £'000	2017 £'000
Intra-group loans (see note 12)	522,192	-
Interest receivable from Intra-group companies (see note 12)	4,781	-
	<u>526,973</u>	<u>-</u>
Non-current assets	524,428	-
Current assets	2,545	-

Intra-group loans represent the proceeds from borrowings that have been passed onto the Company's sister company Bazalgette Tunnel Limited via back to back loans.

Interest receivable from intra-group companies represents the interest on these loans payable by Bazalgette Tunnel Limited. The interest terms are identical to the interest terms on the Company's external borrowings.

7 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and bank balances	8,143	50
Cash and cash equivalents per cash flow statement	8,143	50

Restricted Cash

The Company holds a Debt Service Reserve Account 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 the Debt Service Reserve Account was £8,088k at 31 March 2018 (2017: £nil).

8 Trade and other payables

	2018 £'000	2017 £'000
Accrued expenses	2,545	-
Intra-group accrued expenses (see note 12)	41	-
	<u>2,586</u>	<u>-</u>
Non-current liabilities	-	-
Current liabilities	2,586	-

Accrued expenses represent interest payable on outstanding borrowings.

9 Borrowings

The Company operates for the sole purpose of raising finance through a multi-currency bond platform on behalf of the Company's sister company, Bazalgette Tunnel Limited, for the purposes of Bazalgette Tunnel Limited's licenced activities as the infrastructure provider for the design and construction of the TTT project.

The proceeds from bonds issued under this platform are on-lent to Bazalgette Tunnel Limited through a series of back to back loans which have substantively the same economic terms and effectively pass the financing arrangements of the external debt held by the Company to Bazalgette Tunnel Limited.

Some of the bonds issued by the Company are in a deferred format which means that the proceeds from the bond are not received from the bond purchaser until a future settlement date so as to align when funds are raised with the construction expenditure profile of the TTT project..

This note provides information about the Company's borrowings, which are measured at amortised cost. Debt issue costs have been borne by Bazalgette Tunnel Limited.

	2018 £'000	2017 £'000
Third party borrowings		
£250m 2.375% fixed-rate bond 2027	247,193	-
£75m 0.828% index-linked bond 2047 ^{a, b}	76,075	-
£200m 0.740% index-linked bond 2042 ^{a, c}	201,160	-
Intra-group borrowings		
Floating rate loan from Bazalgette Tunnel Limited (see note 12)	8,088	-
	<u>532,516</u>	<u>-</u>
Total borrowings	<u>532,516</u>	<u>-</u>
Current liabilities	-	-
Non-current liabilities	<u>532,516</u>	<u>-</u>

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

b) This debt amortises from 2038.

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

Deferred purchase bonds

The Company placed £125m of deferred purchase bonds during the year ended 31 March 2018 (2017: £450m). In total, the Company has issued £575m of deferred bonds to a range of investors. The bond proceeds will be received over the next four years and the bonds have maturities from 2040 to 2054.

10 Financial Instruments

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

Financial Assets

	2018 £'000	2017 £'000
Trade and other receivables	526,973	-
Cash and cash equivalents	8,143	-
	<u>535,116</u>	<u>-</u>
Total	<u>535,116</u>	<u>-</u>

Financial Instruments (continued)

Financial Liabilities

	2018 £'000	2017 £'000
Trade and other payables	2,586	-
Borrowings	532,516	-
Total	535,102	-

Fair Value Measurements

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

The fair values of financial instruments and a comparison to their carrying value is shown in the table below. The Company 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 2018 Book value £m	31 March 2018 Fair value £m	31 March 2017 Book value £m	31 March 2017 Fair Value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings - index-linked bonds	524,428	540,677	-	-
Borrowings - floating rate loans	8,088	7,901	-	-
Total	532,516	548,578	-	-

Financial liabilities at amortised cost

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 Company.

Capital risk management

The Company manages capital in line with the overall Group's objectives which are:

- To finance Bazalgette Tunnel Limited while minimising the weighted average cost of capital. The Group will maintain at all times a robust investment grade credit rating;
- 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/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 Company's Licence.

Financial Instruments (continued)

The Company seeks to maintain a low risk financing position by preserving its corporate family credit rating of Baa1(Moody's). The credit rating was unchanged in the year.

Management of financial risk

The Treasury team, which reports directly to the CFO, substantially manages the financing, including debt, cash management and interest costs for the Company on a day to day basis. A Treasury Committee which includes the directors of the Company, meets periodically to review and report on treasury policy, treasury strategies and financial strategy. The Company also has an executive level

Funding and Financing Committee, chaired by the CFO, which considers treasury and regulatory matters in detail on a monthly basis.

The Company's funding to date has been achieved with a mix of indexed and fixed rates to appropriately address the risks in Bazalgette Tunnel Limited.

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

Liquidity risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic report.

The table below analyse the Company's interest-bearing borrowings 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.

	2018 £'000	2017 £'000
Within one year	(8,054)	-
Between one and two years	(8,074)	-
Between two and five years	(24,628)	-
After more than 5 years	(755,505)	-
Total	(796,261)	-

Credit risk

Details of the nature and management of the Company's credit risk is provided in the Strategic report.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2018 was £535,116 (2017: £nil). Analysis of this amount can be found in the financial assets section of this note.

As these assets relate to intra-group debt owed by a regulated water company which is characterised by stable and predictable cash flows and which has significant liquidity, the credit risk is considered low.

Market risk - Inflation risk

Details of the nature and management of the Company's inflation risk is provided in the Strategic report.

As the Company's borrowings are on-lent to Bazalgette Tunnel Limited on substantively identical economic terms, the Company is itself not sensitive to fluctuations in inflation, as any increase in interest costs is offset by interest income on the back to back loans.

11 Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2018 No.	Ordinary shares 2017 No.
At the beginning of the year	50,000	1
Issued for cash	-	49,999
At the end of the year	50,000	50,000

Each share ranks equally for voting purposes for any dividend declared and distribution rights on a winding up.

12 Related party transactions

The Company was established for the sole purpose of raising finance on behalf of the Company's sister company, Bazalgette Tunnel Limited, for the purposes of Bazalgette Tunnel Limited's licenced activities and functions as the infrastructure provider for the design and construction of the Thames Tideway Tunnel. Loans receivable from related parties represent cumulative financing proceeds that have been lent to Bazalgette Tunnel Limited.

Amounts outstanding on loans made to Bazalgette Tunnel Limited are £522,192k (2017: £nil) and interest outstanding of £4,781k (2017: £nil).

During the year ended 31 March 2018, the Company received £313k from Bazalgette Tunnel Limited with regards to interest payments under the back to back loans.

Amounts outstanding on borrowings with Bazalgette Tunnel Limited are £8,088k (2017: £nil). The loan carries a floating charge based on Libor plus 85bp. Interest receivable on this borrowing totalled £41k (2017: £nil) at the 31 March 2018.

Key management personnel

Key management personnel comprise the directors of the Company. The remuneration of the directors is disclosed in note 3.

13 Immediate and ultimate parent company of a larger group

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited (incorporated in the United Kingdom).

The directors consider Bazalgette Equity Limited, (incorporated in the United Kingdom) to be the ultimate parent company. The smallest group in which the Company is incorporated is Bazalgette Holdings Limited. The largest group in which the results of the Company are consolidated is that headed by Bazalgette Equity Limited. No other group financial statements include the results of the Company.

Copies of consolidated financial statements of Bazalgette Equity Limited can be obtained from the Company Secretary, Bazalgette Equity Limited,, The Cottons Centre, Cottons Lane, London, SE1 2QG.

14 Subsequent events occurring after the reporting date

On 10 April 2018, the Company issued a £150m Green index-linked bond. Linked to RPI the bond matures in 2032 and has a deferred purchase date of 2022.

On 14 May 2018, the Company issued three further deferred purchase bonds; a £75m Green CPI-linked bond with a maturity of 2052 and a deferred purchase date of 2022 and two £50m Green RPI-linked bonds with maturities of 2049 and deferred purchase dates of 2022 and 2023 respectively.