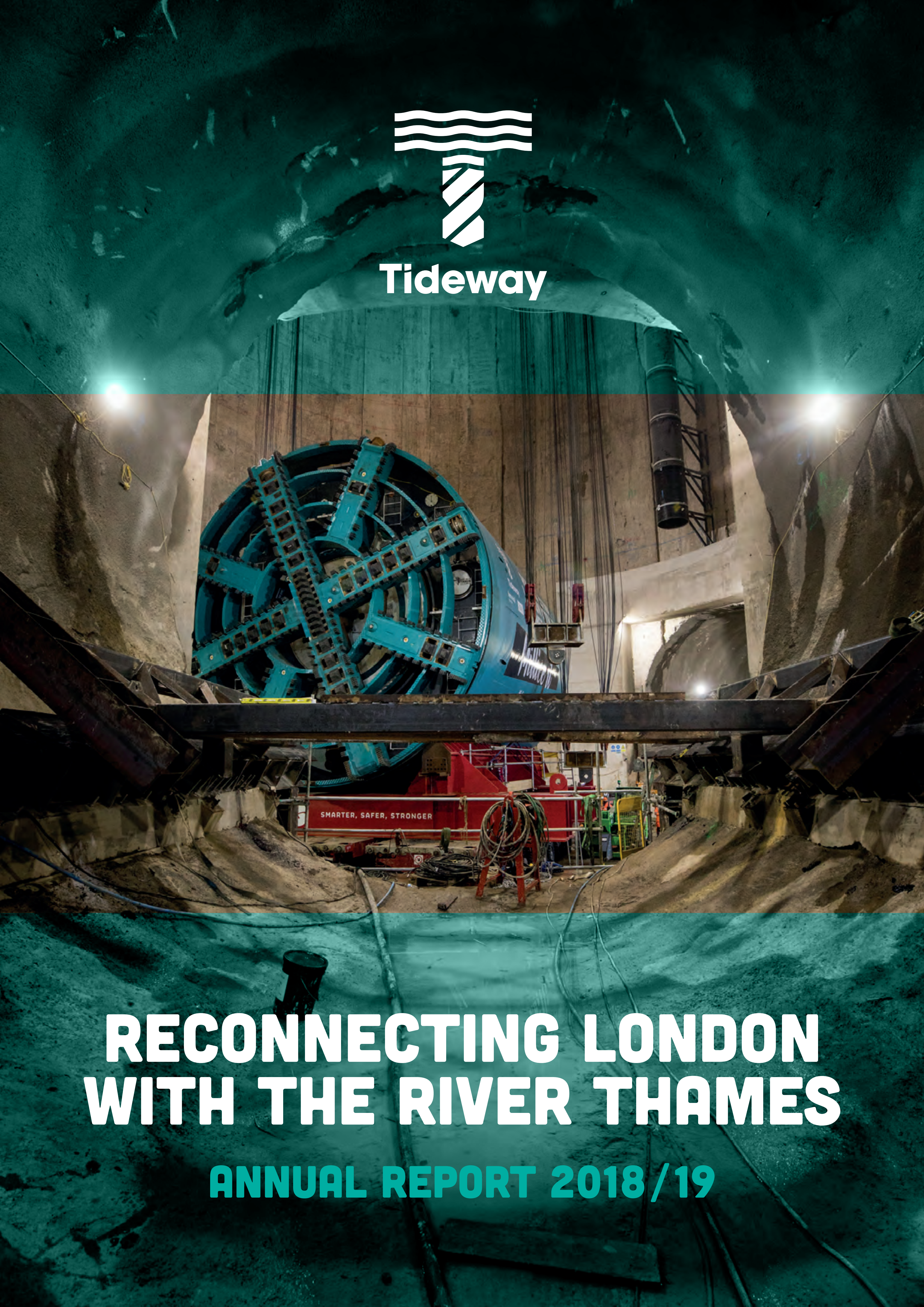
Tideway



RECONNECTING LONDON WITH THE RIVER THAMES

ANNUAL REPORT 2018/19

Contents

About us

Bazalgette Tunnel Limited, trading under the name **Tideway**, began operating as an independent regulated water company in August 2015, when Ofwat awarded us our Licence to design, build, commission, finance and maintain the Thames Tideway Tunnel.

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 over 2.9m UK pension holders a stake in Tideway.

Tideway

Tideway Highlights

Our year at a glance

Objective	Highlight	Recognition
HEALTH, SAFETY & WELLBEING	• No significant injuries • 167 volunteer mental health first aiders across the entire project	**Britain's 3rd Healthiest Workplace and most improved overall for medium size companies** **Multi award winning innovative health and safety training facility (EPIC - Employer's Project Induction Centre)***
SCHEDULE, COST & QUALITY	• On track to Handover by March 2024 • Costs expected to be £3.8bn (vs £3.5bn regulatory baseline) • More by River strategy keeps 68,000 HGV movements off London's roads	**EDIE sustainability awards 'Mission Impossible: Mobility' category for More by River strategy**
VISION, LEGACY & REPUTATION	• 90% of live Legacy Commitments on track against a target of 75% • Community investment programme benefitted c9,000 people	**Evening Standard Corporate Citizen of the Year for community investment**
COMPANY & PEOPLE	• 94% of staff said 'Tideway is socially responsible' • 92% of staff said 'Tideway values and promotes diversity'	**The Times Top 50 Employers for Women** **Tideway CEO Andy Mitchell named as a finalist in the Gender Champion Award category**
FINANCING	• Implemented green bond platform • Secured liquidity to end of construction	**Treasury4Good award for Best Corporate Sustainable Finance Solution** **Joint highest ever evaluation for green bonds (Standard and Poors)**

92% OF STAKEHOLDERS SURVEYED WERE POSITIVE TOWARD TIDEWAY

* *EPIC won a series of awards, including Health, Safety and Wellbeing Initiative of the Year at the British Construction Industry Awards, the Ground Engineering Awards*

Strategic Report

Millicent, the first tunnel boring machine to begin work on the main tunnel, being prepared at the bottom of the shaft at Kirtling Street in summer 2018. As of the end of March 2018, Millicent had tunnelled over 1,000m west, past Chelsea Bridge

Looking west over the River Thames, with Tideway's Blackfriars Bridge Foreshore site visible to the right

Strategic Report
Chairman's Introduction

SIR NEVILLE SIMMS
NON-EXECUTIVE CHAIRMAN

I am pleased to introduce this, our fourth annual report, since the establishment of Bazalgette Tunnel Limited in 2015. We are now well into the delivery phase of the project and our teams deserve acknowledgement for having managed their way through the design and construction challenges of our early years, whilst still maintaining momentum on safe and reliable delivery.

As described in more detail in the rest of this report, this year has been one of significant progress across all the main works areas. We have mobilised on all but one of our 21 sites across London, tunnelling is now well underway with four of our six tunnel boring machines underground and three actively tunnelling. During the year our teams have also resolved the unforeseen and extremely complex challenges at Blackfriars and King Edward Memorial Park.

It is very pleasing to report that the culture and behaviours developed in the Company have been recognised externally this year. Our staff have won a number of awards which acknowledge their achievements over a wide range of activities, including our innovative approach to health and safety training, supporting diversity in the workplace, assisting ex-offenders and those currently not in work into employment, providing one of Britain's most healthy workplaces and utilising environmentally sustainable solutions in corporate finance. These awards reflect the fact that our Company values are now well embedded in everyday activities and we are achieving the Board's vision of the type of company we set out to be.

We are also leading the greenfield infrastructure market with a new delivery model that harnesses low-cost, long-term private capital to deliver critical environment-enhancing UK infrastructure. The shareholders' decision at Licence Award, to put in some £1.3bn of equity and loans upfront, helped establish Tideway as a well-capitalised utility company investment and has assisted us in achieving robust credit ratings and competitively priced financing, which now provides us with all the liquidity we need to take the project through to the end of construction.

Last year, nearly four years into the project, we resolved a number of significant challenges encountered in the initial, more unpredictable phase. When in April we announced an 8% upward revision in estimated costs to complete the project we were, at the same time, able to confirm that there would be no change to the estimated annual cost range for Thames Water bill-payers, and that we are now well on the way to delivering an asset that will modernise London's ageing sewerage network and provide significant environmental benefits to the River Thames for decades to come.

In the past year scrutiny of the infrastructure sector has intensified and our stakeholders rightly expect us to operate within a framework of strong governance that lends confidence to our model of private investment and its capacity to deliver value for money. As a company we have always sought to achieve the highest practical levels of good corporate governance and we remain committed to maintaining our record in this respect. As in previous years, we continue to report full compliance with the Ofwat principles on board leadership, transparency and governance and near full compliance with the FRC's UK Corporate Governance Code, which we explain later in this report. This year our report also sets out the measures we are implementing to enhance our corporate governance arrangements as we continue to strive to exceed the expectations of our stakeholders.

I believe Tideway is using new methods and setting new standards for delivery of infrastructure projects, but I also recognise that there is always room for improvement. The Tideway Reporting Group, independent from Tideway, was therefore established to monitor our performance in dealing with issues like complaints, compensation and community relations. I am pleased that the Chairman of the Group recently confirmed that Tideway is performing well in these areas and in how we address stakeholder concerns and that we are using the lessons learned to inform the remainder of the project and the infrastructure projects of the future.

This report describes openly and honestly our achievements, the challenges we face and the steps the whole team, Board and Executive together, are committed to taking to ensure our continued success.

Finally, I would like to thank all those who work on and with Tideway, including our many stakeholders and main works contractors, for their commitment to ensuring that we continue to drive the industry forward as we deliver this vitally important project.

Sir Neville Simms
Chairman

Chief Executive Officer's Report

ANDY MITCHELL CBE
CHIEF EXECUTIVE OFFICER

On one of the tunnel boring machines at Kirtling Street

The 2018/19 business year was another encouraging step for the Company to deliver the Thames Tideway Tunnel and in doing so create a cleaner and healthier River Thames. We are in the peak construction phase and by the end of the year we completed 40% of our construction activities and started tunnelling at a number of sites.

We have been clear from the start that just as important as what we have to do is how we are going to deliver the project. We have set out ambitious plans for the broader benefits from the project whether for the health, safety and wellbeing of our staff, the environment, the industry we work within, the communities we engage with, and London. It has been very pleasing that the efforts of so many people working on Tideway have been recognised throughout the year and that for the first time we are able to report our progress against several UN Sustainable Development Goals. I am particularly encouraged that 92% of our stakeholders showed positive support for the work we do, the Evening Standard awarded us Corporate Citizen of the year, and we were included in The Times Top 50 employers for women. This year's annual report highlights how we are living our values and it is good to report that 94% of our staff believe we are socially responsible. Their commitment to the project and our values remains outstanding which in part is reflected by the more than 7,000 hours volunteered to local causes during the year.

We are committed to keeping our workforce and our neighbours as safe and healthy as possible and in the process, hopefully setting new standards for the industry. To March 2019, we have expended 12.6m work hours on our sites with 5m having been deployed in the year, culminating in the second half of the year seeing only three one-day accidents. Our challenge, as always, remains to keep our efforts finely tuned to the type of work that we are doing so that we can maintain or improve on the trend of last year.

Our approach goes beyond safety to encompass both health and wellbeing. It is pleasing to see that our focus on mental health has been well received by the workforce and interesting to note that there are now more than 160 trained mental health first aiders at all levels throughout our workforce - a reflection of the acceptance of this as a serious issue amongst the workforce and construction industry. VitalityHealth recognised our progress by awarding us the third healthiest workplace for medium-sized companies and most improved overall in this category. We will continue to seek to improve further on our efforts here.

We are now fully mobilised and active on 20 of our 21 sites, and in total we have 22 shafts and 25km of tunnel to build but before being able to get started on much of this work we have had to strengthen river walls and build new land out into the river at eight locations using a number of jack-up barges and marine construction plant unlikely to have been seen on this scale on the river before. I am pleased to be able to say that this marine construction phase is coming to an end and that the year ahead will now see the full-on production of the shafts and tunnels and river operations. That being said, we have already built four shafts to full depth and have another 11 under construction leaving just seven more to be started.

The bulk of the tunnelling lies ahead of us but as at April 2019 we already have four tunnelling machines under the river and have built over two kilometres. Our river logistics operation is now in full swing as we implement our More by River strategy which has reduced the need for 68,000 lorry movements during the year helping to avoid congestion and pollution and making roads safer for London.

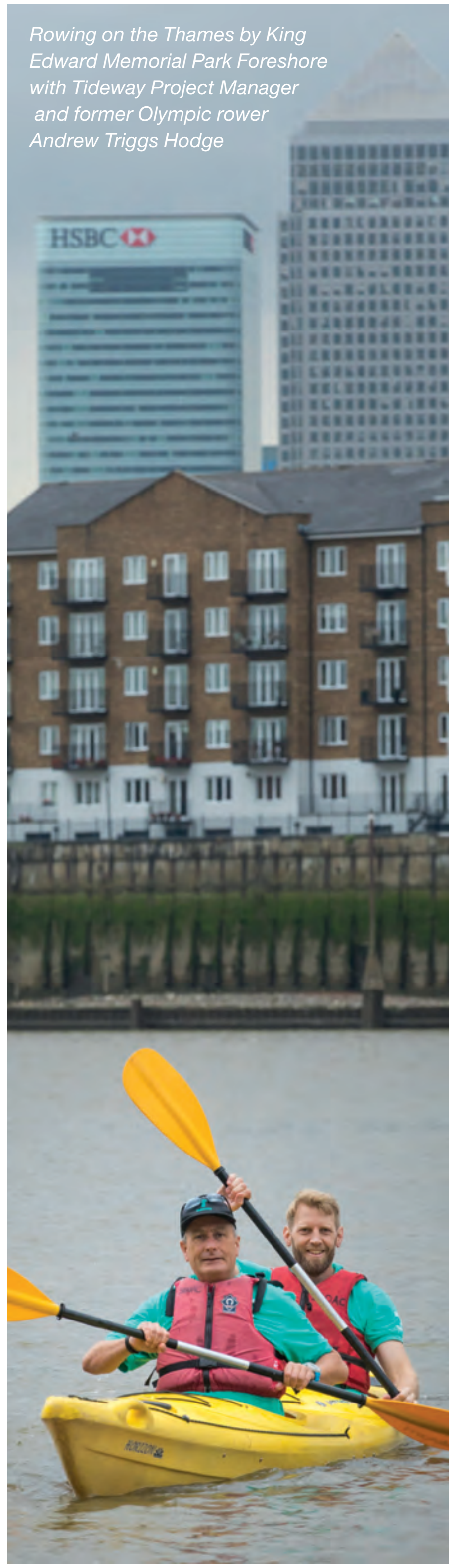
'We have set out ambitious plans for the broader benefits from the project whether for the health, safety and wellbeing of our staff, the industry we work within, the communities we engage with, or London.'

The year saw us encounter and resolve the two most significant challenges to date that were the key drivers to the revised cost estimate that we declared in April 2019, namely the gas main at Blackfriars and the unexpected ground conditions at King Edward Memorial Park. For Blackfriars, working very closely with our contractor FLO, with Cadent Gas, and with Transport for London, a solution requiring the total redesign of the largest of our 'new pieces of London' has allowed us to not have to remove and replace a sensitive cast iron gas main that would have required the total closure of the Embankment for well over six months, which was extremely good news. Similarly, unexpectedly weak ground conditions at King Edward Memorial Park, discovered only once the cofferdam out into the river was being built up, required a fundamental rethink of how the shaft, new land and main tunnel could be constructed. I am pleased to say that both of these situations are behind us now and are reflected in our new cost estimate and schedule and with all of our other sites well underway it is increasingly unlikely that we shall encounter any other surprises of this scale as we build out the bulk of our works over the coming year.

The year has seen us continue to build on our strong financing position. We have secured liquidity to the end of construction and have implemented a green bond framework with a high score green evaluation by Standard and Poor's.

With our construction sites, shaft and tunnel construction and river operations well underway and with the obvious commitment of our workforce to build our works safely and with consideration for all I look forward to our busiest and most productive year yet.

Andy Mitchell CBE
Chief Executive Officer



Rowing on the Thames by King Edward Memorial Park Foreshore with Tideway Project Manager and former Olympic rower Andrew Triggs Hodge

OUR VISION

RECONNECTING LONDON WITH THE RIVER THAMES

Tideway is a privately financed company responsible for designing, building, commissioning, financing and maintaining the Thames Tideway Tunnel.

However, our ambition for this engineering endeavour goes beyond just building a tunnel.

We want to transform the River Thames, leaving it cleaner and changing how Londoners use it. We want people to enjoy the Thames in their leisure time, participating in water sports and appreciating the foreshores, views and walks. The joy and prosperity a cleaner river will provide for Londoners will be our legacy once the project is complete.

OUR PURPOSE

Tideway is building the Thames Tideway Tunnel under the River Thames to give London the sewer capacity it needs now and for the future.

The 25km 'super sewer' will stop tens of millions of tonnes of raw sewage polluting the Thames every year - cleaning up our city's greatest natural asset and creating a healthier environment for London.

OUR VALUES

It is not just what we do that is important to us, but how we do it.

With a greater commitment to sustainability, innovation and safety, our aim is to transform the way the industry operates. In particular, we want to see a step change in the health and wellbeing of everyone working on the project, as well as those that we engage with, local residents and our partners and stakeholders.

OUR VALUES ARE:

SAFETY
Transform the health, safety and wellbeing of all

RESPECT
For people, places and resources

COLLABORATION
Work together as an effective team

INNOVATION
Strive for excellence in project delivery

LEGACY
Create a healthier future for London

WE DO THINGS SAFELY OR NOT AT ALL

Living Our Values

We bring our values to life every day, whether that is through our focus on safety and wellbeing in the workplace, volunteering with our charity partners, engaging local residents on what we are doing or supporting people to develop skills and find employment. The respect we have for our work and each other has been recognised during the year through our staff survey, our stakeholder survey and external awards.

We have set out in this report examples of how our work reflects our values.

See our **Performance section** to find out more

"Something which is great to see is the focus on mental health, no other project has taken this as seriously or tried to make as tangible a difference as Tideway is."

Staff survey 2018

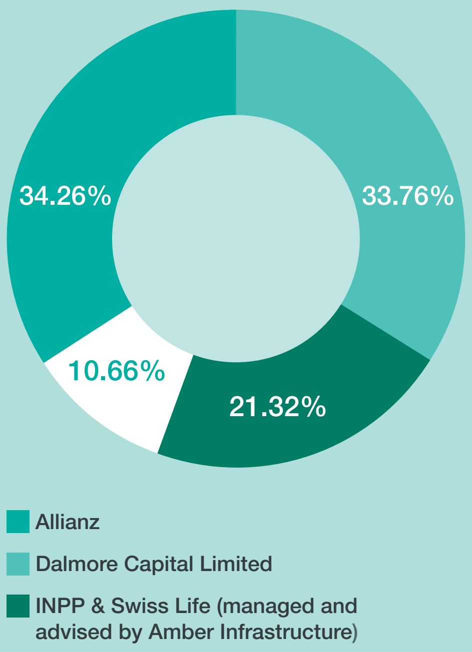
Who We Are & What We Do

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 over 2.9m UK pension holders a stake in Tideway.

The shareholder group comprises:



DELIVERING WITH PARTNERS

Our delivery partners include our Programme Manager (PM), three consortia known as the Main Works Contractors (MWCs), who are delivering the works in the West, Central and East areas, and our System Integrator. We worked with the PM during the development of the project and in the procurement of the MWCs. Together we all focus on safely delivering the project, to the best value and best schedule. We have an experienced and competitive supply chain with the right incentives in place and strong information links, so we can share lessons learned that enable us to best deliver the project.

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

We also work closely with Thames Water which is responsible for important elements of the overall project and which will ultimately operate the system in conjunction with its network. Thames Water has a team co-located with us.

Furthermore, Tideway has established an alliance comprising Tideway, Thames Water, the MWCs and the System Integrator and is governed by an Alliance Agreement. This incentivises collaboration towards achieving the construction aims, milestones and outcomes, including the objective of meeting overall cost challenges.

Nawaal Abdalla Omar, who won 'HSW Young Person of the Year' at Tideway's 2019 RightWay Awards, with world champion swimmer, Mark Foster, and Tideway's HR Director, Julie Thornton. Nawaal is a Site Engineer Apprentice at Deptford Church Street an was recognised for her approach to health and safety throughout 2018/19

Who We Are & What We Do

ENGAGING WITH OUR EXTERNAL PARTNERS

Engaging with our stakeholders is a critical part of our work to construct the tunnel to deliver a cleaner, healthier River Thames.

We are committed to ensuring that our stakeholders are fully engaged in our work and that they are confident that their views will be listened to and taken into account.

Our stakeholders include the residents and businesses based close to our construction sites; local councillors, MPs and Members of the London Assembly; and a range of organisations including local authorities, the Greater London Authority, the Environment Agency, the Department for Environment, Food and Rural Affairs (Defra), and the Port of London Authority.

At a local level our engagement includes collaborative working with our MWCs to ensure that the communities we are working in are kept informed and up-to-date on the works taking place, progress being made and potential impacts.

There are dedicated community relations teams in each of the three delivery areas, with Community Information Centres at the three main drive sites. These spaces allow us to engage with the community via informal drop-ins, formal meetings and presentations, school visits and employment opportunity workshops. Our site-based community relations team and 24-hour helpdesk mean that we are always accessible to our neighbours.

In delivering a major infrastructure project across London we recognise the importance of engagement, transparency and trust. To support the project we have established a range of independent parties and roles for each of our primary groups of stakeholders outlined here. These include independent assessors of project information, independent Chairs for stakeholder groups and independent bodies for advice, complaints and compensation.

We engage with our other key stakeholders including local authorities and other consent granting bodies. The independently chaired Thames Tideway Tunnel Forum meets quarterly with attendees from local authorities and other statutory organisations.

Category	Key Government and regulatory stakeholders	Consenting bodies and delivery partners	Communities directly impacted by construction
Stakeholder	Ofwat Environment Agency Defra Thames Water	Greater London Authority Local authorities Port of London Authority Transport for London Marine Maritime Organisation Historic England Landowners and asset owners	Residents Businesses/local services Schools
Channel	Quarterly Liaison Committee meeting (including Thames Water)	Quarterly Thames Tideway Tunnel Forum Bilateral meetings Annual stakeholder survey	Regular Community Liaison Working Group meetings Letter drops about works Quarterly newsletters Community Information Centres Dedicated web pages and other communications
Independent roles and assurance	**Independent Technical Assessor (ITA):** The ITA reviews Tideway and Thames Water reporting to the Liaison Committee.	**Independent Chairman of Tideway Reporting Group,** a group set up to oversee stakeholder reporting. It also oversees the ICP and ICC. **Independent Chairman for TTT Forum.**	Independent services available to support stakeholders, which include: **Independent Advisory Service (IAS):** Offers independent help and support to stakeholders living and working close to our construction sites. **Independent Compensation Panel (ICP):** Oversees and determines claims made under any of the non-statutory compensation policies. **Independent Complaints Commissioner (ICC):** Assists stakeholders who are not satisfied with the ICP's response regarding a claim.

THE DELIVERY MODEL

The Thames Tideway Tunnel is being delivered using an innovative delivery model. The model was established to attract private sector capital to finance infrastructure and deliver value for money to customers.

The delivery model includes a bespoke regulatory framework, including contingent Government Support Package, which recognises the unique nature of Tideway's business. This framework provides a revenue stream during both the construction and operational periods. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers and passed to Tideway.

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

The Tunnel Route

25

kilometres long

Travelling from west to east London, the main tunnel will be 25km long. Two connection tunnels will be 4.6km and 1.1km long.

7.2

metres wide

The main tunnel will have an internal diameter of 6.5 metres between Acton Storm Tanks and Carnwath Road Riverside. It will have a 7.2 metre internal diameter at Abbey Mills Pumping Station. The Greenwich connection tunnel will have a 5 metre internal diameter and Frogmore connection tunnel will be 2.6 metres.

66

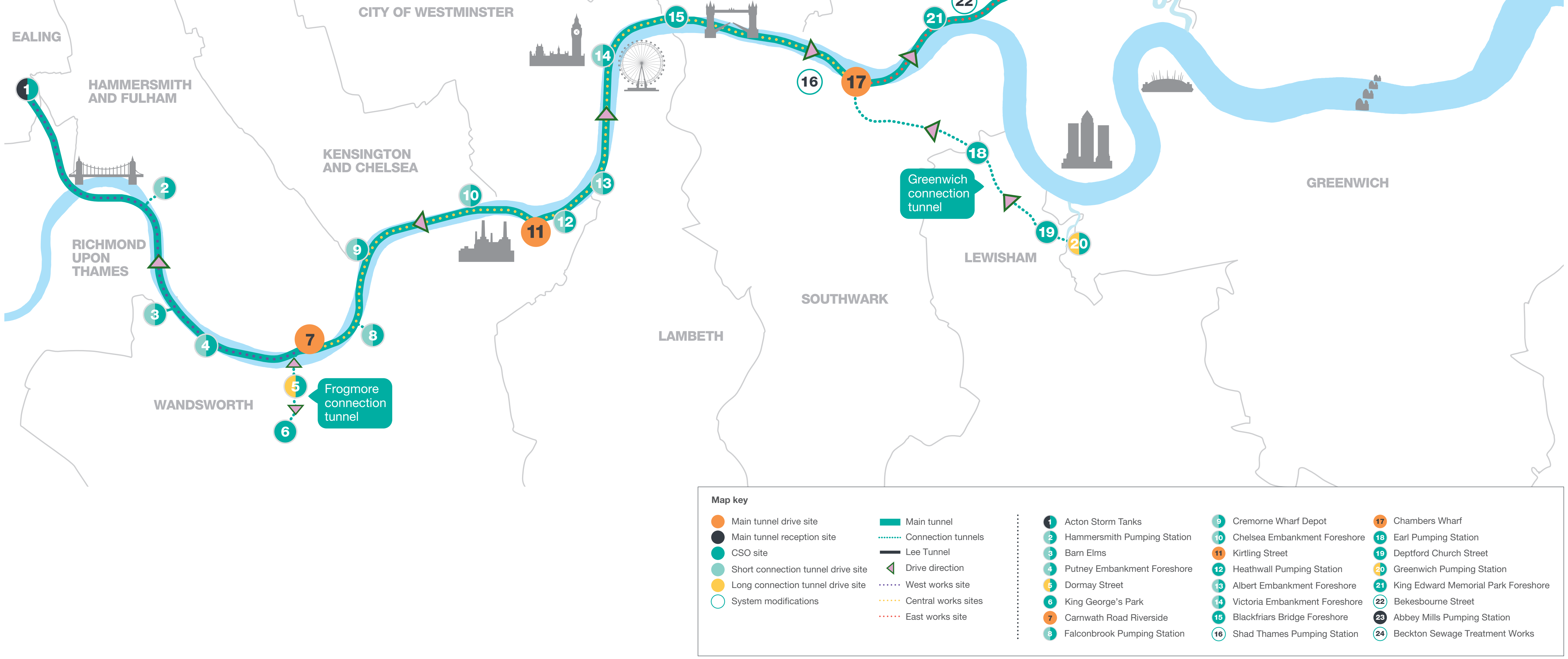
metres deep

The tunnel needs to fall one metre every 790 metres so it can be self-cleaning. Starting from 30 metres deep at Acton Storm Tanks, it will finish 66 metres deep at Abbey Mills Pumping Station.

THAMES TIDEWAY TUNNEL

The 25km tunnel beneath London, which has been dubbed the 'super sewer', will run from the Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London, with most of the tunnel being under the River Thames. The flow from over 30 combined sewer overflows (CSOs) will be diverted from the sewerage network into the main tunnel, where it will continue to flow by gravity to the existing Lee Tunnel. From there it will run to the Tideway Pumping Station, to be pumped to Beckton sewage treatment works.

The main tunnel construction uses Tunnel Boring Machines (TBMs) in four drives from three main sites, Fulham in the West, Battersea in the Central section and Bermondsey in the East, with two additional connection tunnel-drive sites. Additional works will intercept the CSOs and connect them to the main tunnel.



The Timeline

THE TIMELINE

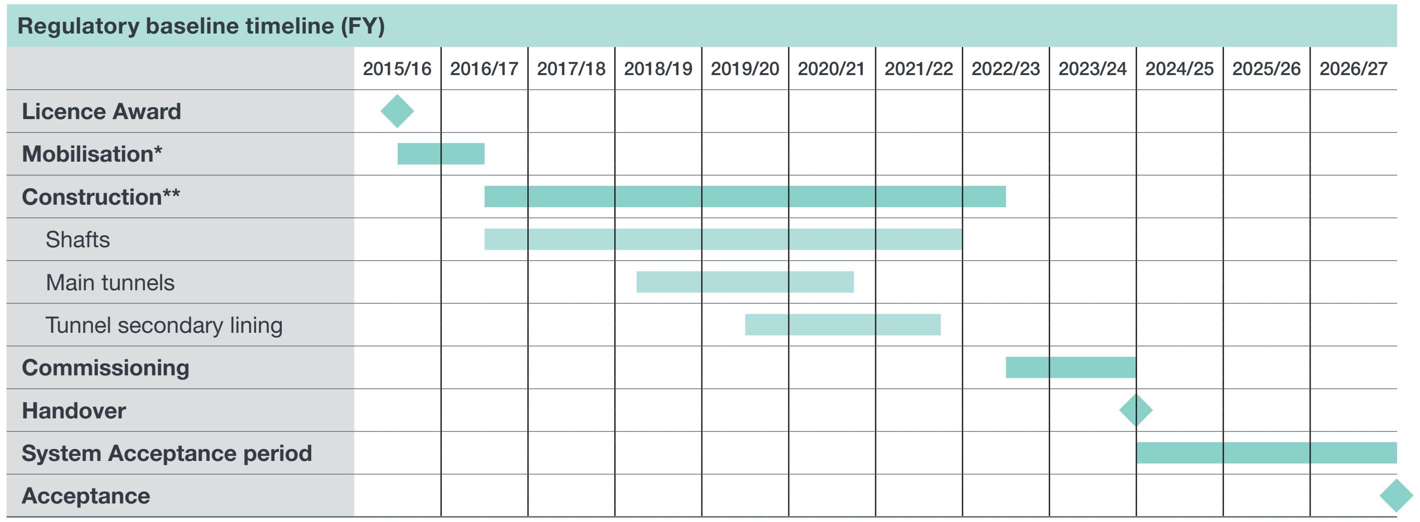
After we were awarded our Licence, we agreed a baseline schedule with our MWCs that met the Licence date, which we call the Current Regulatory Baseline.

There are four main stages

- **Mobilisation of the MWCs**
  This started off site, with mobilisation of people, the start of detailed design work, consenting applications and procurement of subcontractors and materials. Moving on site as these activities progressed, construction sequencing was finalised, and the enabling Thames Water Works were completed.
- **Construction**
  This includes excavating deep shafts for 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.
- **Commissioning**
  Each worksite will be tested and all the worksites and tunnels will be connected to the London Tideway Tunnel (LTT) system. Once this is complete and tested, the MWCs hand over the Thames Tideway Tunnel (TTT) Works to Tideway. At this stage, the MWCs' activities will be complete and the contractors will be demobilised.
- **System Acceptance Period**
  This will be an 18 to 36 month proving period. The LTT will be operated across a variety of storm conditions, to demonstrate that it fulfils the project requirements. Once this is complete, Thames Water will become responsible for maintaining the near-ground structures and assets. Tideway will retain responsibility for the shafts and tunnel structures and ensure the TTT is available to allow flow to pass to the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, performing any maintenance as required.

CURRENT REGULATORY BASELINE

As we are now present on 20 of our 21 sites, this outline schedule remains broadly representative of the project and its overall progress, although as we deliver the project we have made and will continue to make changes to specific site schedules.



* Mobilisation activities shown from Licence Award to the start of Construction at the three main drive sites. Additional mobilisation activities continue throughout construction (i.e. consents, procurement).

** The gap between shafts and commissioning reflects the need to complete additional construction activities after shafts are complete, prior to the start of commissioning (i.e. air management systems, structures, landscaping).

A member of the team in the Hammersmith Connection Tunnel cleaning the shotcrete machine. This tunnel links Hammersmith Pumping Station to the main tunnel

Our Business Model
The Value We Add

Approach

We are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a positive legacy for London.

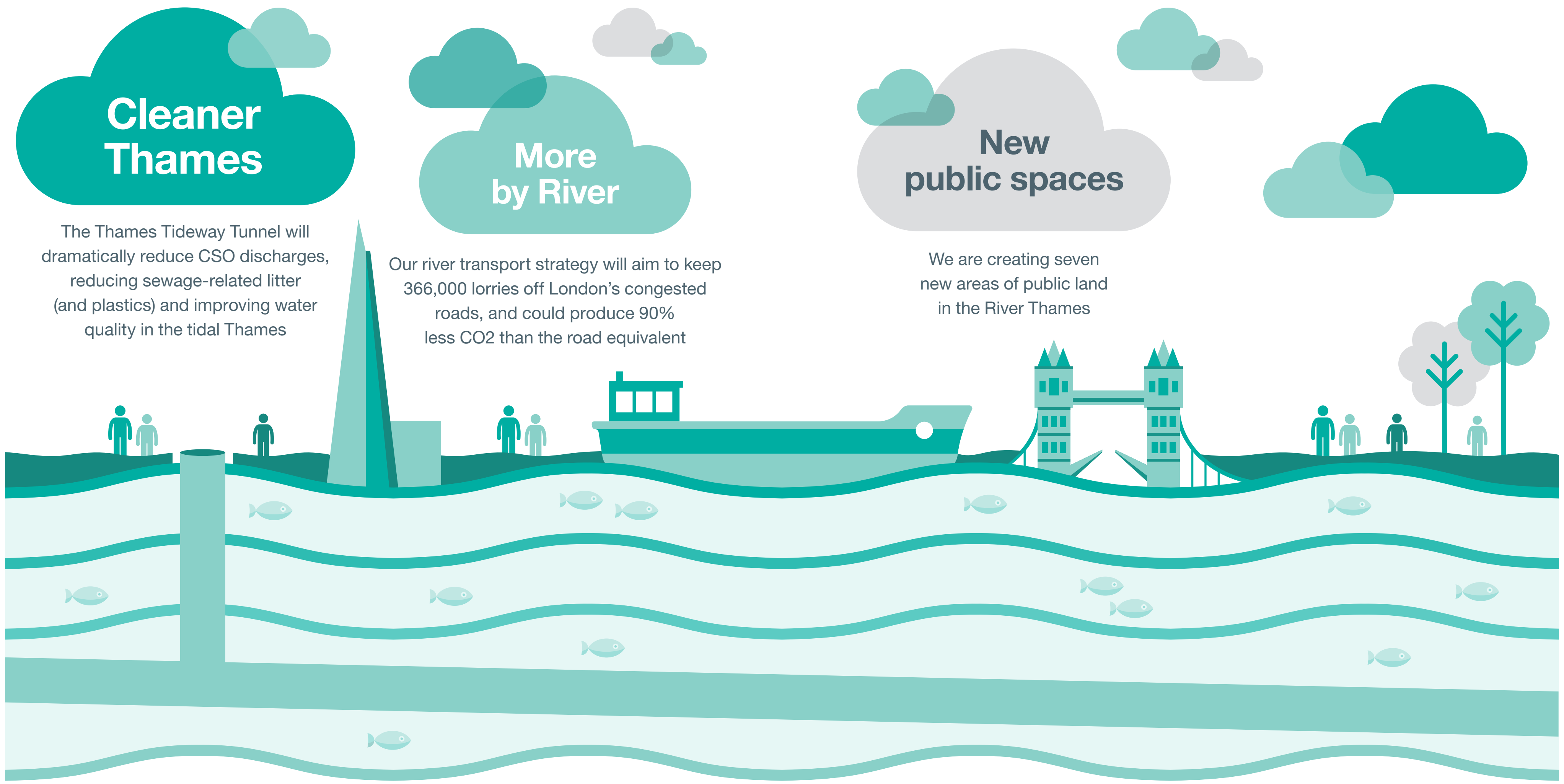
We set out here the value we aim to deliver to London, our people, the environment, communities, bill-payers, investors and the supply chain.

VISION

RECONNECTING LONDON WITH THE RIVER THAMES

HOW - OUR OBJECTIVES

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



Enablers

SAFE OPERATIONS / DELIVERY
We strive to create and maintain a culture of doing things safely or not at all
See page 24 to find out more

COLLABORATIVE PROCESSES
Tideway and Thames Water collaborate closely, while we maintain an experienced, competitive supply chain
See page 30 to find out more

EFFECTIVE GOVERNANCE AND OVERSIGHT
Our risk management systems and policy provide a clear framework for managing and reporting risks
See page 77 to find out more

STAKEHOLDER FOCUS
We aim to build enduring relationships with government, local authorities, our neighbours, partners, suppliers and others we impact
See page 40 to find out more

TALENTED AND PASSIONATE PEOPLE
We work to attract, motivate, develop and retain the best talent
See page 46 to find out more

EFFICIENT FINANCING
We aim to finance the project as efficiently as possible to ensure that we minimise our impact on bill-payers
See page 54 to find out more

STAKEHOLDER VALUE

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

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

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

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

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

INVESTORS
- An appropriate return on investment

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

Our Strategy

Tideway has made significant progress to deliver the Thames Tideway Tunnel in line with its vision, values and company objectives to deliver for all our key stakeholders.

Looking ahead to 2019/20, the Executive Team and Board have reviewed and developed targets and aspirations for the year. We do this by assessing our performance during the year including stakeholder feedback, the external environment and the phase of the project. We observed that the external environment had changed quite significantly, particularly relating to the political and supply chain space, and the understanding of this helped shape our future priorities.

Our review resulted in refinements to our long-term objectives and priorities. The notable change was the addition of a priority to 'be in a position to handback sites or parts of sites on completion of construction (including architecture and landscaping) and worksite testing'.

By the end of March 2020, we aim to be in a position that tunnelling will be substantially complete in both West and Central areas and three quarters of shaft excavations will be complete. Building on the lessons we have learnt so far and staying true to our values, we will:

- retain our focus on safety and continue to work towards our ambition to safely deliver the Thames Tideway Tunnel and in doing so reconnect London with the River Thames;
- maintain high-performing tunnelling and marine operations, learning lessons quickly and ensuring they are shared across the project;
- continue to drive all reasonable cost efficiencies across the project and safely deliver the best value for money schedule;
- develop a steady state operating model for the Post Acceptance period and a transition plan from 2020 onwards; and
- maintain the current positive stakeholder environment

HEALTH, SAFETY & WELLBEING

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

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

Priorities for 2019/20
- ◊ Reinforce HSW performance in the construction phase which shows improvement in comparison to previous projects
- ◊ Ensure the MWCs' marine operations (including other safety critical operations) are in line with our requirements

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

◊ Denotes amendment from 2018/19 to 2019/20

SCHEDULE, COST & QUALITY

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

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

Priorities for 2019/20
- Working with the Programme Manager to deliver the best value for money schedule possible
- ◊ Be in a position to handback sites or parts of sites on completion of construction including architecture and landscaping and worksite testing
- ◊ Develop our relationship with TWUL to support efficient delivery and deliver to the joint plan for commissioning and handover
- Seeking and implementing all appropriate opportunities to increase efficiency
- Ensuring that the asset being delivered is of the right quality

Relevant Principal Risks:
• Programme delivery • Supply chain failure • High impact, low probability events • Interfaces with Thames Water infrastructure • Regulatory and political • Brexit

VISION, LEGACY & REPUTATION

Objective
We want to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. Looking after our neighbours and stakeholders reduces the scope for delays, so we can deliver the tunnel's benefits as soon as possible.

Key Long Term Activities
- To ensure continued good relations with stakeholders including the consent granting bodies
- Protect and promote the reputation of Tideway
- Address the needs and concerns of our neighbours
- ◊ Delivering on all our Legacy Commitments under the DCO

Priority for 2019/20
- ◊ Refine our stakeholder engagement programme in a structured and targeted way to support efficient delivery of tunnelling operations and handover

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

COMPANY & PEOPLE

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

Key Long Term Activities
- Reinforcing values and behaviours
- Providing training and development, and succession planning
- Offering competitive terms and conditions, benefits and incentives
- ◊ Maintaining our commitment to diversity
- Delivering systems, processes and tools to support an effective organisation

Priority for 2019/20
- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

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

FINANCING

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

Key Long Term Activities
- Maintaining a low risk financing position by preserving our Baa1/BBB+ credit ratings
- Maintaining appropriate levels of liquidity
- Optimise our cost of finance in order to increase our return to shareholders
- To continue to build trust and confidence with our stakeholders through high quality reporting, engagement and assurance

Priorities for 2019/20
- Support the organisation to deliver the best result for bill payers and shareholders
- Funding – opportunistic issuance across formats
- Investment management – continue to focus on capital preservation and liquidity and seek to optimise returns

Relevant Principal Risks:
• Programme delivery • High impact, low probability events • Credit risk rating • Inflation • Regulatory and political • Brexit

Our Performance

We are now 40% through the project and in peak construction. We have made significant progress and met some important milestones. Our work has included building shafts, tunnelling, establishing marine operations and delivering our More by River strategy. We continue to maintain our schedule date for Handover in March 2024.

In April 2019, we announced that with the first and most unpredictable phase of the project now complete we were updating our estimate of overall costs based on work left to do. The revised estimate is £3.8bn compared to a £3.5bn regulatory baseline which represents an 8% increase.

The principal drivers for the change are due to unforeseen issues at Blackfriars Bridge Foreshore and King Edward Memorial Park sites as well as the impact of our commitment to a More by River strategy for the benefit of London and Londoners.

We announced that there will be no change to the estimated range of £20-25 annual cost (14/15 prices) for Thames Water bill payers, as costs remain well within the original possible projections for customer charges. The Company has sufficient liquidity to complete the project and there is no impact on the contingent Government Support Package.

In terms of our specific targets for 2018/19, our achievements include:

- Maintaining discipline on our transformational Health, Safety and Wellbeing ambitions
- Starting tunnelling operations, with four of six TBMs now underground
- Substantially completing the bulk of design and consents
- Fostering excellent stakeholder relations, to mitigate delays
- Mobilised and active on 20 out of 21 sites
- Continuing to de-risk our financing, raising a further £325m during the year and reducing the revolving credit facility (RCF) by £250m

The 2018 Employee Survey results have again shown a positive response, with ten of the 14 categories showing improvements year on year and results higher than industry averages across a range of responses.

Our stakeholder survey of 500 London residents and 41 influential stakeholders confirmed that Tideway continues to benefit from stakeholder approval, with 92% of stakeholders describing themselves as ‘positive’, of which 72% were ‘very positive’.

To ensure shared awareness of, and commitment to, our objectives to successfully deliver the project for all our stakeholders we use the most important performance indicators in designing Company incentives for all staff and personal finance incentives for the Executive Directors.

LIVING OUR VALUES

Tideway’s values play an important part in our ambitions for delivering the project and achieving the greatest value. The table below references where we have set out in the report examples of how our values have been reflected through our behaviour and activities during the year.

VALUES

Examples of living our values	Page	Safety	Legacy	Collaboration	Respect	Innovation
Stakeholder engagement	10	✓		✓	✓	✓
EPIC	26	✓	✓	✓		✓
Healthy workplace	27	✓		✓	✓	
Mental health	28	✓			✓	
ICE Technical Conference	31		✓	✓		✓
More by River	32	✓	✓	✓		✓
Community investment and charitable giving	43		✓	✓		
Educational outreach	44		✓	✓	✓	✓
Ethical supply chain	45	✓	✓		✓	
Ex-offenders	48		✓	✓	✓	✓
People case studies	51				✓	✓
Green bonds	56		✓	✓		✓

Health, Safety & Wellbeing

Objective

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

Priority for 2018/19

- Reinforce HSW performance in the construction phase which shows improvement in comparison to previous projects

2018/19 Measure

Maintain strong HSW Performance

Target	Actual
Safety record better than recent major projects/industry leading	On Track

Number of major injuries

Target	Actual
0	0

Marine Operations Significant incidents

Target	Actual
0	0

Number of reportable accidents*

Accident Frequency Rate 3

Target	Actual
0.00	0.16

Accident Frequency Rate 7

Target	Actual
0.00	0.12

* *Definition:*

Major Injuries: *any serious injury that results in permanent disability, long-term medical problems or shortened life expectancy (i.e. life changing).*

AFR-3: *12-month rolling average, per 100,000 hours worked, of injuries which occurred as a result of work activities and resulted in more than three days lost time for the individual involved. Injuries included in AFR-7 will automatically be included in AFR-3.*

AFR-7: *as above, for seven days lost time for the individual involved.*

Performance

Tideway continues to embed its transformational approach to health, safety and wellbeing (HSW), and we are pleased to report that we have had no major injuries or significant incidents relating to marine operations to date. Overall, the programme Accident Frequency Rates have remained below other large infrastructure projects working at similar phases of construction. However, we did have a number of lost time incidents, including six injuries which resulted in over-seven-day absence.

We are committed to doing things better and we have investigated these lost time incidents and implemented the lessons learned. We continue to strive to improve on both our leading and lagging indicators as we progress into the tunnelling phase of the programme in 2019. To reinforce HSW performance in the construction phase, we identified three key activities:

- delivering HSW the 'RightWay', in line with the delivery programme and verified by appropriate assurance;
- driving for an equivalent high level of HSW performance in the marine environment; and
- focusing on health and wellbeing, so they achieve relative parity with safety.

Our programme-wide initiatives helped us realise these priorities in 2018/19 and were instrumental in embedding a good HSW culture across the programme. While the overall objectives were achieved, we identified some issues that required a diligent response.

In the Central section of the Programme there was a number of incidents in the middle of the year. The Central Team (including the Programme Manager and Main Works Contractor) agreed that a contract-wide stand-down was required to assess the incidents and the working culture. Discussions were held with the entire workforce, to reaffirm the RightWay ethos and to better instil Tideway's health and safety values. This consultation led to a detailed corrective action plan being established, which resulted in an improvement in performance for the remainder of the year.

RightWay

RightWay is our approach which underpins the fulfilment of the HSW strategy. The RightWay is all about establishing a working environment that allows individuals to plan ahead, to challenge, to continually strive to do things better and to reinforce a positive HSW culture through effective leadership.

We have continued to conduct RightStart reviews across the programme, before the start of any significant phase of construction, to ensure HSW has been adequately considered.

RightStart reviews are undertaken in collaboration with the Programme Manager and our MWCs to ensure appropriate input and assurance and ensure that activities are planned effectively. Involving the contractor workforce in the RightStart process enables those conducting the work to raise concerns and suggest alternative methods. It also ensures sufficient understanding of each task and the risks and mitigations which need to be considered when performing it.

Health, Safety & Wellbeing

Employer's Project Induction Centre (EPIC)

We established our innovative and interactive induction programme, EPIC, in 2015/16 and it has been widely recognised as industry leading. EPIC is a mandatory, one-day immersive induction course, using actors and a structured management training approach to help every individual understand what we want to achieve and how we can all work together to make Tideway the safest and healthiest project yet. To date, over 15,500 people have attended the programme including approximately 3,300 in 2018/19. 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.

Tideway in partnership with Active Training Team, received the following accolades for the EPIC induction programme in 2018/19:

- ★ **Winner** of the Training Excellence Category at the 2018 Construction News Awards.
- ★ **Winner** of the Health, Safety and Wellbeing Initiative of the year at the British Construction Industry Awards 2018.
- ★ **Winner** of the Health and Safety Award and Editor's Choice Award at the Ground Engineering Awards 2018.

While More by River has significantly reduced vehicle movements across the programme, the residual risks associated with vehicle movements have not been ignored. EPIC Logistics, launched in 2017/18, was Highly Commended at the Constructing Excellence Awards in 2018. Similar to EPIC, it is an induction course designed to provide a visceral experience of a fatal incident, highlighting the impact that a chain of poor decisions can have on health and safety and showing the consequences of such an incident for those not directly involved in it. To date, EPIC Logistics has been undertaken by 581 drivers, with 446 in 2018/19.

Transforming Health and Safety

The Transforming Health and Safety Working Group (THSG) was established to look at how we can make a difference to on-site activities, such as the 'I'm in a safe place' initiative from the lifting group. It does this by the people involved leading day-to-day HSW across the Alliance. During the year, the THSG involved a broader range of stakeholders and improved the structure of its meetings, to ensure more transparency of sub-group activities and greater visibility of actions and best practices raised in the group.

Health and Safety Performance Index

We introduced the Health and Safety Performance Index (HSPI) in 2016/17 as part of our push to be transformational in construction. It enables us to develop a balanced scorecard in order to measure the HSW performance of our contractors. HSPI comprises a set of leading performance indicators, developed by analysing accident and incident data from previous projects and considering future risk profiles.

Each performance indicator is scored either:

0	Does not meet basic HSW expectations
1	Meets basic HSW expectations
2	Exceeds HSW expectations
3	Meets transformational HSW expectations

The overall HSPI score improved from 2.00 at the beginning of 2018/19 to 2.44 at the end of March 2019, with nine of the 11 measures meeting or exceeding a score of two.

A collaborative annual review of indicators takes place in the last quarter of the year. An additional review was also undertaken in 2018/19, in response to an increasing number of incidents in the second quarter. This ensured the indicators remained challenging and relevant to current and future works and support our approach to transformational HSW.

Marine 'EPIC Refresher'

Tideway has established a Marine 'EPIC Refresher' which is an interactive learning experience aiming to instil an intelligent and respectful wariness of the dangers of the marine industry and the need for vigilance. It also aims to demonstrate the need for a culture of open and active safety leadership that welcomes the opportunity to challenge and to be challenged over health and safety.

In addition to the Marine EPIC refresher, Tideway is actively working with its whole supply chain to ensure marine risks are adequately considered. We also continue to record and review marine risks in the risk register. These risks are conveyed to the Executive Team and the Tideway Board via the six-monthly HSSE Committee.

Focus on Health and Wellbeing

Tideway excelled in the medium-sized business category at VitalityHealth's 'Britain's Healthiest Workplace' awards, winning the award for 'Most Improved Workplace', as well as achieving third place overall in the category.

There were some notable successes from the survey performance report, including the positive impact of our managers and leaders on supporting their colleagues' wellbeing, which was significantly higher than our industry benchmark. The number of people who said that our mental health and sleep initiatives have made a positive improvement in their lives was significantly higher than for the top five organisations that participated. There were also a number of areas for improvement, including nutrition and achieving a balanced diet. The findings from this report will be used to determine our health and wellbeing programme for the year ahead.

BRITAIN'S HEALTHIEST WORKPLACE
Vitality HEALTH INSURANCE

Mini Health Checks

During the year, 2,668 Mini Health Checks (MHCs) were delivered. The checks identify, assess and raise awareness of cardiovascular risk factors amongst employees. We offer frequent drop in clinics and pre-arranged health check days across the project, with health promotion and lifestyle advice provided by occupational health nurses. Almost 50% of MHCs identified no risk factors and the remaining participants were given up-to-date, evidence-based materials to help improve reversible health risks. The MHCs identified that circa 50% of the workforce have one or more reversible health risks associated with illness and premature morbidity, with the number of risk types increasing with age. The key health risks identified for 2018/2019 were obesity, high blood pressure, elevated cholesterol and high blood sugar.

Fatigue Research

Tideway commissioned an independent scoping study from Loughborough University to improve the construction industry's understanding of the nature of fatigue and sleepiness. The study focussed specifically on shift patterns, non-work activities and how the industry can better manage the risks involved. The research showed an opportunity for the industry to improve fatigue management but this will require a change of culture and a multi-stranded approach. The report will be shared across the Alliance and the industry and a workshop is planned for June 2019 to agree how best to take it forward.

Development of the Tideway Occupational Health Inspections

The Occupational Health Inspection (OHI) is a tool for measuring occupational health risk management. An occupational hygienist visits sites and counts examples of good and poor practices, using a standard score sheet. The OHI score for the project is high, at 92% for West and Central, and 93% for East.

Scores highlight health risks or work areas where intervention is needed. The OHI was featured in the Tideway Technical Conference, an event organised to share examples of best practice and innovation with the industry. The OHI will continue to be developed to provide a useful assessment and validation tool for the industry.

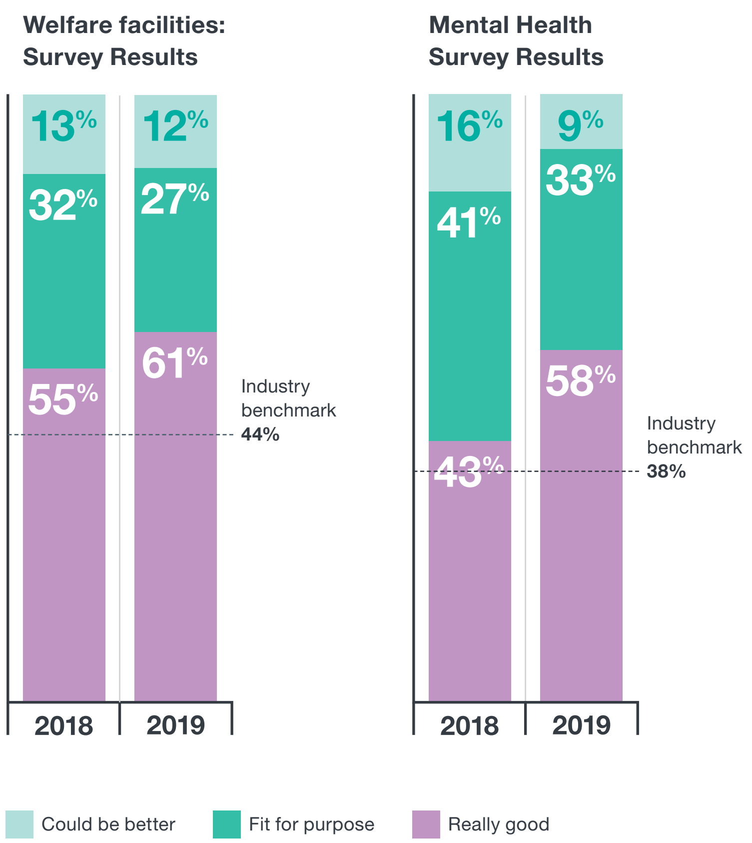
Health, Safety & Wellbeing

Health, Safety and Wellbeing Culture

We encourage our staff to raise any safety concerns and also conduct a number of initiatives during the year to support their wellbeing and mental health. We use our annual HSW survey to help us understand our progress. In December 2018 1,450 personnel took part in our survey from across the Alliance. Empowering those working on the project to act is important and we were pleased that 39% of those surveyed confirmed that they had stopped someone else working for safety reasons. A full report of the survey outputs has been made available across the Alliance. In addition, our delivery areas have been provided with area-specific results and action plans, which they have considered while compiling their annual HSW strategies.

Mental Health

We continued to support Mates in Mind, a charity which raises awareness and understanding of mental health and mental ill-health in construction, helping people to understand how, when and where to get support and breaking through silence and stigma by promoting a culture of positive wellbeing throughout the industry. Our results for how well we care for people's welfare and mental health both improved from previous years and were above industry benchmarks.



Start the Conversation

In February 2018 we launched the Mates in Mind 'Start the Conversation' programme, which aims to create general awareness and understanding of mental health and its biggest barriers, particularly in the workplace. To date, 176 Tideway employees have attended sessions with more being rolled out on sites across the programme.

Mental Health First Aiders

We have 56 trained mental health first aiders between Tideway and our Programme Manager, 167 in total across the whole project. In addition, we host a bi-annual Mental Health First Aiders Networking Group. The group provides a support network for all trained mental health first aiders on the programme and aims to refresh attendees on key topics they were taught in training.

Mental Health Working Group

The Mental Health Working Group is a subgroup of THSG, created to obtain insights from the business to inform the actions we need to take to improve mental health in Tideway, across the industry and among family and friends. The group comprises representatives from Tideway and the Alliance, with guest speakers attending meetings to present what they have been doing in their workplaces.

The group has developed and introduced a mental health maturity matrix across the programme, with the aim of evaluating our performance regarding mental health within the workplace. Tideway, the Programme Manager and the MWCs are scoring themselves against the matrix, which will provide a baseline capturing the positives and highlighting opportunities for improvement, with clear action plans being developed.

Security and Incident and Crisis Management

To support our security, incident and crisis management arrangements, Tideway continues to engage with emergency services. The Metropolitan Police Service Liaison Officer, working on behalf of Tideway meets with Counter Terrorist Security Advisors and sits on the Thames Protect forum, the counter terrorist forum for the River Thames. We also work with London Resilience and successfully delivered three crisis management exercises during the year. The lessons learned from these exercises have been embedded into Tideway's Incident and Crisis Management Procedures.

Schedule, Cost & Quality

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

Priorities for 2018/19
- Working with the Programme Manager to deliver the best value for money schedule possible
- Working with the Programme Manager to ensure the MWCs' marine operations are in line with our requirements
- Seeking all appropriate opportunities to reduce cost
- Ensuring that the asset being delivered is of the right quality
- Developing our relationship with Thames Water as interfaces evolve at all levels to support efficient delivery

2018/19 Measure

Delivery against the regulatory baseline – schedule

Target	Forecast
Handover by quarter one 2024	Handover by quarter one 2024

Delivery against the regulatory baseline – cost*

Target	Forecast
£3.5bn	£3.8bn

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

Performance

Our performance is broadly in line with the challenging targets we set ourselves to deliver the project. The last year has built a solid foundation on which we can achieve Handover by quarter one 2024. Our cost estimate has been revised upwards from £3.5bn to £3.8bn largely due to unforeseen conditions at Blackfriars and King Edward Memorial Park Foreshore sites and our continued commitment to our More by River strategy. These two sites are discussed in the Commercial and Area sections opposite.

We are now fully active on 20 of our 21 sites and have started the construction of permanent works on 15 of our 21 sites. We have completed construction on four shafts and have three TBMs actively tunnelling (two in our main tunnel and one in a connection tunnel).

We have made significant progress at our three main drive sites. At Carnwath Road in the West, the acoustic enclosure and shaft are complete, and we have lowered the TBM into the shaft ahead of tunnelling. At Kirtling Street in our Central section, the site has been set up to support tunnelling and we have successfully launched two TBMs. The West bound machine was first to launch and has achieved over 1km of tunnelling, with production rates in line with those used to derive the schedule. The East bound machine launched in March. At our Chambers Wharf site in the East, we have completed the shaft wall and installed an acoustic enclosure over the shaft to minimise any impact on residents. We have completed over 50% of the shaft excavation in readiness for the TBM which is due in 2019/20.

We have completed the installation of the temporary cofferdams which establish our sites. This is an unusual feature of the project, which we must complete before starting construction of the tunnel. The project has been very visible from the river with a large fleet of marine construction equipment mobilised to undertake the works. Our strategy to use the river for both plant and materials has reduced our impact on some of the most congested areas of London. This continuing progress, while keeping our people safe, has increased our confidence about meeting our schedule.

Construction Quality

In general, the level of non-conformance and re-work on the project during the year has been at a satisfactory level. Construction quality is the responsibility of the Main Works Contractors who self-certify their works. This self-certification is overseen through regular surveillance by the Programme Manager with further technical assurance provided by inspections from Tideway's NEC Supervisor team which reports independently to the Chief Technical Officer. All aspects of Tideway's Quality Management System are subject to regular Executive review and internal audit and are certified through external accreditation to International Standards: ISO 9001 Quality Management, ISO 14001:2015 Environmental Management, and OHSAS 18001: 2007 Health and Safety.

These multiple levels of assurance provide the project with a very robust framework to drive construction quality compliance and enable an integrated approach for dealing with quality related issues to be maintained.

Tideway ICE Technical Conference

In March 2019 over 200 delegates from Tideway and across the wider industry gathered at the Institute of Civil Engineers to celebrate Tideway's technical achievements. Six of the best innovations were presented to delegates in the morning, with the afternoon dedicated to looking ahead to see what Tideway could focus on in the areas of ICE's four knowledge campaign themes of Productivity; Energy, Resilience and Climate Change; Skills and Employment and Digital Transformation. Some of the key ideas put forward are now being developed, including the proposal that Tideway move at least one site to being powered entirely by electric plant. The conference was followed by awards for both individual and team achievements across the Tideway Alliance.

Commercial

Since entering the Main Works Contracts, certain risks retained by Tideway have materialised. In addition, to some initiatives such as More by River, the combination of these factors has resulted in an increase to each of the MWCs' target prices since Licence Award. Consequently, Tideway announced in April an increase of £280 million in the cost estimate.

There are three particular areas which have impacted the MWCs' target prices. First, a redesign and reprogramming of the works at Blackfriars Bridge Foreshore to address unforeseen technical issues associated with the gas main under the Embankment and to mitigate programme impact. The associated redesign and reprogramming led to an increase of £140 million in 2018/19 prices against the original contract price of the works. Second, unforeseen ground condition issues at King Edward Memorial Park Foreshore site, resulted in significant redesign and re-programming of the works at this and associated sites. The cost estimate is an additional £120m for the East MWC. In addition, our More by River strategy commitments equated to £54m. These estimated revised total costs are included in the current cost estimate together with a number of other changes and efficiencies.

The MWCs have applied to have certain other matters designated as Company retained risks. The Project Manager has assessed the cost applications from the MWCs for these events and its view of the impact of these events is reflected in the Company's current cost estimate.

The combination of these factors has resulted in an increase to each of the MWCs' target prices. Due to this and in line with normal practice, we have allocated contingency to reflect the increase in target prices. The revised cost estimate for the project incorporates contingency for the remaining expected risk on the project.

Working with Stakeholders

During the past year securing the required consents has been key to allowing works to continue on all sites. We have worked closely with all of the consent granting bodies (CGBs): Transport for London (TfL), the Port of London Authority (PLA), the Marine Maritime Organisation (MMO), the Environment Agency (EA) and local authorities.

We have maintained positive working relationships with the CGBs many of which have been co-located in our local offices. We receive good support from all CGBs in processing our applications within agreed timescales.

Schedule, Cost & Quality

MORE BY RIVER

Tideway is investing £54m in its More by River strategy, which has been developed to reduce the number of HGVs needed to deliver the project. More by River delivers numerous benefits - we are reducing our impact on the road network, on vulnerable road users, and London's air quality.

We are also playing a part in rejuvenating the river economy. Compared to original estimates of HGV movements needed for the project, we have reduced the number by an estimated 72%.

This year, by using the river to transport materials we avoided 68,000 lorry movements, an average of almost 200 lorry movements a day. To date, the project has moved approximately 935,000 tonnes of material by river saving around 114,800 lorry movements.

Tideway is the first infrastructure project to develop comprehensive data on the air quality benefits of a river strategy compared to the road equivalent.

We found that there was a 54% reduction in NOx, an 86% reduction in NO2 and a 90% reduction in CO2. The research was based on a comparison with modern standard HGVs. We will continue to evaluate the benefits of our approach and share the results.

Concrete tunnel segments being unloaded from a barge at Kirtling Street, part of Tideway's More by River strategy, which last year kept almost 200 lorries off London's roads per day

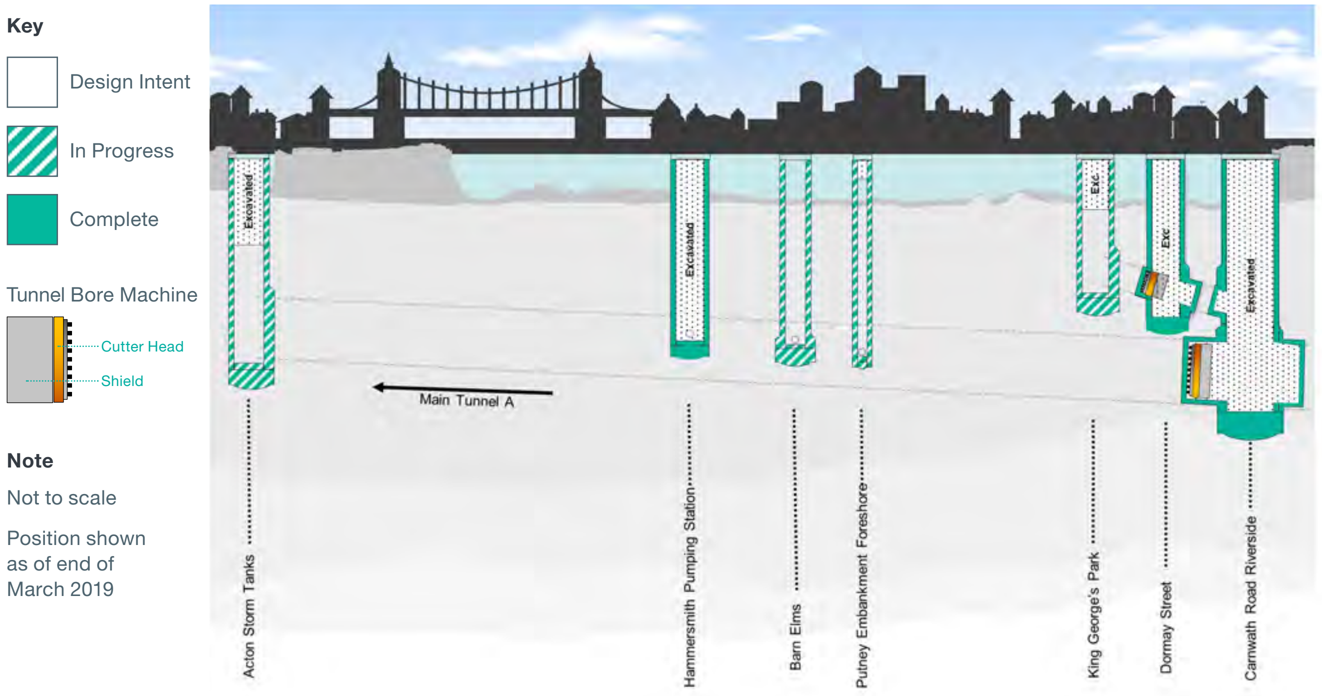
Schedule, Cost & Quality

Progress by area

WEST AREA

In the West area we are working on all seven construction sites. We have completed the excavation of three shafts and have started construction of the shafts on all the other sites.

The West team will construct 8.5km of tunnel which comprises 6.5km of main tunnel and a 2km connection tunnel from King Georges Park to Carnwath Road.



In the West section we made significant progress with two TBMs successfully lowered at Dormay Street and Carnwath Road.

At our main drive site at Carnwath Road, we excavated a 49m deep shaft. In September, we completed a continuous concrete pour in just over 60 hours to construct the base of the shaft. This was successfully carried out with high levels of community engagement in the build-up, with the team running a number of drop-in sessions so local residents could ask questions and find out more. Early engagement meant the community was reassured that the work would be completed efficiently, with minimum disruption. March 2019 saw TBM Rachel successfully lowered in advance of tunnelling, towards Acton. At the Acton site, we started sheet piling for the shaft in March 2019 and commenced excavation, ready to receive Rachel.

At our site at Dormay Street we lowered TBM Charlotte, which will construct the 1.1km Frogmore connection tunnel. In March 2019, Charlotte started tunnelling towards King George's Park. Once this section is complete, she will be removed from the shaft and transported back to Dormay Street to complete the drive to Carnwath Road.

Alongside our construction works we built new changing rooms at Barn Elms, which were handed over to Wandsworth Council in April 2019 to provide high-quality facilities for local residents. It is important to us that, where we can, we create facilities for residents that they can continue to enjoy long after we have completed our work.

Further milestones achieved include:

- Completing the construction of the 300m connection tunnel lining at Hammersmith.
- Completing the sheet piling for the cofferdam construction at Putney. Sheet piling involves driving a series of steel sheets into the ground, to form a continuous steel wall. Our More by River approach means the spoil produced was taken away from site by barge.
- Commenced excavation of the 30m deep shaft at Acton.

Local Engagement

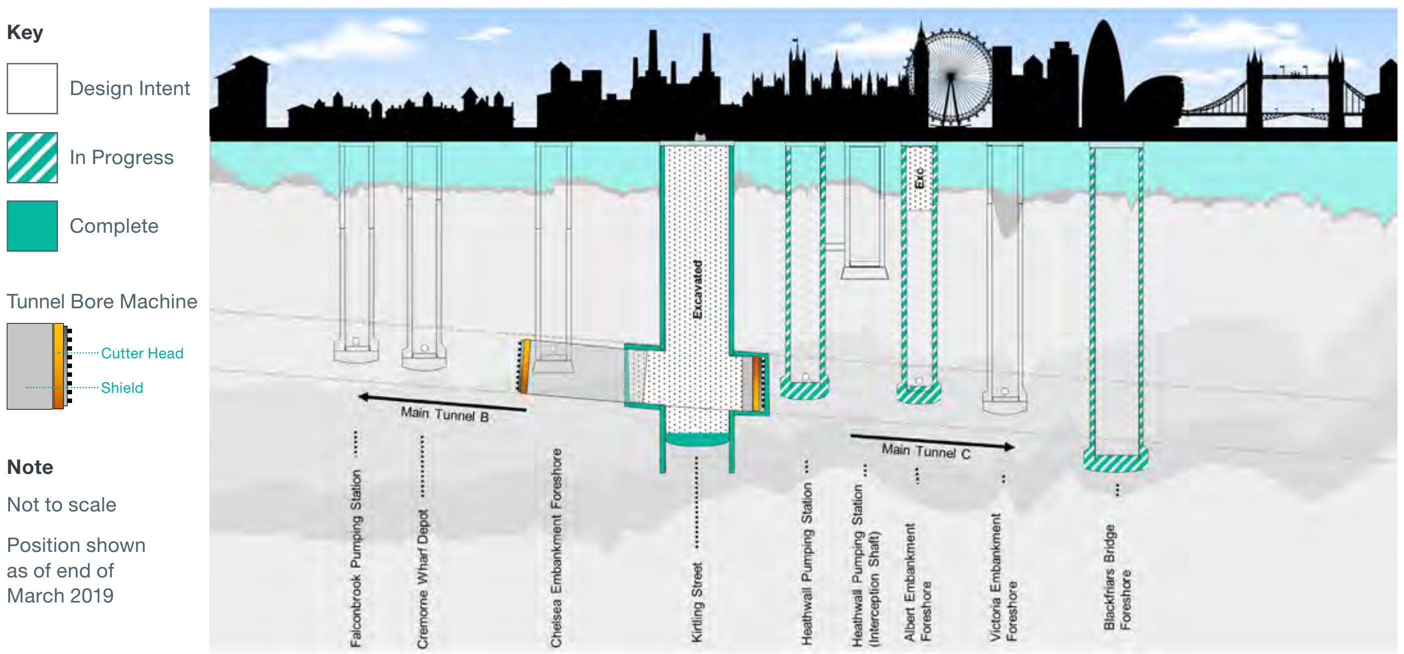
We ensure that people are well informed of our progress through formal meetings, drop ins, and presentations. For example, at our Carnwath Road site we have hosted guests ranging from students to international visitors from India and China. By engaging with a range of stakeholders we have been able to show the scale of the project and our progress. The team is also committed to showing the opportunities a career in engineering can provide to young people, by carrying out school visits and hosting site visits.

Schedule, Cost & Quality
Progress by area

CENTRAL AREA

In the Central area, we are working on all eight construction sites, recognising one of our sites has two shafts. We have completed the excavation of the shaft at Kirtling Street and have launched two TBMs from its base. Construction of shafts has commenced on three other sites. The remaining sites are preparing to commence shaft construction during 2019/20.

The Central team will construct 12.6km of tunnel in two drives from Kirtling Street one to Carnwath Road in the West and the other to Chambers Wharf in the East.



In the Central section both TBMs were launched from the main drive site at Kirtling Street in Battersea. Millicent was the first TBM to start her journey west towards our site at Carnwath Road in late 2018. As of the end of March 2019, TBM Millicent had tunnelled over 1,000m west, past Chelsea Bridge and the Chelsea Embankment Foreshore site. Ursula, which will tunnel east towards Chambers Wharf in Bermondsey, followed in March 2019.

Prior to launching the TBMs, we installed the conveyor system, muck storage area, segment handling equipment, grout plants and water treatment facilities to support tunnelling operations. We also carried out the largest concrete pour on the project, involving 3,400m^3 of concrete, to construct the base slab of the shaft.

We completed the construction of cofferdams at six sites. The cofferdams increase the footprint of our sites and enable progress with shaft construction at key sites including Blackfriars and Albert Embankment.

Further milestones achieved include:

- Installing and occupying welfare facilities at Falconbrook, Cremorne Wharf, Albert Embankment, Victoria and Chelsea, which completed full mobilisation on the central sites. The welfare facilities combine offices, toilets, changing rooms and dining areas, to allow our staff to effectively work on a site.
- Completing land-side piling and the cofferdam and starting backfilling at the Heathwall pumping station site.
- Removing obstructions at the Falconbrook site, part of an existing Thames Water pumping station, in advance of constructing the 9m wide and 45m deep shaft. At our Cremorne site, next to an existing pumping station, we removed obstructions for the shaft and interception chamber.
- Completing marine works at Chelsea Embankment in March 2019, including the construction of the cofferdam, and continuing sewer lining work.
- Completing the cofferdam at Blackfriars, enabling us to begin work on constructing the first section of the shaft, formed by secant piles.
- Starting work at Victoria Embankment, prior to excavating the 51m deep shaft.

Joint Problem Solving at Blackfriars

At our Blackfriars site, we avoided the need to divert the Victorian gas main. This meant that it was not necessary to close the road along the Embankment, preventing considerable disruption to Londoners. The assessment of the gas main was a significant piece of engineering by the team, requiring close working with key stakeholders including Cadent Gas. The team continues to engage closely with other vital stakeholders, such as the City of London and TfL, as works progress. The team recently received a licence from the Environment Agency to de-water at Blackfriars. This is a major achievement, as de-watering will facilitate the construction of the shaft. De-watering reduces the level of ground water around our sites, which makes construction safer. Without de-watering we would have to contend with high water pressure in the ground. The challenges we faced and solutions implemented have impacted on our current cost estimate as discussed earlier.

Local Engagement

Some of our most visible sites are in our Central section in the heart of central London. We continue to engage closely with our local stakeholders, who range from residents to the National Theatre and the Chelsea Flower Show. Over an open weekend we welcomed more than 400 members of the public to see the TBMs up close while they were above ground before they started their journey underneath London.

Schedule, Cost & Quality

Progress by area

EAST AREA

In the East area we are working on five of the six construction sites. We have commenced shaft excavation on three sites and are constructing the shaft wall on one other site. At King Edward Memorial Park, we are stabilising the ground prior to starting shaft construction next year. The remaining site is Abbey Mills where we do not start construction until 2022.

The East team will construct 10.1km of tunnel which comprises 5.5km of main tunnel and a 4.6km connection tunnel from Greenwich to Chambers Wharf.

Key

Design Intent

In Progress

Complete

Tunnel Bore Machine

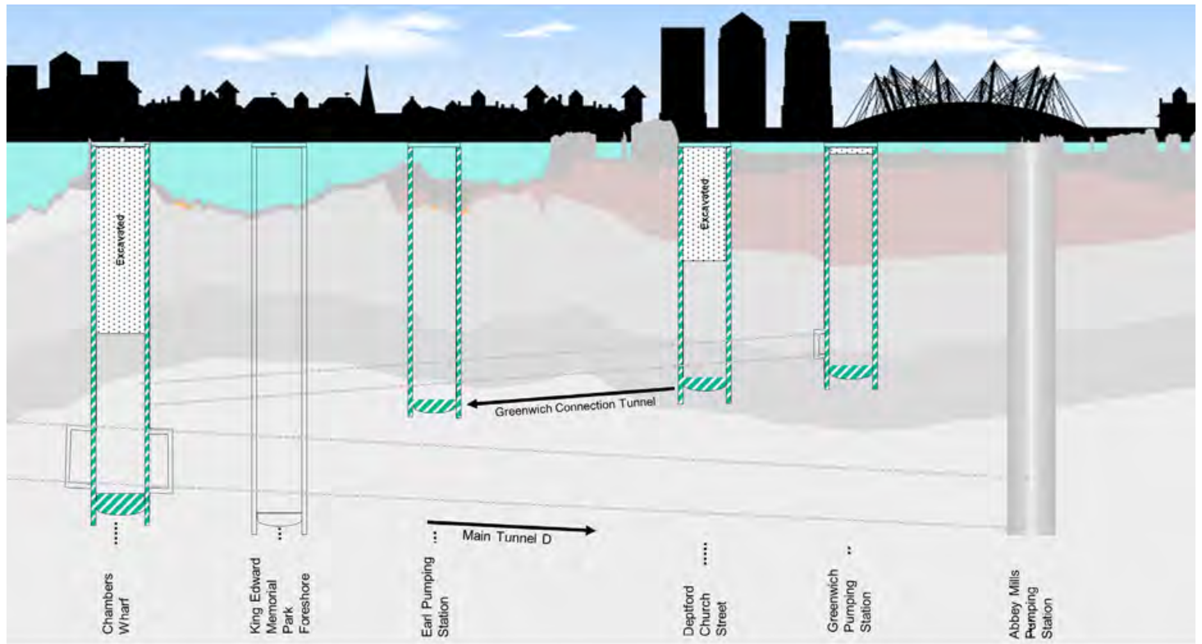
Cutter Head

Shield

Note

Not to scale

Position shown as of end of March 2019



Our main drive site, Chambers Wharf, saw many visible changes. We installed our acoustic enclosure, which reduced noise and shows our commitment to being considerate to our neighbours. It enabled us to start 24-hour working on shaft excavation, five days a week. We are now over half way through completing the shaft.

We completed diaphragm walling and installed much of the slurry treatment plant, which will separate the water and chalk from the slurry before it is taken away from site by barge. Later this year will see the arrival of our TBM Selina, with tunnelling due to start in 2020.

Archaeological investigations by The Museum of London Archaeology discovered 'The booted man', a 500-year-old skeleton with knee-high boots, alongside a range of other interesting artefacts. Archaeology took place on site for almost two months and during this time the team worked collaboratively, to ensure that the interface between the construction team and archaeologists minimised any risk to the programme. Through safe and collaborative working, the team was able to construct the capping beam for the shaft, alongside the archaeologists.

Further milestones achieved include:

- Undertaking remedial works to the cofferdam and hinterland at King Edward Memorial Park, dictated by the discovery of unexpected soft ground. The remedial works to the temporary cofferdam have been completed and the deep soil mixing of the hinterland has started. Deep soil mixing strengthens the weak layer of alluvium, to reduce long-term settlement and allow construction of the diaphragm walls. We also completed sheet piling works, ready for the archaeological investigations phase of works.
- Completing diaphragm walling at Deptford Church Street and excavating over half of the 28m deep shaft. We liaised closely with the 18th century St Paul's church, which is one of our nearest neighbours.
- Almost completing diaphragm walling at Earl Pumping Station, one of our most constrained sites, with the next phase being the shaft capping beam and excavation of the 54m deep shaft.
- Completing the diaphragm walls for the shaft at the Greenwich pumping station site. The majority of the walls for the sewage interception chamber, which connects the shaft to the pumping station have also been completed. The acoustic enclosure has been substantially completed, to enable us to continue excavating the shaft. The acoustic enclosure has been constructed in an operational Thames Water site and immediately adjacent to the Docklands Light Railway (DLR), which has made this a challenging piece of work and required the team to work closely with Thames Water and DLR. We are currently at a depth of approximately eight metres. At the Phoenix Wharf side of the site, we started installing the foundations for the slurry treatment plant.

Local Engagement

Due to the proximity of the DLR and Network Rail at Greenwich, we were required to carry out some works at night when the trains were not running. The team ensured that residents were kept informed on progress by sending out regular information sheets and email updates. Our staff attend the Community Liaison Working Group and provide residents with current information on progress, answer questions and explain the project. Our Community Information Centre is open every week at Chambers Wharf and we have welcomed visitors ranging from local residents and schools to the Mayor of London.

Vision, Legacy & Reputation

Objective

We want to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. Looking after our neighbours and stakeholders reduces the scope for delays, so we can deliver the tunnel's benefits as soon as possible.

Priority for 2018/19

- Refine our stakeholder and neighbour engagement programme in a structured and targeted way to support efficient delivery

2018/19 Measure

Measure	Target	Actual
Evidence of support from the majority of stakeholders surveyed	>50%	92% positive 72% very positive
No material schedule impact due to stakeholders (including Neighbours)	No material schedule impact	No impact
Percent of live legacy commitments on track	75%	90% Monthly Average
Apprentices per project staff	Target FTE: 1 in 50	Actual FTE: 1 in 49 Monthly Average
STEM* volunteer hours per project staff**	Target (per 3 FTE): 1 hour	Actual (per 3 FTE): 4.7 hours 3254 hours in total
Community volunteer hours per project staff**	Target (per 3 FTE): 1 hour	Actual (per 3 FTE): 10 hours 7182 hours in total

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

Engagement

Tideway's stakeholder and public engagement is about maintaining trust in the project and ensuring we are publicly transparent and accountable for all of our activities. Our stakeholder research in Autumn 2018 showed strongly positive attitudes towards Tideway and the project from stakeholders and the public. Positive sentiment among stakeholders was at 92% of those surveyed, with 72% "very positive", compared with 80% and 51% respectively in 2017. Among the general public, awareness of the project increased in the year by 5% to 49% and was up by 8% to 59% in the boroughs we are working in. Positive sentiment among the public was also higher, at 73% of those aware of the project (65% in 2017). The research provided useful feedback about the way that we communicate and engage with stakeholders and this feedback will continue to inform our strategy.

Awareness of the project was significantly boosted by a BBC2 documentary, 'The Five Billion Pound Super Sewer', which aired in July and August 2018. Based on the first three years of the project (including the construction of the Lee Tunnel) the documentary reached an audience of around 1.9m people. We also saw increased interaction through social media and other online engagement, for we saw a 26% increase in visitors to our website and a 28% increase in Twitter followers.

We continued to build relationships with communities close to our sites. Our helpdesk, which operates 24 hours a day, seven days a week, dealt with nearly 5,000 contacts during the year, which included 1,488 general inquiries (up 119%) showing an increasing interest in the project. We also held 46 Community Liaison Working Group meetings, as well as weekly information centre sessions at Chambers Wharf and monthly sessions at Carnwath Road, the two sites with the greatest level of interest from neighbours.

Our engagement with other stakeholders included shared initiatives with the Mayor of London. In May 2018, Sadiq Khan launched his new workplace inclusivity network at our Chambers Wharf site, underlining our commitment to diversity within our own workforce, and in February 2019 our low-entry HGVs were used to showcase his pledge to make London the first city in the world to remove the most unsafe lorries from its roads.

We continued to use site visits and river boat tours to engage with stakeholders, hosting some 15 site visits and 45 boat tours.

Legacy

Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to reducing our carbon emissions. This year our aim was to exceed our ambitious target of 75 percent of live Legacy Commitments being on track. At March 2019, 90 percent were on track, which meant we exceeded our target when averaged across the year.

We have 54 Legacy Commitments of which 39 are live. These include:

Health, Safety and Wellbeing	• EPIC • Boat Masters Health and Safety Training • Industry leading lorry and vulnerable road-users initiatives
Environment	• Minimise carbon footprint
Economy	• Use of CompeteFor to encourage SMEs (small or medium enterprises) to compete for contracts • Supporting the London and UK economy • Fair Payment Charter • Encourage innovation
People	• London Living Wage • Local employment • Creating an inclusive environment • STEM education • Inspire people to engage in river activities
Place	• Two for one tree replacement • Arts and Heritage Strategy • Community investment activities

We have mapped our Legacy Commitments against the UN Sustainable Development Goals (SDGs). Overleaf are the SDGs where we expect to make a significant contribution during and/or after construction. These are detailed in our Green Bond Framework that supports Tideway's sustainable financing strategy and progress is reported to our debt investors through our Green Bond Report, which is available on our website.

Vision, Legacy & Reputation
Continued

Carbon

We are committed to minimising the carbon footprint of our project. We are now able to align ourselves to the World Resources Institute and the World Business Council for Sustainable Development definitions of Scope 2 and 3 emissions. To help us deliver this commitment we have developed a Carbon Action Plan which we have delivered eight of the 12 targets within this financial year, with three of the remaining completed by April 2019 with a plan in place to complete the final one by Summer 2019.

The totals for 2018 calendar year were:

- **Scope 2:** 134 tonnes CO2e
- **Scope 3:** 78,243 tonnes CO2e

As tunnelling works continue to increase, the Scope 3 totals will rise however it is anticipated that initiatives such as the use of telematic data from plant that records fuel consumption and operator behaviour on a single platform will reduce the total against those forecast in the original baseline.

Initiatives such as the smart use of telematic data that records plant idling time is now being implemented and a platform has been developed for all plant operators to feed in their data, which is collated by dedicated analysts within each of the MWCs' environment teams. The data is then used to train operatives on how to maximise efficiency of plant and subsequently reduce emissions.

The air quality benefits gained through the implementation of our river strategy can be seen in the More by River case study in Schedule, Cost and Quality.

Tideway's Sustainability and Legacy links to the UN Sustainable Development Goals

Tideway's sustainable financing strategy and progress is reported to our debt investors through our Green Bond Report. Examples of activities contributing to these SDGs can be found throughout this report.

3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
11 SUSTAINABLE CITIES AND COMMUNITIES	Make cities and human settlements inclusive, safe, resilient and sustainable
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts

Vision, Legacy & Reputation
Community Investment and Charitable Giving

A key part of Tideway's legacy and community engagement is to support charities near our sites in delivering long-lasting benefits to the communities we work in as well as supporting London-wide charities which focus on improving the River Thames. Tideway's community investment programme benefited a total of 220 organisations and c9,000 people in the year.

Thames21

Thames River Watch, Tideway's partnership with environmental charity Thames21 saw 839 people 'reconnect with the River Thames' at 175 foreshore clean-ups. The 'citizen science' programme also trained 90 people to run their own clean-ups or carry out surveys, compiling data which is used to create reports that help Thames21 influence policy change.

The programme collected more than 33,000 plastic bottles in the year, including 3,249 at a 'Big Count' event across multiple sites on the same day (40% were water bottles). A 'Big Count' for wet wipes in March found more than 23,000 in just one stretch of foreshore at Hammersmith Bridge.

Oarsome Challenge and Race the Thames

We raised significant sums through charity fundraising. In May 2018 we held the 'Oarsome Challenge', which involved 16 crews from across the Alliance rowing ten miles along the Thames through central London. The event raised more than £35,000 to fund a new fundraising post at Shadwell Basin Outdoor Activity Centre, in Tower Hamlets. This was followed in March by 'Race the Thames', a 72km team indoor rowing challenge which raised almost £13,000 for London Youth Rowing. In total staff across the Alliance raised £66,609 for charity in the year. Tideway itself gave a total of £53,340 in charitable donations in 2018/19, in addition to its community investments and partnerships.

Active Row with London Youth Rowing

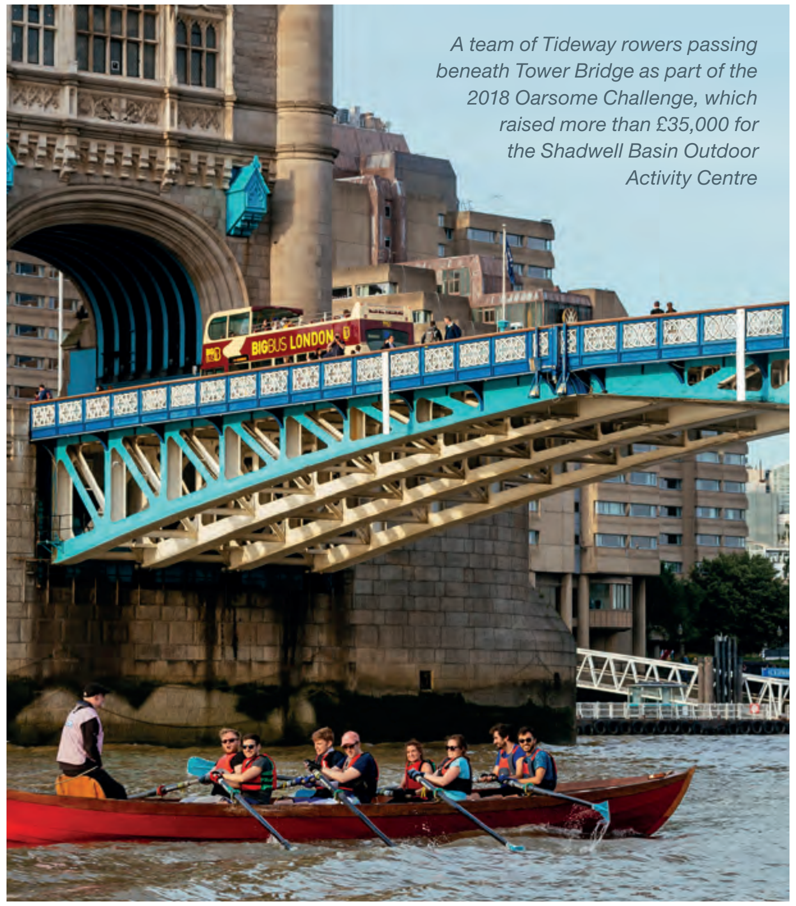
Tideway's Active Row partnership with youth engagement charity London Youth Rowing aims to get 8,000 young people – 50% of them female and 60% from minorities - active through indoor and on-water rowing within four years. By the end of 2018/19 Active Row was well ahead of its target, with 4,889 young people engaged in its first 18 months.

Giving back – Community volunteering

Alliance staff volunteered a total of 7,182 hours in the year. This includes 4,019 hours volunteered by MWC staff and 3,163 by Tideway (including the PM).

Our community volunteering helped our partners to deliver benefits to people across London. This included the engagement on the Thames River Watch and Active Row programme mentioned above, as well as helping the RNLI speak to 1,260 young people about river safety through its Respect the Water campaign.

Our teams also gave their time and skills to deliver smaller but still vital community impacts, including: interior and exterior improvements at the Penfold Community Centre in Wandsworth by our Hammersmith and Dormay Street teams, garden makeovers at two Single Homeless Project hostels in Wandsworth and internal renovation at one of their Lambeth hostels, to give residents better outdoor and indoor spaces; and 141 older neighbours getting some much-needed company and fun at a monthly social club run by South London Cares in Blackfriars, funded by Tideway.



A team of Tideway rowers passing beneath Tower Bridge as part of the 2018 Oarsome Challenge, which raised more than £35,000 for the Shadwell Basin Outdoor Activity Centre

Vision, Legacy and Reputation
Educational Outreach

Educational Outreach

This year Tideway has:
170 STEM volunteers

Who delivered:
465 hours of STEM activities

To over:
3000 young people

Our education programme works with young people to promote STEM (Science, Technology, Engineering and Maths) and construction careers. Throughout the year we trained STEM volunteers to better equip them to engage with young people. Our volunteers helped deliver events that have become commonplace in our school engagement calendar, such as Tomorrow's Engineers Week, and supported the development of free educational resources for teachers that link the national curriculum with real life scenarios and careers.

We supported our apprenticeship programme with an assessment day that helped shortlist suitable Civil Engineer apprentices, and by consistently engaging the students in our work experience placements with apprenticeship opportunities. One of these students is now a Civil Engineer apprentice in our workforce. Find out more about apprenticeships in Company and People.

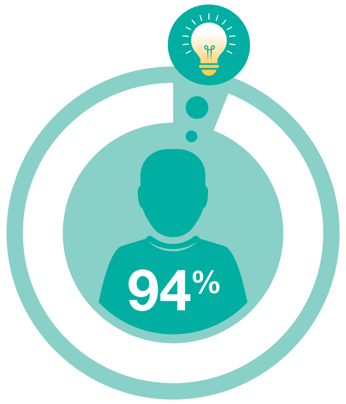
We also reached a milestone when we welcomed our 100th apprentice. Callum Davis, 18, started his civil engineering apprenticeship at Chambers Wharf in Bermondsey.

"The Tideway project has provided me with the opportunity to develop and enhance my knowledge and skills rapidly and I am learning something new every day."

Callum Davies Apprentice

We have partnered with Construction Youth Trust (CYT), a charity that inspires and supports young people to achieve their full career potential in the construction industry, especially those who are disadvantaged or facing significant barriers to working life. CYT has engaged with around 7,000 young people in London schools, with large cohorts of young people underrepresented in construction.

IN 2018 CYT IMPACT REPORT SHOWED THAT:



94% OF STUDENTS SAID THEY INCREASED THEIR KNOWLEDGE OF CAREERS WITHIN THE SECTOR.

75% OF STUDENTS SAID THEY WERE MORE INTERESTED IN A CAREER IN CONSTRUCTION AFTER THE ACTIVITY.

'We were delighted when Tideway became one of our very first industry partners to support the Schools Partnership strategy. Tideway has already enabled us to reach over 7,000 young people aged from 11 to 18 years old. Without the support of industry partners like Tideway, we would not be able to help young people discover the fulfilling and dynamic opportunities available within construction and the built environment.'

Carol Lynch
CEO Construction Youth Trust

Ethical Supply chain

Ethical supply chain management is strategically significant for us, as shown by our commitment to:

- Full-time site and office-based employees on Tideway to be paid at least the London Living Wage, with robust assurance processes in place to identify and address any non-compliance.
- Fair Payment Charter, which supports the department for Business Energy & Industrial Strategy's (BEIS's) ambition to ensure the construction industry has standard 30 day payment terms. The Fair Payment Charter has been issued to our MWCs and Joint Venture Partners as part of their contractual obligations and we monitor their compliance.
- Responsible sourcing, which requires all of our key building materials, principally steel, cement, aggregates and timber, to be certified to either Building Research Establishment's (BRE) responsible sourcing standard BES 6001 'very good or above', CARES Sustainable Constructional Steel (SCS), Eco-Reinforcement or FSC or PEFC timber, as applicable.
- A sector-leading approach to preventing bribery, corruption and modern slavery through contract terms with our delivery partners, close monitoring of our supply chain, our Modern Slavery Statement and Anti-Bribery and Corruption procedures, and staff training to raise awareness of the complexities of human rights and ethics in the supply chain.
- Compliance with the Ethical Trading Initiative Base Code.

We had our first BRE BES 6002, Ethical Labour Sourcing Standard (ELS) assessment in 2018, in which we achieved the baseline criteria. We were the fourth company and first client organisation to complete the assessment.

Our commitment to supporting the London and UK economy is demonstrated through our supply chain spend. This has extended throughout the UK and included the provision of technical equipment and services, materials and plant, labour, accommodation and catering facilities.

Our supply chain spend to date has reached:

c1400 Companies

12 UK regions

19 London Boroughs

Since Licence Award c90% of our supply chain spend has been within the UK.

Company & People

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

Priority for 2018/19
- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

2018/19 Measure

Employee engagement*

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

Target	Actual
63%	64%
	63% previous year

Employee enablement*

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

Target	Actual
74%	71%
	67% previous year

Employee diversity

Percentage of women within Tideway at 31 March 2019

Target	Actual
40%	34%
	36% previous year

**Includes Tideway employees and our programme manager (Jacobs). 84% of those eligible took part.*

Performance
Tideway believes that getting the fundamentals right for employees supports their engagement, we therefore promote flexible working, encourage individuals to take up to five days volunteering activity a year and ensure that training and development opportunities are available to support individuals in their current and future career. Go to *www.tideway.london/careers/* to find out what people think about working at Tideway.

We were pleased to see that for the third year running our employee survey has shown improving results for our key measures of engagement (64%) and enablement (71%). We continue to perform well against external benchmarks and we have seen positive improvement in responses to 54 out of 74 questions with the others either stable or showing a slight decline.

"I would say most decisions are made at the correct level. I feel empowered as a team to make decisions and act upon them without consulting people up the management chain."

Staff Survey 2018

A theme for this year was to target personal and professional development. We focused on supporting improved levels of delegation and empowerment, as it was an area we had identified for improvement based on the previous year's survey. It is pleasing to report that our engagement survey scores show progress in this area. There was a significant increase in the favourable scores for "decisions made at the lowest level" (up 7% to 35% favourable), and a positive increase in the favourable scores for "timeliness of decisions" (up 2% to 43%). For the first time comments in the survey referenced positive changes to how decisions are made. We will build on these results and make further improvements in the coming year.

We are supporting our people to be as effective as possible with improvements to our existing office technology. Our continuous improvement teams work across Tideway to identify good practice and improve process efficiency.

We maintained compliance with the following international quality standards which enable us to operate efficiently and identify improvements to how we work.

- ISO 9001 Quality Management;
- ISO 14001 Environmental Management; and
- OHSAS 18001: 2007 Health and Safety.

The team down the shaft at Carnwath Road Riverside during the blessing of the statue of Santa Barbara, the patron saint of tunnelling

Company & People

Diversity and Inclusivity

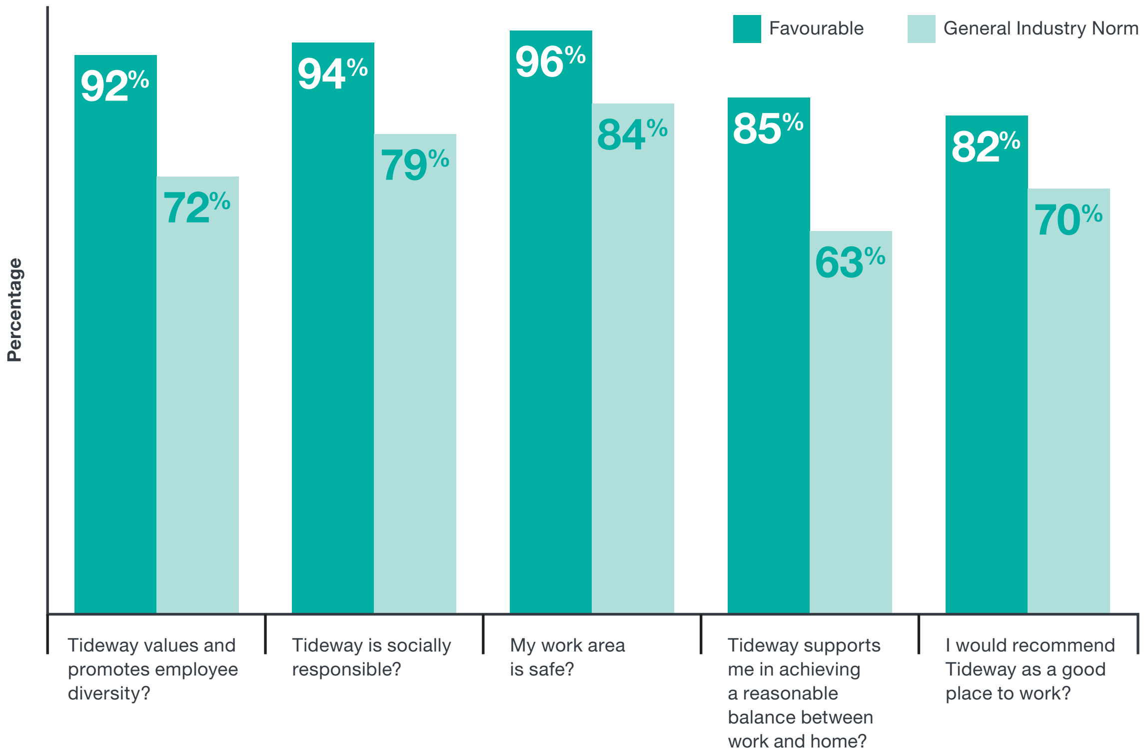
To support our inclusivity and diversity activities we ran Allies training with the charity Stonewall, which was well received by participants. Fifty-six members of staff (13%) have completed the Mental Health First Aid Course, including Directors and members of the Executive Management Team. Our front-line staff have also been trained by the Business Disability Forum in welcoming disabled staff and guests to our locations.

To support our aim of helping people back into work, we ran training sessions on 'Employing Individuals with Convictions' in partnership with Nacro, as well as inclusive recruitment sessions to help managers understand and address potential unconscious bias.

We also offer a rich virtual learning resource, which has a wide range of training topics across multiple formats so our people can access the right learning and development to support their aspirations.

Our employee-led diversity forum, Encompass, focuses on all aspects of diversity. Some of its achievements included:

- Achieving Disability Confident status;
- Completing our second Stonewall LGBT+ survey, achieving 106th out of 460. This was up 121 places from last year and puts us just outside of the top 100. We continue with an action plan for improvement;
- Receiving recognition for our LGBTQ+ Executive Sponsor, Steve Hails, HSW Director, who was shortlisted for his work promoting diversity and inclusivity, and being named as a Top 10 Corporate Ally in the British LGBT Awards, which celebrate the achievements of the LGBT community along with innovators and companies whose work supports inclusion; and
- Continuing to outperform external benchmarks when employees are asked whether the Company values and promotes diversity. Our score was 92% favourable (up two percentage points) and 18% above the UK average.



We recognise the importance of diversity and its positive impact on Company performance. Gender diversity is a key performance indicator for us and we finished the financial year with 34% female staff. This is below our end of year target of 40% and down two percentage points on last year. However, we continue to seek ways to achieve our aim of gender parity by the end of construction. On a more positive note, we increased the proportion of female managers by four percentage points in the year to 31%.

Headcount (as at 31 March 2018)*	Female 31 March 2019	Male 31 March 2019	Total 31 March 2019	Female 31 March 2018	Male 31 March 2018	Total 31 March 2018
Board**	2	11	13	2	11	13
Senior Management	18	22	40	20	33	53
Other Employees	128	250	378	153	271	424
Total *	**148**	**283**	**431**	**175**	**315**	**490**

* *Includes Tideway employees and our Programme Manager (Jacobs)*
** *Includes shareholder Directors*

Talent

As part of our structured performance management process, we reviewed our talent management and succession planning during the year. This is a regular health check of the business, to ensure we have appropriate plans for key roles. Tideway's structure will continue to evolve over the life of the project and our approach ensures that individuals are supported in their career within the project, as well as their potential external roles in the future. The coming couple of years may be their last year on the project for some individuals. In recognition of this, we have changed the focus of our appraisal process to focus on development and long-term aspirations and goals, which may be achieved ultimately with their next employer.

The CEO and Director of Human Resources launched and hosted "Lean in Circles". We started with small groups of women, to focus on their career aspirations and to encourage and support them to have "Your Best Year Yet". This initiative again recognises that most roles will cease to exist beyond the construction and commissioning phase. Initially, we are inviting all Tideway women to attend sessions with plans for men later in 2019.

We were proud to be named in the Times Top 50 Employers for Women, as well as seeing our CEO Andy Mitchell named as a finalist in the Gender Champion Award category.

Company & People

We made progress with our aim to develop the next generation of talent and help local and disadvantaged people into employment. This included targets for Tideway and our contractors to employ apprentices, local people and ex-offenders as follows:

APPRENTICES

Aim

1 in 50

Year Average

1 in 49

EX-OFFENDERS

Aim

1 in 100

Year Average

1 in 124

RESIDENTS
across 14 London boroughs

Aim

25%

End of Year

21%

The proportion of ex-offenders employed on the project is 1 in 124, below our target of 1 in 100. Tideway has offered its network and knowledge to support MWCs and is engaging with the Mind the Gap project, which is creating employment pathways into the construction industry for people with convictions by embedding ex-offender recruitment with our local recruitment strategy.

One of our commitments is to target employment in the boroughs affected by our works. At the end of 2018/19, 21% of Tideway's MWC workforce resides locally, within the 14 boroughs affected by our works.

Our Apprentice programme has been extended from new entrants to include individuals currently working on Tideway, to enhance their skills and provide a recognised qualification. We are currently exploring executive-level apprenticeships with some of our senior management team.

We are committed to ensuring that all our employees are paid at or above the London Living Wage and have set it as a minimum for contractor staff working full time on site. Excluding apprentices, 99.6% of all staff employed on the project are paid at or above the London Living Wage, with procedures in place to resolve cases of non-compliance. We are working hard to identify and resolve outstanding cases.

"I don't think I could have had a better start to my engineering career. I always say to people that the exposure I'm getting on Tideway – the design work, the range of construction on site – is massive. I'm not limited."

case study

APPRENTICE
BIANCA WHEELER

Bianca Wheeler joined the project as an apprentice in 2016 and says she "couldn't have had a better start to her engineering career". Now in her fourth year on the Tideway project, she is currently working as a Civil Engineer Apprentice on the Central section.

The 20-year-old was keen to get into construction at school, and independently sought work experience at Laing O'Rourke.

"I asked if they'd take me for a week," she explained. "They were really nice, liaised with my school and it got organised. I didn't know what to expect, but that work experience is the reason I'm here today."

After an "amazing" week Bianca applied for apprenticeships in the industry and was eventually offered an interview with Tideway.

"It went so well," she said, "and before I even got home, I got a call saying I'd got the job."

Having completed her EngTech with the Institution of Civil Engineers (ICE), she is now working on becoming an Incorporated Engineer while studying at Kingston University – and plans to one day complete her Chartership with the ICE.

She added: "I don't think I could have had a better start to my engineering career. I always say to people that the exposure I'm getting on Tideway – the design work, the range of construction on site – is massive. I'm not limited.

"Obviously, there's so much more I need to learn, I know I'm not done yet, but talking about a start to a career, I'd always recommend Tideway."

Bianca was recently awarded the ICE's prestigious QUEST Technician Scholarship. She also sits on the ICE's Graduates and Students Committee, regularly volunteers for Tideway events including Women in Construction Week and visits her old school in south-east London to inspire the next generation.

“We are all focused on making sure everyone gets to work safely, everyone goes home safely. We want everyone passing the site to be as safe as possible. ”

case study

PRE-EMPLOYMENT PROGRAMME
ERROL LODGE

Errol Lodge joined Tideway through the pre-employment programme after a string of disparate jobs.

He is working on one of Tideway’s key sites on the Central section – Victoria Embankment Foreshore – looking after a team of around ten as a Logistics Supervisor.

But it wasn’t obvious that this was where he was destined to be.

“I went to a local school in Camberwell. I did my GCSEs and then did electronics at college. After that, I started working at Carphone Warehouse as a mobile phone technician and did 11 years there.” Errol rose up the ranks but was made redundant after more than a decade with the firm.

The dad-of-three then worked for his wife’s childminding business for a number of years before becoming interested in the construction industry through a friend.

He explained: “I decided to give it a go and saved up £2,000 and put myself through a crane driver course. It was an investment, that’s how I looked at it.”

Having acquired the qualification, Errol sought experience in the industry, covering people’s holidays – but was unable to find consistent work.

Until, that is, Errol heard about Tideway’s pre-employment programme at a careers fair in his local library.

He said: “I completed a six-week college course and was offered the job as traffic marshal. I’m now Logistics Supervisor, looking after a team of around ten people.

“It’s a very good team. There are lots of opportunities: I’ve been on a supervisor course, mental health first aid and fire marshal training. I’ve also got my blue card for the cranes.”

Having full-time consistent work for the first time in a number of years has been a huge boost for Errol.

He added: “I’m happy with what I’m doing now. The sky’s the limit.”

Callum Davis became the 100th apprentice to join the project in October 2018, beginning at Chambers Wharf as Civil Engineer Apprentice. Here he is with Fiona Keenaghan, who joined as one of the first apprentices on the project in 2014 and who has since reached her Level 5 BEng in Civil Engineering and gone on to work on HS2

Financing

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

Priorities for 2018/19

- Support the organisation to deliver the best result for bill payers and shareholders
- Funding – opportunistic issuance across formats
- Reduce the revolving credit facility
- Investment management – continue focus on capital preservation and liquidity and seek to optimise returns

2018/19 Measure

Priority 1 Support the organisation to deliver the best result for bill payers and shareholders

Company credit rating

Target	Actual
Baa1/BBB+	Baa1/BBB+

Distribution

Target	Actual
Achieve 18/19 Financing plan	In Line

Priority 2 Funding – opportunistic issuance across formats

Debt raised

Target	Actual
Subjective	£325m Index linked

Priority 3 Reduce the RCF

Reduce the Revolving Credit Facility (RCF)

Target	Actual
£250m	£250m reduction in December

Priority 4 Maintain strong liquidity position

Liquidity

Target	Actual
18 months liquidity	> 4 years

Our Performance

We successfully achieved all of our financing priorities for the year. We continued to monitor the market to identify opportunities for further debt issuance and implementation of the green financing strategy, allowing us to raise £325m of additional debt at attractive terms, which further de-risked the financing plan. This enabled us to reduce the Revolving Credit Facility to £500m. Cash and liquidity continued to be managed effectively and prudently, in accordance with our Investment Management Strategy, while achieving improved returns above the target Bank of England rate.

To help manage the growing debt portfolio we focused on strengthening internal controls and procedures during the year.

Treasury Policy

Tideway's Treasury Policy incorporates the corporate objective to finance the Company while minimising risk. Our target is always to maintain a robust investment grade credit rating.

We manage our financing activities in compliance with the constraints imposed by the Government Support Package (GSP), the financing documents and the Licence.

Financing activity

Following Licence Award, our shareholders injected £1,274m in line with the equity-first approach to financing. This was in the form of £509.7m of equity and £764.5m of shareholder loans. Part of the shareholder loans has been repaid in line with the approved distribution policy in the licence and GSP and the outstanding balance at 31 March 2019 was £711m.

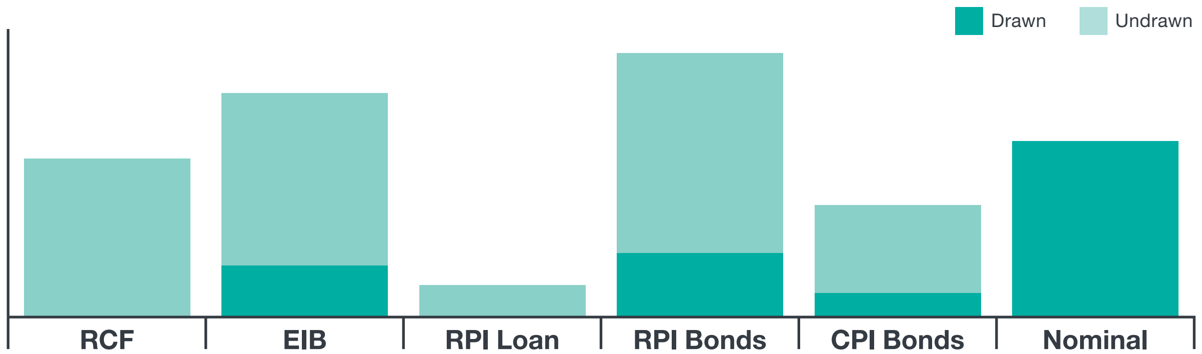
The RCF remained undrawn during the period and the commitment at the year end stood at £500m, after the cancellation of £250m in December 2018 in accordance with planned reductions.

In April 2018, we issued a £150m long-term inflation linked deferred green bond and in May 2018 we completed three bond issuances totalling £175m, which were also linked to inflation, with deferred drawing, and in green bond format. These issuances further lock-in our financing costs and continue the innovative strategy of pricing bonds with long deferral periods to match our investment profile. The deferred draw down issuance enables us to de-risk our financing plan and secure the best possible borrowing terms by locking in committed debt funding at current market rates and effectively managing the negative carry costs associated with pre-funding.

These transactions meant that at 31 March 2019, the Company had secured total committed debt funding of £3,025m. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover construction costs.

The revised cost estimate announced in April 2019 adds c£100m to the long-term financing needs at current gearing targets, which is well within the £500m RCF.

Debt £m	RCF	EIB	RPI Loan	RPI Bonds	CPI Bonds	Nominal	Totals
Drawn	-	160	-	200	275	550	1185
Undrawn	500	540	100	625	75	-	1840



Financing

Financing Activity

Of the £3,025m of committed debt facilities, £1,185m has been settled and the funds have been received and £1,840m is still undrawn. The first of our deferred purchase bonds, the £100m 0.688% index-linked bond due 2050, was funded in June 2018, and was followed by the £100m 0.249% index-linked bonds due 2040, which settled in December 2018. The first two tranches of the EIB loan, totalling £160m, were also drawn in July 2018 and January 2019.

Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated market of the London Stock Exchange. Tideway's prospectus for the listing was last updated in July 2018.

Green Bonds

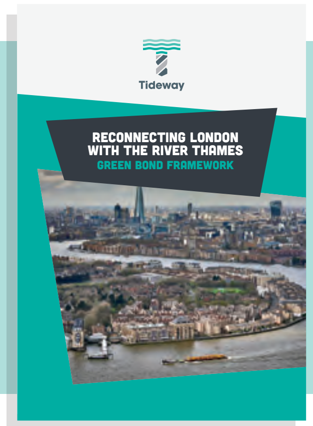
Green bonds are debt instruments whose proceeds are used to fund projects with environmental benefits, such as the Thames Tideway Tunnel. During the year, Tideway continued the successful implementation of its green bond strategy. In May, we issued £325m of new green bonds to three different investors, under our multicurrency bond programme.

These new bonds took Tideway's green bond issuance to £775m. All six green bonds issued to date are listed in the London Stock Exchange Green Segment.

The Green Evaluation we obtained from S&P Global Ratings in 2017/18 covers the bond programme and the bond series issued under it and is also published on our website. The evaluation produces a relative green impact score for debt instruments financing environmentally beneficial projects and is a second opinion aligned with the Green Bond Principles. This was S&P's first public green evaluation in the UK and it is still the highest S&P mitigation score to date and the joint-highest overall score of E1 - 95/100. The green evaluation is being updated in June 2019.

We published our first annual Green Bond Report to investors in 2018/19. The report confirmed that Tideway is a 'pure-play issuer' and the bond proceeds are used entirely to finance the construction of the tunnel, which will tackle sewage pollution in the River Thames. The report also discusses the project's environmental and economic performance, as well as our Legacy Commitments.

We are one of two UK corporates among the 16 founding members of the Corporate Forum on Sustainable Finance, which launched on 15 January 2019. The forum aims to push forward the development of sustainable finance. It regards sustainable finance instruments as efficient market-based tools that allocate economic resources where they are most needed in sustainable investments. The forum plans to work with rating agencies, investors and other national and international forums, as well as leverage the members' mutual expertise to drive the sustainable finance agenda.



Our Green Bond Framework which is aligned with the four core components of the International Capital Markets Association (ICMA) Green Bond Principles was published in 2017/18 and is available on our website.

We have aligned our Legacy Commitment to the **UN Sustainable Development Goals (SDG)**. See page **42**.

Tideway's finance team with two Treasury4Good awards

Treasury4Good

We have been awarded two Treasury4Good awards by Treasury Management International (TMI), which recognises organisations and individuals who are leading the way in supporting Corporate Social Responsibility, Environmental Social Governance and Diversity & Inclusion initiatives. We won the Best Corporate Sustainable Finance Solution and the Best Corporate: Clean and Green Treasury awards.

We were also shortlisted for the Treasurer's Deals of the Year Awards in the Sustainable Finance category, celebrating the outstanding achievements of corporate treasurers and their teams who have shown innovation and excellence.

Hedging

Bazalgette Tunnel Ltd has entered into long-term swaps with commercial banks, to hedge the interest rate for tranches one to eight of the £700m EIB loan secured in May 2016 and £70m of the £300m US Private Placement notes secured in September 2017. These transactions were completed in previous financial years and no swaps were executed in 2018/19.

We continue to manage the interest rates on our debt programme, balancing the objective of securing attractive long-term rates with the overall appetite for exposure to inflation, and also taking into account the likely changes to the inflation index arising after the end of the current regulatory period in 2030.

Distributions

At Licence Award our shareholders committed a total of £1,274m in the form of equity and shareholder loans, split 40% equity and 60% shareholder loans with an 8% coupon. This amount has been fully injected into Tideway and future investment will be debt financed. 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 will receive a cash return on their investment through a combination of payments of interest on the loans and partial repayments of those loans. This mechanism was put in place during the Infrastructure Provider (IP) equity procurement process run by Thames Water and overseen by Ofwat and the UK Government and was key to achieving the low cost of capital bid by our shareholders. Ultimately, Thames Water's wastewater customers benefit from the low cost of capital achieved through the procurement through a lower charge in their bills. In 2018/19, we made distributions totalling £60.5m through payments of interest and repayments of principal on our shareholder loans.

When approving the amount of distributions at each distribution date, the Board sets the total amount and a profile of distributions that is consistent with our target capital structure at Handover. The Board also considers the Company's operational and financial performance and the cumulative yield, to ensure it is consistent with the level set during the equity procurement process.

Financing

Liquidity

At 31 March 2019, we had total liquidity of £2.5bn, comprising £655m of cash, the £500m undrawn RCF, the £540m undrawn part of the EIB loan, £700m of bonds and a loan for £100m. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity required to the end of construction.

Ratings

Both Moody's and Fitch affirmed their respective investment grade credit ratings of Baa1 and BBB+ during the period.

Fitch published a full rating report on the Company, covering the key rating driver assessments and confirming the rationale for its BBB+ rating. Fitch has since applied environmental, social and governance (ESG) relevance scores to all infrastructure issuers.

Investment Management

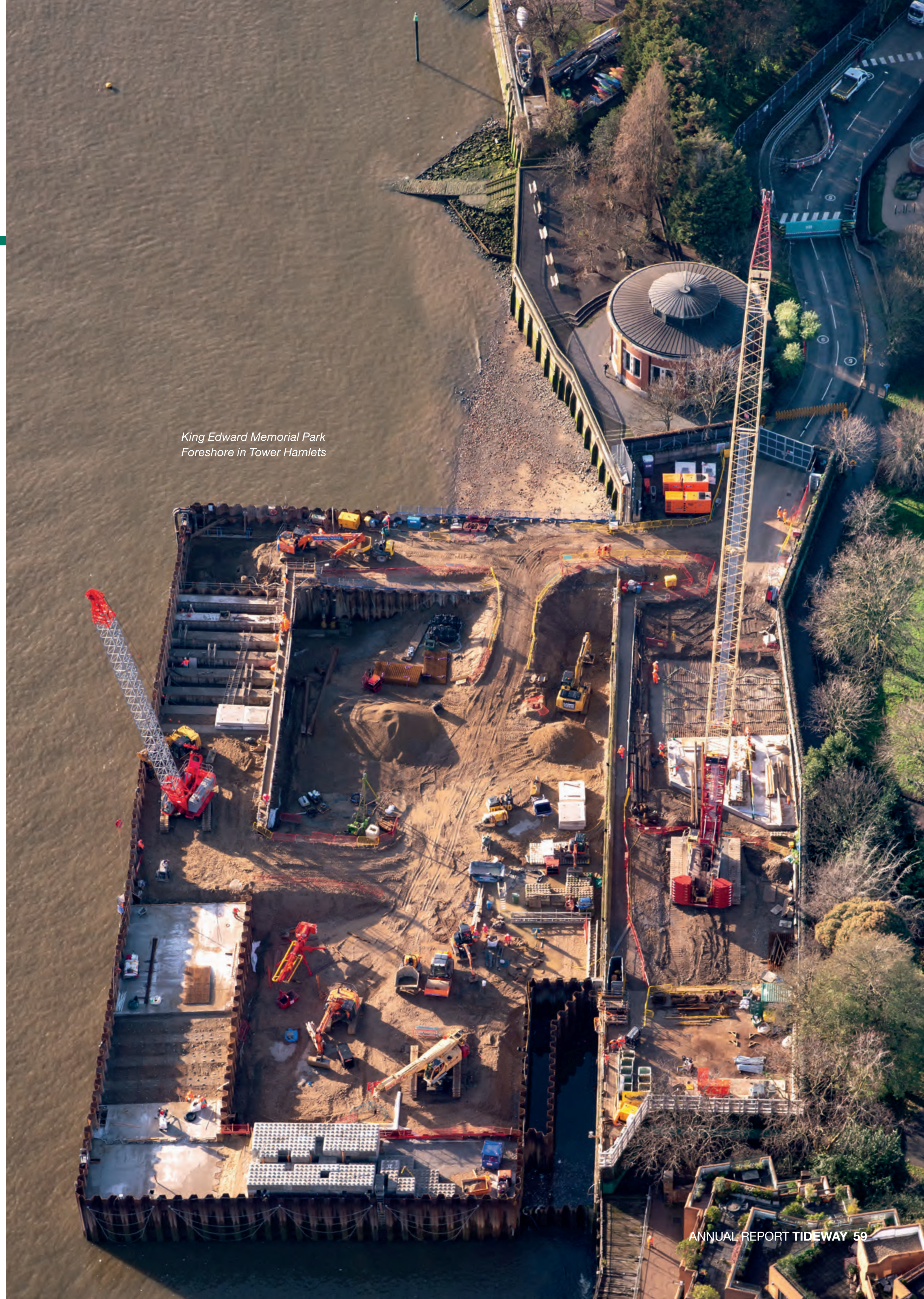
The amount of shareholders' funds paid in and the £1,185m of debt drawn to date, including the £335m drawn during 2018/19, led to us benefiting from substantial cash balances throughout the period, averaging £839.8m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield.

During the year, we held cash in three types of instruments: bank accounts with our main bank, Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds held with selected institutions.

In 2018/19, we generated a total return of around £5.9m on our cash balances, at an average yield of 0.71% per annum for the year. The return is four basis points above our target, the weighted average Bank of England base rate.

Reporting

We regularly update our main stakeholders on the progress with our financing through the half-year investor report and a debt summary published on our website and delivery plans, through the quarterly meetings of the Liaison Committee attended by Thames Water, Defra, Ofwat and the Environment Agency. We also report regularly to our lender investors, in compliance with the terms of our financing documents and the Government Support Package.



King Edward Memorial Park Foreshore in Tower Hamlets

Financial Performance Review

Accounting basis

Our financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Under IFRS, we consider that lease accounting is the most appropriate accounting basis for Tideway post System Acceptance. Accordingly, during the construction phase of the project, expenditure which is directly attributable to bringing the TTT into its intended use will be capitalised as an asset under construction within the Statement of Financial Position. Similarly, during the construction phase, we recognise the regulated revenue received from Thames Water as 'deferred income' within the Statement of Financial Position.

Non-GAAP measures:

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. 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 RCV. Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

Allowable costs are costs stated on an accruals basis, which form part of the Allowable Project Spend (and are added to our RCV) when the underlying assets or liabilities are cash settled. Excluded costs are costs stated on an accruals basis which will be Excluded Project Spend (and not added to our RCV) when the underlying assets or liabilities are cash settled.

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

Income Statement

During the year ended 31 March 2019, Tideway reported a loss of £31.0m (2017/18: £9.5m profit), with no dividends paid or proposed (2017/18: £nil). We did not recognise any taxable profits in the period (2017/18: £nil) and therefore have no corporation tax charges (2017/18: £nil).

We do not consider that the reported loss in the year reflects our business performance, as it results from the movement in the fair value in the Company's 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 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 effective from 1 April 2016, which means that any gains or losses arising from the movement in the fair value will be disregarded for current tax purposes.

Statement of Financial Position

The table below analyses capitalised costs in the Statement of Financial Position (on an accruals basis) and the associated cash outflows

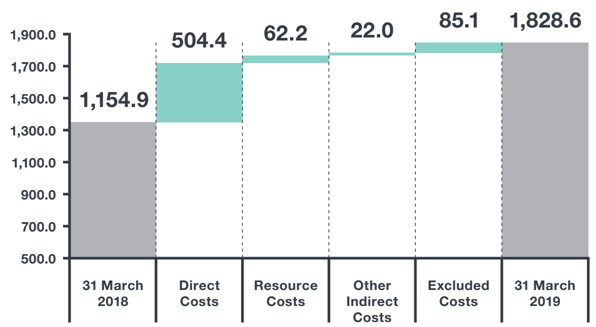
	2018/19			2017/18		
Analysis of Costs and Cash Outflows (£m)	**Costs**	**Timing Differences**	**Cash Outflows**	**Costs**	**Timing Differences**	**Cash Outflows**
Allowable	588.6	(5.8)	582.8	542.7	(24.5)	518.2
Excluded	85.1	2.4	87.5	66.3	45.4	111.7
Total	**673.7**	**(3.4)**	**670.3**	**609.0**	**20.9**	**629.9**
Brought Forward	**1,154.9**			**545.9**		
Capitalised Costs*	**1,828.6**			**1,154.9**		

** Capitalised Costs is the GAAP measure and aligns to note 6 of the financial statements.*

For the year ended 31 March 2019, our Allowable Project Spend is lower than the Allowable costs, as our Allowable costs include the timing of accruals and unwinding of prepayments of items, including insurance contracts and the GSP. The Excluded cash outflows are slightly higher than the Excluded costs. This is mainly due to the £3.4m (2018: £23.8m) repayment of shareholder loans which are not included within Excluded costs.

At 31 March 2019, costs of £1,828.6m were capitalised within the asset under construction in the Statement of Financial Position. The table below shows the capitalised costs for 2018/2019:

Capitalised Costs 2018/19 (£m)



This represents £673.7m costs during the year and £1,154.9m for the prior periods to 31 March 2018.

The table below analyses Allowable costs capitalised during the year:

Allowable Costs (£m)	**2018/19**	**2017/18**
Direct Costs	**504.4**	**443.2**
Resource Costs	62.2	68.4
Other Indirect Costs	22.0	31.1
Indirect Costs	**84.2**	**99.5**
Total	**588.6**	**542.7**

Direct costs

Direct costs are primarily the MWC (Main Work Contractors) costs. The direct costs incurred in the year have increased compared with 2017/18, reflecting the increased level of construction as we commenced tunnelling.

Indirect costs

The largest indirect cost is Resource Costs of £62.2m. This represents the cost to employ the c429 average FTEs (2017/18 c479 average FTEs) either employed or contracted by the Company. The Other Indirect Costs include information systems, insurance, GSP, office and other running costs. Indirect costs have decreased compared with 2017/18 due to budget controls and cost cutting measures.

Excluded costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2019 were £85.1m. These comprise £84.9m of interest payable (including shareholder loans), £6.2m of costs which mainly relate to financing, partly offset by £6.0m interest receivable.

Financial Performance Review
Continued

Net (Debt)/Cash & Financing

Net debt at 31 March 2019 was £633.1m, which was £647.7m higher than the £14.6m net cash at 31 March 2018. The table below compares the movements in net (debt)/cash:

Net (Debt)/Cash (£m)	2018/19	2017/18
Cash*	554.8	838.3
Borrowings**	(1,187.9)	(823.7)
Net (Debt)/Cash	**(633.1)**	**14.6**

* ***Cash*** *exclude short-term deposits*
** ***Borrowings*** *exclude the shareholder loans*

At 31 March 2019, the Company's borrowings were £1,898.9m being £711.0m of shareholder loans and £1,187.9m of other borrowings. These were in the form of £1,176.4m of fixed and floating rate loans and £722.5m of fixed rate and index linked bonds.

In addition, the Company has secured deferred loans of £640.0m and deferred bond issuances of £700.0m which will be reflected in the financial statements when they are drawn down in the future. The Revolving Credit facility remained undrawn during the period and the commitment at the year end stood at £500.0m.

Cash

Cash at 31 March 2019 was £554.8m, which was £283.5m lower than the £838.3m cash at 31 March 2018. The tables below show the movements in cash:

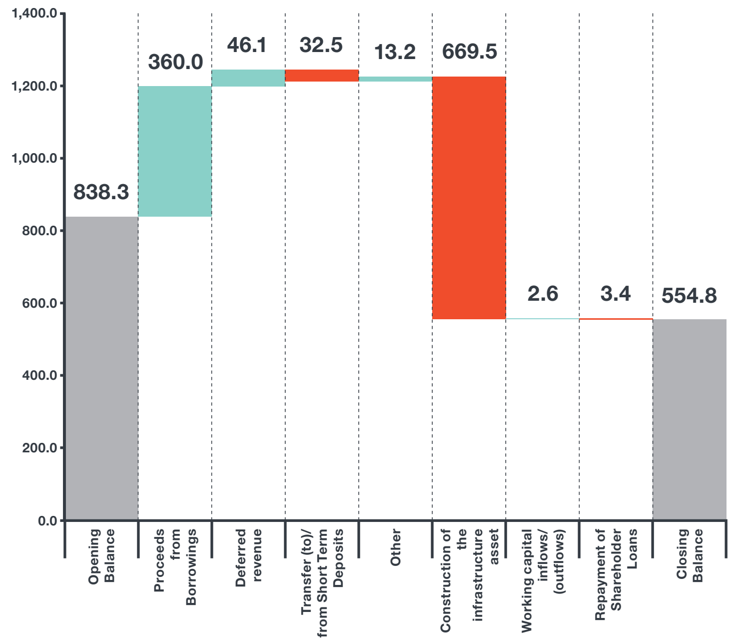
Cash (£m)	2018/19	2017/18	Ref.[1]
Opening Balance	**838.3**	**315.9**	
Proceeds from shareholder loans	0.0	208.9	d
Proceeds from Equity	0.0	139.3	d
Proceeds from Borrowings	360.0	822.1	d
Deferred revenue	46.1	32.1	a
Transfer (to)/from Short Term Deposits	(32.5)	(57.5)	c
Other	13.2	7.4	a
Cash Inflows	**386.8**	**1,152.3**	
Construction of the infrastructure asset	(669.5)	(607.4)	b
Working capital inflows/(outflows)	2.6	1.3	a
Repayment of shareholder loans	(3.4)	(23.8)	d
Cash Outflows	**(670.3)**	**(629.9)**	
Closing Balance	**554.8**	**838.3**	

Reconciliation to the Group Cash Flow Statement (£m)	2018/19	2017/18	Ref.[1]
Net cash used in operations	61.9	40.8	a
Net cash used in investing activities – Infrastructure asset	(669.5)	(607.4)	b
Net cash used in investing activities – Short term deposits	(32.5)	(57.5)	c
Net cash from financing activities	356.6	1,146.5	d
Net increase in cash and cash equivalents	**(283.5)**	**522.4**	
Cash and cash equivalents at the start of the period	838.3	315.9	
Cash and cash equivalents at the end of the period	**554.8**	**838.3**	

[1] *See cross ref.*

Cashflow Movements 2018/19 (£m)

The table below show the movements in cash during the year.



The cash inflows of £386.8m include £360.0m of proceeds from borrowings, £59.3m of working capital inflows less £32.5m of transfers to short-term deposits. The working capital inflows include £46.1m of regulated revenue received from Thames Water and £13.2m of other inflows, including interest and payment for other services provided to Thames Water. The cash outflows of £670.3m include £669.5m of investment in the construction of the TTT and £3.4m of shareholder loan repayments, partly offset by working capital inflows of £2.6m.

Financial Performance Review
Continued

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 (RAR) and funds from Operations Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios for 2018/19 are provided below. Note that percentages expressed in the CTA do differ in some places to the financial statements. Ratio calculations for earlier financial years are not included because to March 2018 Tideway was in a net cash position and therefore certain testing and reporting requirements in the CTA were not triggered.

1. Senior RAR (Regulatory Asset Ratio)

This ratio compares the net debt to the RCV. It is calculated as long-term senior borrowings, less cash and short-term deposits to the RCV. The Senior RAR trigger in the CTA is 70%.

2018/19 performance = 32.2%
2017/18 performance = n/a as net cash position

	Senior RAR		2018/19
A	Net Debt - per CTA		556.5
B	RCV - per CTA[1]		1,727.9
C	Senior RAR	A/B	32.2%

[1] *RCV is per the CTA definition not the Regulatory Accounts*

The table below provides a reconciliation to the net debt in the financial statements:

	Reconciliation to the Statement of Financial Position (£m)	2018/19
	Net (debt)/cash - per financial statements	(633.1)
	Loan with Bazalgette Finance plc (part of note 9)	(10.9)
	Short-term deposits	90.0
	Discount on £250m fixed-rate bond 2027	(2.5)
A	Net (debt)/cash - per CTA	(556.5)

2. FFO ICR (Funds from Operations Interest Cover Ratio)

This ratio compares the level of cash interest cover compared with the funds from operations. The FFO ICR trigger in the CTA is 1.3 times.

2018/19 performance = 3.4 times
2017/18 performance = n/a as net cash position

	FFO ICR		2018/19
D	Net Cash Flow - per CTA		43.7
E	Debt Interest - per CTA		12.7
F	FFO ICR	D/E	3.4

The tables below provide a reconciliation of Net Cash flow and Debt Interest to the financial statements:

	Reconciliation to the Cash Flow Statement (£m)	2018/19
	Increase in advance payment liability - per financial statements	38.4
	VAT adjustment per the CTA	5.3
D	Net Cash Flow - CTA	43.7

	Reconciliation to the Cash Flow Statement (£m)	2018/19
	Interest paid	71.1
	Interest received	(4.5)
	Debt Interest - per financial statements	66.6
	Shareholder interest	(57.1)
	Commitment fees	3.2
E	Debt Interest - per CTA	12.7

Regulatory Financial Reporting

For regulatory financial reporting, interest is expensed through the Regulatory Income Statement rather than being capitalised in the statement of Financial Position. The Regulatory Income Statement shows a net loss of £109.9m. This represents £84.9m of loan interest expense and £31.0m fair value movement on financial instruments partly offset by £6.0m of interest income.

At 31 March 2019, the RCV was £1,655.4m (in March 2019 prices). The RCV is the sum of Allowable Project Spend that has been incurred, verified by the Independent Technical Assessor and adjusted for inflation. This is consistent with Table 5B in the Regulatory Report section.

Revenue

Within the financial statements, all revenue is recorded as deferred income in the Statement of Financial Position, in line with our revenue recognition accounting policy. Revenue of £48.3m is reported for the year, based on the December 2018 Revenue Statement submission to Ofwat.

During the year, we received cash inflows of £38.4m from revenue (£46.1m including VAT), which includes some revenue from prior years as shown in Table 5A in the Regulatory Accounts.

Tax strategy

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.

Our business activities mean that we fall within the scope of corporation, employment, VAT and other taxes 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.

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 policy.

During the construction phase, all attributable expenditure required to construct the TTT is considered to be capital in nature and is capitalised. Revenue we receive from Thames Water is deferred onto the Statement of Financial Position. The calculation of taxable profit follows the accounting treatment in the Income Statement and as a result, we do not expect to recognise 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.

The loan relationships we have entered into will generate carried forward deductions into future taxation periods. Our ability to use these deductions will depend on the tax law at that time and the availability of taxable profits to offset the deductions against.

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with the tax authorities.

This strategy is based on the following principles:

1. **Tax planning:** 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.
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.

Risk Management

Our ability to deliver the positive outcomes we want for all our stakeholders depends on our ability to manage risk. Risk management is embedded in our culture and is central to achieving our objectives and priorities.

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

Risk Management Framework

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

The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. The Executive Risk Committee considers on a rolling basis the programme risks across the West, Central and East areas.

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Company's activities, both as the client or through the PM and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities. During the year, the Board agreed a change to the oversight of risks. The Executive Risk Committee remains focused on programme risks and a new Corporate Risk Committee was established to focus on corporate risks, on a six-monthly cycle. Health and Safety risks continue to be considered by the Board Health, Safety, Security and Environment Committee.

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

The focus of the Corporate Risk Committee has been to better understand corporate risks and ensure that adequate mitigations are in place. It also discusses the overall corporate risks, their potential interactions and Tideway's resilience across the full breadth of risks.

Principal Risks

Tideway has ten principal risks. There were no new or removed principal risks during the year. However, under our existing HSW risk we have separately recognised marine risk. While we have always ensured marine risks have been fully considered we now separately identify it in recognition of the increasingly important part it has to play now that construction has progressed.

We assessed these risks regularly and the risk exposure due to external factors that could impact Tideway as we move into the peak delivery year. We continued to update our mitigations throughout the year and implement changes to manage our risk exposure. We considered if there were sufficient material changes to increase or decrease our risk exposure across the ten principal risks and the Board agreed that the risk levels should remain unchanged.

Our Risk Management Framework

Our Risk Appetite

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

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

- setting new standards for health, safety and wellbeing through developing programmes such as RightStart and EPIC, to support our target of zero fatalities or serious injuries, off-site or on-site;
- aiming for an earlier delivery date, to mitigate the risk of slippage against the regulatory schedule; and
- mitigating liquidity risk and interest rate risk, by raising significant amounts of debt well in advance of needing the financing.

Finally, in our financing strategy we have set a target to maintain a robust investment grade credit rating at all times, which provides a tangible external benchmark of the Board's appetite for risk.

Further detail on changes in the year are included within the principal risk table on the next page.

Risk Management

Principal Risk Table

	1 Health, Safety and Wellbeing (includes marine)		2 Programme Delivery
Description	**Overall** 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.	**Marine** There is a risk that a single marine incident could lead to multiple persons being affected or harmed and delay progress.	We are delivering a capital investment programme of £3.8bn. 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 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.	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.	A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement. Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water, increase financing requirements and reduce returns for our shareholders.
Mitigation	We are implementing our RightWay programme, which is aligned to the delivery programme. It includes the RightStart approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites. We monitor both leading and lagging metrics and intervene if performance does not meet the standards expected.	Tideway continues to monitor marine risks and has implemented a Marine Assurance Plan and marine safety action plan. Tideway has also established a 'marine refresher' EPIC course.	Our approach to selecting and working with our contractors will help us to deliver the programme on time and to budget. This includes: • World-class contractors, with experience of tunnelling in London. • Contracts that transfer certain risks to our contractors that they are better placed to manage. • Establishment of the Alliance, to encourage co-operation and support across the project. • An integrated, proactive approach to risk management.
Relevant Objective	• Health, Safety and Wellbeing	• Health, Safety and Wellbeing	• Schedule, Cost and Quality • Financing
Commentary	**No change in risk level*** We have actively reviewed this risk during the year, particularly as we have mobilised on the majority of our sites and started tunnelling.	**New** Marine risk remains under HSW but is now separately reported under Principal Risks.	**No change in risk level*** Overal, our assessment of the risk for the schedule and costs remains the same. We announced in April 2019 a revised project cost estimate reflecting conditons at two sites and More by River.

	3 Supply Chain Failure	4 High impact, low probability (HILP) events	5 Credit Rating risks
Description	Our delivery strategy is based on outsourcing works. Our ability to deliver therefore depends on our contractors' performance. Our contractors operate in a very competitive environment and may experience financial difficulties through the delivery of the project.	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.	Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.
Effect	If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on budget.	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.	The loss of an investment grade credit rating would affect our ability to raise debt.
Mitigation	The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. The contracts contain step-in rights, whereby one contractor could replace another, which would help mitigate against financial failure. The members of all three consortia are joint and severally liable.	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 we 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.	We have a robust delivery model, within a regulated framework, and a GSP. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.
Relevant Objective	• Schedule, Cost and Quality	• Health, Safety and Wellbeing • Company and People • Schedule, Cost and Quality • Financing • Vision, Legacy and Reputation	• Financing
Commentary	**No change in risk level*** We continue to monitor the supply chain closely and have undertaken appropriate contingency planning.	**No change in risk level*** We view the risk as broadly unchanged.	**No change in risk level***

* *Compared to previous year*

Risk Management

Principal Risk Table

	6 Inflation Risk	7 Reputation Risk	8 Thames Water Performance
Description	There is a risk of inflation that is lower than assumed in our business plan.	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.	Thames Water is a key partner for Tideway. We have a number of important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period, the Handover and Acceptance process and in the operational period. Thames Water also passes revenue through to Tideway.
Effect	Our revenues are directly linked to the Retail Price Index (RPI). Lower inflation would therefore reduce our cash flow, unless our costs moved on the same basis. Our RCV is indexed to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.
Mitigation	Tideway has issued RPI and CPI-indexed debt. 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 equity returns.	We actively develop relationships with key stakeholders. For example, through our CLWGs we seek to find the best ways of addressing neighbours' concerns, in advance of works happening. The More by River strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river. We have established the Tideway brand, as part of our efforts to build trust and confidence and communicate the legacy and long-term benefits we aim to deliver.	Tideway and Thames Water have worked closely together through all key milestones to date and have developed a joint approach to System Commissioning, Handover and Acceptance. The Alliance Agreement incentivises Thames Water to help us deliver the programme. Thames Water is also incentivised to deliver its share of the works in a timely manner, through its regulatory settlement. We have also engaged Ofwat and Thames Water on the 2019 Periodic Review and the design of its future regulatory incentives. We have worked with Thames Water to develop and agree arrangements for managing the revenue process.
Relevant Objective	• Financing	• Company and People • Vision, Legacy and Reputation	• Schedule, Cost and Quality
Commentary*	**No change in risk level** We view the risk as broadly unchanged.	**No change in risk level** We continue to conduct a proactive communication strategy, to manage the reputational impact of our works. Tideway's annual stakeholder survey showed high levels of support and improvements from the previous year.	**No change in risk level**

	9 Regulatory and Political Risk		10 Brexit Risk
Description	**Political climate** The political climate appears to be shifting in favour of greater state intervention, illustrated by Labour's manifesto commitment to water renationalisation. This shift could have a range of regulatory, legal and reputational impacts on Tideway.	**Regulation** We operate under a licence granted by Ofwat, which places restrictions and obligations on us. We need to ensure we comply with our Licence at all times. Changes to the regulatory framework may affect our performance.	A referendum on the UK's membership of the European Union (EU) was held on 23 June 2016. Following enactment of the European Union (Notification of Withdrawal) Act in March 2017, Article 50 of the Treaty on European Union was invoked on 29 March 2017. On that date, a two-year negotiation period started for the UK and EU to negotiate a post-EU membership settlement. There remains uncertainty on the UK's departure from the EU.
Effect	Direct impacts could include Government actions such as renationalisation. Indirect impacts are likely as public bodies react to changing Government policy. Ofwat has already signalled that it is willing to intervene in a range of areas. Both direct and indirect impacts may affect investors and increase compliance costs.	If we do not meet Ofwat's requirements, we could face enforcement action which could include financial penalties and, in the worst case scenario, the loss of our Licence. A revised regulatory framework could affect our financial performance and investors.	Uncertainty about the final terms of the settlement is likely to have a short to medium-term disruptive impact on a few fronts, such as the Tideway supply chain and the availability of skilled labour. As a result of the de-risking achieved on our financing plan, we are less concerned about impacts on the capital markets.
Mitigation	Tideway has a broad range of mitigation actions sitting across several teams, including information gathering and relationship building, legal horizon scanning, and Defra/Ofwat engagement.	Our Licence sets out a specific framework for revenue until 2030. Ofwat's explanatory memorandum to our Licence states that any modification of Appendix 1 of our Licence, which considers the period to 2030, is only likely to be made with Tideway's agreement. We focus on being a compliant and high-performing regulated company, with positive regulatory relationships.	We will closely monitor the supply chain and establish a dialogue to address labour issues in a timely manner.
Relevant Objective	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing	• Schedule, Cost and Quality • Financing
Commentary*	**No change in risk level** We note considerable volatility and uncertainty in the political sphere and continuing pressure on the regulation of the water sector.	**No change in risk level**	**No change in risk level** We continue to include this as a principal risk, given the scale of uncertainty and the potential impact on the business.

** Compared to previous year*

Long-Term Viability Statement

The UK Corporate Governance Code requires Company Directors to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a long-term period.

To assess the Company's long-term viability, the Board has:

- identified the most appropriate period over which to make the assessment;
- evaluated the Company's current position and future prospects;
- considered the potential impact of principal risks (taking into account availability and effectiveness of risk mitigation plans) over the period and where appropriate, analysed the potential financial impact under a suitable set of sensitivities; and
- overseen the governance process, ensuring robust levels of assurance over the analysis, and drawn conclusions regarding the Company's long-term viability.

Appropriate period

The Board considers that it is appropriate to assess the Company's viability over the period to 2030, in line with Tideway's current regulatory period. This time horizon is supported by the progress made in the implementation of our investment programme to date and the significant de-risking of our financing plan achieved. This period extends beyond the forecast timeline for delivery of the Thames Tideway Tunnel and System Acceptance by Thames Water but is still covered by Tideway's planning horizon which extends to the end of the current regulatory period (2030). The Board is not aware of any specific relevant factors that would affect this statement beyond this period and therefore has no reason to believe the Company will not be viable over a longer period.

Current position and future prospects

The viability assessment takes into account our business and financing plan which is prepared as part of our annual planning process. In the period covered by this Annual Report, we continued to implement our financing plan and raised £325m in long-dated bonds and cancelled another £250m of the Revolving Credit Facility. Tideway has now raised £2.5bn of long-term financing since Licence Award and we expect to be able to raise new finance for any additional funding needs in the period to 2030.

Potential impact of principal risks

Where appropriate during the year, we conduct sensitivity analysis on our financial model to stress-test the resilience of the Company and our business model to the potential impact of our principal risks, or a combination of those risks. For the purposes of this assessment, we have considered the likely impact of each principal risk on the Company's viability, taking into account the availability and effectiveness of risk mitigation plans and the measures we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, we take into account the Board's regular monitoring and review of risk management and internal control systems.

The Board confirms that it conducted a robust assessment of the principal risks (considering availability and effectiveness of risk mitigation plans) facing the Company, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks section of this report.

Tideway has ten principal risks and the scenario analysis (outlined in the table below) has covered seven of these. The three risks that have been excluded from the analysis are HILP as it is considered too remote for meaningful quantification and substantially covered by commercial insurance and the GSP, Credit Rating Risk which in addition to programme delivery would also be affected by a significant deterioration in the regulatory environment but along with Reputational Risk the financial impact cannot be quantified.

We have assessed the potential impact of the seven relevant principal risks on Tideway's viability by modelling a number of scenarios, which have been discussed and agreed by the Board. We consider there are three key routes through which viability could be impacted: increases in the total costs of the project (including potential delays in the project as ultimately this will translate into a cost increase scenario) is the main area, reduction in outturn inflation and an increase in bad debt to a lesser degree. For each of these routes, we have modelled scenarios representing impacts ranging from plausible to severe, as well as reviewing a 'reasonable' scenario comprising the current central projections considered by the Board.

- *Cost increase:* On 4 April 2019, we announced a revised estimate of £3.8bn compared to our regulatory baseline of £3.52bn (£3.14bn in 2014 prices) and we consider this is a reasonable estimate. For our plausible scenario, we modelled a 12% increase in the remaining costs to complete, taking the total to £4.0bn. This is consistent with our most recent internal scenarios. We consider a severe case to be a 20% increase in the remaining costs to complete, which equates to a total cost of circa £4.2bn. This severe case, which we consider unlikely, is still significantly below the Threshold Outturn of circa £4.6bn which would require increased costs to complete of 38% (circa £800m) compared with our current estimate. The Threshold Outturn is the limit up to which the Company will be required to fund expenditure. The GSP provides that the Company may request that the Secretary of State provide contingent equity in respect of the cost overrun above the Threshold Outturn.
- For *inflation risk* we have modelled scenarios where outturn inflation is 1% and 2% lower than current expectations, as well as a scenario of 0% average inflation in the period. We consider this range of scenarios appropriate in view of the Bank of England's policy of managing inflation within 1% of the long-term target.
- As the *bad debt* impact does not have a material impact on the Company's long-term viability, we assumed a conservative 50% lower revenue collection in one, two and four years in the period.
- Finally, we have modelled a combined scenario with 12% cost increase, 2% lower inflation and 50% revenue under recovery for 2 years, which we consider a reasonable composite downside combination of impacts given that we do not believe principal risks are strongly correlated.

The outcome of the sensitivities has been assessed considering a range of different financial ratios. In all downside scenarios modelled, the ratios are robust, above the minimum requirements in our financing covenants, consistent with an investment grade rating and Tideway does not call on the Government Support Package. The same conclusion applies when considering a 'reasonable' scenario comprising Tideway's current cost estimate, no change to currently forecast levels of inflation, and no change to existing levels of bad debt.

The output of this analysis is summarised in the table on the following page.

Long-Term Viability Statement
Continued

SCENARIO ANALYSIS TABLE:

Principal Risk No.	Principal Risk	Scenario	Assessment
1, 2, 3, 8, 9, 10	Programme delivery (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory, Brexit risks)	**Scenario 1.** An increase of 12% (£259m) in the remaining cost to complete the project	Tideway would be able to finance the increase in cost by flexing the amount of distributions to its shareholders and drawing existing available facilities.
		Scenario 2. An increase of 20% (£434m) in the remaining cost to complete the project	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
6	Inflation risk	**Scenario 3.** Outturn inflation 1% lower than current forecast	Over 80 percent of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way.
		Scenario 4. Outturn inflation 2% lower than current forecast	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
		Scenario 5. Average inflation 0% until 2030	
8	Thames Water performance - Revenue collection (Bad debt)	**Scenario 6.** A 50% under recovery in one year	Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary and not material overall.
		Scenario 7. A 50% under recovery in two years	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.
		Scenario 8. A 50% under recovery in four years	
	Combined scenario	**Scenarios 1, 4, and 7.**	Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants.

Governance, assurance and conclusions

In reaching its conclusion, the Board has taken into account Ofwat's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Company's viability. The Board also believes that financing will be available to Tideway over the period covered by the analysis. In this respect, the Board believes that it is reasonable to assume that the purchasers and lenders of our deferred debts will honour their commitment given the diversification and credit worthiness of the institutions with which Tideway has entered into such agreements.

We have undertaken a range of internal assurance activities, which the Board considers provide a robust degree of assurance over the analysis. The internal assurance activities have included a 1st and 2nd line of defence review as described in the Data Assurance Summary within this report. This long-term viability statement has also been reviewed by KPMG as part of the statutory audit. The Board considers that this combination of internal and external assurance means that checks have been carried out by parties with the most appropriate skills and knowledge.

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

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

Deputy Chairman and Independent Non-Executive Director
(Chair of the Audit Committee)

The Strategic Report was approved by the Board on 20 June 2019 and was signed on its behalf by:

Andy Mitchell CBE
Chief Executive Officer

Governance

Preparing one of the gantries for TBM Ursula, the westbound machine launched from Kirtling Street in March 2019. This machine is creating the 7.5km section of tunnel between Battersea and Chambers Wharf in Bermondsey

TBM Charlotte, responsible for creating the Frogmore Connection Tunnel, being lifted onto site at Dormay Street in Wandsworth. In March 2019, Charlotte started tunnelling towards King George's Park. Once this section is complete, she will be removed from the shaft and transported back to Dormay Street to complete the drive to Carnwath Road

Chairman's Introduction

SIR NEVILLE SIMMS
INDEPENDENT NON-EXECUTIVE CHAIRMAN

Tideway is committed to maintaining the highest standards of corporate governance and this report sets out our governance arrangements, the principal activities of the Board in 2018/19, and how we complied with the requirements of the UK Corporate Governance Code (the Code) and Ofwat's principles on board leadership, transparency and governance.

In the specific context of Tideway, good governance also requires our Board to adapt to the evolving stages of the project and the needs of a wide range of stakeholders, and to respond positively to changes in the wider corporate governance landscape. This report aims to be transparent about our activities across all these areas.

Board Activity

Over the course of the year matters arising at Board level have reflected the stage we are at in delivery of the project with Directors testing the Company's preparedness for tunnelling and increased levels of marine activity, and also looking further forward, to arrangements for commissioning and handover. A summary of the Board's activities is set out on pages 89 to 91, which outlines our discussions and priorities, including our actions and progress against specific activities.

Succession Planning and Board Changes

It is important that the Board is well equipped to oversee risk management and to challenge and support the Executive team. In planning for the evolving needs of the project, this year the Board has taken steps to put in place a Board succession plan. This will ensure that membership of the Board is regularly refreshed and our Independent Non-Executive Directors, in particular, bring skills and experience appropriate to the current and future stages of the project.

This year we made a number of changes at Board level. We welcomed Mike Putnam as a new Independent Non-Executive Director and Mathew Duncan as the new Chief Financial Officer. Both bring significant expertise to delivering large-scale, complex infrastructure projects and help broaden the range of expertise and perspectives on the Board. Details of their skills and experience are set out in the Directors' profiles on pages 80 to 86.

Mark Fairbairn stood down as an Independent Non-Executive Director in September and Mark Corben, the former Chief Financial Officer, left the business in November last year. Both Mark Fairbairn and Mark Corben were involved in the establishment of Tideway. They significantly shaped the Company we are today and I would like to formally record my special thanks to both for their contributions to the project.

Engagement with Stakeholders

Our Board members are also conscious of the large number of stakeholders affected by our project. This year our Directors have engaged in a wide range of activities to ensure they remain informed of stakeholder interests, including attending the TTT Forum, Ofwat briefings for Directors, meetings with Defra and the Port of London Authority, and numerous Tideway site visits which gave Directors an opportunity to speak directly with those at the front-line of project delivery.

I am committed to ensuring we continue to recognise the needs of all our stakeholders, and properly consider their interests in decision making at Board level. Some of the steps we have pledged to undertake to support this commitment are outlined at page 93.

Evolving Governance

I am pleased to report that our annual Board evaluation confirmed that Tideway maintains a high standard of corporate governance. (See page 98 for more information.) As Tideway is owned by private investors, we continue to take account of the relevant sections of the Guidelines for Disclosure and Transparency in Private Equity. Details of our continued compliance with the UK Corporate Governance Code and Ofwat's principles for board leadership, transparency and governance are set out at pages 88 to 101.

Over the course of the year the Board has kept a close eye on changes in the corporate governance landscape, and we were pleased to contribute to Ofwat's review and update of the board leadership, transparency and governance principles. We recognise that the standards expected of corporate organisations, particularly those involved in providing essential public services, are increasing, and that good governance is critical for maintaining trust and confidence in the sector.

While Tideway's corporate governance arrangements are strong, I firmly believe there is no room for complacency. It is important that we continue to review our performance regularly and actively seek ways to improve our procedures. On pages 92 to 93 we have set out the steps we are committed to taking to enhance our corporate governance arrangements. I feel confident we are well placed to meet the challenges that lie ahead, and to continue to achieve high standards of corporate governance for the benefit of the business, and all our stakeholders.

Board Leadership, Transparency and Governance

The Board Members

Key to Committees

- A Audit
- N Nomination
- R Risk
- Committee Chair
- H Health, Safety, Security & Environment
- RE Remuneration
- T Treasury

NON-EXECUTIVE DIRECTORS

Sir Neville Simms FREng
Chairman and Chair of Nomination Committee
Appointed August 2015, having met the independence criteria set out in the Code.

N H RE T

Key skills and experience

- Chartered civil engineer with significant board-level experience, known for driving change and enhancing value.
- Excellent understanding of policy making and regulation through advising and influencing government policy in the infrastructure sector.

Background

Sir Neville is widely recognised as an outstanding leader in the industry and has a long track record of leading major organisations. He was Chief Executive of Tarmac plc., Chairman of International Power plc and then, until May 2005, Chairman of Carillion plc. He was also joint Chairman of TML, the Channel Tunnel contractors' consortium, for the final three years of the Channel Tunnel project. Sir Neville chaired the Building Research Establishment Trust, as well as several construction industry bodies and the regional leadership teams for Business in the Community in the West Midlands and the Solent Regions. He was also a founder member of the government's Private Finance Panel and served for seven years on the Court of the Bank of England.

External appointments

None

Richard Morse
Deputy Chairman and Chair of Audit Committee
Appointed August 2015

A N RE R T

Key skills and experience

- Over 30 years' experience of investment in the infrastructure and energy sectors.
- Significant understanding of regulated businesses.

Background

Richard is an investment banker by background with significant expertise in the energy and infrastructure sectors, having been the Deputy Director of Ofgem (1999-2001) and the head of corporate advisory teams at Dresdner Kleinwort Wasserstein, Goldman Sachs International and Greenhill International. He is currently a Partner at Opus Corporate Finance. Richard's involvement in the project dates back to 2013 when he joined the board of subsidiary Thames Tideway Tunnel Limited, to assist in the set-up of Tideway.

External appointments

- Chairman – John Laing Environmental Assets Group
- Chairman – Woodard Corporation
- Non-Executive Director – Heathrow Southern Rail Limited

NON-EXECUTIVE DIRECTORS

Anne Baldock
Chair of Remuneration Committee
Appointed August 2015

RE A N T

Key skills and experience

- Senior projects, energy and infrastructure lawyer.
- In-depth knowledge and experience in regulated industries.
- Experienced non-executive director, with various other directorships.

Background

Anne is a former head of the global projects, energy and infrastructure group at international law firm, Allen & Overy LLP. She was a partner in the firm for 25 years, during which she acted on and helped to structure many innovative infrastructure and energy deals. Anne has been involved in the project since 2013, when she initially joined the board of subsidiary Thames Tideway Tunnel Limited to assist in the set-up of Tideway.

External appointments

- Senior Non-Executive Director – The Low Carbon Contracts Company Limited
- Senior Non-Executive Director – The Electricity Settlements Company Limited
- Non-Executive Director – Electricity North West Limited
- Non-Executive Director – The Submarine Delivery Agency

John Holland-Kaye
Chair of Health, Safety, Security and Environment Committee

John Holland-Kaye
Chair of Health, Safety, Security and Environment Committee
Appointed July 2017

H RE R

Key skills and experience

- Significant experience of developing and delivering major UK infrastructure.
- Strong commercial perspective, including from experience in the construction sector.

Background

John has been the CEO of Heathrow Airport Limited since July 2014. Prior to that, he was Commercial Director and Development Director at Heathrow, where he was responsible for delivering £1bn of annual investment, including the new Terminal 2. Previously, John held various senior executive roles, such as Divisional CEO at Taylor Wimpey plc and Managing Director of Bass Brewers.

External appointments

- Chief Executive Officer – Heathrow Airport Limited
- Senior Non-Executive Director – The Electricity Settlements Company Limited
- Non-Executive Director – Electricity North West Limited

Board Leadership, Transparency and Governance

The Board Members

Key to Committees

- A Audit
- N Nomination
- R Risk
- Committee Chair
- H Health, Safety, Security & Environment
- RE Remuneration
- T Treasury

NON-EXECUTIVE DIRECTORS

Michael Queen
Chair of Treasury Committee
Appointed August 2015

Key skills and experience

- Deep understanding of infrastructure investment.
- Proven commercial and strategic skills, gained from running and advising a wide range of organisations.

Background

Michael is a chartered accountant with over 30 years' experience in the alternative finance sector. He was CFO and then CEO of 3i Group plc, where he developed 3i's activities in the infrastructure sector by founding 3i Infrastructure plc. He was previously a member of the Prime Minister's Business Advisory Group (2010-2012) and currently brings his commercial and financial expertise to a variety of organisations.

External appointments

- Non-Executive Director – Coller Capital
- Member of the Advisory Board – CKGSB (a Beijing-based business school)
- Chair of Council – University of Surrey

Mike Putnam
Chair of Risk Committee
Appointed July 2018

Key skills and experience

- Recognised leader in the construction sector, with expertise in strategy and commercial management.
- Extensive experience in the successful delivery of high-profile infrastructure projects.

Background

Mike is the newest Independent Non-Executive Director on the Tideway board. He has some 35 years' experience across the development, construction and services sectors. Until recently, Mike was the President and CEO of Skanska UK plc (2009-2017) and prior to that, he was one of the company's Executive Vice Presidents and main Board Directors (2001-2009). He has been closely involved with the successful delivery of numerous high-profile infrastructure projects, including the M25 PFI/PPP, the Channel Tunnel, the Channel Tunnel Rail Link, National Grid Power Tunnels, Crossrail, Thameslink, Northern Hub and Waterloo Rail Alliances.

External appointments

- Non-Executive Director – Southern Water Services
- Non-Executive Director – Network Rail
- Non-Executive Director – ARCADIS (the global design and cost consultancy business headquartered in Amsterdam)

NON-EXECUTIVE SHAREHOLDER DIRECTORS

Gavin Tait
Amber Infrastructure
Appointed May 2015

Key skills and experience

- Extensive experience leading investments in major infrastructure projects.
- Particular expertise in regulated utilities, including water, gas and electricity.

Background

Gavin is the Chief Investment Officer of Amber Infrastructure, where he sits on the executive and investment committees. He led the Amber team investing in Cadent Gas Distribution (2017) and building a portfolio of seven UK transmission assets (2011-2018). Before this, he worked at Babcock & Brown and ABN AMRO.

Andrew Cox
Allianz
Appointed March 2018

Key skills and experience

- Specialist in asset management activities for infrastructure investments.
- Significant experience in infrastructure transactions.

Background

Andrew is Head of Infrastructure Asset Management at Allianz Capital Partners, where he is responsible for all asset management activities for the direct infrastructure investment portfolio. In addition to Tideway, he sits on the Boards of Porterbrook, Gassled and Net4Gas. Previously, Andrew was a Senior Principal Investor and Asset Manager for 3i Group plc and was a member of its infrastructure team for nearly ten years, overseeing investments including Anglian Water, Elenia Heat and Cross London Trains. Andrew previously held roles at Ambac and Schroders.

Board Leadership, Transparency and Governance

The Board Members

Key to Committees

A Audit
N Nomination
R Risk
Committee Chair
H Health, Safety, Security & Environment
RE Remuneration
T Treasury

NON-EXECUTIVE SHAREHOLDER DIRECTORS

Angela Roshier
DIF
Appointed September 2016

H N RE T

Key skills and experience

- Significant experience of investment in assets in the developed world and emerging markets.
- Extensive infrastructure experience gained in senior industry roles across a variety of sectors including regulated utilities, PPP, transportation and renewable energy assets.

Background

Angela is a Partner and Head of Asset Management at DIF, which she joined in 2010. In her role she oversees the asset management of DIF's portfolio of 160 mainly PPP, renewable energy assets and regulated utilities. Prior to DIF, she was a member of the infrastructure teams at 3i Group plc and Actis. Over the past 20 years, Angela has contributed to the origination and asset management of a wide variety of infrastructure assets in the PPP, regulated utilities, renewable energy and transportation sectors both in the developed world and emerging markets.

Alistair Ray
Dalmore Capital
Appointed May 2015

N RE R T

Key skills and experience

- Over 20 years' experience in the infrastructure sector.
- Wide range of board-level experience, spanning a number of sectors.

Background

Alistair co-founded Dalmore Capital in 2009 and is CIO. He is a Dalmore shareholder and board member, as well as being on the investment and operations committees. Alistair has held senior positions in the infrastructure investment business for 20 years, including at Edison Capital, Noble Group, Merrill Lynch and 3i Infrastructure plc, where he was one of the founding members of the infrastructure team. During his time at 3i, Alistair was involved in infrastructure transactions including the acquisition of Anglian Water and the purchase of stakes in Oiltanking GmbH. Alistair is also a Non-Executive Director of CAF Bank and a Director of Cory Holdco Limited.

COMPANY SECRETARY

Valmai Barclay
Company Secretary
Appointed January 2018

Key skills and experience

- Lawyer with specialist knowledge of the construction and infrastructure sectors.

Background

Valmai is Company Secretary and Legal Counsel at Tideway. Throughout her career, she has been involved in a range of UK infrastructure and development projects. Prior to Tideway, she worked in-house at a multinational construction company and before that, as a solicitor in private practice, specialising in construction and engineering.

Board Leadership, Transparency and Governance
The Board Members

EXECUTIVE DIRECTORS (ALSO PART OF EXECUTIVE COMMITTEE)

Andy Mitchell CBE, FREng
Chief Executive Officer
Appointed August 2015

Key skills and experience

- Civil engineer with a history of successfully managing high-profile UK and overseas projects.
- Excellent leadership skills, driven by a desire for change.

Background

Andy was appointed CEO of Tideway from Crossrail in 2014, where he was Programme Director and a Board member. Following 12 years working in the United Arab Emirates, France and South Africa, and on major developments such as Hong Kong Airport and the Hong Kong West Rail, he joined Network Rail in 2001, where he was Project Director for its Southern Power Upgrade project and Senior Programme Director of the Thameslink Programme. Andy is a Fellow of the Royal Academy of Engineering and the Institution of Civil Engineers, former Chair of the Infrastructure Innovation Platform (i3P) and the Infrastructure Client Group (ICG) and more recently became Co-Chair of the Construction Leadership Council.

Mathew Duncan
Chief Financial Officer
Appointed November 2018

Key skills and experience

- Strong financial expertise in the construction and infrastructure sectors.
- Significant recent experience on large scale infrastructure project.

Background

Mathew joined Tideway as CFO in November 2018 having been the Finance Director of Crossrail Ltd, the company responsible for delivering the new high-frequency, high-capacity railway for London and the South East. Prior to that Mathew was interim CEO and Finance Director at Balfour Beatty Support Services, where he was responsible for business sectors such as UK rail and utilities operations, and a workforce of 8,500 people. Mathew is an External Member of the House of Lords Commission, the body responsible for providing strategic and political direction for the House of Lords Administration.

Mark Sneesby
Chief Operating Officer
Appointed August 2015

Key skills and experience

- Extensive experience in complex water projects.
- Track record of driving operational and commercial performance.

Background

Mark joined Tideway as COO in May 2014. He is a chartered engineer by background and has extensive experience delivering major infrastructure in the water industry. He was formerly Head of Major Projects at Thames Water, which included the Lee Tunnel project, one of the largest contracts ever awarded in the UK water industry.

EXECUTIVE MANAGEMENT TEAM

Andy Alder
Programme Delivery Director

Background

Andy joined Tideway in 2015 from Crossrail, where he was Project Manager for construction of all tunnelling work in the West area. He was previously responsible for the design of the London Underground Tottenham Court Road Station Upgrade and DLR extensions to London City Airport and Woolwich. Andy is a Fellow of the Institution of Civil Engineers and a Member of the Association for Project Management.

Responsible for the delivery of all infrastructure across the project.

Roger Bailey
Chief Technical Officer

Background

Roger joined the project in 2012 as Head of Asset Delivery in the Thames Water Client team and took on the role of Asset Management Director in 2014. He is a chartered civil engineer with more than 30 years' experience in the planning, design and construction of complex infrastructure projects in the UK and overseas. Roger is a Fellow of the Institution of Civil Engineers and a Director of the Thames Skills Academy.

Responsible for technical oversight of project delivery, including design assurance, compliance with planning permission and the operational integration of the completed tunnel asset into the existing London sewer network.

Julie Thornton
Human Resources Director

Background

Julie joined the project in 2013. Her corporate career began over 25 years ago with IBM where she was Head of HR for Global Services in the UK, before moving to Citibank Private Bank, where she held the role of Vice President for HR in EMEA in Geneva and London. Julie's experience spans the business services, oil and gas, and construction sectors.

Responsible for employee engagement, development, diversity and the Company's HR Strategy.

Lucy Webster
External Affairs Director

Background

Lucy joined Tideway in 2016 from Metropolitan, a large housing provider. Prior to this, she held a number of senior communications roles in the transport, housing and regeneration sectors. She spent six years at Transport for London and worked on the preparation for the London 2012 Olympic Games, including planning and land assembly. Lucy sits on the Board of the London Design and Engineering UTC, a mixed university technical college at the University of East London campus.

Responsible for internal and external communication, stakeholder and community engagement and Tideway's corporate responsibility programme.

Celia Carlisle
General Counsel

Background

Celia joined the project in 2013, having previously held the role of General Counsel at the Olympic Delivery Authority. She has over 20 years' experience, both in-house and in private practice, of advising major infrastructure projects and their financing. Celia sits on the finance committee of the London Design and Engineering UTC, a mixed university technical college at the University of East London campus.

Responsible for providing strategic legal advice on all aspects of the project, negotiating key contracts and ensuring regulatory compliance.

Steve Hails
Health, Safety and Wellbeing Director

Background

Steve joined Tideway in 2016 after gaining over 20 years' experience in the construction, engineering and manufacturing sectors. He was previously Director of Health and Safety at Crossrail, which he joined from Siemens Energy. Steve is Chair of the Board of Trustees of Mates in Mind, President of the Construction Health and Safety Group, a Chartered Member of the Institution of Occupational Safety and Health, and a Practitioner Associate Member of the Institute of Environmental Management and Assessment. As of April 2018, Steve was the first Honorary Fellow of the British Occupational Hygiene Society.

Responsible for advising on health, safety and wellbeing issues, ensuring that all risk areas are identified and managed, and promoting a positive health and safety Company culture.

Board Leadership, Transparency and Governance

The Board's Role and Responsibilities

THE ROLE OF THE BOARD

The Board's role is to govern Tideway so it achieves its strategy and objectives, in particular the successful delivery of the Thames Tideway Tunnel, in a way that is consistent with the values and purpose of the organisation. The Board is collectively responsible for Tideway's long-term success and for delivering sustainable value to customers, shareholders and other stakeholders. It sets Tideway's strategy and risk appetite in all significant areas of Tideway's operations and approves and monitors management's plans for achieving Tideway's strategic objectives and targets, including risk mitigation.

Important aspects of Tideway's business are subject to scrutiny by the Board committees, namely the Audit, Treasury, HSSE, Nomination, Remuneration and Risk committees. Descriptions of the committees' roles and activities are set out on pages 102 to 125.

The Board has approved a schedule of delegated authority (SoDA) which defines the levels of authorisation required for key decisions in relation to funding and investment, contractual commitment and change, invoicing and payments, procurement, recruitment, treasury, the discharge of consents and claim settlement. The SoDA authorises management to approve decisions up to specified limits, beyond which the Board's approval must be obtained. The Board reviews the SoDA each year and by exception.

Certain decisions are reserved to shareholders for ultimate approval and these are set out on page 129. Nevertheless, the Board considers all such issues and advises shareholders as appropriate. The Board retains responsibility for Tideway's overall direction, supervision and management.

The following matters are reserved to be decided by a simple majority of the Board:

- **Significant risks:** determining the nature and extent of the significant risks the Board is willing to take in achieving Tideway's strategic objectives.
- **Chairman and Chief Executive Officer:** deciding the division of responsibilities between the Chairman and the CEO.
- **Directors' remuneration:** approving the Directors' remuneration.
- **Director and executive training:** approving induction training and development programmes for Directors and senior employees.
- **Reporting:** approving of interim and annual reports and accounts.
- **Distributions:** approving any distributions.
- **Accounting policies and practices:** approving accounting policies and practices and any changes to them.
- **External auditors:** approving the Audit Committee's strategy for maintaining appropriate relationships with external auditors.
- **Risk and internal control policies:** setting the approach to risk management and internal control policies.
- **Risk and internal control review:** reviewing the effectiveness of risk management and internal control systems.
- **Policies:** setting the policy on business conduct, ethics, human rights, anti-bribery and corruption, corporate responsibility and health and safety.
- **Insurance:** setting and monitoring the overall levels of insurance.
- **Shareholder general meeting:** approving resolutions and related documentation to be put to shareholders at a general meeting.
- **Shareholder communications:** approving any circulars, prospectuses and other documents to be sent to shareholders.
- **Political and charitable donations:** approving all spend relating to political or charitable donations.
- **Related party transactions:** approving the entry into, amendment to, or a step to resolve any dispute in relation to a related party transaction.

BOARD ACTIVITY

During the year the Board has focused on a range of issues including operational delivery, risk management, succession planning and governance.

The table below summarises some of the Board's key discussions, and progress made against specific activities.

Leadership and employees

Strategic priorities and actions arising	Progress
Reviewing the health, safety and wellbeing and engagement of employees	Carried out separate staff surveys on health and safety and employee engagement. See pages 28 and 47 for more information. Received regular monthly performance updates on health, safety and wellbeing, including performance against the Health and Safety Performance Index (HSPI).
Reviewing the composition of the Board and monitoring its effectiveness	Reviewed the effectiveness of the Board, its committees and individual Directors. See pages 98 to 99 for more information. Made changes to the membership of the Board's committees.
Appointing and removing Directors and ensuring appropriate succession planning	Approved the appointments of Mike Putnam and Mathew Duncan to the Board. Put in place a succession plan. See page 98 for more information.
Monitoring the remuneration strategy, to ensure it remains appropriate	Discussed employee reward and pensions.

Strategy and performance

Strategic priorities and actions arising	Progress
Monitoring progress against strategic priorities	Discussed progress against strategic priorities, including those relating to: • health, safety and wellbeing; • schedule, cost and quality; • vision, legacy and reputation; • company and people; and • financing. See pages 20 to 21 for more information on Tideway's objectives and priorities.
Reviewing and approving business activities	Reviewed and approved the Annual Business Plan and Budget. Reviewed and approved operational matters in accordance with the SoDA.
Monitoring operational performance	Reviewed and discussed management's monthly operational performance reports. Received updates on key business activities, including specific briefings on: • readiness for tunnelling; • commercial strategy; and • increased marine activity.

Board Leadership, Transparency and Governance
The Board's Role and Responsibilities

BOARD ACTIVITY

Risk Management

Strategic priorities and actions arising	Progress
Reviewing risk appetite	Reviewed the Board's risk appetite and, in particular, the principal risks. **See pages 66 to 71 for more information on Tideway's risk appetite, risk management and the principal risks.**
Monitoring risk management and control	Reviewed the effectiveness of the risk management and internal control systems. **See page 66 for more information on Tideway's risk management system.**
Monitoring key operational risks	Received detailed briefings on preparations for start of tunnelling and, via the Risk Committee, on increased marine activity.

Governance

Strategic priorities and actions arising	Progress
Ensuring appropriate delegation of authority	Reviewed and approved updates to the SoDA.
Reviewing work carried out by Board committees	Received post-meeting reports from the Chairs of each committee, summarising discussions and actions.
Monitoring and ensuring good corporate governance	Received updates on changes in corporate governance from the Company Secretary and reviewed changes in the UK Corporate Governance Code and Ofwat's board leadership, transparency and governance principles. **See pages 92 to 93 for more information.**
Ensuring appropriate assurance	Reviewed and approved the 2019/20 Assurance Plan.

Regulatory matters

Strategic priorities and actions arising	Progress
Monitoring regulatory requirements	Reviewed and discussed regulatory developments, strategy and consultation responses.
Ensuring regulatory reporting requirements are met	Reviewed and approved the Regulatory Report and Accounts and the Revenue Statement, prior to submission to Ofwat.
Ensuring compliance with the project licence	Reviewed and discussed licence compliance, including reviewing potential changes to the licence and approving the Risk and Compliance Statement and the Statements on sufficiency of financial and non-financial resources. **See page 182 to 183 for statements.**

Financing

Strategic priorities and actions arising	Progress
Reviewing and approving financing requirements	Reviewed and approved the Financing Plan.
Maintaining Green Bond Framework	Reviewed and approved the update of Tideway's multi-currency programme for bond issuance and Green Bond Framework.
Ensuring appropriate systems and policies to support Tideway's financing requirements	Reviewed and approved changes to the Treasury Policy and the Cash Management Policy.

Financial reporting and taxation

Strategic priorities and actions arising	Progress
Reviewing past and projected financial performance	Reviewed and approved the Annual Budget. Reviewed and approved the half year and full-year financial statements. Reviewed the monthly management accounts.

Members of Tideway's Board of Directors volunteering on the banks of the Thames, collecting wet-wipes and other litter buried in the mud

Board Leadership, Transparency and Governance

Governance Standards

Tideway has from the outset aimed to achieve the highest standards of corporate governance, and to operate in a way that is transparent and collaborative for the benefit of all our stakeholders.

We are pleased to report that in 2018/19 we complied in full with Ofwat's 2014 principles for board leadership, transparency and governance, and we also complied with the principles set out in the 2016 UK Corporate Governance Code (the Code) in all respects other than the Code's requirement that at least half the Board, excluding the Chairman, should comprise Independent Non-Executive Directors. At the current time we have six Independent Non-Executive Directors, including the Chairman, on the Tideway Board. This makes the Independent Non-Executive Directors the single largest group on the Tideway Board, balanced against four Shareholder Directors and three Executive Directors. Further information on the composition of the Board is set out on pages 94 to 95.

We recognise that in the wake of a number of high-profile corporate collapses there is greater scrutiny of companies and their corporate governance arrangements. The standards expected of organisations have, rightly, evolved and Tideway is committed to developing our corporate governance practices to ensure we continue to achieve the highest standards.

Over the course of the year the Board has received regular updates from the Company Secretary allowing the Board to keep abreast of the new UK Corporate Governance Code published in July 2018, the new Ofwat board leadership, transparency and governance principles published in January 2019, and other changes in the corporate governance landscape. A sub-committee of the Board was set-up, led by the Deputy Chairman, to consider the steps the Company should take to ensure continued compliance.

Some of the themes we have considered, and the steps we intend to implement are summarised below.

Purpose, values and culture

The Board will continue to set the Company's purpose, strategy and values, and we will adopt additional measures to ensure that these and the Company's culture reflect the needs of all our stakeholders, including:

- enhancing understanding of Directors' duties under s.172 of the Companies Act by offering training to existing Directors and adding relevant information to the Directors' induction programme;
- keeping Directors routinely informed of stakeholder engagement as part of regular governance updates to the Board;
- improving quality of board papers via templates and training to ensure these consider the impact of board decisions on stakeholders;
- introducing workforce representation at Board level.

Effective contribution

We will continue to facilitate the effective contribution of all non-executive directors, and will ensure that non-executive directors have sufficient time to meet their board responsibilities by:

- allowing time at the end of each Board meeting for discussion between the Chairman and the Non-Executive Directors, without the Executive Directors and Observers in attendance;
- reminding Board members of their duty to disclose new appointments and any change of circumstance which might adversely affect their ability to devote sufficient time to their Tideway role.

Composition and succession

We will reinforce existing mechanisms to ensure the Board and its committees have appropriate skills, experience and knowledge, and that membership is regularly refreshed and promotes diversity by:

- updating and implementing Tideway's succession roadmap for the next phase of the project;
- ensuring diversity considerations are built-into succession planning and board-mapping;
- requiring external search consultants (where used) to provide a diverse list of candidates and to demonstrate they are actively engaged in initiatives that support the development of a pipeline of candidates from diverse backgrounds.

Remuneration

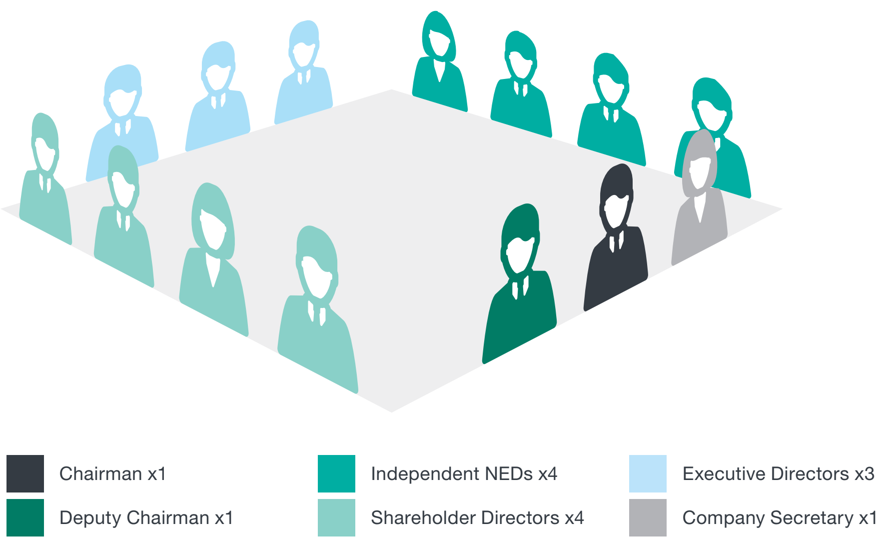
We will continue to provide transparency in relation to executive pay and performance metrics and will adopt best practice by:

- reviewing Remuneration Committee practices to ensure that matters of clarity, simplicity, risk, predictability, proportionality and alignment to culture are specifically addressed in Executive Director remuneration policies and practices; and
- ensuring that Remuneration Committee reporting covers all matters described in the 2019 Code, including the reasons why the remuneration is appropriate.

Board Leadership, Transparency and Governance
Board Composition

THE BOARDROOM TABLE

The Tideway Board comprises 13 Directors, ten of whom are Non-Executive. Six of the Non-Executive Directors are independent, including the Chairman of the Board, Sir Neville Simms, ensuring Tideway complies with Ofwat's requirement that the Independent Directors (including an independent Chair) be the largest single group on the Board.



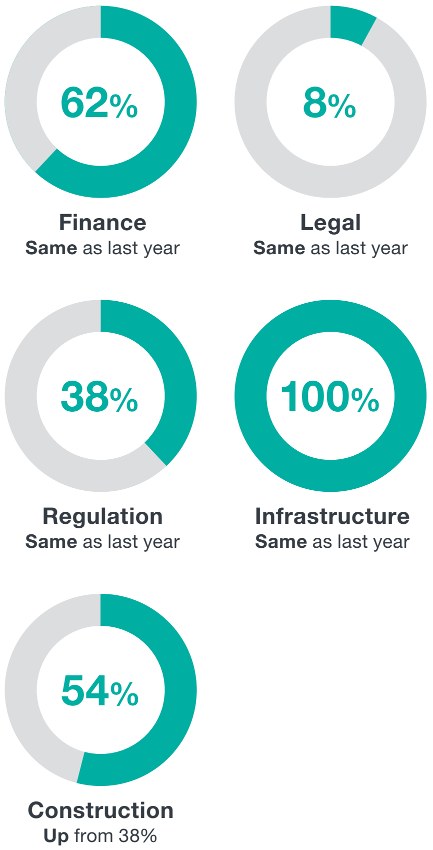
BOARD COMPOSITION

The Shareholders' Agreement entered into at Licence Award contains legally binding commitments to maintain an independent board and ensure Tideway can make strategic and risk management decisions. The Board considers that the Independent Non-Executive Directors are independent in character and judgement and is satisfied that there are no relationships or circumstances which are likely to affect, or could appear to affect, the Independent Non-Executive Directors' independence.

The Board believes it has the right combination of Executive Directors, Shareholder Directors and Independent Non-Executive Directors, to ensure that no individual or group can dominate the Board's decision making.

SECTOR EXPERIENCE

Board members have a wide range of substantial expertise, including financial, legal, operating and regulatory experience in the construction, finance and infrastructure sectors. We recognise that as the project progresses its operational needs and the matters requiring Board consideration will change. We therefore intend to keep the Board members' range of skills and experience under review and to refresh the Board from time to time, to ensure its breadth of sector experience appropriately reflects the project's needs.



Changes to the board

There were two departures from the Board, and two appointments during 2018/19, as set out below. The biographies of all the Directors in place at the year end can be found on pages 80 to 86.

Director	Role	Appointment	Resignation
Sir Neville Simms	Independent Non-Executive Director	19/08/2015	
Richard Morse	Independent Non-Executive Director	19/08/2015	
Anne Baldock	Independent Non-Executive Director	19/08/2015	
Mark Fairbairn	Independent Non-Executive Director	19/08/2015	30/09/2018
John Holland-Kaye	Independent Non-Executive Director	11/07/2017	
Mike Putnam	Independent Non-Executive Director	16/07/2018	
Michael Queen	Independent Non-Executive Director	19/08/2015	
Andrew Cox	Non-Executive Shareholder Director	23/03/2018	
Alistair Ray	Non-Executive Shareholder Director	01/05/2015	
Angela Roshier	Non-Executive Shareholder Director	02/09/2016	
Gavin Tait	Non-Executive Shareholder Director	01/05/2015	
Andy Mitchell	Executive Director	19/08/2015	
Mark Corben	Executive Director	19/08/2015	22/11/2018
Mathew Duncan	Executive Director	22/11/2018	
Mark Sneesby	Executive Director	19/08/2015	

In July, the Board appointed a new independent Non-Executive Director, Mike Putnam. Another independent Non-Executive Director, Mark Fairbairn, stood down during the year and therefore the proportion of independent Non-Executive Directors on the Board remains the same as last year. In November, Mathew Duncan replaced Mark Corben as an Executive Director and Tideway's Chief Financial Officer.

Before any decision is taken relating to the appointment of a new Executive Director or an independent Non-Executive Director, the Nominations Committee considers the desired experience and competencies of any new Director and reports these criteria to the Board.

All the Independent Non-Executive Directors have letters of appointment and they have one- to three-year terms. Each has confirmed that they are able to allocate sufficient time to Tideway to discharge their responsibilities effectively. The Board reviews each Independent Non-Executive Director's performance before the term of their appointment expires, and agrees reappointment subject to a number of considerations, including reviewing the individual Director's performance and the skills required on the Board to meet the project's evolving needs. The Independent Non-Executive Directors' terms and conditions of appointment are available for inspection upon request to the Company Secretary.

The Executive management team has three women from a total of nine members, representing 33% of the total. The Board (including the Company Secretary) has three women from a total of 14. We note that over the course of the year the proportion of women at Board level has remained unchanged at 21%, although over the course of the project to date, the proportion of women on the Tideway Board has reduced from 31%. Tideway's diversity policy, objectives and progress to date are set out in the Performance Review section of this Annual Report. We remain committed to working toward gender parity at all levels of the organisation, including at Board level.

Board Leadership, Transparency and Governance

Board Composition

DIVISION OF RESPONSIBILITIES WITHIN THE BOARD

Chairman

The Chairman's primary role is to provide independent oversight and governance, as leader of the Board.

The Chairman is the most senior leader of the business and the guardian of the interests of all shareholders and stakeholders. He is responsible for leading the Board and ensuring its effectiveness and takes overall responsibility for the Board's composition, capability and performance evaluation.

The Chairman's key functions are to:

- manage the Board and run Board meetings;
- take responsibility, with the Board, for agreeing and monitoring Tideway's strategy and its delivery through the Annual Business Plan;
- ensure good corporate governance is maintained, in the interests of all stakeholders;
- discuss with the CEO any recommendations from the Remuneration Committee;
- agree with the CEO all key external communications;
- represent Tideway externally at the most senior level;
- determine with the CEO which matters require Board approval; and
- determine with the Company Secretary which decisions are reserved to the shareholders.

It is important that the Chairman and CEO work well together, to provide effective and complementary stewardship. The Chairman therefore consults regularly with the CEO and is also available to advise and support the CEO.

Chief Executive Officer

The CEO is responsible for all of Tideway's operations, as leader of the Executive Committee.

The CEO is responsible for Tideway's leadership and operational management, within the Annual Business Plan approved by the Board. He is supported by the CFO, COO, and seven other direct reports on the Executive Committee.

The CEO's key functions are to:

- develop Tideway's vision and values;
- manage the Executive Committee and Tideway's day-to-day activities;
- set the operating plans and budgets required to deliver the agreed Company strategy;
- ensure that Tideway has appropriate risk management and control mechanisms;
- develop the necessary performance objectives and non-financial programmes required to enhance and develop Tideway's culture;
- determine, strengthen and develop the senior management team; and
- share with the Chairman the external representation duties for Tideway.

Senior Independent Director

The Board has appointed Richard Morse as its Deputy Chairman, in which role he fulfils the functions of the Senior Independent Non-Executive Director. He provides a sounding board for the Chairman and serves as an intermediary for other Directors, when necessary or appropriate.

The Deputy Chairman is also available to shareholders and other stakeholders if they have concerns which it would be inappropriate to raise through the conventional channels of Chairman, CEO or the other Executive Directors.

Non-Executive Directors

The Board includes ten Non-Executive Directors, four of whom represent the current shareholders and six of whom are independent.

Non-Executive Directors use their breadth of knowledge and experience to challenge, monitor and approve the strategy and policies recommended by the Executive Directors. Each of the Board committees is chaired by one of the Independent Non-Executive Directors, with those roles allocated based on their relevant skills and experience. The strong independent representation on the Board helps ensure that the Board can make decisions that are in Tideway's interests, independent of other objectives.

Executive Directors

The Executive Directors are the CEO, COO and CFO. The role of the CEO is set out above.

The COO is responsible for delivering the project through the Main Works Contractors, the Systems Integrator and the Programme Manager. The COO works closely with the CEO and CFO.

The CFO manages Tideway's finances, including financial and business planning, management accounting and control processes and treasury, in order to deliver the capital programme effectively, manage ongoing operations and ultimately protect shareholder value. The CFO is also responsible for Tideway's strategy and regulation team and for information systems strategy.

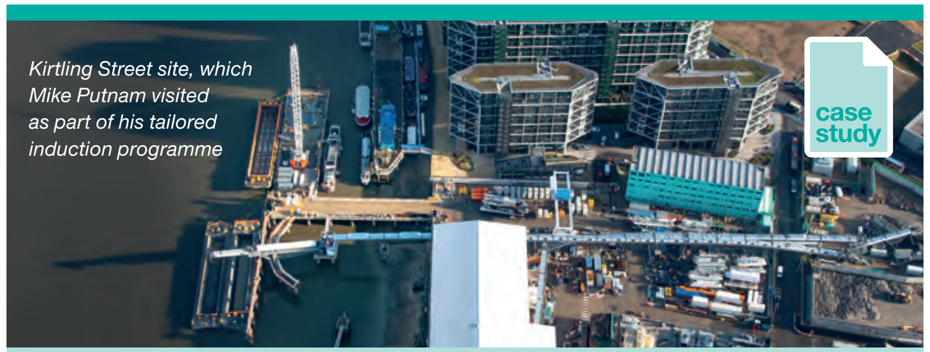
BOARD DEVELOPMENT, CONFLICTS AND EVALUATION

Development

On appointment to the Board and committees, all Directors receive an induction tailored to their requirements. The induction, which is designed and arranged by the Head of Human Resources in consultation with the Chairman, includes meetings with Directors, senior management and key external advisors, to help Directors build a detailed understanding of how Tideway works and the key issues it faces. Directors are also encouraged to visit construction/work sites. See the case study opposite for more information on how the induction process works in practice.

The Chairman periodically reviews and agrees training and development needs with each Director. All Board members participate in HSSE training and have been given the opportunity to receive briefings on cyber security and to take part in Company-wide training on modern slavery and anti-bribery.

During the year the Board received regular detailed presentations and updates from both staff and external advisors on topics including health and safety, the main works contracts, external affairs, project and programme manager activities, key construction sites, operational matters, and industry and supply chain updates. In addition, Board members have each attended site visits over the course of the year, enabling them to speak to staff responsible for delivering the project and to see the works at first hand. These sessions support the Non-Executive Directors in having deep understanding of the business and Tideway's legal and regulatory environment, so they can contribute effectively at Board meetings.



Kirtling Street site, which Mike Putnam visited as part of his tailored induction programme

DIRECTOR INDUCTION

Mike Putnam was appointed to the Board in July 2018 and undertook a comprehensive induction programme tailored to his skills, experience, and his role on the Board.

He participated in a full health and safety orientation for the project which included attending site inductions and onboarding at all three main works areas, and completing Tideway's interactive induction programme, EPIC (described in more detail on page 26).

He also attended a range of site visits across the project, including at each of the main tunnel drive sites. The site visits allowed him to see at first hand progress being made and challenges faced on the project, and to speak directly with those delivering the main works.

Mike also joined meetings with senior representatives of each joint venture Main Works Contractor (MWC) and participated in a number of project reviews, including examining preparations for tunnelling and the specific risks involved in tunnelling activities.

As Chair of the Board Risk Committee, Mike was briefed on the Committee's role and the relevant points arising from the 2018 Board evaluation process. Prior to chairing the Risk Committee, he met with each of the Directors to help build relationships with Board members and to learn about their individual experience on the project to date, and he had one-to-one meetings with members of the Executive Management Team to help develop a detailed understanding of the Tideway business.

Mike was prepared for the project's regulatory and legal context with a briefing covering, among other things:

- Tideway's licence under the Water Industry Act and the unique regulatory circumstances that apply to the project;
- Tideway's application of the Ofwat principles on board leadership, transparency and governance;
- Tideway's strategy and performance, with regard to its complex stakeholder environment; and
- key themes affecting the water industry in general and Tideway in particular.

Three months after his initial introduction to Tideway Mike provided a report to Board members, outlining his initial activities and observations.

Board Leadership, Transparency and Governance

Board Composition

Information and Support

The Executive Directors regularly update the Board and shareholders on key matters. Both the Board and its committees have access to independent professional advice at Tideway's expense, where it is necessary to discharge their responsibilities as Directors.

Conflicts of Interest

The Shareholders' Agreement and Tideway's Articles of Association set out a process for identifying and managing actual or perceived conflicts of interest. The Company Secretary requests that all Directors complete a Declaration of Interest Form every six months and Directors are expected to raise any potential, actual or perceived conflicts as soon as they arise, so the Board can consider them at the next available opportunity. In addition, Directors are asked to declare any conflicts of interest at the start of every Board meeting and may be asked to remove themselves from any related discussions and/or decision making, where a potential conflict is identified. The Company Secretary holds a register of all declared interests and conflicts.

Board Evaluation

The Chairman holds periodic meetings to discuss the performance of management and the Board. These meetings are held with all the Non-Executive Directors without the Executive Directors present and with the Independent Non-Executive Directors without the Shareholder Directors present.

Tideway conducts annual evaluations of the performance of the Board, its committees, the chair and individual Directors. Last year, in compliance with the UK Corporate Governance Code provision that the Board evaluation should be externally facilitated every three years, Tideway appointed an independent third party, Optimus Group Limited, which carried out the annual Board evaluation. It concluded that Tideway has a high standard of corporate governance, noting in particular good levels of participation and openness in Board and committee meetings, candid and professional boardroom behaviours, and comprehensive Board and committee papers.

Recommendations arising from the evaluation, and the actions implemented during the year are summarised in the table below:

Recommendation	Actions implemented
Ensure Board members are regularly updated on regulatory matters	Regulatory updates have been made a standing item on the Board agenda.
Put a succession road map in place	A sub-group of the Board was established to lead the development of a succession road map. It has focussed on succession plans for the independent Non-Executive Directors, to reflect the skills and experience required for the remaining phases of the project.
Provide opportunity for Non-Executive Directors to evaluate the performance of the Executive Directors	Short sessions have been introduced at the end of Board meetings to allow discussion by the Board, without the Executive Directors present.
Provide regular reviews and updates of induction and training for Board members	Board members have been offered training on a range of current topics. The induction training process has been regularly updated, to ensure high standards of knowledge are maintained at Board level.
Adopt additional best practice mechanisms regarding declarations of conflicts	Declarations of conflicts of interests have been made a standing item on the Board agenda.

This year a further internal Board evaluation was carried out, led by the Chairman and the Deputy Chairman, who held meetings with separate groups of the Independent Non-Executive Directors, the Shareholder Directors and the Executive Directors. The Deputy Chairman also made himself available to each of the groups, to receive views on the Chairman's performance, which were factored into the results of the evaluation.

Discussions included the following areas of focus:

- overall effectiveness of the Board;
- effectiveness of Board meetings;
- decision making;
- boardroom behaviours;
- strategic evaluation;
- composition and skills;
- information;
- training and development;
- access to the Company's stakeholders and advisers;
- Board's relationships with its committees;
- progress against the previous year's action plan, following the external review; and
- compliance.

Feedback received from this year's evaluation process reflects that Board members are satisfied that Tideway continues to maintain a high standards of corporate governance, and that the balance of experience, expertise and skills on the Board is appropriate for the current stage of the project. The evaluation reinforced the Board's commitment to the following matters, to ensure Tideway's corporate governance arrangements remain suitable for future phases of the project:

- the succession roadmap should be updated to reflect the next phase in the life of the Company;
- serious consideration should also be given to diversity in relation to succession planning, acknowledging that diversity needs to be considered in the widest sense, and also that gender diversity at Board level has reduced since the Tideway Board was first convened in 2015;
- the Board's sub-committee structure will be changed such that the Treasury and Audit Committees will become one committee, while oversight of the CARG will be reallocated from the Audit Committee to the Risk Committee; and
- more efforts are to be made to ensure that all Non-Executive Directors benefit from the same level of information and briefings outside formal Board and committee meetings.

More information on Tideway's approach to corporate governance, and actions being taken to ensure continued compliance, are set out on pages 92-93.

Board Leadership, Transparency and Governance
Board Committees

Board Committee Structure
Each Board Committee is chaired by an Independent Non-Executive Director.

The Board has established six Board committees, which are described in more detail in this section. The committees meet regularly during the year, in accordance with an agreed schedule.
All Non-Executive Directors are permitted to attend committee meetings, in addition to the committee members. The Executive Directors are not members of the Board committees, but they are invited to attend the majority of meetings other than the Remuneration and Nomination committee meetings, which only the CEO attends, for all business other than relating to his own remuneration.

Each committee has terms of reference, which have been approved by the Board and are described in the following sections of this report. Each committee's terms of reference and performance are reviewed by the Board each year, to ensure that the committees operate effectively. The Board approves any changes to the terms of reference.

Board Committee Structure

The Committee chairs regularly update the Board on the committee's work. Minutes of the committee meetings are available to all Directors through a secure electronic portal.

The Director's attendance at the scheduled Board and committee meetings for the year is summarised in the table below.

	Board	Audit Committee	HSSE Committee	Nomination Committee	Remuneration Committee	Risk Committee	Treasury Committee
Total meetings held in period:							
Sir Neville Simms	5	3	2	2	3	3	5
Richard Morse	5	2	2	1	3	3	4
Anne Baldock	5	3	-	1	3	3	5
John Holland-Kaye	5	1	2	1	3	2	2
Michael Queen	5	3	-	1	2	3	5
Andrew Cox	5	2	-	1	3	3	5
Alistair Ray	4	1	1	1	2	2	3
Angela Roshier	5	1	1	1	3	3	3
Gavin Tait	5	2	2	1	1	3	5
Andy Mitchell	5	3	2	1	2	3	5
Mark Sneesby	5	3	2	-		3	2
Attendance by Director appointed during the period:							
Mike Putnam	3	1	1	1	2	3	2
Mathew Duncan	2	1	1	-	-	2	2
Attendance by Director who resigned during the period:							
Mark Fairbairn	2	-	1	-	1	-	2
Mark Corben	3	2	1	-	-	1	3

A number of other Board workshops and telephone conferences were also held during the year as required, including dinners to informally share views and consider issues affecting Tideway.

Risk Committee Report

Introduction by Mike Putnam

Chair of Risk Committee

I am pleased to introduce this report on the work of Tideway's Risk Committee, the first since I took over as Chair of the Committee in September 2018, shortly after joining the Board in July.

I bring with me some 35 years' experience in infrastructure and construction, including 18 years on the Board of Skanska UK, seven years of which were as CEO, where I had ultimate responsibility for the Company's risk management and control mechanisms.

The Risk Committee is currently made up of four Independent Non-Executive Directors (including myself) and two Shareholder Directors. Together we have a deep knowledge of the Tideway project, significant experience in the infrastructure sector and an appropriate balance of risk management expertise. More details on the composition of the Risk Committee, its role and its main activities in 2018/19 are summarised below.

Membership of the Risk Committee 2018/19
Mike Putnam (Chair) (appointed September 2018)
Andrew Cox
Mark Fairbairn (resigned September 2018)
John Holland-Kaye
Richard Morse
Michael Queen
Alistair Ray

Composition of the Committee

Membership of the Risk Committee over the course of the year is set out in the table below. All members of the Board are entitled to attend our Committee meetings. As a matter of course we also invite the Chief Technical Officer, the Head of Strategy and Regulation, the Head of Programme Assurance and the Head of Internal Audit to attend the meetings, and we extend invitations to other relevant experts when required.

Role of the Committee

The Risk Committee reviews and reports to the Board on risk management (including mitigation) and internal control. This includes determining the nature and extent of the principal risks Tideway faces. (Details of our principal risks can be found in the Risk Management section of the Strategic Report.)

We also assist the Board in its oversight of risk by reviewing Tideway's risk appetite and risk profile, and the effectiveness of its risk management framework.

We are supported by two executive-level risk committees. The Corporate Risk Committee meets every six months to consider corporate risks that may affect the financial and reputational viability of the business. The Executive Risk Committee meets monthly and focuses on programme risks that could affect the physical delivery of the project. These committees are chaired respectively by the Head of Strategy and Regulation and the Chief Technical Officer.

The Committee's terms of reference are reviewed annually and are available on Tideway's website.

As noted on page 99 this year's Board evaluation proposed a number of changes to the Board's sub-committee structure, including reallocating oversight of the CARG from the Audit Committee to the Risk Committee. The Risk Committee's terms of reference will be revised later this year to reflect these changes, and updated terms of reference will be published on Tideway's website when they are implemented.

Activities in the year

The Risk Committee is required by its terms of reference to meet at least three times each year. In 2018/19 the Committee met formally three times and in addition, one workshop style session was also convened, giving Committee members an opportunity to have a high-level, wide-ranging discussion about measures that could or should be adopted to address risks associated with marine logistics and interfaces with other river users.

During the year the Committee focused on the following key areas:

Subject	Activity
Risk appetite monitoring	The Committee received detailed reports on key risk exposures, emerging and potential risks, and matters driving risk across the project. It assessed and challenged the appropriateness of Tideway's overall risk appetite and approved the principal risks described on pages 68 to 71.
Risk management and governance	The Committee received regular risk reports covering the principal and corporate risks, the programme and project risks, and the mitigations in place. The Committee also considered the risk retirement profile presented by management. The Committee also reviewed and confirmed its own terms of reference.
Internal controls	The Committee reviewed changes to Tideway's Risk Management Plan, including the division of oversight of corporate risks and programme risks between the Corporate Risk Committee and the Executive Risk Committee.
Marine risk review	Risks associated with increased marine activity have been a particular area of focus. Committee members received an in-depth briefing from Tideway's River Transport Strategy Manager and the Logistics Lead for FLO, which covered, amongst other things: • steps taken to identify, prioritise, monitor and mitigate risks associated with marine activity; • an overview of interfaces and relationships with river regulators and stakeholders; • an outline of resilience testing processes; and • Committee members used the briefing to challenge and discuss key risks and mitigation strategies, and as a catalyst for further sessions to maintain focus on the issue.
Long-term viability statement	The Committee considered management's approach and recommendations relating to the Long-Term Viability Statement, for adoption by the Board and inclusion in the Annual Report and Accounts.
Annual effectiveness review	The Committee carried out an annual review of effectiveness which considered: • Tideway's risk appetite and desired culture in relation to risk; • the operation of risk management and internal control systems, including the determination of principal risks; • the integration of risk management and internal controls with Tideway's strategy and business model, and with business planning processes; • changes in the nature, likelihood and impact of principal risks and Tideway's ability to respond to changes in the business and the external environment; • the extent, frequency and quality of communication from Tideway's management to the Board regarding the results of risk monitoring; • issues dealt with over the course of the year, including actions to address weaknesses or control failings; and • the effectiveness of Tideway's public reporting processes.

Nomination Committee Report

Introduction by Sir Neville Simms FREng
Chair of Nomination Committee

The Nomination Committee is currently made up of four Independent Non-Executive Directors and three Shareholder Directors. A majority of members are therefore Independent Non-Executive Directors.

I have been the Committee Chairman since Tideway was established. I have chaired a number of construction industry bodies and, together with the other members of the Committee, we have an appropriate balance of experience and a deep understanding of Tideway's business and the infrastructure sector.

All Shareholder Directors and Independent Non-Executive Directors are entitled to attend our meetings.

Membership of the Nomination Committee 2018/19
Sir Neville Simms (Chair)
Anne Baldock
Andrew Cox
Mark Fairbairn (resigned September 2018)
Mike Putnam (appointed September 2018)
Richard Morse
Alistair Ray
Angela Roshier

In a full financial year, the Nomination Committee would expect to meet at least once or otherwise as required. In 2018/19, the Committee met to assist the Board by:

- reviewing Company succession planning and talent management activity;
- understanding the current bench strength of the Executive Management Team;
- conducting a rigorous and transparent process when recommending or renewing the appointment of Directors to the Board; and
- approving the appointment of the new Non-Executive Director and Chief Financial Officer.

Role of the Nomination Committee

The Nomination Committee, led by the Chairman of the Board, is predominantly responsible for:

- regularly reviewing the Board's structure, size and composition, including the balance of skills, knowledge, experience and diversity, and making recommendations to the Board with regard to any changes;
- considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing Tideway, and the skills and expertise needed on the Board in the future; and
- evaluating, before the Board makes any appointment, the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment.

The Committee's terms of reference are available on Tideway's website.

Activities in the year

During 2018/19, the Committee principally focused on Board succession, renewing the Independent Non-Executive Directors' appointments and recruiting a new Non-Executive Director and Chief Financial Officer, as part of the continual cycle of refreshing the Board. Following the decision by Tideway's CFO, Mark Corben, to step down, the Committee commissioned a search for his replacement. The process followed is described opposite.

Appointment of Mathew Duncan – CFO

November 2017
Search decision
Following the announcement that Mark Corben would be leaving the project in 2018, the Committee began the recruitment of a successor. Korn Ferry was appointed to carry out the search.

January 2018
Review of long list
The Board reviewed the long list and identified candidates for interview.

February 2018
Interviews commence
The short-listed candidates were interviewed by the CEO and Julie Thornton, the HR Director. The final four candidates were subsequently interviewed by a panel from the Committee.

May 2018
Selection decision
Following feedback form the interviews, Mathew Duncan was identified as the preferred candidate and, following a meeting with the Chair, the Committee recommend his appointment to the Board.

June 2018
Announcement
Mathew's appointment was announced.

Treasury Committee Report

Introduction by Michael Queen
Chair of the Treasury Committee

I am pleased to report that the Company has made excellent progress in achieving its financing objectives. Most of the likely financing needed to complete the project has now been raised through long-term funding that has a good match with the return characteristics of the project. It is particularly pleasing that good progress has been made on establishing our credentials as a green bond issuer.

I have been Chair of the Treasury Committee since Tideway was established in 2015. Together with the other Committee members, we have an in-depth understanding of Tideway's business, an appropriate balance of financing and treasury experience, and significant infrastructure sector expertise.

More information on the composition of the Treasury Committee, its role and main activities in 2018/19 are summarised below.

Membership of the Treasury Committee 2018/19
Michael Queen (Chair)
Anne Baldock
Mark Fairbairn (resigned September 2018)
Richard Morse
Andrew Cox
Alistair Ray
Angela Roshier
Sir Neville Simms (appointed September 2018)
Gavin Tait

Composition of the Committee

Membership of the Treasury Committee is set out in the table below. One Independent Non-Executive Director, Mark Fairbairn, stood down from the Committee when he left the organisation at the end of September 2018. He was replaced on the Committee by Sir Neville Simms, another Independent Non-Executive Director, which maintained the balance of four Shareholder Directors and four Independent Non-Executive Directors on the Committee.

All members of the Board are entitled to attend our Committee meetings. We also invite members of the Treasury function and Tideway's legal team to attend our scheduled meetings and invite other relevant staff as required.

Role of the Committee

The Treasury Committee reviews and reports to the Board on Tideway's treasury policy, treasury strategy and financial strategy. Tideway also has an executive-level Funding and Financing Committee, chaired by the CFO, which considers treasury and related regulatory matters in detail each month and makes recommendations to the Treasury Committee.

The Treasury Committee' terms of reference are reviewed annually and are available on Tideway's website.

As noted on page 99 this year's Board evaluation proposed a number of changes to the Board's sub-committee structure, including merging the Audit and Treasury Committees. These changes will be implemented later this year when revised terms of reference, reflecting the new committee structure, will be published on Tideway's website.

Activities in the year

The Treasury Committee is expected to meet at least three times annually, and to convene additional ad hoc meetings as required. In 2018/19 the Committee held five meetings which consisted of four planned meetings and one ad hoc session.

During the year the Committee focused on the following key areas:

Subject	Activity
Treasury strategy	The Committee received detailed reports on financing market conditions. The Committee also considered counterparty exposure limits and future cash flow and liquidity requirements.
Treasury performance	The Committee reviewed the performance of Tideway's financing strategy.
Distributions	The Committee considered distribution payments to shareholders.
Funding, hedging and investment	The Committee considered various opportunities relating to funding, hedging and investment management, including recommending four deferred green bond issuances.
Bond prospectus	The Committee reviewed and approved updates to Tideway's multi-currency programme for the issuance of bonds.
Green bonds	The Committee received updates on Tideway's green bond programme.
Changes to financing arrangements	The Committee reviewed existing facilities and recommended changes for approval by the Board.
Regulation	The Committee received relevant regulatory updates.
Governance	The Committee considered its own terms of reference.

Health, Safety, Security and Environment Committee Report

Introduction by John Holland-Kaye

Chair of HSSE Committee

I was appointed Chair of the HSSE Committee in September 2018, taking over from Mark Fairbairn who had chaired the Committee since it was established in 2015.

I joined the Tideway Board in 2017 from a background of leadership in business, including the construction and infrastructure sectors, and having first-hand experience of priorities attached to health, safety, security and environmental matters.

Taken together, the Committee's members have an appropriate balance of expertise in matters concerned with health, safety, security and the environment, and a thorough knowledge of Tideway's business.

Further detail on the composition of the HSSE Committee, its role and its main activities in 2018/19 are summarised below.

Membership of the HSSE Committee 2018/19
John Holland-Kaye (Chair) (appointed Sept. 2018)
Andrew Cox
Mark Fairbairn (resigned September 2018)
Mike Putnam (appointed September 2018)
Angela Roshier
Sir Neville Simms
Gavin Tait

Composition of the Committee

Membership of the HSSE Committee over the course of the year is set out below. The Committee currently comprises three Independent Non-Executive Directors and three Shareholder Directors. One Independent Non-Executive Director, Mark Fairbairn, stood down from the Committee when he left the organisation at the end of September 2018. The balance of Independent Non-Executive Directors and Shareholder Directors was maintained through the appointment of another Independent Non-Executive Director, Mike Putnam, to the Committee.

All members of the Board are entitled to attend our Committee meetings. As a matter of course we also invite the Chief Technical Officer, the Director of Health, Safety & Wellbeing and the Head of Environmental Sustainability. Further invitations are extended to relevant staff when required.

Role of the Committee

Tideway is committed to best practice, continual improvement and a transformational approach to health, safety and wellbeing, and the organisation recognises the particular significance of environmental matters. The Board acknowledges that effective leadership on HSSE matters must come from the top of the organisation, and the HSSE Committee therefore has a key role in regularly reviewing, developing and overseeing consistent policy, standards and procedures for managing HSSE risk, and helping to ensure that Board members are sufficiently informed to discharge their individual and collective responsibilities for HSSE.

The Committee is responsible for reviewing Tideway's HSSE strategy and objectives, and for overseeing significant Tideway actions relating to HSSE. This includes incident investigation reports and the close out of actions resulting from any incidents involving fatalities and any other serious incidents the Committee sees fit to review.

The HSSE Committee is supported by executive-level Monthly Management Review meetings, which are chaired by the CEO and include an in-depth review of matters related to health, safety and wellbeing. In addition, the Chief Technical Officer chairs the Legacy and Environment Committee which meets bi-annually to provide strategic support on legacy, environmental and sustainability issues. Both forums feed into the HSSE Committee.

The terms of reference for the HSSE Committee are reviewed annually and are available on Tideway's website.

Activities in the year

The HSSE Committee is required by its terms of reference to meet at least twice a year. In 2018/19 the Committee met formally twice and focused on the following key areas:

During the year the Committee focused on the following key areas:

Subject	Activity
HSW performance review	The Committee addressed detailed reports on the HSW performance of the MWCs, Programme Manager and Tideway during 2018/19. This included reviewing the increased accident frequency rates in the first part of 2018/19 and the follow up actions taken.
Review of indicators	The Committee reviewed the indicators applied to the evaluation of the MWCs' HSW performance, and further reviewed proposed adjustments to the indicators to recognise the current phase of construction. The Committee also reviewed and challenged the effectiveness of leading indicators.
Environmental performance review	The Committee reviewed the environmental performance of the MWCs and Tideway.
HSW risk register	The Committee reviewed the HSW risk register and considered the priority of matters included within it.
Environmental risk register	The Committee reviewed the environmental risk register.
Governance	The Committee reviewed and approved changes to the HSW corporate governance structure, following changes to the Tideway Operating Model. The Committee also reviewed and confirmed its own terms of reference.

Audit Committee Report

Introduction by Richard Morse
Audit Committee Chairman

I am pleased to present this report which reviews the role and main activities of the Tideway Audit Committee for the financial year ended 31 March 2019, and also looks ahead to the role of the Committee in the following year.

Membership of the Audit Committee 2018/19
Richard Morse (Chair)
Anne Baldock
Andrew Cox
Gavin Tait
Michael Queen

Composition of the Committee

I have chaired the Audit Committee since it was established and have over 30 years' experience of infrastructure and energy transactions as an investment banker. Together the Committee members have an appropriate balance of financial and accounting experience, and an in-depth understanding of Tideway's business and the infrastructure sector.

Membership of the Audit Committee is set out in the table below and was unchanged during 2018/19. There is a majority of independent Committee members, based on a Committee composition of three Independent Non-Executive Directors and two Shareholder Directors. For the purpose of the UK Corporate Governance Code requirements, Michael Queen and I are the Independent Non-Executive Directors with recent and relevant financial experience. Further details of the Committee members' experience can be found in their biographies on pages 80 to 86.

All members of the Board are entitled to attend our Committee meetings. We invite the Head of Internal Audit to attend our meetings as a matter of course, and other relevant staff to attend as required.

Role of the Committee

The Audit Committee reviews and reports to the Board on all matters relating to financial reporting. We also review the role and independence of the external auditor, the Internal Audit function, and Tideway's overall approach to compliance and assurance and annual reporting.

Our main responsibilities are to:

- review the half-year and annual financial and regulatory statements, including reporting to the Board on the significant issues considered by the Committee and how these were addressed;
- review the scope, planning and effectiveness of the Internal Audit function and Tideway's internal control and risk management systems;
- review procedures for whistleblowing, identifying and reporting fraud and other inappropriate behaviour, and the outcomes from any significant matters identified;
- make a recommendation to the Board for the appointment or reappointment of the external auditor;
- review the scope and results of the annual audit and report to the Board on the effectiveness of the audit process and how the auditor's independence and objectivity have been safeguarded; and
- review Tideway's processes for ensuring compliance with its obligations and considerations for any breaches and the adequacy of any actions taken as a result of a breach.

The Audit Committee's terms of reference are reviewed at least annually and include all matters covered by the UK Corporate Governance Code. A copy is available on Tideway's website.

As noted on page 99, this year's Board evaluation proposed a number of changes to the Board's sub-committee structure, including merging the Audit and Treasury Committees, and reallocating oversight of the CARG from the Audit Committee to the Risk Committee.

The Audit Committee's terms of reference will be redrawn later this year to reflect these changes, and the updated terms of reference will be published on Tideway's website when they are implemented.

Activities in the year

The Audit Committee met formally three times in the year to 31 March 2019.

During the year the Committee focused on the following key areas:

Subject	Activity
Financial and regulatory statements	The Committee considered the appropriateness of the accounting policies. The Committee reviewed significant issues in respect of the 2018/19 financial statements.
Annual audit	The Committee considered issues arising from the statutory and regulatory audits.
Internal audit	The Committee reviewed the plan, activities and effectiveness of the Internal Audit function.
External auditor	The Committee reviewed the reappointment of the external auditor, including considering the external auditor's independence and objectivity, and subsequently recommended reappointment to the Board.
Compliance and assurance	The Committee considered the Company's approach to compliance and assurance.
Financial and narrative reporting	The Committee reviewed the Company's approach to annual reporting.
Governance	The Committee reviewed and confirmed its own terms of reference. The Committee also commissioned an independent, external review of Tideway's Internal Audit function.
Cyber security	The Committee reviewed the Company's arrangements in relation to cyber security.

Audit Committee Report
Continued

Significant matters considered in respect of the 2018/19 financial statements

The Audit Committee has considered a number of significant issues in relation to the financial statements. These mainly related to the judgements and accounting estimates made by management in preparing the financial statements and the regulatory accounts, and also to the appropriateness of the accounting policies adopted for the year to 31 March 2019, including changes from the prior period.

For the year ended 31 March 2019 the Committee reviewed the following key areas in relation to the financial statements:

- the appropriate reporting and disclosure relating to estimated outturn costs for the project;
- the valuation and disclosure of financial instrument arrangements in the period;
- the evidence supporting the assumption that the accounts can be prepared on a going concern basis, including a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks;
- the evidence and assumptions supporting the Long-Term Viability Statement and the Directors' view of Tideway, including a review of Tideway's liquidity, cash flows and exposure to financial, strategic and operational risks;
- compliance with accounting standards and other legal requirements; and
- asset carrying value considerations in the financial accounts.

Internal control, risk and compliance

The Audit Committee is responsible for reviewing Tideway's internal control and risk management systems, and compliance matters. We are supported by the independent Internal Audit function (described opposite), which reviews the effectiveness of Tideway's risk management and internal control systems throughout the year and provides regular reports to the Audit Committee. The Committee provides further review and challenge which in 2018/19 included considering:

- reports prepared by the Internal Audit function, management's response to issues raised and their timely resolution;
- the control-related findings presented by the external auditor during its audit of the financial statements;
- Tideway's approach to assurance, particularly considering requirements contained in Tideway's Project Licence, consents, financial obligations and other legal duties;
- updates from the CARG, which is chaired by the CEO and challenges relevant staff on compliance and assurance matters across Tideway;
- the report from CARG's Independent Observer, which is carried out by the Head of Internal Audit and covers management's approach to the process;
- Tideway's approach and underlying process to assure the Board in relation to the Risk and Compliance Statement which is required in the Annual Report under the Licence granted by Ofwat; and
- the policies and procedures in place to prevent, detect and investigate fraud.

Internal Audit

The Internal Audit function has a remit to carry out risk-based reviews covering the whole of the business, giving the Committee assurance on the adequacy of the internal controls.

The Head of Internal Audit is considered independent of management. During 2018/19 the Head of Internal Audit reported functionally to the CEO, and to help preserve the independence of the function, he also met regularly with the Chairman of the Audit Committee without executive management being present.

The Audit Committee has a key role overseeing the work of the Internal Audit function to ensure it is as robust and effective as possible. In the year 2018/19 this included:

- reviewing and approving the Internal Audit function's policy;
- considering and approving the function's planned programme of work;
- monitoring the adequacy of the function's resources and skills;
- reviewing the function's performance in terms of reports prepared and subsequent follow-up and close out of actions; and
- monitoring progress against the approved programme of work.

In line with good practice, this year the Audit Committee also commissioned an external, independent review of the effectiveness of the Internal Audit function. The review was carried out by BDO LLP and assessed the function against the maturity matrix developed by the Chartered Institute of Internal Auditors (IIA). The review concluded that Tideway's Internal Audit function performs to a good standard appropriate to the business, that it conforms with IIA standards and compares well against its peers in the construction sector.

A limited number of low-priority recommendations were made and have been adopted to ensure the function operates in accordance with best practice. These are outlined in the table below.

Subject	Activity
The Head of Internal audit should consider making reference to the IPPF standards and the IPPF definition of internal audit in the audit policy, strategy and procedures documents.	Internal Audit has adopted this approach where appropriate.
The Head of Internal Audit should formally confirm to the Audit Committee, annually, the independence of the Internal Audit function.	This has been built into procedures to ensure annual confirmation is provided to the Audit Committee.
The Head of Internal Audit should always record formal sign-off of final audit reports.	Procedures have been amended to ensure formal sign-off of all final audit reports by the Head of Internal Audit.
Communication with second line function management should continue to refine the mutual understanding between second and third lines of defence, the assurances to be provided by each line and the coordination of timing of respective assurance work.	This is under development, recognising that 2017/18 was the first year of "wider" scope audits.

Based on the Committee's oversight of the Internal Audit function, the external review carried out by BDO and an internal management assessment of the function, the Committee considers that the Internal Audit function is independent and effective.

Audit Committee Report
Continued

Confidential reporting procedures and whistleblowing

The Audit Committee is responsible for ensuring that Tideway has systems in place which allow staff to raise, in confidence, concerns about possible improprieties in financial reporting or other matters, and also for ensuring that where such concerns are raised, arrangements are in place for proportionate and independent investigation and follow-up action.

Tideway has a confidential whistleblowing policy and procedure for all staff, which has been widely advertised throughout the organisation. It covers a wide range of areas where malpractice could occur, such as health and safety, fraud, bribery, money laundering and other human resource related matters. Staff are encouraged to deal with any matters of concern with line management first, and also have access to confidential whistleblowing process with Crimestoppers. The Head of Internal Audit acts as the Whistleblowing Officer and monitors, investigates and reports to the Committee on any concerns raised and the resulting outcome.

Auditor appointment, independence and objectivity

This is the fourth financial year in which the Annual Report and Accounts have been audited by KPMG which was appointed following a competitive tendering process, described in detail in our 2016/17 Annual Report. The contract permits us to continue to appoint KPMG, on an annual basis, subject to the requirements of the Companies Act.

The Committee keeps KPMG's performance, independence and appointment under regular review. In addition, the CFO has regular contact with the audit team, as does the Chairman of the Company and the Chairman of the Audit Committee, who each have regular dialogue with the lead audit partner at KPMG, sometimes with and sometimes without members of the Tideway Executive team in attendance.

In terms of performance, during the period the Committee considered:

- KPMG's planned approach to the audit of the financial statements, including planning materiality;
- KPMG's execution of the audit approach, including its assessment of key accounting issues, audit judgements and audit adjustments required;
- KPMG's arrangements to identify, manage and report its own conflicts of interest;
- KPMG's independence and objectivity;
- the extent of, approval for and quality of the current and future non-audit services carried out by KPMG and their impact on KPMG's independence; and
- the arrangements for the day-to-day management of the audit relationship.

The Committee has considered and approved the fees and activities for non-audit services carried out by KPMG. For the year ended 31 March 2019, the fees for non-audit services paid to KPMG are reported in the table below.

	2019 £000	2018 £000
Non-audit services		
Review of interim financial information	0	8
Other regulatory assurance services	29	61
Total	**29**	**69**

As Chairman of the Audit Committee, I have met the KPMG engagement partner to discuss matters without the Executive management in attendance. The Committee has also reviewed the performance of the audit with the Executive team and has concluded it is satisfied with the independence of the auditor and the overall quality of the audit process.

Accordingly the Committee agreed to recommend KPMG's appointment as auditor for the 2019/20 financial year.

Both Executive management and the Committee will continue to monitor the auditor's performance and independence.

This report was approved by the Board of Directors on 20 June 2019.

Richard Morse
Chairman of the Audit Committee

Remuneration Committee Report

Introduction by Anne Baldock
Chair of Remuneration Committee

I am pleased to introduce this report on the work of the Remuneration Committee. Tideway continues to strive to be a world-class employer, offering an inclusive culture and fair pay and terms and conditions to its employees.

Its remuneration and employment policies and practices are designed to attract and retain the best talent to work on each stage of the project. Tideway's mission is to deliver the project to the highest quality standards, within the timeline set out in its Licence and also within budget. In this way, it will align the interests of customers, who are ultimately paying for the project through their water bills, with the investors who are funding the project.

Tideway established its remuneration policy in 2015, with the aim of promoting individual and collective motivation to realise the Company's objectives, over the short and medium term. In particular, this includes constructing the project within budget while maintaining the required quality of delivery, particularly the health and safety of all those working on the project. The policy is underpinned by the Company's culture of inclusivity and fairness. All policies are applied consistently across the organisation, irrespective of role or seniority.

Composition of the Committee

The Remuneration Committee is made up of four Independent Non-Executive Directors (including myself) and three Shareholder Directors. I have chaired the Committee since Tideway was established and together with the other members of the Committee, we have an appropriate balance of experience and in-depth knowledge of Tideway's business.

Membership of the Remuneration Committee over the course of the year is set out below. Other Non-Executive Directors have the right to attend the Committee if they so wish. The CEO attends the meetings for all business other than that relating to his own remuneration. Independent advisors attend meetings by invitation and the HR Director or nominated deputy acts as Secretary to the Committee.

Membership of the Remuneration Committee 2018/19
Anne Baldock (Chair)
Andrew Cox
Mark Fairbairn (resigned September 2018)
John Holland-Kaye
Richard Morse
Alistair Ray
Angela Roshier
Sir Neville Simms

Remuneration Committee Report
Continued

Role of the Committee

The Remuneration Committee has delegated responsibility for:

- setting the remuneration policy for all Executive Directors and the Company's Chairman, including pension rights and any compensation payments;
- recommending and monitoring the level and structure of remuneration for senior management;
- setting and reviewing the ongoing appropriateness and relevance of the remuneration policy;
- commissioning external benchmarking to obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity;
- recommending the design of, and determine targets for, any performance-related pay schemes operated by the Company and recommend the total annual payments made under such schemes;
- recommending the policy for, and scope of, pension arrangements for each Executive Director and other designated senior executives;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- overseeing any major changes in employee benefits structures throughout the Company.

The Committee's full terms of reference have been approved by the Board and can be found on the Company's website.

Activities in the Year

Tideway is a dynamic, real-time, multi-year construction project, requiring a progression of skills and expertise over its life that have to be sought from a competitive employment market. This requires us to constantly review and update the translation of Tideway's remuneration policy into individual remuneration and incentive packages for staff and senior management. This was the case during the year, with the aim of retaining and incentivising the whole workforce, including the senior Executive team.

Each year, the Committee reviews the overall compensation and benefits for all employees and compares them to various market benchmarks. External consultants, Willis Towers Watson, provide us with comparators. This year, construction resources remained in demand across the country and particularly in London. Adjustments to base salaries were therefore made to reflect external market changes and underlying increases in wage inflation. I would like to thank our shareholders for their views and constructive input into this adjustment process.

During 2018/19, the Committee also thoroughly reviewed the Executive remuneration. The review was carried out by Willis Towers Watson, which looked at comparable board-level remuneration packages across the water sector and comparable size companies in general industry. The first two long-term incentive plans (LTIPs) were put in place in 2016. These focus on the completion of the Tunnel by achieving key milestones, the first two of which are starting and completing tunnelling. The third LTIP was agreed this year and is designed to incentivise management to transition the Company smoothly to Handover and Acceptance of the Tunnel. Whilst speed of construction is still an important component of our incentivisation and reward strategy, it does not override either health and safety or the quality of the finished tunnel, which must be fit for purpose.

REMUNERATION POLICY REPORT

The Company's remuneration policy continues to reflect the complexity and significance of one of Europe's largest infrastructure projects. Directors' remuneration comprises three elements: base salary; an annual bonus; and LTIPs. Base salary is benchmarked each year against other comparable companies. We base annual bonuses on a combination of individual and Company performance, to incentivise and reward success.

Willis Towers Watson provides independent salary and benefits benchmarking and consultancy to the Company, to ensure that salaries and bonuses remain in line with market norms.

PAY AND CONDITIONS FOR EMPLOYEES

We have maintained our position regarding pay and conditions, recognising that whilst Tideway is a regulated independent water company, we have several unique characteristics which influence our remuneration strategy. Not least, we are implementing one of Europe's largest infrastructure projects and need to do so in a manner which provides value for money for customers. Our overall compensation structure is designed to attract and retain appropriate skills, experience and talent to achieve the Company's aims. In certain areas there is a very competitive labour market and it is important for the project's success that we offer an attractive overall compensation and benefits package.

We apply our compensation strategy consistently across all employees, from junior members of staff through to the senior management team, with the same principles of fairness and equity, as detailed below:

- Remuneration packages reflect the complexity and significance of one of Europe's largest infrastructure projects.
- Reward is based on total compensation, meaning base pay, bonus and benefits.
- Future increases in base pay are merit based, by reference to market comparators. There is no right to annual increases, although an annual review will take place.
- Pensions are contributory into a defined contribution scheme, with contributions in line with market practice.
- All employees have a base-level benefits package, covering holidays, pension, life insurance and private medical cover. Additional benefits are provided based on job level (such as car allowances and level of medical insurance cover) or personal circumstances (such as relocation allowance).
- Bonuses are discretionary, based on a combination of individual and Company performance, and are a key part of the package to incentivise and reward project and personal success.
- All employees who are eligible for an annual bonus share the same Company-wide targets and have individual objectives set in the same way as those of the Executive Directors. Except as set out below, maximum bonus opportunities for our staff range from 10-50% of salary, depending on their seniority and role.
- An additional bonus implemented for executive managers in 2017 remains in place, the structure of which mirrors LTIP 1 with a maximum award of 100% of base salary payable 50/50 over a period of at least two years.

Tideway has no collective agreements in place and salary increases are determined based on an individual's performance and internal and external relativities. We carry out external benchmarking each year, to review market changes in remuneration. The overall salary increase pot was 3% in 2018/19. Future individual annual increase reviews will take place in April each year. The Remuneration Committee considers the same criteria for the annual pay award for employees as those used when considering any increase to base pay for Executive Directors.

Gender pay reporting for companies with over 250 employees was introduced in 2018. As at the reporting date, Tideway employed 156 people and we are not, therefore, required to externally report on this issue. The Remuneration Committee, however, continues to review the Company's position and to monitor this issue closely. Gender parity and a diverse and inclusive work force remain key tenets for the Company and we have set ourselves the target of having equal numbers of men and women employed on the project over time.

As at June 2019, 56% of BTL employees are female, representing 46% of managers and 33% of the Executive Management Team.

We take practical steps to achieve our broader diversity and employment goals, including an employee network, Encompass, with a number of working groups which focus on gender, disability, LGBT+ and BAME employees. Each diversity strand has an executive sponsor, the aim being to support diversity and inclusion activities and programmes across the Project. We also support returners, who want to come back into the workforce after a career break. Through our Skills and Employment team, we support a range of activities within schools, to encourage young women in particular to take STEM subjects at school and university, to try to redress the known gender imbalance in the engineering sector over time. The Company will continue to focus on these issues in the coming years, to try to ensure diversity of representation across all levels of the Company.

Tideway prides itself on being an inclusive and diverse employer and this is reflected in our Employee Engagement Survey results. These confirmed that we continue to live our values, with 92% favourably responding to the question "Tideway values and promotes employee diversity" and an 88% favourable response to "I am treated with respect as an individual".

Remuneration Committee Report
Continued

PAY AND CONDITIONS FOR EXECUTIVE DIRECTORS

Full details of each component of the Executive Directors' remuneration and the way remuneration was calculated, applicable for the year ended 31 March 2019, are shown in the tables below.

Executive Director Base Salary arrangements	
Purpose and strategy	The overall remuneration package is set at a level designed to attract and retain Directors of the appropriate calibre, to reflect the organisation's size, complexity and external market competition.
Operation	The base salary of the Executive Directors is reviewed by the Remuneration Committee annually and is normally fixed for 12 months. There is no right to an annual increase. Increases are set by reference to: • individual performance; • internal and external comparators; and • market conditions.
Opportunity	Base salary increases are reviewed at the same time as those across the Company and will usually be in line with market increases. The Remuneration Committee will consider differences to this for the following reasons: • increase in role scope or responsibility, including a promotion; • external market data showing that the salary is not competitive; and/or • the Remuneration Committee considering there to be a risk of not attracting or retaining executives.
Performance metrics	The individual's performance, external market and internal relativities will determine the salary level. Salary levels for the Executive Directors for 2018/19 are set out on page 124 of this report.

Executive Director Annual Bonus Arrangements	
Purpose and strategy	Incentivises and rewards performance against annual targets, which support the Company's strategic direction and personal development.
Operation	Annual targets included Health, Safety and Wellbeing, project milestones, public perception, employee engagement, shareholder return and Company credit rating, as well as personal targets. Targets are set annually by the Remuneration Committee and notified to the Board. The Remuneration Committee approves the assessment of achievement. All bonuses are discretionary and can be removed or adjusted at the Committee's discretion.
Opportunity	Maximum bonus opportunities are: CEO – 100% CFO – 60% COO – 80% Awards for 2018/19 were: CEO – 75% CFO – 15% COO – 60%
Performance metrics	See table below

Performance metrics:

	Requirement	2018/19 minimum	2018/19 stretch
Health Safety and Wellbeing	Delivery of transformational HSW	Safety record better than other recent major projects	Good/outstanding compared to other major projects
Schedule cost and quality	Monthly Schedule Performance	Deliver to revised Baseline	Two months ahead of Baseline
	Year-end position in line with outturn budget (EAC)	In line	Cost reduction targets met and in line with Current Regulatory Baseline
Vision Legacy and Reputation	No material reputational or schedule impact due to stakeholders (including neighbours)	Subjective	No material schedule impact due to stakeholders
Company and People	Prompt decisions are made at the right level in the organisation	Qualitative feedback – reduced negative comments	Qualitative feedback – positive feedback
Personal objectives	Achievement of personal objectives	As per individual plan	As per individual plan

These targets are shared with all staff.

The Remuneration Committee has discretion to weight each of the above requirements as it sees fit.

The Committee has assessed that the Company achieved 75% of its goals overall. This was based on a range of inputs, including the project's health and safety record, performance schedules, employee engagement survey and independent research detailing our reputation in the external market.

The Remuneration Committee has discretion to reduce the bonus to zero if there is a significant health and safety or regulatory breach.

Personal objectives comprise a combination of strategic, project and development measures to support the delivery of project milestones, Company priorities and personal development of the individual.

Remuneration Committee Report
Continued

EXPLANATION OF PERFORMANCE METRICS CHOSEN

This was the year when the Company commenced significant construction on nearly all sites. This included mobilisation of the remaining sites, the building of coffer dams, the sinking of shafts and the start of tunnelling in line with agreed project milestones. The metrics chosen were designed to ensure that all staff members remained engaged with the project's key drivers for the year, so it remained on budget and on time, whilst underpinning the Company's core values of transformational health and safety, stakeholder and employee engagement.

Company targets for Directors and executive management are 50% of the bonus opportunity, with individual targets making up the other 50%. For other employees, the split is 25% Company targets and 75% personal targets. Individual targets focus on all areas of the Company, project delivery and personal development.

Executive Director In-service benefits	
Purpose and strategy	Ensures the overall package is competitive and supports the recruitment and retention of suitable Directors.
Operation	Executive Directors receive benefits in line with market practice, which include car allowance, medical insurance and life insurance. Other benefits, dependent on individual circumstances, could include travel, accommodation or relocation allowances.
Opportunity	Benefits are determined at an appropriate level based on external market data and, in the case of other benefits, personal circumstances.
Performance metrics	Not applicable.

Executive Director Retirement benefits (defined contribution scheme)	
Purpose and strategy	Ensures the overall package is competitive, within current pensions and taxation parameters, to provide post-employment benefits.
Operation	Executive Directors receive a Company contribution towards their pension of £10,000 per annum, in line with current government tax relief taper limits.
Opportunity	The Executive Directors have fully portable self-invested personal pensions.
Performance metrics	Not applicable.

The Company may terminate the contract of any Executive Director in line with their contract of employment, which includes provision for payment in lieu of notice. Employment contracts may be terminated without payment in circumstances of gross misconduct.

Executive Director Termination Policy	
Base salary + benefits	Payment made up to termination date.
Annual bonus	There is no contractual entitlement to a bonus payment. If the Director is under notice or left employment at the time of payment, the Committee may use its discretion to make a bonus award. Typically in the market this would be pro-rated for time and based on the performance assessed at the end of the bonus year.
Long-term incentive plan	Treatment would be in line with plan rules and at the Remuneration Committee's discretion.

Executive Director LTIP Arrangements Applicable to the CEO and the COO	
Purpose and strategy	To reward performance and delivery and retain Directors over the life of the project, right through to final commissioning and handover of the tunnel at completion, in line with Company values and legacy commitments.
Operation	The LTIP is split into three Tranches. Each Tranche is designed to encourage completion of the project as swiftly as possible, within budget and without compromising health and safety or quality, and to deliver our stated legacy aims.
Opportunity	**Tranche 1** is awarded on the date on which the final tunnel boring machine at the three main drive sites starts to tunnel and is payable over a three-year period. The maximum amount that may be paid under Tranche 1 of the LTIP is 225% of 2016/17 base salary in the first available payroll occurring after its award and 112.5% of 2016/17 base salary in each of the following two years. **Tranche 2** is awarded on the Tunnelling Completion Date (broadly defined as the date on which all secondary lining is installed in the main tunnel and no further significant remedial works are required) and is payable over a two-year period. The maximum amount that may be paid under Tranche 2 is 150% of the base salary pertaining at the tunneling start date, on the first available payroll occurring after award, and 150% (subject as set out below) of such base salary in the following year. **Tranche 3** is awarded at Handover and is payable as to two-thirds at Handover of the tunnel and one third at systems acceptance. Amounts paid out depend on the timing of system wide Handover and acceptance of the tunnel, the costs of achieving this and the level of distributions paid throughout the period. LTIP 3 is calculated as 200% of salary for each of the years from scheme introduction to handover.
Performance metrics	100% of the **Tranche 1** LTIP will be awarded if the Remuneration Committee is satisfied that tunneling has started at all the main drive sites before a specified date (the Pre Licence Award Date (LAD)) which is before the date scheduled when the Company's Licence was awarded. The award will reduce to nil if no tunneling has occurred by the date (the LAD) scheduled when the Company's License was awarded. The reduction between 100% and nil will be calculated on a site-by-site basis. The award will reduce by 20% for each site that has not started tunneling by the LAD or such lesser percentage (calculated on a straight-line basis, per tunnel if tunneling commencement occurs between LAD and Pre LAD.[1]) The remuneration Committee has discretion to increase or reduce the award by up to a further 20%, depending on the length of tunnel bored by the LAD. 100% of the **Tranche 2** LTIP will be awarded if the Remuneration Committee is satisfied that the Tunnelling Completion Date has occurred on or before a specified date falling ahead of the date scheduled when the Company's Licence was awarded. The award will reduce to nil if the Tunnelling Completion Date has not occurred by the date scheduled as at Licence Award date and will reduce on a straight-line basis if the Tunnelling Completion Date occurs between those two dates. The second tranche payment of the Tranche 2 award will be doubled to 300% of the base salary pertaining at the tunneling start date if a specified percentage of IRR is determined to be payable at project completion. For **Tranche 3**, 100% of LTIP 3 will be paid if the Remuneration Committee considers that Handover and System Acceptance has or will occur on the date scheduled at Licence Award (the LAD) provided that certain budgetary and equity return targets have been met. The award can be increased by up to 100% if the LAD is beaten by a specified period and/or other more stringent tests are met in full. If the LAD for system wide Handover is met but the budgetary and other tests are missed, then the award is adjusted downwards. A portion of LTIP3 remains payable (25% of the notionally accumulated amounts) even if the targets are missed, provided that the executives continue to strive to achieve Handover and Acceptance as quickly as possible. The Remuneration Committee has discretion to reduce all or any tranche of the LTIP to zero for, inter alia, health and safety or regulatory breaches or malus.

[1] *Details of the dates will be disclosed retrospectively in the appropriate annual report on remuneration, when they are no longer deemed commercially sensitive by the Board.*

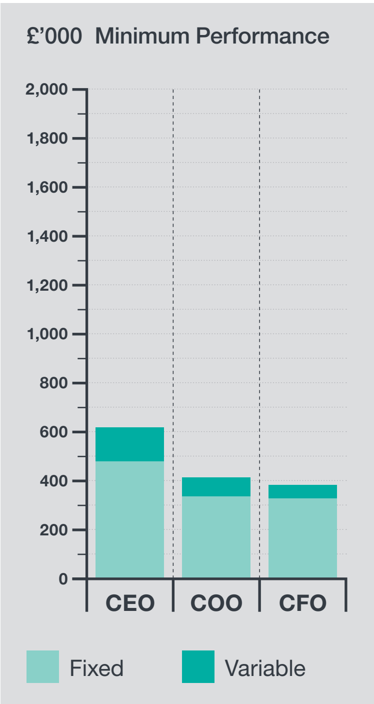
Remuneration Committee Report
Continued

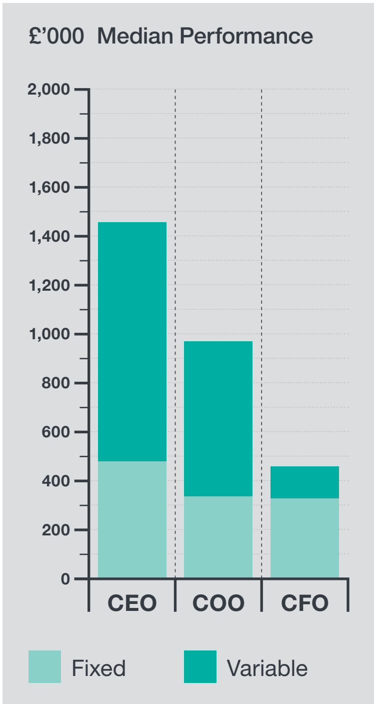
POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

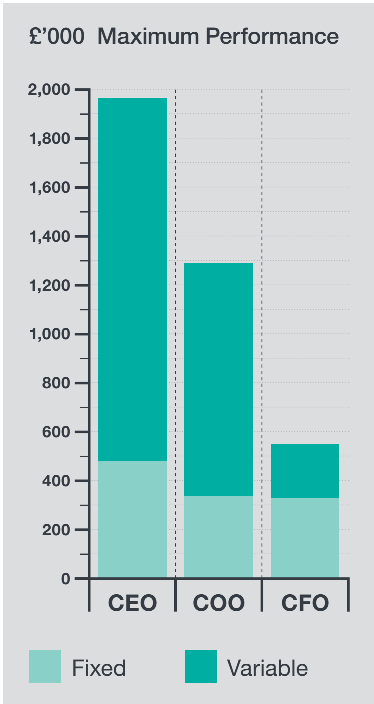
The chart below sets out the potential remuneration for Executive Directors in various bonus award scenarios. A proportion of LTIP 1 is currently predicted to be paid in the coming financial year, based on the achievement of targets. The actual payment will be determined in August 2019. The amounts presented here are therefore an estimate based on current achievement and the Committee's current view of the likely out-turn. Actual payments will be recorded in the Annual Report and Accounts for 2019/20.

	Fixed pay	Annual bonus
Minimum performance	Fixed elements of remuneration are base salary, benefits and pensions	**30%** of potential annual bonus achieved
Median performance	Individual performance would be expected to have a positive impact **on base salary – see pay and conditions** for Executive Directors.	**70%** of potential annual bonus achieved
Maximum performance		**120%** of potential annual bonus achieved

The charts below show the relative split of remuneration between fixed (base salary, benefits and pensions) and variable elements (annual and LTIP) for the Executive Directors under the three scenarios described above.







Non-Executive Director's fees	
Purpose and strategy	Non-Executive Directors receive only a fee, which is set at a level that reflects market conditions and is sufficient to attract individuals with appropriate skills, knowledge and experience. The Chairman and Deputy Chairman receive enhanced fees for additional responsibilities. Non-Executive Directors representing shareholders do not receive fees from the Company.
Operation	Fees are reviewed either every year, on the change of responsibilities or the appointment of new Non-Executive Directors. The Board determines the remuneration of the Non-Executive Directors within the limits set in the Articles of Association.
Opportunity	Non-Executive Directors do not receive annual bonuses, benefits or pension contributions. Fees are based on the level of fees paid to Non-Executive Directors on the boards of comparable companies and the time commitment expected.

DIRECTOR'S CONTRACTS

The Executive Directors have employment contracts with six months' notice on either side. The Directors who held office during the period are listed on page 95 of the Governance Report.

The Independent Non-Executive Directors have service contracts with three months' notice on either side. Details of their appointment to the Board can be found in the Corporate Governance Report.

Remuneration Committee Report

Continued

REMUNERATION

The tables below and opposite show the total remuneration earned by each Director in 2018/19 and 2017/18.

Year ended 31 March 2019	Base salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Deferred Bonus £'000	Pension Contributions £'000	Total £'000
Andy Mitchell	446	12	261		10	729
Mark Sneesby	308	11	149		10	478
Mathew Duncan[1]	118	6				124
Mark Corben[2]	205	6	253	1,500		1,964
Sir Neville Simms	275					275
Richard Morse	90					90
Anne Baldock	54					54
John Holland-Kaye	54					54
Michael Queen	54					54
Mike Putnam[3]	41					41
Mark Fairbairn[4]	27					27

[1] Figures for Mathew Duncan reflect part-year earnings since his appointment to the Board as CFO in November 2018.
[2] Mark Corben's remuneration reflects part-year earnings until his resignation from the Board in November 2018. Details of the deferred bonus element of his remuneration are set out in the 'CFO Arrangements' section of this report.
[3] Fees for Mike Putnam reflect part-year earnings since his appointment to the Board in July 2018.
[4] Fees for Mark Fairbairn reflect part-year earnings until his resignation from the Board in September 2018.

The CEO's base salary for the year ended 31 March 2019 included an annual increase pay award of 2.50%. There was no change to the CEO's taxable benefits.

Year ended 31 March 2018	Base salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Deferred Bonus £'000	Pension Contributions £'000	Total £'000
Andy Mitchell	435	14	261		10	720
Mark Corben	300	11	149		10	470
Mark Sneesby	300	11	149		10	470
Sir Neville Simms	275					275
Richard Morse	90					90
Anne Baldock	54					54
Mark Fairbairn	54					54
Michael Queen	54					54
John Holland-Kaye[1]	39					39

[1] Fees for John Holland-Kaye in 2017-18 reflect part-year earnings after his appointment to the Board in July 2017."

Fees for the Independent Non-Executive Directors have been set in line with the policy described, and were last reviewed in June 2018. It was agreed that no changes were required in the next financial year.

CFO ARRANGEMENTS 2018

Mark Corben, CFO, left the Company at the end of November 2018, with the new CFO Mathew Duncan starting work in the same month.

As presented in last year's accounts, Mark Corben's contribution to the Company was rewarded on leaving in accordance with his bonus arrangements and the sum of £1,500,000 was awarded to him. 75% of this sum was paid in November 2018 and the remaining 25% was paid in May 2019, subsequent to the Committee's final approval.

the award reflected the Committee's decision that he had met the criteria as set out in last year's report of:

- Delivering a plan to change the gearing from 65% to 68% whilst maintaining a credit rating of BBB+;
- Raising an additional £500m - £700m debt financing in line with the strategy; and
- Successful management and handover of the finance function to the new CFO.

RECRUITMENT REMUNERATION POLICY

We use the policy detailed above when deciding on the overall remuneration package for externally recruited Directors. The Committee has the discretion to include other components outside of the policy, if this is necessary to facilitate the hiring of individuals of the right calibre and experience.

This report was approved by the Board of Directors on 20 June 2019.

Anne Baldock
Chair of the Remuneration Committee

Relationship with Shareholders

OUR OWNERS

Tideway is owned by a consortium of investors. Further information on our equity investors and their equity interests as at June 2019 is shown in the table below

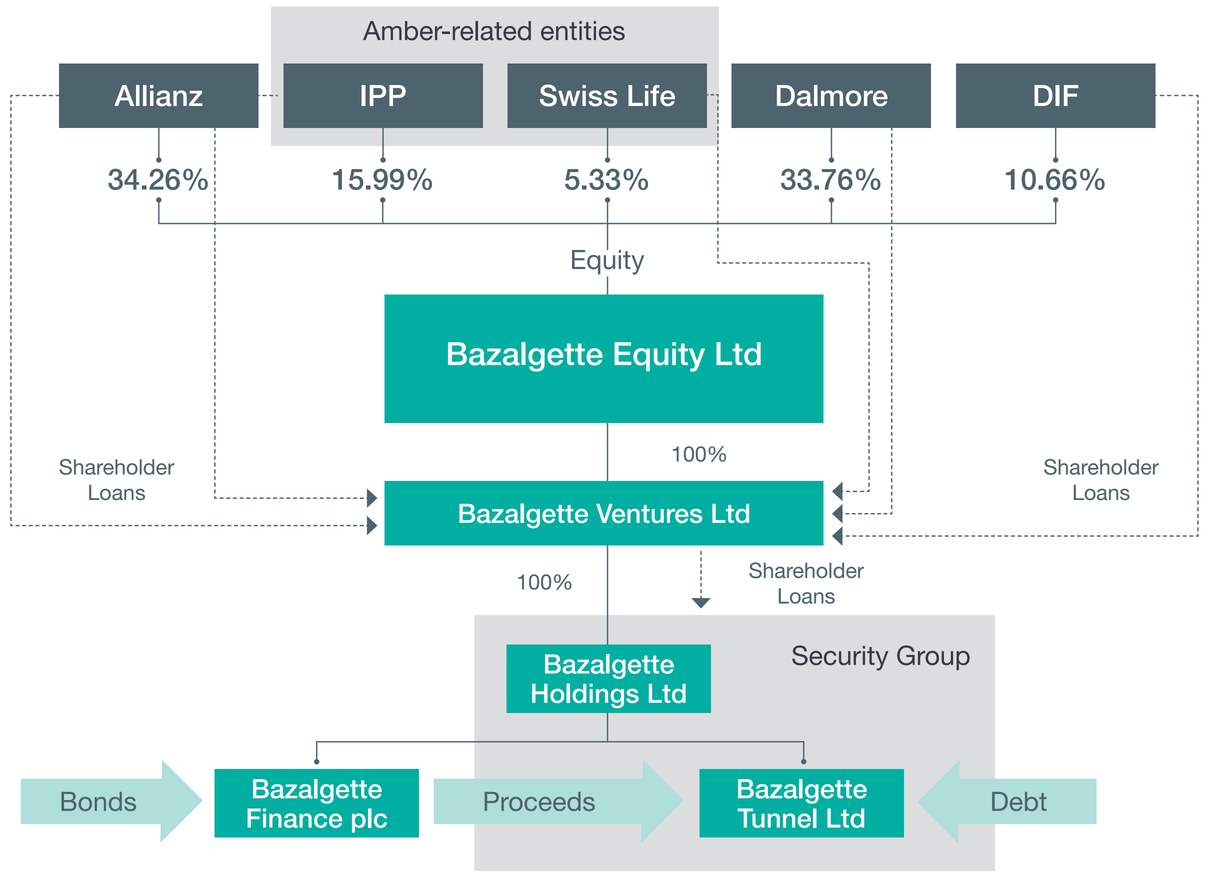
Shareholder and Shareholding	Description
Allianz Infrastructure Luxembourg I S.a.r.l. 34.26%	The Allianz Group is a leading global financial services group, active in insurance and asset management. In fiscal year 2018 the Allianz Group achieved total revenues of approx. €130.6bn. It is one of the world's largest asset managers, with third party assets under management in excess of €1.4 trillion. The investment in Tideway is funded from the balance sheets of various Allianz Group insurance companies.
Dalmore Capital 14 GP Limited 33.76%	Dalmore is an independent fund manager based in London, with over £5bn of investors' funds under management and a sole focus on the infrastructure sector. For its investment in Tideway, Dalmore established a single purpose fund which has secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors.
IPP (Bazalgette) Limited 15.99% Bazalgette (Investments) Limited 5.33% (Both Amber related entities)	Amber is a leading international infrastructure specialist, providing asset management and advisory services. Amber's core business focuses on sourcing, developing, advising on, investing in and managing infrastructure assets with skills and experience spanning a broad range of infrastructure sectors and geographies. Amber manages five investment funds, including International Public Partnerships Limited (IPP, a London Stock Exchange listed infrastructure company) for over 2,000 public and private sector investors, with assets under management of over £2.5bn. Amber manages the IPP and Swiss Life Holding AG (Swiss Life) investments in Tideway which are held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited respectively. Swiss Life Asset Managers has more than 160 years of experience in managing the assets of Swiss Life Group. Together with insurance mandates, total assets under management stood at CHF 232.6bn as of 31 December 2018.
DIF Bid Co Limited 10.66%	DIF is an independent fund management company with c. €5.6bn of funds raised. Through seven investment funds, DIF invests in high-quality infrastructure assets that generate long-term, stable cash flows, including public private partnership projects (PPP/PFI/P3), renewable energy projects and other core infrastructure projects in the telecoms, transport and energy sectors in Europe, North America and Australia. DIF Management Holding BV directly or indirectly owns and/or manages all of the DIF entities in the corporate structure above Bazalgette Equity Limited. DIF Management UK Limited is the topmost UK company in the DIF corporate structure. The source of DIF's share of equity funding for the project comprises long-term pension fund, insurance and fund of funds investors.

The Shareholders' Agreement entered into on Licence Award contains legally binding commitments to maintain an independent Board and ensure that Tideway can make strategic and risk management decisions. Tideway's Board includes six Independent Non-Executive Directors (including the Chairman), which means that independent Directors are the largest single group on the Board.

These appointments, together with the reserved matters requiring Board approval (see page 129), help ensure that the Board is independent, in control of the business and able to operate sustainably. The Shareholder Directors are the primary conduit by which the Board interacts with the shareholders and understands their views, both individually and collectively.

TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is Bazlagette Holdings Limited, which is in turn wholly owned by Bazalgette Ventures Limited, and its ultimate holding company is Bazalgette Equity Limited. The structure of the Tideway group of companies is shown below and the role of each company is described in the table overleaf.



Relationship with Shareholders

THE ROLE OF EACH COMPANY

Name	Registration Number	Place of Registration	Description
Bazalgette Tunnel Ltd	9553573	England and Wales	The Infrastructure Provider entity licensed by Ofwat to design, build, commission and maintain the regulated assets of the Thames Tideway Tunnel. It lies within the security ring-fence.
Bazalgette Holdings Ltd	9553510	England and Wales	Bazalgette Tunnel Limited's immediate holding company, established to act as the vehicle where the Secretary of State would inject funds if required. It lies within the security ring-fence.
Bazalgette Ventures Ltd	9553461	England and Wales	The holding company of Bazalgette Holdings Limited. It was established to act as the vehicle for shareholder loan funding.
Bazalgette Equity Ltd	9553394	England and Wales	The ultimate holding company of the group. It was established to act as the vehicle for shareholder share capital funding.
Bazalgette Finance plc	9698014	England and Wales	A sister company of Bazalgette Tunnel Limited and financing subsidiary of Bazalgette Holdings Limited, established to be the issuer of public market bonds. It lends on the proceeds of any bond issuance to Bazalgette Tunnel Limited.

Thames Tideway Tunnel Limited, which was a subsidiary of Bazalgette Tunnel Limited, has been dissolved. All employees, contracts and assets were transferred from Thames Tideway Tunnel Limited to Bazalgette Tunnel Limited by 31 March 2017 and the entity was dissolved on 24 April 2018.

RELATIONSHIP WITH SHAREHOLDERS

Each shareholder controlling 10% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Director to the Boards of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. Each shareholder controlling 20% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Director to the Boards of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.

Each shareholder controlling 20% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Observer to the Board of Bazalgette Tunnel Limited. Each shareholder controlling 30% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Observer to the Board of Bazalgette Tunnel Limited. The Observers are entitled to attend Board and committee meetings and to speak with the permission of the Chairman of the Board, but are not entitled to vote.

SHAREHOLDER RESERVED MATTERS

There are a limited number of matters reserved by the Board for approval by shareholders. As set out in the tables below, these matters require the approval of shareholders holding either 75% or 90% of Tideway's equity. Each shareholder has the number of votes on such matters equal to its shareholding in Bazalgette Equity Limited. Although these matters are reserved to the shareholders, the Board would expect to express a view to the shareholders before any decisions are taken.

Nature of Matter	Description
General corporate	General corporate matters relating to the issue of any shares in any Tideway group company.
Incurring of commitments, liabilities etc.	Incurring of commitments, liabilities etc. unless contemplated by the Annual Business Plan or Budget.
Acquisitions or disposals	Disposals, acquisitions and capital expenditure over £50 million or not contemplated by the annual Business Plan or Budget.
Accounts, auditor	The change of Tideway's accounting reference date, the removal or appointment of the auditor and any change to the accounting policies, except where required as a consequence of a change in IFRS, GAAP or law.
Manner of carrying on business	• Entering into or materially changing a material contract, to the extent not contemplated by the annual Business Plan or Budget. • Substantial alteration in the nature of the business or cessation of the business. Approval of or making amendments to the Project Licence, Business Plan or Budget, which would result in additional expenditure or indebtedness over £50 million. • Entering into any guarantee in excess of £50 million. • The appointment to the Board or removal of an Executive Director, as recommended by the Nomination Committee. • The conduct of litigation and claims involving any Tideway group company, where the potential liability may exceed £50 million. • Any material submission or application to Ofwat, whether pursuant to the Licence or otherwise. • Any request that Ofwat refer a matter to the Competition and Markets Authority. • The submission of any material tax claim, disclaimer, election or consent. • The issuances or withdrawal of notices pursuant to the Government Support Package. • The replacement of a Main Works Contractor, System Integrator or Programme Manager during the Construction Period. • The appointment of a Tideway representative to the Liaison Committee and any voting in relation to material variations to the scope of the project. • The approval of or entry into a related party transaction.
Partnership, joint venture or other agreement	Entering into any partnership, JV or other profit sharing agreement in excess of a materiality threshold.
Articles and Board composition	A change to the articles, acting contrary to the articles or a change to the Board composition requirements in the Shareholders' Agreement.
Share denomination	Any consolidation or redenomination of any shares.
Share redemptions or buybacks	The redemption or purchase by Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited of any share or the reduction of its share capital or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account.
Winding-up or liquidation	Any proposal for the winding-up or liquidation of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited.
Control of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited	Any arrangement whereby the Directors no longer determine the general policy, scope of activity and operation or major decisions of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.
Paying up of share capital or debentures	The paying up of any share capital or debenture or debenture stock of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited by way of capitalisation or application of any profits or reserves.
Schemes of arrangement and demergers	The proposal of any compromise or arrangement within the meaning of section 895 of the Companies Act 2006 or any arrangement pursuant to which Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010.

Directors' Report

The Directors present their report and the audited Company financial statements of Bazalgette Tunnel Limited (the Company) for the year ended 31 March 2019.

The registered company number is 09553573.

Ownership and relationship with associated Companies

Bazalgette Tunnel Limited is owned by a consortium of investors. These investors are Dalmore Capital 14 GP Limited, Allianz Infrastructure Luxembourg I S.a.r.l IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK). Further information on our equity investors and their equity interests are set out in the Corporate Governance Report.

Principal activities

The Company's business is to design, build and maintain the Thames Tideway Tunnel. A full explanation of the Company's principal activities is set out in the Strategic Report.

Corporate Governance

Full disclosure on the Company's Corporate Governance activities is set out in the Corporate Governance Report and is incorporated by reference into this Directors' Report. This report can also be found online at **www.tideway.london**

Financial results and dividends

Following the Company's accounting policies, all costs that meet the capitalisation criteria are capitalised and all revenue received is currently recognised as deferred revenue. This accounting treatment is expected to continue throughout the construction phase of the project. The accounting policies are set out in the financial statements.

The Company recorded a £31.0m loss for the year ended 31 March 2019 (31 March 2018, here after referred to as "2018": £9.5m profit). This is due to fair value movements on the Company's derivative financial instruments.

The tunnel asset under construction totaled £1,828.6m at 31 March 2019 (2018: £1,154.9m).

The detailed financial results of the Company are set out in the Financial Performance Review within the Strategic Report. The Company did not pay any dividends in the year (2018: £nil).

During the year, £57.1m (2018: £51.6m) of shareholder loan interest was paid and a further £3.4m of loan principal was repaid during the year (2018: £23.8m). Further details of the shareholder loan notes are set out in note 10 of the financial statements.

Financial risk management

Full disclosure on the Company's financial risk management is set out in the financial statements.

Directors

The Directors who held office during the year, and thereafter, are listed in the Corporate Governance Report.

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 Company had in place Directors and Officers Liability insurance for the year.

Employees

The average number of people employed by the Company (including Directors) during the year was 161 (2018: 176). Details relating to the Company's employment policies and values are set out in the Strategic Report.

Greenhouse gas emissions

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

Charitable and political donations

The Company made charitable donations totaling £53,340 during the year (2018: £40,062). Details of the Company's charitable partnerships are set out in the Strategic Report.

The Company did not make any political donations or incur any political expenditure during the year (2018: £nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Company's policy is to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms.

The Fair Payment Charter has been issued to our MWC's and JV Partners as part of their contractual obligations and we monitor their compliance. The creditor days for the year ended 31 March 2019 were approximately 22 days (2018: 21 days).

Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 17 of the financial statements.

Disclosure of information to the auditor

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

Other information

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

Auditor

Having carried out a review of their effectiveness during the year the auditor, pursuant to Section 487 of the Companies Act 2006, will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for the Company for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable UK law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 the financial position of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report 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.

The Directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

Mathew Duncan
Chief Financial Officer
Cottons Centre
London Bridge
London
SE1 2QG
20 June 2019

Annual Report and Financial Statements

For the year ended 31 March 2019
Registered number 09553573

Chelsea Embankment Foreshore, next to the Royal Hospital Chelsea, where a new piece of public land will be created in the River Thames

Financial Statements
Independent Auditor's Report

to the members of Bazalgette Tunnel Limited

1. Our opinion is unmodified

We have audited the financial statements of Bazalgette Tunnel Limited ("the Company") for the year ended 31 March 2019 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement 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 Company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- 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 Company 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.

Overview	
Materiality: financial statements as a whole	£6.7m (2018:£5.2m) 1% (2018: 1%) of total expenditure
Key audit matters	**vs 2018**
Recurring risks	Completeness and existence of capitalised costs and creditors
New Risk	The impact of uncertainties due to the UK exiting the European Union on our audit
	Going Concern Assessment

2. Key audit matters: including 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
In arriving at our audit opinion above, the key audit matters, were as follows:

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 71 (strategic report)	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements, see below. All of these depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. **Our procedures included:** **Our Brexit knowledge** We considered the Directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. **Sensitivity analysis** When addressing areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency** We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** We found the resulting estimates and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern assessment Refer to page 75 (strategic report) and page 143 (basis of preparation).	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Company's available financial resources over this period were: • Significant cost overruns on the Thames Tideway Tunnel project, the impact of Brexit on the supply chain of Bazalgette Tunnel Limited and their impact on the ability of the Company to meet its external debt obligations. • The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Funding assessment** We obtained lending agreements for committed financing, including undrawn amounts to ensure the Company had adequate funding available or to call upon to meet its obligations in the going concern period. Our assessment also included recalculating covenant compliance. **Sensitivity analysis** We considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; including the possible impact of Brexit, such as increasing supply chain costs and delays, to identify whether reasonably possible adverse scenarios could have an impact on liquidity. We have also considered the adequacy of funding available to Bazalgette Tunnel Limited including its ability to generate liquid funds to honour its commitments under its lending agreements. **Assessing transparency** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by ensuring the disclosures are consistent with our understanding of the Company's circumstances and other outcomes of the procedures described above. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.
Completeness and existence of capitalised costs and creditors **Capitalised costs:** **(£673.9 million;** **2018: £609.0 million)** Refer to page 143 (accounting policy) and page 148 (financial disclosures).	**Capital costs** The Company incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalized costs and capital creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effects on our overall audit strategy and allocation of resources in planning and completing our audit.	**Our procedures included:** **Control design** Testing controls over the payment/ cost verification process which includes observing that for a sample of payments they were agreed to certificates, the amounts matched the invoices received and payments by the Company were authorised. **Test of detail** Inspecting a sample of invoices received before and subsequent to the year end to consider the timing of work performed and therefore whether costs and creditors have been recorded in the correct year. **Test of detail** For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred. **Test of detail** Comparing a sample of the claims from the independent project manager's assessment to the claims recorded by the Company to assess completeness. **Involvement of specialists** Involvement of Major Project Advisory (MPA) specialists to review contract positions and the Estimate at Completion (EAC), assess whether compensation events should be included as part of Defined cost, and review of independent project managers assessment of these claims and disallowed costs for reasonableness. **Our results** We consider the recorded balances to acceptable.

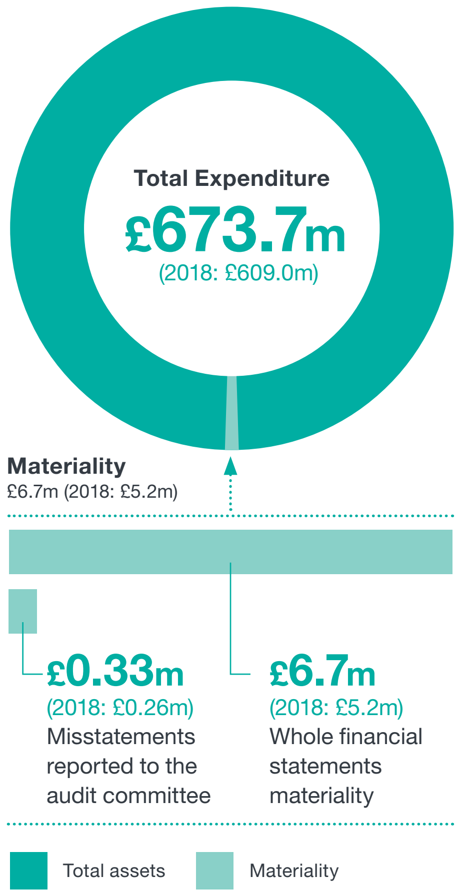
Financial Statements
Independent Auditor's Report
Continued

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

Materiality for the financial statements as a whole was set at £6.7m (2018: £5.2m), determined with reference to a benchmark of total expenditure, of which it represents 1.0% (2018: 1%). The benchmark has not changed from prior year. Total expenditure continues to be the relevant benchmark given it indicates the activity in the period.

We agreed to report to the Audit Committee any uncorrected identified misstatements exceeding £0.33m (2018: £0.26m), 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 Company's head office in London.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's 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.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the long term viability statement (page 75) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the long term viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 131, 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*

9. 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
15 Canada Square
London
E14 5GL
20 June 2019

Financial Statements

COMPANY INCOME STATEMENT

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Net operating costs	*2,3*	-	-
Operating result		-	-
Net finance (costs)/income	*4*	(31.0)	9.5
(Loss)/profit before tax		**(31.0)**	**9.5**
Taxation	*5*	-	-
(Loss)/profit for the year		**(31.0)**	**9.5**

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
(Loss)/profit for the year		(31.0)	9.5
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to owners of the parent		**(31.0)**	**9.5**

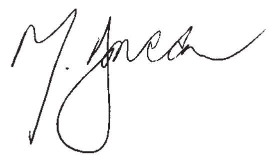
Notes 1-17 form an integral part of these Financial Statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Property, plant and equipment	*6*	1,828.6	1,154.9
Trade and other receivables	*7*	57.2	54.5
		1,885.8	1,209.4
Current assets			
Trade and other receivables	*7*	39.2	41.0
Cash and cash equivalents	*8*	554.8	838.3
Short-term deposits	*8*	90.0	57.5
		684.0	936.8
Total assets		**2,569.8**	**2,146.2**
Current liabilities			
Trade and other payables	*9*	(37.2)	(39.1)
		(37.2)	(39.1)
Non-current liabilities			
Advance payment liability	*9*	(91.9)	(53.5)
Borrowings	*10*	(1,898.9)	(1,538.1)
Derivative financial instruments	*11*	(55.7)	(24.7)
Other payables	*9*	(32.1)	(5.8)
		(2,078.6)	(1,622.1)
Total liabilities		**(2,115.8)**	**(1,661.2)**
Net assets		**454.0**	**485.0**
Equity			
Share capital	*12*	509.7	509.7
Retained earnings	*12*	(55.7)	(24.7)
Total equity		**454.0**	**485.0**

Notes 1-17 form an integral part of these Financial Statements. These Financial Statements were approved by the Board of Directors on 20 June 2019 and were signed on its behalf by:



M Duncan
Director
Company registered number: 09553573

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2017	370.4	(34.2)	336.2
Profit for the year	-	9.5	9.5
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**9.5**	**9.5**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	139.3	-	139.3
Total contributions by and distributions to owners	**139.3**	**-**	**139.3**
Balance at 31 March 2018	**509.7**	**(24.7)**	**485.0**
Balance at 1 April 2018	509.7	(24.7)	485.0
Loss for the year	-	(31.0)	(31.0)
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**(31.0)**	**(31.0)**
Total contributions by and distributions to owners	**-**	**-**	**-**
Balance at 31 March 2019	**509.7**	**(55.7)**	**454.0**

Notes 1-17 form an integral part of these Financial Statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities before working capital movements		-	-
Increase in trade and other receivables	7	(0.9)	(10.9)
Increase in trade and other payables	9	24.4	24.9
Increase in advance payment liability	9	38.4	26.8
Cash flows from operations		**61.9**	**40.8**
Net cash flows from operating activities		**61.9**	**40.8**
Cash flows used in investing activities			
Construction of infrastructure asset	6	(669.5)	(607.4)
Short-term deposits	8	(32.5)	(57.5)
Net cash flows used in investing activities		**(702.0)**	**(664.9)**
Cash flows from financing activities			
Proceeds from the issue of share capital	12	-	139.3
Proceeds from shareholder loans		-	208.9
Proceeds from new borrowings		360.0	822.1
Repayment of shareholder loan principal		(3.4)	(23.8)
Net cash flows from financing activities		**356.6**	**1,146.5**
Net (decrease)/increase in cash and cash equivalents during the year		**(283.5)**	**522.4**
Cash and cash equivalents at the start of the year	8	838.3	315.9
Cash and cash equivalents at the end of the year	8	**554.8**	**838.3**

Notes 1-17 form an integral part of these Financial Statements.

Construction of infrastructure asset includes capitalised interest paid of £71.1m (2018: £56.2m) and capitalised interest received of £4.5m (2018: £3.0m)

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Bazalgette Tunnel Limited ("the Company") is domiciled in the United Kingdom. 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 company financial statements.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). The financial statements are prepared in accordance with the historical cost accounting convention except where adopted IFRS require 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 Company's financial position.

Judgements and Estimates

In the process of applying the Company'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 Company 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 System 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 Company. In determining the appropriate accounting treatment one of the key questions was establishing which party has control over the asset. The applicability of both IFRIC 4 'determining whether an arrangement contains a lease' and IFRIC 12 'service concession arrangements' were considered. It was concluded that the tunnel arrangements were outside the scope of IFRIC 12 and as the Company controls the asset the arrangements fall within the scope of IFRIC 4. Consequently, the accounting policies applied to these financial statements reflect this arrangement.

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

Impairment

In assessing the recoverable value of the Thames Tideway Tunnel asset, the Directors are required to make judgements around the assumptions and estimates used to calculate the recoverable amount of the asset which is deemed to be the Company's Regulatory Capital Value ("RCV"). This is because the asset carrying value includes all attributable costs that are capitalised whereas the RCV, which is the driver of economic return for the Company, does not include financing costs such as capitalised borrowing costs. The significant judgements that the Directors are required to make include the estimate of the capital expenditure profile through to System Acceptance presented in the Company's business plans as well as assumptions included for RCV development through to System Acceptance. The indexation of RCV via RPI change is a key estimate and this calculation is based on an average of independent forecasts provided via HM Treasury.

Derivative financial instruments

A net present value model is used to estimate the fair value of the Company's derivative financial instruments which are all index-linked swaps. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Company's credit risk. This estimate of the Company's credit risk is considered to be an unobservable input. Sensitivity analysis of this credit adjustment and the effect it would have on the profit/loss reported for year has been disclosed in note 11.

Capitalised costs/creditors

The Company has a substantial capital programme and therefore incurs significant annual expenditure in relation to the construction of the Thames Tideway Tunnel asset. All costs incurred are capitalised as assets under construction. Due to the significance of these costs the Directors need to ensure their completeness, existence and validity is appropriately monitored and controlled.

Going concern

The Directors believe, after due careful enquiry, that the Company has sufficient resources to continue in operational existence for the foreseeable future and has assumed there will be no changes to the regulatory framework or Government policy that will affect the Company's viability. Therefore, the Directors consider it appropriate to adopt the going concern basis in preparing these Financial Statements. Further detail is contained in the long-term viability statement included in the Strategic report.

New Accounting Standards

With effect from 1 April 2018, the Company has adopted IFRS 9. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 replaces the "incurred loss" model in IAS 39 with an "excepted credit loss model" which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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 (ECL) model and those under the simplified ECL model are immaterial. Therefore, no expected credit loss has been recognised and no adjustment was required to opening retained earnings.

There has been no significant impact to the way the Company classifies financial assets as a result of the changes in classification categories. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

In addition, with effect from 1 April 2018, the Company adopted IFRS 15. IFRS 15 replaces previous revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under this standard the Company will apply a five-step revenue recognition model to revenue recognition.

There has been no change to the Company's treatment of revenue which is deferred during the construction phase of the project, as the Company has not satisfied the performance obligation requirement in the five-step revenue recognition model. Revenue can only be recognised at the point that the performance obligation is satisfied. This treatment is consistent with how revenue has been previously recognised by the Company.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprises assets under the course of construction. Additions to assets under construction represent the capitalised costs of project expenditure by the Company.

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 Company 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 2019 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.

Depreciation

Assets under construction are not depreciated.

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 Company's asset under construction is reviewed at each reporting date to determine whether there is objective evidence the asset is impaired. The Directors consider the asset to be impaired if the forecast carrying value of the asset at System Acceptance exceeds the forecast recoverable value of the asset at System Acceptance.

For 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.

Financial assets under IFRS 9 are assessed under the forward looking 'expected loss model'.

Any impairment losses are recognised in the Income Statement.

Revenue

The Company's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Company's RCV.
The Company's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Company. Through the construction period, revenue is deferred as the services associated with this revenue have not satisfied all the conditions of the five-step revenue recognition model under IFRS 15. Therefore, revenue will be recognised at the point that all conditions are satisfied which will not be until System Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the Company 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 Company 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 Company 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 Company are recorded at management's best estimate of the consideration required to settle the obligation at the Statement of Financial Position date.

Operating leases

Payments made under operating leases are capitalised in assets under construction on a straight-line basis over the term of the lease provided they meet the capitalisation criteria for assets under construction.

Financial instruments

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

Trade and other payables

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

Cash and cash equivalents

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

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

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost. Any difference between the proceeds received (net 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 Company 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 Company 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 11.

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 Company has the right of set off.

Recently issued accounting standards not yet applied by the Company

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 2019 and in some cases are subject still to endorsement by the EU.

- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures
- Improvements to IFRSs (2015–2017)
- IAS 19 Plan Amendment, Curtailments or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS Practice Statement 2 Making Materiality Judgements
- Conceptual Framework for Financial Reporting

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

The Company has completed its assessment of the impact of applying the single recognition model for lessees and concluded that current operating property leases would fall under the scope of IFRS 16 at the date of transition. This would result in the Company recognising new right-to-use assets and lease liabilities on the Statement of Financial Position which are likely to increase assets and liabilities by approximately £8.6m.

The Company has assessed the two transition alternatives allowed under IFRS 16 and concluded that there would not be any material transition differences between each method in relation to Company's potential IFRS 16 leases.

2 AUDITOR'S REMUNERATION

	2019 £'000	2018 £'000
Audit services		
Statutory audit - company	87	67
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	10	9
Other non-audit services		
Review of interim financial information	–	8
Other regulatory assurance services	29	61
	126	**145**

All of these fees have been capitalised.

3 EMPLOYEE COSTS

The average number of persons employed by the Company (including Directors) during the year was 161 (2018: 176). The aggregate employment costs of these persons were as follows:

	2019 £m	2018 £m
Wages and salaries	15.6	18.9
Social security costs	2.0	2.4
Contributions to defined contribution pension plan	0.6	0.7
Capitalised into asset under construction	(18.2)	(22.0)
	–	**–**

Director's remuneration is disclosed within the Remuneration Report section of this Annual report.
The Company operates a single defined contribution pension plan which is open to all employees of the Company.

4 FINANCE INCOME AND COSTS

	2019 £m	2018 £m
Finance income		
Interest income	(6.0)	(2.3)
Finance costs		
Interest expense on borrowings	84.9	61.5
Financing fees	4.3	5.2
Financial instruments at fair value through profit or loss:		
– Index linked swaps	31.0	(9.5)
Capitalised finance interest and expense into asset under construction	(83.2)	(64.4)
Net finance costs/(income)	**31.0**	**(9.5)**

5 TAXATION

	2019 £m	2018 £m
Total current tax	–	–
Total Income Statement tax expense	**–**	**–**

Reconciliation of effective tax rate

	2019 £m	2018 £m
(Loss)/profit before tax	(31.0)	9.5
Expected tax credit/(charge) using UK corporation tax rate of 19% (2018: 19%)	5.9	(1.8)
Items not taxable[1]	(5.9)	1.8
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 £39.1m (2018: £20.4m) have been calculated with regards to the Company's tax losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following at 31 March 2019:

	Asset under construction £m	Total £m
Cost		
At 1 April 2018	1,154.9	1,154.9
Additions	673.7	673.7
Balance at 31 March 2019	1,828.6	1,828.6
Accumulated depreciation		
At 1 April 2018	-	-
Depreciation charge	-	-
Balance at 31 March 2019	-	-
Net book value at 31 March 2019	**1,828.6**	**1,828.6**
Net book value at 31 March 2018	**1,154.9**	**1,154.9**

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 2019. The amount of net borrowing costs capitalised during the year was £78.9m (2018: £59.2m) with a capitalisation rate of 100%.

7 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Trade receivables	7.2	1.9
Intra-group loans receivable (see note 15)	9.9	8.1
Accrued income	8.9	3.3
Other receivables	13.2	18.9
Prepayments	57.2	63.3
	96.4	**95.5**
Non-current assets	**57.2**	**54.5**
Current assets	**39.2**	**41.0**

Accrued income of £8.9m (2018: £3.3m) 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 £26.6m (2018: £31.4m) in relation to the Government Support Package, £10.1m (2018: £11.6m) in relation to insurance contracts and £19.3m (2018: £19.1m) financing related costs.

8 CASH AND CASH EQUIVALENTS

	2019 £m	2018 £m
Cash and bank balances	28.3	76.8
Cash equivalents	526.5	761.5
Cash and cash equivalents per cash flow statement	**554.8**	**838.3**

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 £90.0m (2018: £57.5m).

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 £12.3m at 31 March 2019 (2018: £12.3m).

9 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Trade payables	1.1	1.9
Contract retentions payable	16.5	-
Accrued expenses	23.2	33.5
Accrued intra-group expenses (see note 15)	13.8	4.8
Deferred income	14.7	4.7
Advance payment liability	91.9	53.5
	161.2	**98.4**
Non-current liabilities	**124.0**	**59.3**
Current liabilities	**37.2**	**39.1**

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £14.7m (2018: £4.7m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

10 BORROWINGS

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

The Company's sister company Bazalgette Finance plc operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licence activities. The proceeds from bonds issued under this platform are on-lent to the Company through a series of back to back loans which have the same economic terms and effectively pass the financing arrangements of the external debt held by Bazalgette Finance plc to the Company.

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 Bazalgette Finance plc issues bonds with deferred draw dates, the proceeds from these bonds are only passed to the Company when the proceeds are received from the bond purchaser on the future settlement dates.

This note provides information about the Company's borrowings, which are measured at amortised cost. Issue costs for all intra-group borrowings have been borne by the Company.

Intra-group borrowings	2019 £m	2018 £m
£250m 2.375% fixed-rate bond 2027 [a]	247.5	247.2
£75m 0.828% index-linked bond 2047 [a, d, e]	75.0	75.0
£200m 0.740% index-linked bond 2042 [a, d, f]	200.0	200.0
£100m 0.688% index-linked bond 2050 [a, d]	100.0	-
£100m 0.249% index-linked bond 2040 [a, d, g]	100.0	-
Shareholder loan notes 8.000 % fixed rate 2064 [b]	711.0	714.4
Third party borrowings		
£300m 2.860% fixed-rate loan 2032 [c]	303.4	301.5
£160m Libor+0.360% floating-rate loan 2051 [h]	162.0	-
Total borrowings	**1,898.9**	**1,538.1**
Current liabilities	**-**	**-**
Non-current liabilities	**1,898.9**	**1,538.1**

a) Borrowing from Bazalgette Finance plc
b) Borrowing from Bazalgette Holdings Limited
c) The Company has entered into swap agreements that convert £70.0m of this debt into index-linked debt
d) The value of the capital and interest elements of these index-linked bonds are linked to movements in either the Consumer Price Index (CPI) or Retail Price Index (RPI)
e) This debt amortises from 2038
f) This debt amortises from 2033 and contains a collar mechanism that limits total accretion repayment within a predetermined range
g) This debt amortises from 2036
h) The Company has entered into swap agreements that convert £160m of this debt into index-linked debt

Deferred loans

The Company did not raise any loans during the year with a deferred draw date (2018: £100m).

As at 31 March 2019, a total of £640m (2018: £800m) of third party loans are still deferred. The loan proceeds will be received over the next three years and these loans have maturities of 2049 to 2051. Proceeds of £160m (2018: £nil) from deferred loans were received during the period.

Deferred purchase bonds

Bazalgette Finance plc placed £325m of deferred purchase bonds during the year ended 31 March 2019 (2018: £125m).

As at 31 March 2019, a total of £700m (2018: £575m) of bonds are still deferred. The bond proceeds will be received over the next four years and these bonds have maturities of 2032 to 2054. Proceeds of £200m (2018: £nil) from deferred bonds were received during the period.

11 FINANCIAL INSTRUMENTS

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

Financial assets

	2019 £m	2018 £m
Financial assets:		
Trade and other receivables	39.2	32.2
Cash and cash equivalents	554.8	838.3
Short-term deposits	90.0	57.5
Total	**684.0**	**928.0**

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 and therefore not recognised within the period.

Financial liabilities

	2019 £m	2018 £m
Liabilities at fair value through profit and loss:		
Derivative financial instruments	55.7	24.7
Other financial liabilities:		
Trade and other payables	161.2	98.4
Borrowings	1,898.9	1,538.1
Total	**2,115.8**	**1,661.2**

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 2019 Book value £m	31 March 2019 Fair value £m	31 March 2018 Book value £m	31 March 2018 Fair value £m
Financial liabilities at amortised cost: Non-current				
Borrowings - fixed-rate loans	1,014.4	1,072.5	1,015.9	1,065.4
Borrowings - fixed-rate bonds	247.5	254.3	247.2	246.1
Borrowings - index-linked bonds	475.0	579.4	275.0	294.5
Borrowings - floating-rate loans	162.0	145.4	-	-
Financial liabilities at fair value through profit and loss: Non-current				
Derivatives - index-linked swaps	55.7	55.7	24.7	24.7
Total	**1,954.6**	**2,107.3**	**1,562.8**	**1,630.7**

Financial liabilities at amortised cost

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

Financial instruments at fair value through profit and loss

The Company'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 Company. 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 Company considers all its derivative financial instruments to fall within level 3 of the fair value hierarchy as the calculation of the estimated fair value is based on assumptions which include an unobservable input with regards to the Company's credit risk.

The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2019:

	2019 Level 3 £m	2018 Level 3 £m
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps	55.7	24.7
	55.7	**24.7**

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

The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values.

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2018	24.7
Loss recognised in finance costs	
- Net change in fair value (unrealised)	31.0
Balance at 31 March 2019	**55.7**

The fair value estimate of the credit risk of the Company is calculated using several data points, including analysis of market data for similar corporate entities, which is publicly available and based on a large portfolio of liquid, tradeable instruments, as well as an assessment of the credit spread on the Company's recent bond issuances. Having considered all available information, the Directors believe that the risk adjustment applied in the fair value estimate reflects the Company's current credit risk.

Level 3 fair values sensitivity

For the fair value of the index-linked swaps, reasonably possible changes to the unobservable input, holding other inputs constant, would have the following effects.

	31 March 2019	
	Impact on loss for the year	
	Decrease in loss £m	Increase in loss £m
Risk-adjusted discount rate (+/- 100bps movement)	13.6	15.7

Capital risk management

The Company's principal objectives in managing capital are:

- To finance the Company while minimising risk. The Company will adopt a low-risk financing strategy and will maintain at all times a robust investment grade credit rating;
- Minimising risk through pre-funding, management of maturities and interest rate risk;
- Financing will be a mix of some or all of commercial bank debt, bonds (public and private), EIB loans, lease financing and other instruments. Financing could be raised on a real and/or nominal basis;
- The Company'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 Company will not engage in speculative treasury activity; and
- The Company will manage its financing activities in compliance with the constraints imposed by the Government Support Package, financing documents and the Company's Licence.

The Company 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. The Company 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 Company maintains access to a £500m revolving credit facility (RCF), following the cancellation of £250m in December 2018. This RCF facility remained undrawn at the Statement of Financial position date (2018: £nil draw down).

The Company's sister company Bazalgette Finance plc issued a further £325m (2018: £650m) of bonds via multiple counterparties, taking the total bond issuance to £1.4bn (2018: £1.1bn). The bond issuance includes deferred purchase bonds where bond proceeds will be received over the next four years.

Management of financial risk

The Treasury team, which reports directly to the CFO, substantially manages the Company's financing, including debt, cash management and interest costs for the Company on a day to day basis. The Treasury Committee, which is chaired by a non-executive Director (see Corporate Governance report) reviews and reports to the Board on the Company's 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 management of specific financial risks is dealt with as follows:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2019, the Company had total liquidity of £2.5bn, comprising £645m of cash and short-term deposits, the £500m undrawn RCF, the £540m undrawn EIB loan, £700m of deferred purchase bonds (via back to back loans with Bazalgette Finance plc) and £100m of other undrawn loans. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all liquidity requirements to the end of construction.

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

The Secretary of State for Environment, Food and Rural Affairs, through the Government Support Package, has committed to provide certain contingent financial support during the construction period. Such support is available in exceptional circumstances and includes the Market Disruption Facility providing the Company with a debt facility of up to £500m, for use where it is unable to issue debt in the debt capital markets as a result of market disruption.

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

	2019 £m	2018 £m
Borrowings		
Within one year	(74.5)	(73.6)
Between one and two years	(74.2)	(73.7)
Between two and five years	(223.7)	(221.4)
After more than 5 years	(4,654.2)	(4,182.1)
Total	**(5,026.6)**	**(4,550.8)**
Derivative financial instruments		
Within one year	6.7	3.4
Between one and two years	11.4	7.8
Between two and five years	54.2	51.0
After more than 5 years	(141.9)	(98.1)
Total	**(69.6)**	**(35.9)**

Credit risk

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

Credit risk for the Company principally arises from trading (the supply of services) and treasury activities (the depositing of cash). The Company's exposure to trading risk is predominantly with Thames Water which is the Company'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 licensed activities, the Company 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 Company to credit risk against the counterparties concerned. A treasury policy on investment management strategy provides clear instrument limits for money market funds, liquidity funds and money market deposits. The policy sets counterparty concentration and tenor limits through minimum credit rating requirements (as measured by reputable credit agencies).

At the Statement of Financial Position date there were no significant concentrations of credit risk.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2019 was £684.0m (2018: £928.0m). Analysis of this amount can be found in the financial assets section of this note.

Market risk - Interest rate risk

The Company'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 Company's debt which bears a fixed, floating or an index-linked rate of interest.

The Company's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2019 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 Company'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 Company's revenues and RCV, which are also linked to RPI changes. The financing strategy has involved issuing RPI and CPI linked debt to ensure that reductions in revenue due to low inflation will be partially offset by reductions in interest costs.

The Company has recognised Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. It also understands the risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens. As a result, in the year, Bazalgette Finance plc issued long dated index-linked bonds in both formats, CPI and RPI bonds, which the Company receives the proceeds on.

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 2019 of the Company's profit and equity to changes in RPI for the Company'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 Company's index-linked borrowings. This analysis also excludes any RPI impact on the Company's revenues and RCV. The fair value of the Company'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.

	2019		2018	
	£m +1%	£m -1%	£m +1%	£m -1%
(Loss)/profit	(71.6)	66.2	(69.1)	62.9
Equity	(71.6)	66.2	(69.1)	62.9

Financial Statements
Notes continued

12 CAPITAL AND RESERVES
Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2019 No.	Ordinary shares 2018 No.
At the beginning of the year	509,672,601	370,407,648
Issued for cash	-	139,264,953
At the end of the year	**509,672,601**	**509,672,601**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of the Company in line with the details of the shareholders agreement. Further information on the role of the shareholders is outlined in the Holding Company Principles statement which is available at **www.tideway.london**.

Retained earnings

	2019 £m	2018 £m
At the beginning of the year	(24.7)	(34.2)
(Loss)/profit for the year	(31.0)	9.5
At the end of the year	**(55.7)**	**(24.7)**

13 OPERATING LEASES
The Company has entered into non-cancellable operating leases in respect of office buildings. The future minimum rentals payable under non-cancellable operating lease rentals are payable as follows:

	2019 £m	2018 £m
Less than one year	2.1	2.1
Between one and five years	7.2	7.9
More than five years	-	1.4
Total	**9.3**	**11.4**

14 CONTINGENT LIABILITIES
There are a number of uncertainties surrounding the Company including potential claims, which may affect the financial performance of the Company. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Company 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 RELATED PARTIES
Amounts outstanding on borrowings from Bazalgette Holdings Limited are £711.0m (2018: £714.4m).

Amounts outstanding on loans from Bazalgette Finance plc are £722.5m (2018: £522.2m) and interest outstanding on these loans totals £13.8m (2018: £4.8m).

During the year ended 31 March 2019, the Company paid £8.5m (2018: £0.3m) to Bazalgette Finance plc with regards to interest payments under its back to back loan terms.

Amounts outstanding on intra-group loans to Bazalgette Holdings Limited are £52k (2018: £51k) and to Bazalgette Finance plc are £9.9m (2018: £8.1m).

Key management personnel
Key management personnel comprise the Directors of the Company. The remuneration of the Directors is provided in the audited part of the Director's Remuneration Report.

16 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP
The Company is a wholly owned subsidiary of Bazalgette Holdings Limited. The Company's ultimate controlling parent is Bazalgette Equity Limited which is also the largest group in which the Company is consolidated.

Copies of the consolidated accounts for both the Bazalgette Holdings Group and the Bazalgette Equity Group are available from the Company Secretary at Tideway, Cottons Centre, Cottons Lane, London, SE1 2QG.

17 SUBSEQUENT EVENTS OCCURRING AFTER THE REPORTING DATE
No material events have occurred after 31 March 2019 and before the signing of these Financial Statements.

Regulatory Reporting

TBM Rachel, responsible for creating the section of the tunnel between Carnwath Road Riverside and Acton Storm Tanks, being moved across site

Regulatory Reporting

Introduction

Tideway is a regulated sewerage company, delivering a facility that will serve London into the 22nd century, and receiving a revenue stream from Thames Water's customers to fund this work.

We recognise that these are privileges that come with obligations beyond the minimum requirements set out in our project Licence and other documents issued by our regulator, Ofwat. Bill payers, local communities and other stakeholders rightly expect that regulated companies will choose to hold themselves to a high standard.

Tideway's Vision is to reconnect London with the River Thames. We want to safely design, build, commission and maintain a tunnel that will transform the river, leaving it cleaner and changing how Londoners use it and we are proud of the progress already made. We believe that our goal itself and the framework through which we have sought to pursue it since the award of our Licence in 2015, provide positive examples of Ofwat's emerging aspirations for the water and sewerage sector of excellence, value and stewardship.

Our framework for delivering our goal includes a vision, long term objectives and values of safety, legacy, collaboration, innovation and respect. By pursuing this long term framework we aim to deliver the project in a way that serves the public interest and maximises value in its broadest sense.

During 2018/19 we have made a range of improvements in pursuit of our values which build on those implemented in previous years. Examples of recent improvements, and the benefits that these and past improvements are delivering, include:

SAFETY

- Strengthened the EPIC programme with the roll out of EPIC logistics, which aims to improve the project's contribution to safety on London's roads and establishment of a marine EPIC refresher.
See pages 26-27
- Expanded availability of the main EPIC course to a wider audience.

LEGACY

- Tideway's ambitious approach to achieving its legacy targets has paid dividends, with progress against targets at 90% (2018/19 target 75%).
See pages 40-41
- A substantial increase in marine operations, with consequent reductions in congestion and pollution from HGV movements: from around 330,000 tonnes of material moved by river in 2017/18 to around 560,000 in 2018/19, with no significant incidents.
See page 32

COLLABORATION

- Stepping up our work with other companies in our industry, and with associated regulators and government bodies, to promote solutions in our common interest. Examples include the appointment of Tideway CEO Andy Mitchell as Co-Chair of the Construction Leadership Council in October 2018, and recent Tideway involvement in UKRN-led discussions to explore infrastructure data sharing between sectors.
- Working with Thames Water to maximise alignment of its plans for the 2020-25 regulatory period with the interests of the project and customers. This has included developing a joint approach to System Commissioning and Handover (including early site handback) and advocating stretching performance commitments and incentives for Thames Water in relation to the TTT project.
- Working with Thames Water and the Environment Agency to develop an approach to delivery and reporting of wider project benefits.

RESPECT

- Rolling out measures to increase workplace inclusivity and diversity, including Stonewall's Allies training and Mental Health First Aid training.
See page 48
- Increased public awareness of the project and strongly positive external perceptions among stakeholders and the general public, as shown by our Autumn 2018 research.
See pages 40-41
- Working closely with our local communities, which is key in ensuring our works are well managed, and mitigating impacts where possible. This close and collaborative working was shown for example at Carnwath Road during a 60 hour continuous concrete pour, with regular communication with the community in the weeks prior to the work. Community relations staff were on site overnight during the work to ensure any issues were well managed.

INNOVATION

- With Tideway's support the I3P innovation platform, which promotes sharing of industry leading innovations, has continued to grow and now has over 25 members.
- During the year Tideway rolled out a number of new innovations such as the use of plant telematics to reduce plant idling time across the three sites, which is projected to save £750,000 over the project's duration while improving air quality and reducing carbon emissions. We continue to trial an innovative approach to tunnel secondary lining.

We have also continued to pursue improvements that support the achievement of all of our values. We have added more construction experience to our Board through the appointment of Mike Putnam and Mathew Duncan, and confirmed that we comply with all of Ofwat's objectives in its newly revised Board Leadership, Transparency and Governance Principles document. We have further de-risked our financing, raising an additional £325 million through four bonds issuances in green format and linked to CPI or RPI. This brought our long-term financing to £2.5 billion and enabled another reduction of our Revolving Credit Facility. Meanwhile we have delivered improvements to resilience, for example through activity to mitigate the risks associated with various potential forms of Brexit. We have also further developed our approach to risk, as set out in the 'Risk Management' section on pages 66-71.

Alongside our focus on strong alignment with our values, Tideway is subject to a number of minimum requirements put in place by Ofwat to aid comparability between companies and to help the regulator monitor the sector's performance and financial resilience. These requirements are set out in a number of documents, including Ofwat's information notice 'Expectations for monopoly company annual performance reporting 2018-19'[1], the Regulatory Accounting Guidelines (RAGs), additional Ofwat guidance including on long-term viability statements and Board leadership, transparency and governance principles, and Tideway's Licence. Where relevant, Tideway follows the reporting requirements applicable to the rest of the water industry. However, as Tideway is a wholesale-only company, with specific regulatory arrangements, in some areas the standard reporting requirements are not relevant. We have worked closely with Ofwat to agree a scope for our regulatory reporting that will enable Ofwat and our stakeholders to understand our performance.

The table on pages 164-165 indicates the requirements that are relevant to Tideway and shows where in this document they can be found. Some of these required disclosures are included in the most relevant section of this Annual Report, while the remainder can be found in this section.

During 2018/19 Tideway worked with Ofwat to develop a number of simplifying and clarifying modifications to Tideway's Licence. These are expected to come into force during 2019/20 and are not expected to have a material adverse effect on the Company. The proposals include replacing Tideway's current Condition F with a modified version that already applies to other water companies. Had the revised condition been in force for Tideway on 31 March 2019, we do not consider that the information included in this annual report would have been different.

[1] *https://www.ofwat.gov.uk/wp-content/uploads/2019/03/IN-1906-Expectations-for-monopoly-company-annual-performance-reporting-2018-19_FINAL-1.pdf*

Regulatory Reporting

Introduction

Required disclosure	Source of requirement	Location in report	Notes
Regulatory accounting statements	Regulatory Accounting Guideline (RAG) 3.11 (section 2) and Tideway's Licence, Condition F	This section, pages 166-179	Companies must provide certain information on their performance, as specified by Ofwat
Financing cost adjustment (FCA)	Tideway's Licence, Part A of Appendix 1	This section, page 179	Tideway has a bespoke requirement to report on net debt (as defined by the Licence), and the basis of the calculation of the FCA and its component parts
Transfer pricing information	RAG 3.11 (section 6)	This section, 180-181	
Risk and compliance statement	Ofwat Information Notice 19/06	This section, page 182	This statement is the main means by which companies annually certify compliance with their licences and relevant legislation
Data assurance summary	Information Notice 19/06	This section, pages 184-185	
Description of the link between Directors' pay and standards of performance	Section 35A of the Water Industry Act 1991 and RAG 3.11 (section 3.2)	Remuneration Committee Report, pages 115-125	
Statement as to disclosure of information to auditors	RAG 3.11 (section 3.3)	This section, page 179	
Statement on dividend policy for the appointed business (value and basis of dividend/ distribution)	RAG 3.11 (section 3.4)	Directors' Report, page 130	Tideway did not pay any dividends in 2018/19, though distributions were made under shareholder loan arrangements, in line with Tideway's distribution policy. Information on the distributions made is provided in the Directors' Report and the Financing section of the strategic report
Accounting policy note for price control segments; accounting methodology statement	RAG 3.11 (section 3.5)	N/A	As Tideway operates only within the sewerage segment, this requirement does not apply
Note on revenue recognition	RAG 3.11 (section 3.6)	N/A	This requirement does not apply to Tideway, as none of the items contained within this requirement are relevant. Tideway has not reported any income statement revenue in 2018/19, either in the statutory accounts or regulatory annual performance report, and does not bill customers directly
Note on capitalisation policy	RAG 3.11 (section 3.7)	Financial Statements: contained within note 1 under "Property, plant and equipment: Recognition and measurement" (page 143)	Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A, in this section)
Note on bad debt policy	RAG 3.11 (section 3.8)	Financial Statements: contained within note 1 (accounting policies) under "Revenue". 'Notes' column of this table gives context (page 144)	Tideway collects its revenue via Thames Water and does not bill customers directly, so its bad debt policies are different from those of other water and sewerage companies. The bad debt policy has changed in 2018/19 due to the adoption of IFRS 9, effective from 1 April 2018. Tideway now uses an expected credit loss model which is effectively its bad debt (expected credit loss) assessment of trade receivables (revenue from TWUL) under IFRS requirements. Note 1 to the statutory accounts ('Impairment' section) refers to the overall approach
Statement on sufficiency of non-financial resources	Tideway's Licence, condition M5.1 and RAG 3.11 (section 3.9)	This section, page 183	Tideway is required to confirm that (as far as reasonably practicable) it has sufficient non-financial rights and resources to enable a special administrator to carry out its licensed activities
Statement on sufficiency of financial resources and facilities ('Condition K Certificate')	Tideway's Licence, condition M5.2-M5.6 and RAG 3.11 (section 3.10)	This section, page 183	Tideway is required to confirm that it has sufficient rights and resources (financial and non-financial) to enable it to carry out its licensed activities for at least the next year, and to make a statement of the main factors that the Board has taken into account in endorsing the certificate

Required disclosure	Source of requirement	Location in report	Notes
Statement explaining Company direction and performance	Information notice 19/06	Strategic Report, pages 20-22 ('Our Strategy' and 'Our Performance' sections)	Requirement also included in Ofwat's 2019 Board leadership, transparency and governance guidelines that will guide reporting from 2019/20 onwards
A demonstration through their annual reporting of how the Company is meeting Ofwat's board leadership and governance principles. Steps that companies are taking to ensure they can meet the objectives of the new 2019 principles going forward.	Information notice 19/06 and Ofwat's Board leadership, transparency and governance principles	Governance Report, pages 79-129, particularly pages 92-93	Tideway produces a separate document annually setting out how it complies with Ofwat's Board leadership, transparency and governance principles for holding companies, which can be found on our website
Tax strategy	RAG 3.11 (section 3.11)	Financial Performance Review (page 65)	
Statement on differences between statutory and RAG definitions	RAG 3.11 (section 3.12)	This section: see notes to table 1A (page 167)	The only difference relates to capitalisation of interest.
Long-Term Viability Statement	RAG 3.11 (section 3.13) and additional Ofwat guidance in Information Notice 19/07	Strategic Report, pages 72-75	
Statement explaining out/ under performance of the return on regulated equity (RORE)	RAG 3.11 (section 3.14)	N/A	Ofwat has confirmed that these requirements are not relevant to Tideway. The Company was not part of the PR14 process and does not have a base RORE set at Final Determination, so it is not possible for Tideway to report out/under performance against this measure or to compare actual financial flows against a figure based on notional gearing and RORE.
Statement on financial flows	RAG 3.11 (section 4.6)	N/A	
Narrative disclosures on performance	RAG 3.11 (section 4)	N/A	These requirements are not relevant to Tideway. Outcome performance and totex (total expenditure, a concept combining capital expenditure and operating expenditure) are not part of the bespoke regulatory regime applying to Tideway. Tideway does not operate in the retail sector, so does not report retail performance figures. Tideway was not subject to the 2014 price review and does not complete table 2I, so does not report a wholesale revenue control reconciliation or provide any other information on PR14 reconciliation. Current tax reconciliation is not relevant, as Tideway did not pay any corporation tax in 2018/19. Tideway was not subject to the 2014 price review and does not have a value for RORE on which the new financial flows metric is based, so will not provide figures or supporting narrative for this. New connections statement is not relevant to Tideway's business.
Information on PR14 reconciliation	Information notice 19/06	N/A	
Audit reports	Report on regulatory accounts and condition K certificate required by Tideway's Licence, condition F4.1, and noted in RAG 3.11, sections 2.3 and 3.10	This section, pages 186-191	

Regulatory Accounting Statements

REGULATORY ACCOUNTING STATEMENTS

In this section, we provide information on Tideway's financial position and performance in 2018/19 that is relevant from a regulatory perspective.

Tideway has agreed with Ofwat that it will publish a set of tables, including some standard tables (1A-1E, 2D, 4H and 4I) and some that are unique to the Company (5A-5C). For ease of reference, the standard tables are given the same numbering in this report as in the relevant RAG.[2]

As well as the difference in the suite of tables, the numbers within these regulatory accounting statements look different in many ways from those reported by other water companies, due to the unique nature of Tideway.

Features of the data reported below include the following:

- Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest, as a result of differences between RAG and statutory treatments (see notes to Table 1A). Allowed Revenue is reported in Table 5A.
- Tideway drew down third-party debt for the first time in 2017/18, in addition to its shareholder loans, and drew down additional debt in 2018/19. In line with the RAGs, the shareholder loans are reported as debt within the net debt metric in tables 1E and 4H. Tideway has a separate net debt definition in its Licence, which is used in calculating its revenue (see 'Financing cost adjustment' section below) and excludes shareholder loans.
- Tideway's regulatory capital value, which is calculated on a cash basis, was zero at Licence Award. On 31 March 2019, it was £1,655.4m (expressed in March 2019 prices).

[2] www.ofwat.gov.uk/wp-content/uploads/2019/01/RAG-3.11-Guideline-for-the-format-and-disclosures-for-the-annual-performance-report-1.pdf

REGULATORY ACCOUNTS

1A – Income Statement

For the 12 months ended 31 March 2019

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Revenue	£m	0.000	0.000	0.000	0.000	0.000
2	Operating costs	£m	0.000	0.000	0.000	0.000	0.000
3	Other operating income	£m	0.000	0.000	0.000	0.000	0.000
4	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
5	Other income	£m	0.000	0.000	0.000	0.000	0.000
6	Interest income	£m	0.000	6.024	0.000	6.024	6.024
7	Interest expense	£m	0.000	-84.947	0.000	-84.947	-84.947
8	Other interest expense	£m	0.000	0.000	0.000	0.000	0.000
9	Profit before tax and fair value movements	£m	0.000	-78.923	0.000	-78.923	-78.923
10	Fair value gains/(losses) on financial instruments	£m	-31.030	0.000	0.000	0.000	-31.030
11	Profit before tax	£m	-31.030	-78.923	0.000	-78.923	-109.953
12	UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
13	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
14	Profit for the year	£m	-31.030	-78.923	0.000	-78.923	-109.953
15	Dividends	£m	0.000	0.000	0.000	0.000	0.000
	A Tax analysis						
16	Current year	£m	0.000	0.000	0.000	0.000	0.000
17	Adjustments in respect of prior years	£m	0.000	0.000	0.000	0.000	0.000
18	UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
	B Analysis of non-appointed revenue						
19	Imported sludge	£m			0.000		
20	Tankered waste	£m			0.000		
21	Other non-appointed revenue	£m			0.000		
22	Revenue	£m			0.000		

Notes to line items

1 Revenue that the Company receives from Thames Water (see Table 5A for analysis) is deferred onto the Statement of Financial Position as the associated services will not be delivered until System Acceptance. This is consistent with the accounting policies that are disclosed in note 1 to the statutory financial statements.

6&7 Differences between statutory and RAG definitions relate to interest capitalised under IAS 23 'Borrowing Costs' in the statutory financial statements. These are required to be shown in the Income Statement for regulatory reporting.

14 The difference between the statutory accounts profit and the regulatory accounts profit relates to the net interest expense of £-78.923m.

Regulatory Accounting Statements
Continued

1B – Statement of comprehensive income
For the 12 months ended 31 March 2019

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Profit for the year	£m	-31.030	-78.923	0.000	-78.923	-109.953
2	Actuarial gains/(losses) on post employment plans	£m	0.000	0.000	0.000	0.000	0.000
3	Other comprehensive income	£m	0.000	0.000	0.000	0.000	0.000
4	Total Comprehensive income for the year	£m	-31.030	-78.923	0.000	-78.923	-109.953

For details on the adjustment between statutory and RAG definitions see notes to Table 1A

1C – Statement of financial position
For the 12 months ended 31 March 2019

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	A Non-current assets						
1	Fixed assets	£m	1828.575	-174.281	0.000	-174.281	1654.294
2	Intangible assets	£m	0.000	0.000	0.000	0.000	0.000
3	Investments - loans to group companies	£m	9.857	0.000	0.000	0.000	9.857
4	Investments - other	£m	0.000	0.000	0.000	0.000	0.000
5	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
6	Retirement benefit assets	£m	0.000	0.000	0.000	0.000	0.000
7	Total non-current assets	£m	1838.432	-174.281	0.000	-174.281	1664.151
	B Current assets						
8	Inventories	£m	0.000	0.000	0.000	0.000	0.000
9	Trade & other receivables	£m	176.631	0.000	0.000	0.000	176.631
10	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
11	Cash & cash equivalents	£m	554.761	0.000	0.000	0.000	554.761
12	Total current assets	£m	731.392	0.000	0.000	0.000	731.392

1C – Statement of financial position
For the 12 months ended 31 March 2019

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	C Current liabilities						
13	Trade & other payables	£m	0.000	0.000	0.000	0.000	0.000
14	Capex creditor	£m	-37.215	0.000	0.000	0.000	-37.215
15	Borrowings	£m	0.000	0.000	0.000	0.000	0.000
16	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
17	Current tax liabilities	£m	0.000	0.000	0.000	0.000	0.000
18	Provisions	£m	0.000	0.000	0.000	0.000	0.000
19	Total current liabilities	£m	-37.215	0.000	0.000	0.000	-37.215
20	Net current assets / (liabilities)	£m	694.177	0.000	0.000	0.000	694.177
	D Non-Current liabilities						
21	Trade & other payables	£m	-124.025	0.000	0.000	0.000	-124.025
22	Borrowings	£m	-1898.910	0.000	0.000	0.000	-1898.910
23	Financial instruments	£m	-55.712	0.000	0.000	0.000	-55.712
24	Retirement benefit obligations	£m	0.000	0.000	0.000	0.000	0.000
25	Provisions	£m	0.000	0.000	0.000	0.000	0.000
26	Deferred income - G&Cs	£m	0.000	0.000	0.000	0.000	0.000
27	Deferred income - adopted assets	£m	0.000	0.000	0.000	0.000	0.000
28	Preference share capital	£m	0.000	0.000	0.000	0.000	0.000
29	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
30	Total non-current liabilities	£m	-2078.647	0.000	0.000	0.000	-2078.647
31	Net assets	£m	453.962	-174.281	0.000	-174.281	279.681
	E Equity						
32	Called up share capital	£m	509.673	0.000	0.000	0.000	509.673
33	Retained earnings & other reserves	£m	-55.711	-174.281	0.000	-174.281	-229.992
34	Total Equity	£m	453.962	-174.281	0.000	-174.281	279.681

1C Notes to line items

1 All costs included within fixed assets are on an accruals basis. This differs from the Annual Actual Project Spend in Table 5B, which is on a cash basis.

9 The £176.6m of 'Trade & other receivables' consists of £86.5m of trade and other receivables (excluding £9.9m loans receivable with group companies reported separately in table 1C) and £90.0m of short-term deposits. This trade and other receivables included current and non-current trade debtors, prepayments and other receivables. Under IFRS, the Statement of Financial Position splits these between £57.2m non-current and £39.2m current.

21 Trade & other payables represent the cash amounts received from Thames Water in relation to the Company's revenue, which is deferred onto the Statement of Financial Position until System Acceptance. The revenue is deferred as the associated services will not be delivered until System Acceptance.

Regulatory Accounting Statements
Continued

1D – Statement of cash flows
For the 12 months ended 31 March 2019

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	A Statement of cashflows						
1	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
2	Other income	£m	0.000	0.000	0.000	0.000	0.000
3	Depreciation	£m	0.000	0.000	0.000	0.000	0.000
4	Amortisation - G&Cs	£m	0.000	0.000	0.000	0.000	0.000
5	Changes in working capital	£m	61.895	0.000	0.000	0.000	61.895
6	Pension contributions	£m	0.000	0.000	0.000	0.000	0.000
7	Movement in provisions	£m	0.000	0.000	0.000	0.000	0.000
8	Profit on sale of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
9	Cash generated from operations	£m	61.895	0.000	0.000	0.000	61.895
	B						
10	Net interest paid	£m	0.000	-66.622	0.000	-66.622	-66.622
11	Tax paid	£m	0.000	0.000	0.000	0.000	0.000
12	Net cash generated from operating activities	£m	61.895	-66.622	0.000	-66.622	-4.727
	C Investing activities						
13	Capital expenditure	£m	-669.511	66.622	0.000	66.622	-602.889
14	Grants & Contributions	£m	0.000	0.000	0.000	0.000	0.000
15	Disposal of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
16	Other	£m	-32.500	0.000	0.000	0.000	-32.500
17	Net cash used in investing activities	£m	-702.011	66.622	0.000	66.622	-635.389
18	Net cash generated before financing activities	£m	-640.116	0.000	0.000	0.000	-640.116
	D Cashflows from financing activities						
19	Equity dividends paid	£m	0.000	0.000	0.000	0.000	0.000
20	Net loans received	£m	356.633	0.000	0.000	0.000	356.633
21	Cash inflow from equity financing	£m	0.000	0.000	0.000	0.000	0.000
22	Net cash generated from financing activities	£m	356.633	0.000	0.000	0.000	356.633
23	Increase (decrease) in net cash	£m	-283.483	0.000	0.000	0.000	-283.483

1D Notes to line items

10 The net interest paid includes £71.1m of interest paid, partly offset by £4.5m of interest received. Net interest includes interest paid on external borrowings, interest received/paid on net settled derivatives and interest received on cash deposits at 31 March 2019.

13 The £669.511m of capital expenditure represents cash outflows for the asset under construction.

1E – Net debt analysis at 31 March 2019
For the 12 months ended 31 March 2019

	Line description	Units	Interest rate risk profile: Fixed rate	Interest rate risk profile: Floating rate	Interest rate risk profile: Index-linked	Total
1	Borrowings (excluding preference shares)	£m	1261.892	162.019	475.000	1898.911
2	Preference share capital	£m				0.000
3	Total borrowings	£m				1898.911
4	Cash	£m				-554.761
5	Short term deposits	£m				-90.000
6	Net Debt	£m				1254.150
7	Gearing	%				75.76%
8	Adjusted gearing	%				31.10%
9	Full year equivalent nominal interest cost	£m	71.435	2.692	3.038	77.165
10	Full year equivalent cash interest payment	£m	71.435	2.692	3.038	77.165
	A Indicative interest rates					
11	Indicative weighted average nominal interest rate	%	5.66%	1.66%	0.62%	4.06%
12	Indicative weighted average cash interest rate	%	5.66%	1.66%	0.62%	4.06%
13	Weighted average years to maturity	nr	30.05	32.00	25.18	28.97

1E Notes to line items

3 The borrowings of £1,898.911m represents £710.996m shareholder loans, £722.458m intergroup loans and £465.457m third party borrowings.

7 As the Company was not part of the 2014 Periodic Review process, it does not have an RCV determined at the Final Determination. Therefore the gearing is based on the RCV at 31 March 2019 (as per table 5B). Tideway's shareholder loans are included within the debt figure used to calculate gearing.

8 Adjusted gearing, in relation to the Company's financial covenants, as per the terms of its financing documents, is the ratio of senior net indebtedness to adjusted RCV. 31 March 2019 is the first year end period which the Company is required to report gearing to its lenders as the Company passes specified threshold noted in the Common Terms Agreement (CTA). Refer to ratios calculated in the Financial Performance Review.

Regulatory Accounting Statements
Continued

2D – Historic cost analysis of fixed assets – wholesale & retail
For the 12 months ended 31 March 2019

	Line description	Units	Wholesale: Water Resources	Wholesale: Water Network+	Wholesale: Wastewater Network+	Wholesale: Sludge	Wholesale: TTT	Retail: Household	Retail: Non-Household	Total
	A Cost									
1	At 1 April 2018	£m	0.000	0.000	1059.542	0.000	0.000	0.000	0.000	1059.542
2	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3	Additions	£m	0.000	0.000	594.752	0.000	0.000	0.000	0.000	594.752
4	Adjustments	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	Assets adopted at nil cost	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
6	At 31 March 2019	£m	0.000	0.000	1654.294	0.000	0.000	0.000	0.000	1654.294
	B Depreciation									
7	At 1 April 2018	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
8	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	Adjustments	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
10	Charge for the year	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
11	At 31 March 2019	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	C									
12	Net book amount at 31 March 2019	£m	0.000	0.000	1654.294	0.000	0.000	0.000	0.000	1654.294
13	Net book amount at 1 April 2018	£m	0.000	0.000	1059.542	0.000	0.000	0.000	0.000	1059.542
	D Depreciation charge for year									
14	Principal services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
15	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

2D Notes to line items

All For the purposes of completing table 2D, Tideway has classified all of its activities as falling within the wholesale wastewater segment. This approach reflects that Tideway is constructing a single asset, the Thames Tideway Tunnel, which will be used solely for sewage collection activities. The Company has no direct relationship with customers and carries out no activities that could be classified as retail. The approach to this table therefore aligns both to the general principles set out in Regulatory Accounting Guideline 2.07, including those of transparency and causality and with the definitions of wholesale activities set out in Regulatory Accounting Guideline 4.08.

3 All additions in the year were to assets under construction.

Deep beneath the River Thames, this section of the tunnel will connect Kirtling Street in Battersea with Carnwath Road Riverside in Fulham

Regulatory Accounting Statements
Continued

4H – Financial metrics
For the 12 months ended 31 March 2019

	Line description	Units	Current year	AMP to date
A Financial indicators				
1	Net debt	£m	1254.150	
2	Regulated equity	£m	401.286	
3	Regulated gearing	%	75.76%	
4	Post tax return on regulated equity	%	-19.67%	
5	RORE (return on regulated equity)	%	n/a	n/a
6	Dividend yield	%	n/a	
7	Retail profit margin - Household	%	0.00%	
8	Retail profit margin - Non household	%	0.00%	
9	Credit rating	Text	Baa1	
10	Return on RCV	%	0.00%	
11	Dividend cover	dec	n/a	
12	Funds from operations (FFO)	£m	-66.622	
13	Interest cover (cash)	dec	0.06	
14	Adjusted interest cover (cash)	dec	0.06	
15	FFO/Debt	dec	-0.05	
16	Effective tax rate	%	0.00%	
17	RCF	£m	-66.622	
18	RCF/capex	dec	-0.11	
B Revenue and earnings				
19	Revenue (actual)	£m	0.000	
20	EBITDA (actual)	£m	0.000	

	Line description	Units	Current year	AMP to date
C Movement in RORE				
21	Base return	%	n/a	n/a
22	Totex out / (under) performance	%	n/a	n/a
23	Retail cost out / (under) performance	%	n/a	n/a
24	ODI out / (under) performance	%	n/a	n/a
25	Financing out / (under) performance	%	n/a	n/a
26	Other factors	%	n/a	n/a
27	Regulatory return for the year	%	0.00%	0.00%
D Borrowings				
28	Proportion of borrowings which are fixed rate	%	66.45%	
29	Proportion of borrowings which are floating rate	%	8.53%	
30	Proportion of borrowings which are index linked	%	25.01%	
31	Proportion of borrowings due within 1 year or less	%	0.00%	
32	Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%	
33	Proportion of borrowings due in more than 2 years but no more than 5 years	%	0.00%	
34	Proportion of borrowings due in more than 5 years but no more than 20 years	%	29.01%	
35	Proportion of borrowings due in more than 20 years	%	70.99%	

4H Notes to line items

1&3 As shown in table 1E, Tideway's borrowings, which includes shareholder loans, intra-group loans and third party loans, exceed its cash and cash equivalents and hence it has a net debt position. Applying the line definitions specified by Ofwat results in positive figures for the net debt on line 1 (which is directly taken from table 1E) and consequently regulated gearing in line 3.

2,3&4 As the Company was not part of the 2014 Periodic Review (PR14) process, it does not have an RCV determined at Final Determination. Therefore the regulated equity, regulated gearing and post-tax return on regulated gearing are calculated based on the RCV at 31 March 2019 (in table 5B).

5 & 21-26 The calculation of RORE is not applicable as the Company was not part of the PR14 process and does not have a base RORE set at Final Determination.

6&11 As explained in the Financial Performance Review, there were no dividends paid or proposed during the period. Therefore all the dividend-based financial metrics are reported as not applicable.

7&8 The retail profit margins are not applicable as Tideway has no retail business.

9 The Company has been assigned a corporate credit rating of Baa1 by Moody's, with a stable outlook.

12-15 & 17-18 The ratios presented in this table are calculated in line with the RAG methodology. As Tideway has £nil operating profit (Table 1A, line 4) due to its accounting policies, this creates some distortion in the ratios linked to funds from operations (FFO) as required by the RAG methodology. These ratios are not considered to reflect business performance.

16 The effective tax rate of 0.00% is a result of the Company having no taxable profits in the year.

19 The revenue the Company receives from Thames Water is recognised as deferred in the Statement of Financial Position until System Acceptance. This is consistent with Table 1A line 1.

Regulatory Accounting Statements
Continued

4I – Financial derivatives
For the 12 months ended 31 March 2019

	Line description	Units	Nominal value by maturity (net): 1 to 2 years	Nominal value by maturity (net): 2 to 5 years	Nominal value by maturity (net): Over 5 years	Total value at 31 March 2019: Nominal value (net)	Total value at 31 March 2019: Mark to Market	Total accretion at 31 March 2019	Units	Interest rate (weighted average for 12 months to 31 March 2019): Payable	Interest rate (weighted average for 12 months to 31 March 2019): Receivable
	A Interest rate swap (sterling)										
1	Floating to fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
2	Floating from fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
3	Floating to index linked	£m	0.000	0.000	620.000	620.000	-54.338	-2.019	%	RPI -0.838%	3-month Libor +0.36%
4	Floating from index linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
5	Fixed to index-linked	£m	0.000	0.000	70.000	70.000	-1.372	-3.438	%	RPI -0.454%	Fixed 2.86%
6	Fixed from index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
7	Total	£m	0.000	0.000	690.000	690.000	-55.710	-5.457			
	B Foreign Exchange										
8	Cross currency swap USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
9	Cross currency swap EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
10	Cross currency swap YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
11	Cross currency swap Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
12	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	C Currency interest rate										
13	Currency interest rate swaps USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
14	Currency interest rate swaps EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
15	Currency interest rate swaps YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
16	Currency interest rate swaps Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
17	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	D Forward currency contracts										
18	Forward currency contracts USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
19	Forward currency contracts EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
20	Forward currency contracts YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
21	Forward currency contracts CAD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
22	Forward currency contracts AUD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
23	Forward currency contracts HKD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
24	Forward currency contracts Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
25	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	E Other financial derivatives										
26	Other financial derivatives	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
	F Total										
27	Total financial derivatives	£m	0.000	0.000	690.000	690.000	-55.710	-5.457			

5A – Revenue analysis

		£m							
			Payment from Thames Water received in period						
	Year	Allowed revenue	2018/19 Apr-Sep	2018/19 Oct-Mar	2017/18 Apr-Sep	2017/18 Oct-Mar	2016/17 Apr-Sep	2016/17 Oct-Mar	Total
1	2015/16	11.164	0.269	0.236	4.262	0.847	12.121	14.626	32.361
2	2016/17	22.439							
3	2017/18	28.559	2.449	0.406	9.276	12.406	n/a	n/a	24.538
4	2018/19	49.236	16.314	18.713	n/a	n/a	n/a	n/a	35.027

5A Notes to line items

1-4 Tideway's allowed revenue is calculated in respect of each charging year (equal to the financial year in 2016/17 and beyond) using the methodology set out in its Licence. The allowed revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and as it is collected passes it through to Tideway, which may be during or after the relevant charging year. This table records the cash amounts received from Thames Water during the periods shown. Total payments received from Thames Water during the period 2018/19 were £38.388m.

1-2 Tideway's allowed revenue was first billed by Thames Water for the 2016/17 charging year, as this could only be calculated following the award of Tideway's Licence in August 2015. Tideway did not receive any payments from Thames Water in 2015/16. As both 2015/16 and 2016/17 allowed revenue were billed together in 2016/17, these amounts are collected together and are not recorded separately in the table above.

1-4 The 'Total' column outlines the total payments received from Thames Water as at 31 March 2019 in respect of each charging year, to show that payments received do not exceed the respective Allowed Revenue.

1-4 As explained in the notes to Table 1A, the Company will recognise all revenue as deferred income during the construction phase.

Regulatory Accounting Statements
Continued

5B – Expenditure analysis

		£m, 2014/15 prices				£m, outturn prices		
		2018/19	2017/18	Previous Years	Total since Licence Award	2018/19	2017/18	Previous years
1	Annual Base Case Forecast	522.985	512.339	619.928	1,655.252	577.270	548.752	634.954
2	Total expenditure	607.271	588.064	629.745	1,825.080	670.304	629.859	645.559
3	Excluded Project Spend	72.737	100.935	148.570	322.243	80.287	108.109	152.011
4	Non-regulated expenditure	6.512	3.346	2.641	12.499	7.188	3.584	2.714
5	Annual Actual Project Spend	528.021	483.783	478.534	1,490.337	582.829	518.166	490.834
6	Variance from Base Case (£m)	5.036	-28.557	-141.394	-164.914	5.559	-30.586	-144.120
7	Variance (%)	1.0%	-5.6%	-22.8%	-10.0%	1.0%	-5.6%	-22.7%
	As at 31 March							
8	RCV	1,490.337	962.316	478.534		1,655.436	1,043.426	502.087

5B Notes to line items

1-8 The 'Previous Years' column consolidates 2015/16 and 2016/17 data.

1 Tideway's Annual Base Case Forecast, its annually profiled regulatory baseline, is included in its Licence. The figure reported for each financial year is subject to defined inflationary adjustments, as set out in Appendix 1 of Tideway's Licence. For the purpose of this report, the adjustments for 2017/18 and 2018/19 have been applied using the inflation data at 30 April 2019. For this reason, the figures reported above differ from the £518.9m and £530.6m set out in the Licence. The 2017/18 figure also differs slightly from that in the last annual report, as certain construction indices which were provisional at the time of calculation have now been finalised.

2 Excluded Project Spend is defined in Tideway's Licence and includes certain specified categories of spending that are not included in Tideway's RCV. In 2018/19, Excluded Project Spend related primarily to VAT and financing costs.

3 Non-regulated expenditure relates to activity that is neither Allowable nor Excluded Project Spend. For example, this includes office facilities and software for Thames Water staff working on the interface between the two organisations. To avoid customers paying twice for the same expenditure, it is not included in Tideway's Regulatory Capital Value but is recorded as non-regulated expenditure at the point the money is recovered from Thames Water, and Annual Actual Project Spend for the year is correspondingly lower.

4 Annual Actual Project Spend, defined in Tideway's Licence, is the total of Allowable Project Spend incurred by Tideway and verified by the Independent Technical Assessor (ITA) during the reporting period. This amount becomes part of Tideway's RCV, which drives its revenues.

1-7 Expenditure is in both outturn and 2014/15 prices. The figures in outturn prices are deflated to 2014/15 prices using the financial year average RPI, consistent with Tideway's Licence.

7 Percentage variance figures for previous years in 2014/15 and outturn prices do not exactly match due to impact of summing outturn figures in different price bases.

8 RCV is in both outturn and 2014/15 prices. The figures in 2014/15 prices are the cumulative Annual Actual Project Spend deflated using the financial year average RPI, consistent with Tideway's Licence. The RCV for each year is inflated at the year-end price and therefore differs from the sum of outturn Annual Actual Project Spend (line 5). 'Previous Years' RCV is RCV at 31 March 2017.

5C – Alliance Agreement payments

		£m, 2014/15 prices				£m, outturn prices		
		2018/19	2017/18	Previous years	Total since Licence Award	2018/19	2017/18	Previous years
1	Alliance Agreement payments received	0.0	0.000	0.000	0.0	0.000	0.000	0.000
2	Alliance Agreement payments made	0.800	2.758	9.382	12.940	0.883	2.954	9.686

5C Notes to line items

1&2 The 'Previous Years' column consolidates 2015/16 and 2016/17 data.

1 Expenditure funded by Alliance Agreement payments received will be Excluded Project Spend and therefore excluded from the RCV.

2 This figure includes all Alliance Agreement payments verified by the Independent Technical Assessor.

Financing cost adjustment

The financing cost adjustment is a mechanism in Tideway's Licence that shares the impacts of movements in the market cost of debt, above certain thresholds, between Tideway and Thames Water's customers. To ensure transparency in relation to this adjustment, Tideway is required by Part A of Appendix 1 of its Licence to report on:

- Net debt (as defined by the Licence). At 31 March 2019 this was £543.2m.This figure was calculated by taking Tideway's net debt of £1,254.2m and removing the £711.0m of shareholder loans. Shareholder loans are included in Tideway's net debt using the definitions in the Regulatory Accounting Guidelines but are not included in the net debt figure calculated in accordance with Tideway's Licence.
- The basis of the calculation of the Financing Cost Adjustment and its component parts: this is included in Tideway's annual Revenue Statement *(see https://www.tideway.london/media/2410/the-revenue-statement-2019-20.pdf).*

Disclosure of information to the auditor[3]

As set out in the Directors' Report, the Directors who held office at the date of approval of that 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.

[3] *This information is included in the Directors' Report for statutory purposes and is repeated here in line with Ofwat's requirement that companies make this statement within their annual performance reports.*

Transfer Pricing Information

TRANSFER PRICING INFORMATION

To demonstrate that it is operating at arm's length from other companies in the same group and that no cross-subsidies exist, Tideway is required by Regulatory Accounting Guideline 3.11 to disclose details of transactions with associated companies. The Tideway group structure is shown on page 127.

Service received by regulated business	Company	Turnover of associate	Terms of supply	Value
Shareholder loans	Bazalgette Holdings Ltd	–	The shareholder loans were included in the financing plan that was part of the bid Tideway's owners made for the Company. Bids were evaluated as part of the procurement process for the infrastructure provider, against criteria that included the rate of return required by bidders and the financial resilience of the proposed financing structure. The shareholder loans have a maturity date of 2064.	£711.0m outstanding at 31 March 2019 (of £764.5m initially contributed by shareholders)
Intra-group loans	Bazalgette Finance Plc	–	Tideway has £722.5m of loans payable to its sister company Bazalgette Finance plc, which operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licenced activities. The proceeds from bonds issued under this platform are lent to Tideway through a series of back to back loans, which have substantively the same economic terms and effectively pass to Tideway the financing arrangements of the external debt held by Bazalgette Finance plc. These intra-group loans have maturity dates ranging from 2027 to 2050 (further detail in note 10 to the statutory accounts).	£722.5m outstanding at 31 March 2019

Service provided by regulated business	Company	Turnover of associate	Terms of supply	Value
Intra-group loans	Bazalgette Holdings Ltd	-	Tideway has a £52k loan receivable from its immediate parent Bazalgette Holdings Limited, lent for the purposes of Bazalgette Holdings Limited's capitalisation of Bazalgette Finance plc during 2016/17. The loan is on arm's length commercial terms, bearing an annual interest rate of 3-month Libor+85bp.	£0.05m outstanding
Intra-group loans	Bazalgette Finance Plc	-	Tideway has an £9.9m loan receivable from its sister company Bazalgette Finance plc, lent for the purposes of funding Bazalgette Finance plc's debt reserve service account. The loan is on arm's length commercial terms, bearing an annual interest rate of 3-month Libor+85bp.	£9.9m outstanding

Tideway's shareholder loans are made by an associated company, Bazalgette Holdings Limited, in line with arrangements agreed with Government and Ofwat before Licence Award, and are therefore a relevant transaction. The loan arrangement meets all regulatory requirements for transactions with associated companies. The information in the form required by Ofwat is shown above.

RAG 3.11 requires companies to report:

- corporation tax group relief received or surrendered by the regulated business; and
- the basis of the recharge made by the appointed business, where appointed business assets have been used to carry out non-appointed activities.

Tideway had no such transactions to report in 2018/19.

Risk and Compliance Statement

RISK AND COMPLIANCE STATEMENT

This section relates to Tideway's compliance with its statutory, licence and regulatory obligations. For the purpose of the statements set out in this section, Tideway has identified four sources of obligations, capturing the major regulatory and legal obligations applicable to Tideway that are specific to the Thames Tideway Tunnel or to the water industry. These are:

- the project Licence;
- a modified version of the Water Industry Act 1991, as amended;
- the "SIP Regulations";[4] and
- the Project Specification Notice.

The listed instruments are considered to define the major obligations on Tideway. Any obligations not covered are considered to be at low risk of non-compliance.

The risk and compliance statement complements a number of other Tideway reporting practices, such as detailed quarterly reporting of project information to the Liaison Committee, which is attended by representatives from Ofwat, HMG, the Environment Agency and TWUL as well as the Independent Technical Assessor, and regular information sharing with the ITA, Environment Agency and other sources of scrutiny. These practices help to ensure transparency and accountability regarding Tideway's compliance with its statutory, licence and regulatory obligations. With regard to these obligations, Tideway's Board confirms that:[5]

- The Company considers that it has full understanding of, and is meeting, its obligations. The Board considers that Tideway had no material instances of non-compliance with the above listed statutory, licence and regulatory obligations throughout 2018/19.

Under the umbrella of its assurance policy, strategy and plan, Tideway has a range of processes for ensuring compliance. These processes are captured in the integrated assurance framework overseen by the Compliance and Assurance Review Group, led by the CEO; details of this group are provided in the Risk Management section of this annual report (page 66).

In relation to Tideway's Licence obligations, each obligation is allocated to the owner within Tideway with the most relevant expertise. These owners are responsible for ensuring compliance and putting in place appropriate processes and first line assurance. The assurances given in this statement are underpinned by the Regulation team's risk-based reviews of compliance, in which the frequency and degree of scrutiny applied and the level of evidence requested in relation to each obligation reflects the likelihood and potential severity of breach, as assessed using a common set of standards. This approach is supplemented by quarterly management reviews. Tideway's internal audit function carried out a review of Licence compliance in relation to 2018/19 and concluded that the controls in place were effective.

Tideway's legal team manages compliance with our legal obligations. The team monitors and supports compliance on an ongoing basis, undertakes periodic audits, and identifies and prepares for legislative changes that may impact Tideway. To support compliance, the team promotes awareness of key legislative requirements across the business. Training is provided on specific topics such as fraud awareness and the General Data Protection Regulation. The legal team also scrutinises procurements, to ensure compliance with the procurement regime applicable to Tideway.

The results of the assurance processes underlying this Risk and Compliance Statement have been reported to Tideway's Audit Committee, which recommended to the Board that it make the statements in this section.

- The Company has satisfied itself that it has sufficient processes and internal systems of control (summarised in the previous bullet) to fully meet its obligations. Tideway is committed to continuous improvement and as such we will continue to refine our processes, to support ongoing compliance.
- The Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks. The steps taken to manage or mitigate material identified risks are covered in the Risk Management section of the Strategic Report. At the Board Risk Committee meeting in March, the Committee reviewed Tideway's approach to corporate risk management covering all business areas. Committee members were given an opportunity to discuss the principal and corporate risks facing the business, reflecting the current stage of the project and relevant external influences. The Committee also reviewed Tideway's risk appetite and endorsed relevant changes, to ensure it remains appropriate and reflects the current business environment.

4 The Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) Regulations 2013 (as amended by the Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) (Amendment) Regulations 2015) (the "SIP Regulations").

5 Statements in relation to customers and outputs required by Ofwat's risk and compliance statement guidance are not included here as they are not relevant to Tideway.

Condition K Reporting

SUFFICIENCY OF NON-FINANCIAL RESOURCES

Condition M 5.1 of Tideway's Licence requires it to make an annual statement regarding the sufficiency of its non-financial resources, in case of special administration. The Board confirms that as at 31 March 2019, as far as reasonably practicable, Tideway had available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage Tideway's affairs, business and property in accordance with the purposes of the special administration order.

SUFFICIENCY OF FINANCIAL RESOURCES AND FACILITIES

Tideway has submitted a Condition K Certificate to Ofwat stating that in the opinion of its Board:

- Tideway will have available to it sufficient financial resources and facilities to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- Tideway will have available to it sufficient management resources and systems of planning and internal control to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- All contracts entered into between Tideway and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to Tideway, to ensure that it is able to carry on the Licensed Activities.

Tideway has a range of processes that enable its Board to make the above statements, including:

- Tideway's Financing Plan, Annual Budget, Annual Business Plan, Treasury Report and resource planners;
- the outputs of the process underlying the long-term viability statement (pages 72-75), which give comfort in relation to Tideway's financial viability up to 2030;
- Board oversight of these processes, in particular via Tideway's Audit Committee, which oversees systems of planning and internal control and overall regulatory compliance, and is provided with all audit reports including on Licence compliance, and monthly Board reviews of key metrics through the Board reporting process;
- a quarterly financing update to BTL's Board and Treasury Committee, reporting on liquidity and other key parameters;
- scrutiny by Tideway's external auditor, KPMG, which is required to confirm that Tideway is a going concern and which reviews the Condition K Certificate;
- reviews by Tideway's legal team of all significant new or modified contracts, with reference to regulatory obligations and the need to ensure appropriate standards of service;
- a robust procurement policy, contracts approval process and contract management system, ensuring that all relevant contracts are subject to legal review; and
- a strong data assurance policy, strategy and plan, based on the concept of 'three lines of defence' (see data assurance summary on pages 184-185) Executive-level support for appropriate assurance is provided via the Compliance and Assurance Review Group and associated Integrated Assurance Framework.

BOARD ENDORSEMENT

All disclosures in this regulatory report, including the Risk and Compliance Statement, were approved by the Board on 20 June 2019 and the report was signed on its behalf by:

Andy Mitchell
Chief Executive Officer

Sir Neville Simms
Chairman

Richard Morse
Deputy Chairman and Independent Non-Executive Director (Chair of the Audit Committee)

Data Assurance Summary

DATA ASSURANCE SUMMARY

We recognise the importance of providing accurate information to our stakeholders and explaining how the information has been assured, in order for stakeholders to trust it. To ensure that the information in the Annual Report is reliable, Tideway has developed a data assurance methodology, consistent with its assurance policy, strategy and plan. The approach is consistent with Ofwat's current vision for the water sector (trust and confidence), and the theme of everyday excellence in Ofwat's new vision.

Overview of assurance approach

The Audit Committee and Board have overseen and endorsed the development of the Company's assurance framework, which has embedded the 'three lines of defence' approach.

Our Compliance and Assurance Review Group (CARG) oversees our compliance and assurance practices, and shares its findings with the Audit Committee and the Board (see page 66 for more information). In addition there are a number of sources of independent (third line) assurances, including:

- Internal audit function audits processes across the business, including financial processes.
- External auditor carries out a series of agreed checks (known as "agreed upon procedures") on our Revenue Statement submissions to Ofwat.
- Independent Technical Assessor (ITA) reviews a wide variety of information on the progress of the project, verifies Tideway's regulatory expenditure and produces quarterly reports on Tideway's reporting to Government.

The ITA is co-located with Tideway and is given full access to information throughout the year.

ASSURANCE OF 2018/19 ANNUAL REPORT

Tideway's Internal Audit function reviewed our assurance methodology and provided a written opinion on the approach, which is described below:

First and second line assurance

The functional areas responsible for different sections of the report undertook the first line of defence:

- Each section owner provided the source of all data items in the section and described the relevant assurance activities through the reporting year.
- Peer review of each section by a colleague within the business function, with any comments fed back to the section owner to be addressed.
- Section owner, their head of department and the appropriate member of the executive management team certifying the accuracy, reliability and completeness of the section.

The second line of defence consisted of oversight by the wider business. An independent central team, comprising representatives from a range of Tideway functions, tested the robustness of the first line of defence by verifying data items contained in the report, using the source and assurance information provided by the section owner, and by providing an overarching consistency check between sections of the report.

The team decided which data items to check based on the likelihood and potential impact of error, and any internal stakeholder views on areas requiring additional assurance. This determined the depth and breadth of assurance, with all high-risk items checked back to an assured source. Lower-risk items were subject to spot checks. The team fed back any comments or concerns identified to section owners, who addressed them.

Other activities in the second line of defence included:

- Executive management review of each section.
- Review of relevant sections of the governance report by Board Committee Chairs.
- Review of the risk management framework, principal risks, long-term viability statement and going concern statement by the Board's Risk Committee.
- Review of the Annual Report by the Board in a workshop held in advance of finalising the report.
- Review of the Annual Report by the Audit Committee.

Third line assurance

The third line of defence consisted of independent assurance provided by KPMG our auditors for the Statutory Accounts. They also provided assurance over various other sections of the report, by carrying out an audit and/or, as set out in the table below. Internal audit reviewed this methodology and checked that it had been followed. Internal audit also audited the year-end licence compliance process, which underpins the risk and compliance statement.

KPMG's opinions in the Annual Report and Accounts cover the results of its statutory and regulatory audits.

KPMG assurance

Section/table	KPMG assurance
Strategic report	Consistency with the accounts.
Corporate governance	Within scope of statutory audit opinion where the Corporate Governance Code has been adopted and the element forms one of the provisions of the Code.
Directors' report	Statutory audit opinion covers preparation in accordance with the requirements of the Companies Act 2006.
Regulatory reporting – tables in sections 1 and 2	Regulatory audit (in line with Ofwat guidance).
Regulatory reporting – tables in sections 3 to 5	A set of specific tests on the calculations to verify their accuracy (known as agreed upon procedures).
Condition K certificate	Review in line with licence requirement.
Regulatory reporting – narrative	Consistency with the accounts.
Financial statements	Companies Act/statutory audit.

Board oversight

The Board and its Committees have overseen the Annual Report and the assurance activities carried out to ensure the Report's accuracy.

We have shared the outcome of the assurance activities described in this methodology with the Audit Committee. This has enabled the Audit Committee to assure the Board, in line with the UK Corporate Governance Code requirements, that the 'Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy'.

On the basis of this assurance, the Audit Committee has recommended the Annual Report to the Board for its approval.

Board endorsement

The Board approved this data assurance summary on 20 June 2019. The report was signed on its behalf by:

Richard Morse
Deputy Chairman and Independent Non-Executive Director (Chair of the Audit Committee)

Auditor's Report

INDEPENDENT AUDITOR'S REPORT (REGULATORY ANNUAL PERFORMANCE REPORT - SECTION 1 AND 2 TABLES)

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Bazalgette Tunnel Limited.

Opinion

We have audited the sections of/tables within Bazalgette Tunnel Limited's Annual Performance Report for the year ended 31 March 2019 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), and the related notes. In line with the Ofwat guidance issued on 15 May 2019, the financial flows (table 1F) has neither been presented nor audited.
- the historical cost analysis of fixed assets for wholesale and retail (table 2D) and the related notes. In line with the Ofwat guidance issued on 15 May 2019, the other section 2 tables have neither been presented nor audited.

We have not audited the additional regulatory information in tables 4H and 4I or the bespoke information in tables 5A to 5C.

In our opinion, Bazalgette Tunnel Limited's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies set out on pages 142-145.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on page 166-181 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the Directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Auditor's Report
Continued

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out in the Regulatory Reporting (see table on pages 164-165) and in the Directors' Report, the Directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Company's Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the Directors.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Project Licence granted by the WSRA to the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")". ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 20 June 2019, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
20 June 2019

Auditor's Report
Continued

INDEPENDENT AUDITOR'S REPORT (CONDITION K CERTIFICATE)

Report of KPMG LLP to Bazalgette Tunnel Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition F4.1

In accordance with the terms of our engagement letter dated 19 June 2019, we have examined the Company Directors' certificate – Condition K dated 20 June 2019 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2019.

Respective duties of Directors and auditors

The Directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition K in accordance with Condition M5 of the Licence. The Certificate is presented as set out in the Project Licence by the WSRA of the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")".

As specified in our engagement letter dated 19 June 2019, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2019 was and is not directed towards meeting the requirements of the Company or the Directors under the terms of Condition M5. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the Directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 20 June 2019, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2019.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our 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 as a body, and the WSRA, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

This report has been released to the Company and to the WSRA on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Company's or the WSRA's own internal purposes) or in part, without our prior written consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract.

Basis of our review

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2019 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2019.

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
20 June 2019

Glossary

Term	Definition
BMB	Joint venture between Bam Nuttall Ltd, Morgan Sindall Plc and Balfour Beatty Group Ltd, which manages the West component of the project.
Building Research Establishment (BRE)	A multi-disciplinary building science centre, which aims to improve buildings and infrastructure, through research and knowledge generation.
Community Liaison Working Groups	Stakeholder groups that Tideway has set up near the active construction sites, to engage and share information with local residents.
Combined Sewer Overflow (CSO)	Pipes designed to release excess sewage during storms.
CVB	Joint venture between Costain Ltd, Vinci Construction Grands Projets and Bachy Soletanche Ltd, which manages the East component of the project.
Defra	Department for the Environment, Food and Rural Affairs.
Employer's Project Induction Centre programme (EPIC)	Tideway's compulsory Health, Safety and Wellbeing training programme, for every person working on the project.
Encompass Diversity Programme	The project's diversity forum, open to all working on Tideway.
FLO	Joint venture between Ferrovial Agroman UK Ltd and Laing O'Rourke Construction Ltd, which manages the Central component of the project.
Government Support Package (GSP)	An agreement with the UK Government, under which it will provide financial support for the project in certain unlikely circumstances.
Handover	The point at which the tunnel is integrated into the wider sewer network, commissioning tests have been successfully completed and Thames Water has issued a handover certificate.
i3P	Launched in October 2016, the Infrastructure Industry Innovation Platform (i3P) is an independent innovation community governed by representatives from its member organisations. Membership is open to clients (currently major infrastructure projects and construction programmes) and their supply chains (Tier 1 contractors and consultants) across the infrastructure industry.
Independent Technical Assessor (ITA)	Reviews a wide variety of information on the project's progress and verifies Tideway's regulatory expenditure.
London Tideway Tunnels (LTT)	A 25 km (16 mi) tunnel running mostly under the tidal section of the River Thames through central London, which will provide capture, storage and conveyance of almost all the combined raw sewage and rainwater discharges that currently overflow into the river. This also includes the Lee Tunnel and other Thames Water works.

Term	Definition
Main Works Contracts	The contracts between Tideway and the main works contractors to engineer, procure, construct and commission the three sections (West, Central and East) of the Thames Tideway Tunnel.
More by River	Tideway's strategy to enhance the use of the River Thames for logistics.
Regulatory Capital Value (RCV)	The value of Tideway's capital base. Tideway's RCV is calculated on a cash basis using a methodology set out in the Company's licence. It comprises project-related expenditure that does not fall into specified excluded categories, and that has been verified by the Independent Technical Assessor.
Revenue Agreement	The agreement under which Thames Water collects revenue from its wastewater customers on Tideway's behalf.
RightWay	Tideway's approach to introducing transformational Health, Safety and Wellbeing.
RightStart	Tideway's approach to getting the Health, Safety and Wellbeing basics right from the very start, to help us avoid incident spikes often seen at the start of major projects.
System Acceptance	The point at which the entire Thames Tideway Tunnel system is accepted to serve as part of Thames Water's sewer network.
Thames Water Works	Thames Water's activities, including enabling and interface works, which are necessary for the development and connection of the Thames Tideway Tunnel to the sewer network.
The Alliance	The alliance between Tideway, Thames Water, the main works contractors and the system integrator, designed to incentivise collaborative working, realise synergies and share best practice.
Tideway Reporting Group	The top tier of governance of the three independent public-facing bodies, the Thames Tideway Tunnel Forum, the Independent Compensation Panel and the Independent Complaints Commissioner, which interface between the Tideway project and the wider public. The Tideway Reporting Group is independently chaired and considers the performance of the three bodies and cross-cutting issues arising therefrom. (See pages 12 to 13 for more information.)
Tunnel Boring Machine (TBM)	Machine used to excavate tunnels with a circular cross section through a variety of soil and rock strata.

Visit: **www.tideway.london**
Email: **helpdesk@tideway.london**

Name & Registered Office:
Bazalgette Tunnel Limited,
Cottons Centre,
Cottons Lane,
London,
SE1 2QG

Company number: 09553573
Registered in England and Wales

Visit: **www.tideway.london**
Email: **helpdesk@tideway.london**