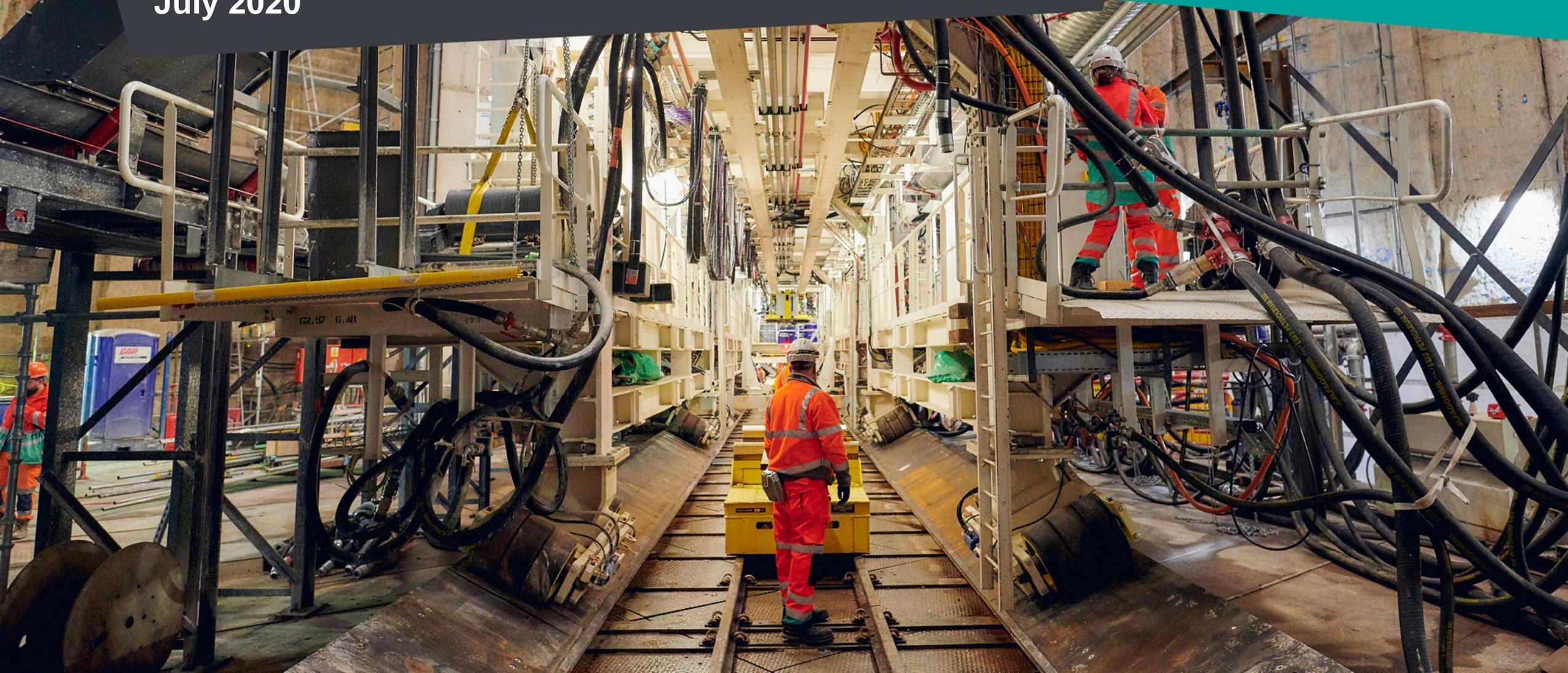


# TIDEWAY - HOLDCO GROUP INVESTOR REPORT H2 2019/20

July 2020



Tideway



# Notice

## IMPORTANT NOTICE

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

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

## BASIS OF PREPARATION

Investor Reports relate to the performance of the Holdco Group which includes Bazalgette Holdings Limited (“BHL” or “Holdco”), Bazalgette Finance plc (“Finco”) and BTL. This Investor Report comments on the historical financial performance of the Holdco Group for the period to 31 March 2020.

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

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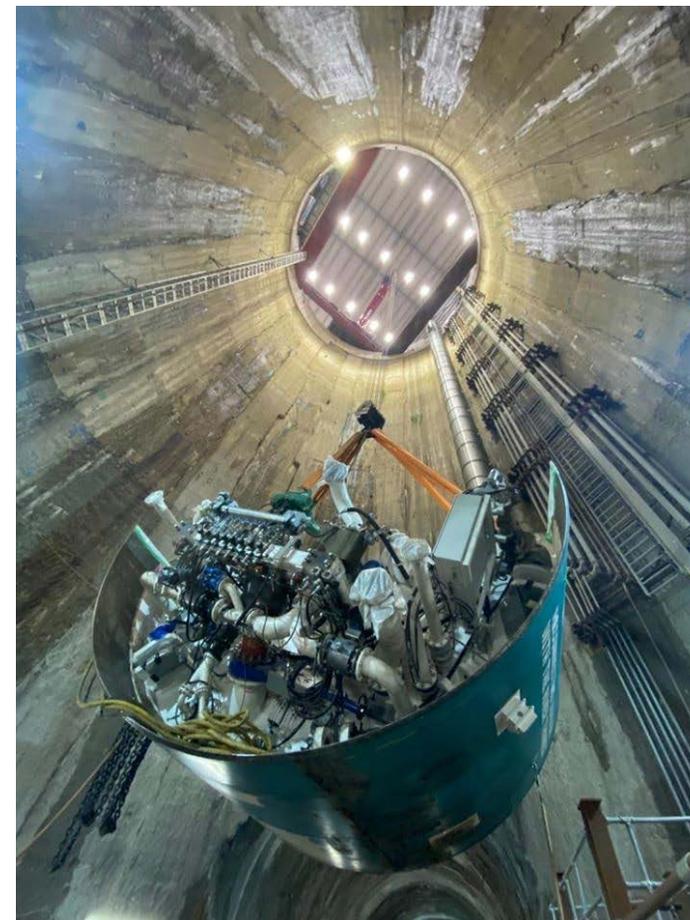


# Overview

This Investor Report provides an update of the Holdco Group's activities for the period to 31 March 2020. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2020.

## H2 2019/20 Highlights:

- We are now 56% through the project and still in peak construction. We have made significant progress and met some important milestones: made significant progress on shafts and tunnelling, and have passed peak marine operations, delivering our More by River strategy.
- Our tunnel boring machines (TBMs) made good progress on their journeys. At the end of May 2020 we have over 14.6 km of main tunnel primary lining completed versus 3 km a year ago.
- With over half the project complete, we started the detailed planning for the completion of the project, including how we will 'hand back' our sites and our preparedness for commissioning.
- We revised the estimated cost at completion upwards by 3% to £3.9bn (vs £3.4bn regulatory baseline) to reflect the commercial performance of the year and our best views of remaining costs and updated the Handover date to June 2024.
- Activities were paused on site in March 2020 in line with government guidance with only safety-critical and essential work continuing. Following extensive safety reviews, all sites were back at work in early May. We are assessing the impact of the pandemic on our cost and schedule.
- We are exceeding our 75% target for live Legacy commitments – including jobs, skills and environment – with 91% on track.
- Regulatory Capital Value at 31 March 2020 stood at £2,366m.
- No further debt was issued in the second half of the year. The Revolving Credit Facility (RCF) was restructured as a £160m Sustainable Linked Loan in January 2020.
- The Company has secured total committed debt funding of £2,843m and reached a point of strong financial resilience, where sufficient liquidity has been secured to cover construction costs as of 31 March 2020.
- Ratings of Baa1 by Moody's and BBB+ by Fitch were maintained in the year and the outlook remains stable. S&P published an ESG evaluation of Tideway with a score of 74.



## Business Update – COVID-19

Since the middle of March 2020, the COVID-19 pandemic has had an impact in terms of cost and schedule of the Tideway Project. Below we describe the various stages from the immediate actions focusing on safety and preservation of the project's delivery capability to restarting works and assessing the impact on cost and schedule.

### March

- As the pandemic rapidly took hold, we made a number of swift decisions and implemented a range of operational changes in line with HMG guidance and in consultation with stakeholders.
- The immediate priorities were to protect the health and wellbeing of the workforce and protect the delivery capability of the supply chain with the intent of maximising the ability to resume works as quickly as possible.
  - At the start of the lockdown period in March 2020 the contractors and Tideway paused all but essential and safety-critical onsite activities and brought tunnelling operations to a safe stop soon afterwards. The project went from 21 active sites down to 3 and from 1715 workers on site in mid-March to a low of 150 before restarting site activities.
  - Introduced remote working and continued to work with contractors to progress design, consenting and method planning to ensure the efficiency of future works. Where possible we brought forward work that could be done remotely.
  - Put in place emergency interim commercial arrangements to protect the supply chain for the continued benefit of the project.
  - Identified areas at increased risk due to COVID-19 and implemented additional monitoring and mitigations as appropriate, including liquidity, which remains strong as described later in this report.

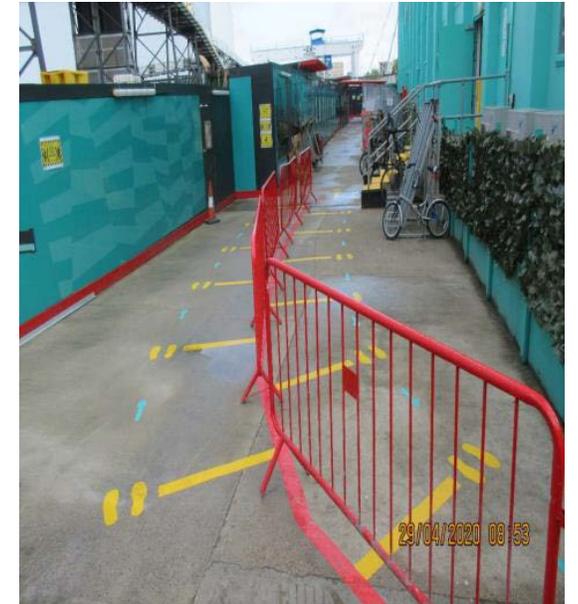
# Business Update – COVID-19 (continued)

## April/ May

- Developed preliminary forecasts and scenarios for the cost, schedule and financing impact of COVID-19 on the project to shape high level Tideway responses.
- Established a robust process for assessing the safe restart of activities.
- Readiness Review undertaken for each worksite and major activity before restarting focusing on control measures to ensure a safe and healthy restart of works. This included limited numbers of people working, the majority of whom travelling by private transport; and works are being organised in a way that social distancing can be observed.
- All sites recommenced works by end of May.
- Tideway made limited use of the furlough scheme, which was used more extensively by our contractors until work could recommence onsite.

## June onwards

- By end of June 90 per cent of the site workforce had returned.
- Not all works have resumed, but encouraging progress is being achieved across the project, with some high levels of performance. It is however too early to draw many meaningful conclusions on future schedule performance.
- We are building resilience in our operations (on and off site) to reduce the impact of any resurgence of the pandemic.
- Tideway is assessing the full impact of the pandemic on the timetable and costs of the project and we expect to report on this in more detail later in the year.
- We continue to discuss with Ofwat and the Main Works Contractors how best to deal with Covid-19 commercially and are working together to ensure we and they can operate in the most effective way possible with a view to minimise the overall impact on outturn cost to protect the interests of investors and bill payers.
- We are in discussions with Ofwat on a package of measures that could appropriately mitigate the impact of COVID-19 on the company's costs, financial resilience and risk of schedule penalties and expect to reach an agreement in the coming months (see page 9).



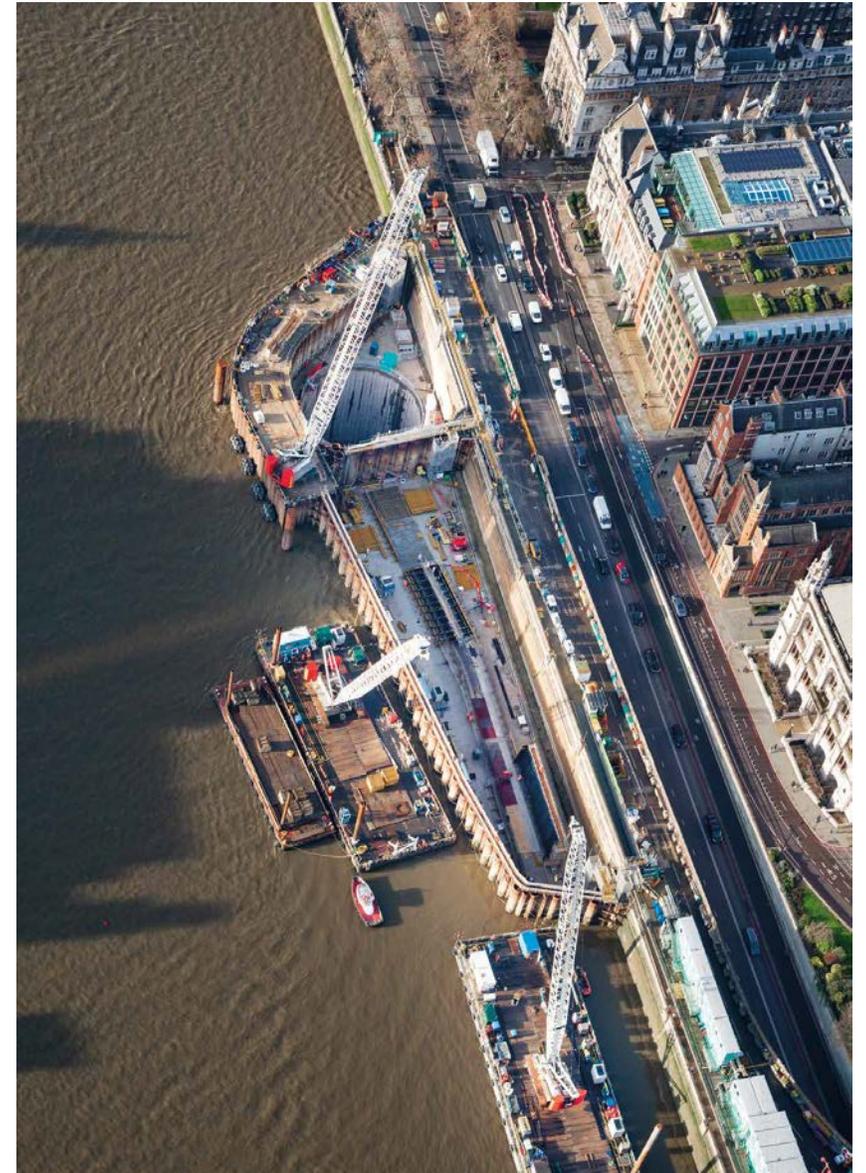
## Business Update – Health, Safety, and Wellbeing

- The health safety and wellbeing of everyone on the project remains a top priority and there have been no major injuries or significant incidents relating to construction or marine operations to date.
- The programme's three day Accident Frequency Rate (AFR) has remained below other large infrastructure projects at similar phases of construction. We had fifteen lost time incidents in the year, of which eight injuries resulted in over-seven-day absences. AFR-3 was 0.10 and AFR-7 0.11.
- For the second year running, Tideway achieved third place in the medium-sized business category at *ValidityHealth's* 'Britain's Healthiest Workplace'.
- Tideway is actively engaged in promoting and improving the Health and Wellbeing of our workforce as well as mitigating the health risks associated with our works. Some of the initiatives include fatigue management, occupational health inspections and mental health, the latter supported by the Mates in Mind programme and Mental Health First Aiders.
- The Employer's Project Induction Centre (EPIC), our innovative induction programme, continues to be widely recognised as industry leading and is now available for external industry days to promote the ground-breaking and immersive EPIC experience to the wider industry. The centre also includes an EPIC Logistics induction course for HGV drivers.



# Business Update – Vision, Legacy, and Reputation

- With the project's increased visibility and activity on site and on the river, we continued with our efforts to engage with stakeholders to maintain trust in the project, ensure efficient delivery and ensuring we continue to be publicly accountable.
- Our annual stakeholder research showed continued positive attitudes towards Tideway and confidence in the project. Positive sentiment among stakeholders and the public was 93 per cent and 75 per cent respectively of those surveyed, compared with 92 per cent and 73 per cent in 2018.
- On our 24-hour helpdesk we saw a 20 per cent increase in contacts compared to last year, rising to 5,874. Around 10 per cent of these were complaints, the majority of which related to noise and vibration issues.
- Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to reducing our carbon emissions. Legacy delivery continues to be ahead of target, with 91% of commitments on track against a target of 75% at the end of the reporting period.
- Business In The Community's annual 'Insights' report on responsible business standards in the UK in 2019-20 selected Tideway as an example of best practice in 'Good Work and Inclusive Growth' for our support for people with convictions.
- We have aligned our commitments to the UN Sustainable Development Goals, identifying the main SDG targets to which Tideway makes a direct contribution.
- Tideway will make a long-term direct contribution to SDG 6 Clean Water and SDG 11 Sustainable Cities. During construction, Tideway is making a significant contribution to eight other SDGs – some of these will have a lasting impact and will be handed over to other organisations. The Sustainable Finance Report describes more fully the performance against the legacy commitments and the targets that we are working towards.

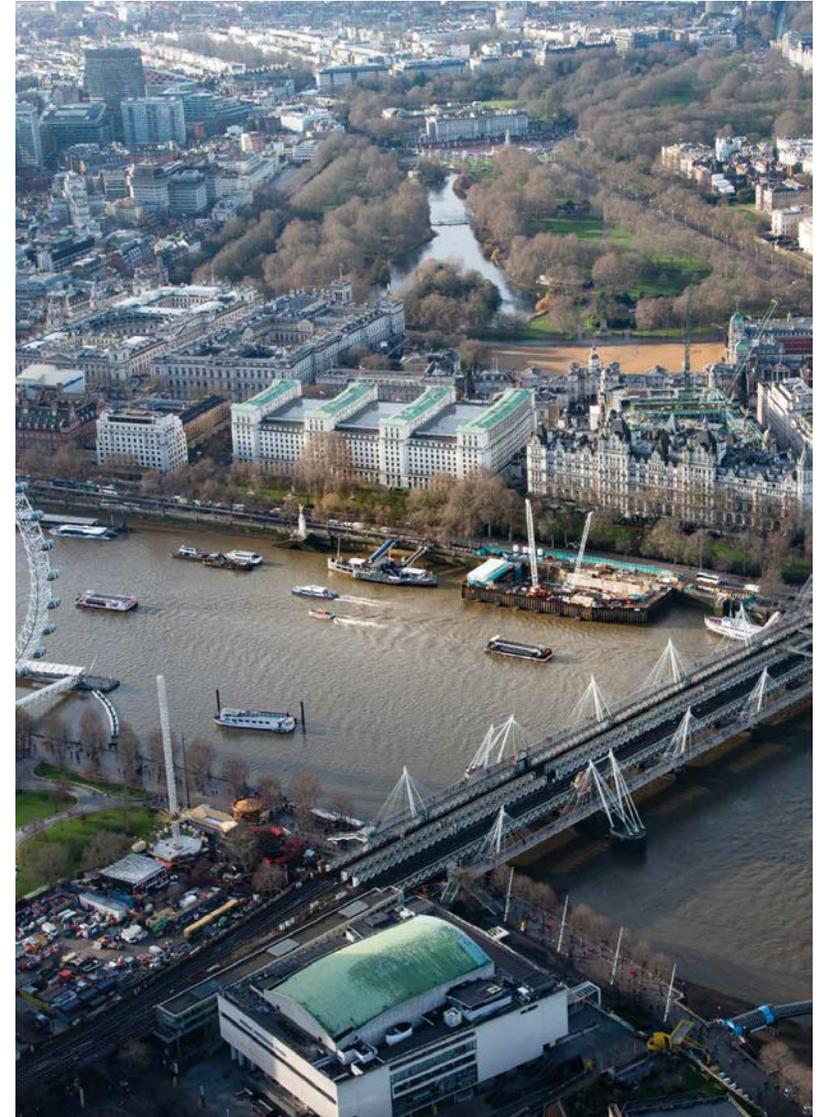


## Regulatory Update

- On 8 October 2019, Ofwat published its new strategy focused on delivering public value for the sector, building trust with customers and communities, and improving the environment. While Tideway is confident in its commitment to delivering broader public value, we have been reviewing our approach given Ofwat's Vision and Strategy. In early 2020 the Board held a series of workshops on company purpose, values and culture including considering how these reflect the needs of our stakeholders and the steps required to safeguard and develop these for future phases of the project.
- On 16 December 2019, Ofwat published its final determinations (FDs) for the PR19 price review. Thames Water's FD contains a package of performance commitments and incentives relating to the project that are broadly in line with those proposed by Tideway, including on timely achievement of System Commissioning and support for early hand back of project land.
- In February 2020 four companies, not including Thames Water, announced that they would appeal their PR19 FDs to the Competition and Markets Authority. The outcomes of the review are not expected to have any direct impact on Tideway.
- Beginning in late March 2020 and continuing post period end, Tideway has regularly updated Ofwat and Government on its response to COVID-19. After period end we began discussions with Ofwat on a package of measures that could appropriately address the related costs of COVID-19, the impact on the company's financial resilience and risk of schedule penalties. We anticipate that an appropriately balanced settlement on COVID-19 will support the delivery capability and resilience of Tideway and its supply chain, while maintaining investor confidence in the project and sector.
- Potential solutions are being assessed against a common set of high level principles, including appropriate allocation of COVID-19 impacts between parties, incentivising Tideway and the contractors to work efficiently, supporting the best environment for long term delivery of the project and supporting the potential for continued private sector participation in infrastructure delivery. Discussions to date (July 2020) have been constructive and we are confident of reaching agreement later in 2020 on the shape of the measures to be applied. We are involving Defra and other key stakeholders as needed to ensure that the package of measures adopted has widespread support.

## Interface with Thames Water

- To support the Tideway-TWUL joint approach, the Company worked with Ofwat and Thames Water to develop performance commitments and incentives for the 2020-25 regulatory period that align Thames Water's interests more closely with the overall interests of the TTT project. In December 2019, Ofwat published its PR19 Final Determinations for the industry and Thames Water as mentioned above.
- Thames Water continues to facilitate access to the Sewer Network to enable the Company to construct the connections to the TTT.
- The Company and Thames Water are implementing detailed asset protection arrangements for the Sewer Network during the carrying out of the Company's Works.
- Thames Water and the Company continue to deliver the joint approach with the development of the requirements and working relationships for the second half of the TTT project including those relating to land handback and commissioning.
- One of these taskforces is reviewing the feasibility of leaving some of the temporary works in place in an effort to deliver costs efficiencies.

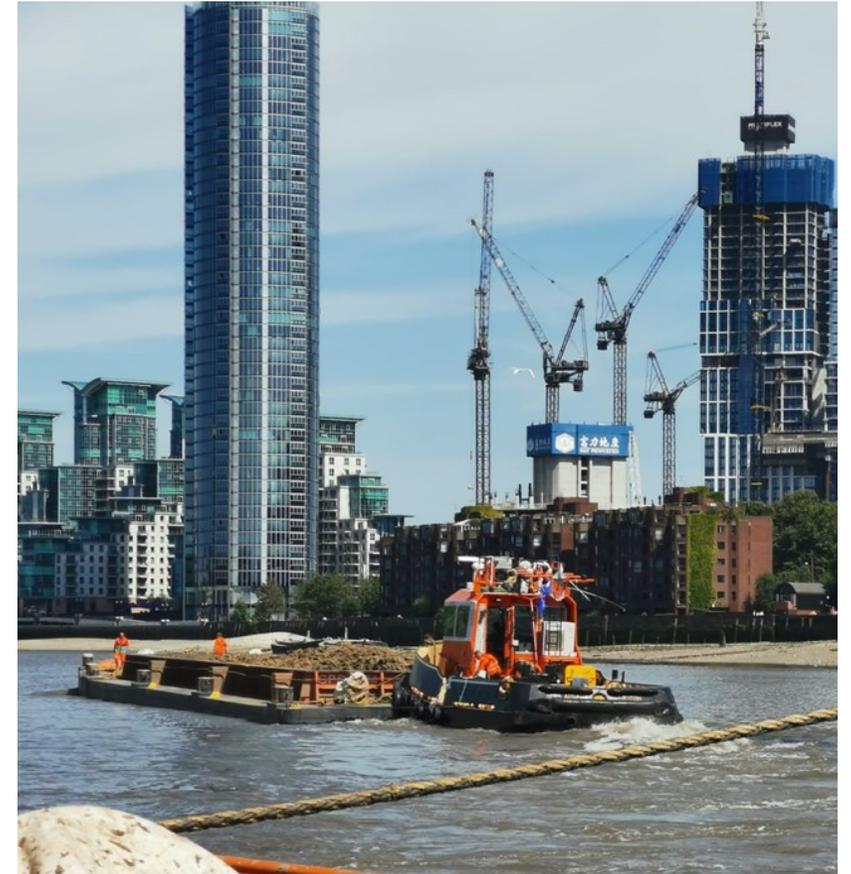


# Investment Programme – Overview

- Progress stands at overall 56% complete as of May 2020, 1% behind the 2020/21 Business Plan due to COVID-19 impact.
- Completed over 58% of all primary (Tunnel Boring Machine) tunnels
  - 4 TBMs launched (2 completed its journey)
  - 2 TBMs to be launched in 2020.
- Main Tunnel primary lining built is 14.6km (from 10.6km in November 2019)
  - Drive A=4.7km
  - Drive B=4.9km (completed)
  - Drive C=5km.
- The Frogmore Connection Tunnel has reached the shaft at Carnwath Road on 1 July. TBM A and C are expected to reach Acton and Chambers Wharf respectively in the autumn.
- TBM D (Selina) and the TBM for the Greenwich Connection Tunnel are forecast to start tunnelling in the second half of 2020.
- Shaft excavation is nearing completion. Of the 24 shafts to be built:
  - Two shafts with completed secondary lining,
  - 20 shafts excavated to full depth with base slab poured and,
  - Two shafts under construction.
- The first vortex tube has arrived at Hammersmith and preparations are underway for its installation in the shaft.
- As part of our 'More by River' approach we have avoided over 400,000 lorry movements on London's roads to date and moved over 3.3m tonnes of material by river which has led to the avoidance of more than 10m HGV road miles and approximately 10,000 tonnes of CO2.
- The 2020/21 Business Plan reviewed the Handover Date from March to June 2024. The System Acceptance date remains the same as the regulatory baseline at February 2027.
- With over half of the project complete, we started the detailed planning for the completion of the project, including how we will 'hand back' our sites and our preparedness for commissioning.

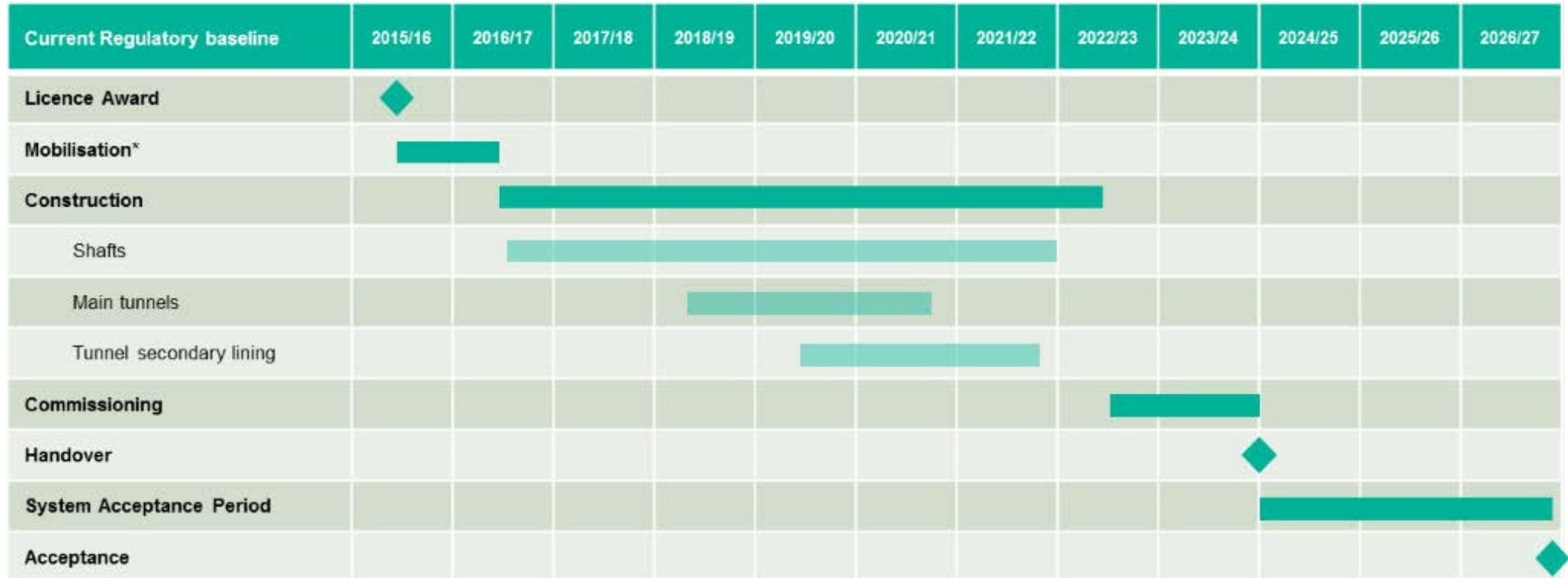
# Investment Programme – Cost and Contingency

- We have updated our cost estimate by £100m to £3.9bn versus £3.4bn regulatory baseline, with the Handover date shifting from March to June 2024.
- This increase is predominantly linked to the management of key interfaces, where Main Works Contractors have to coordinate their core activities in order to complete the whole tunnel. In particular, this relates to the tunnelling and secondary lining operations at our Carnwath Road and Chambers Wharf drive sites.
- As the programme has evolved we have monitored these key interfaces and are now able to make strategic decisions on the re-sequencing of work and coordination of schedules, which has resulted in an increase to our cost estimate by £100m and extended the programme by three months.
- In line with the provisions of the Main Works Contracts each of the MWCs target prices have been adjusted to reflect Compensation Events (risks retained by Tideway). This is in accordance with the NEC 3 contract under which the MWCs are appointed.
- We have allocated contingency to reflect the increase in target prices. The revised cost estimate for the project incorporates appropriate contingency for the remaining expected risk on the project (excluding the impact of COVID-19).



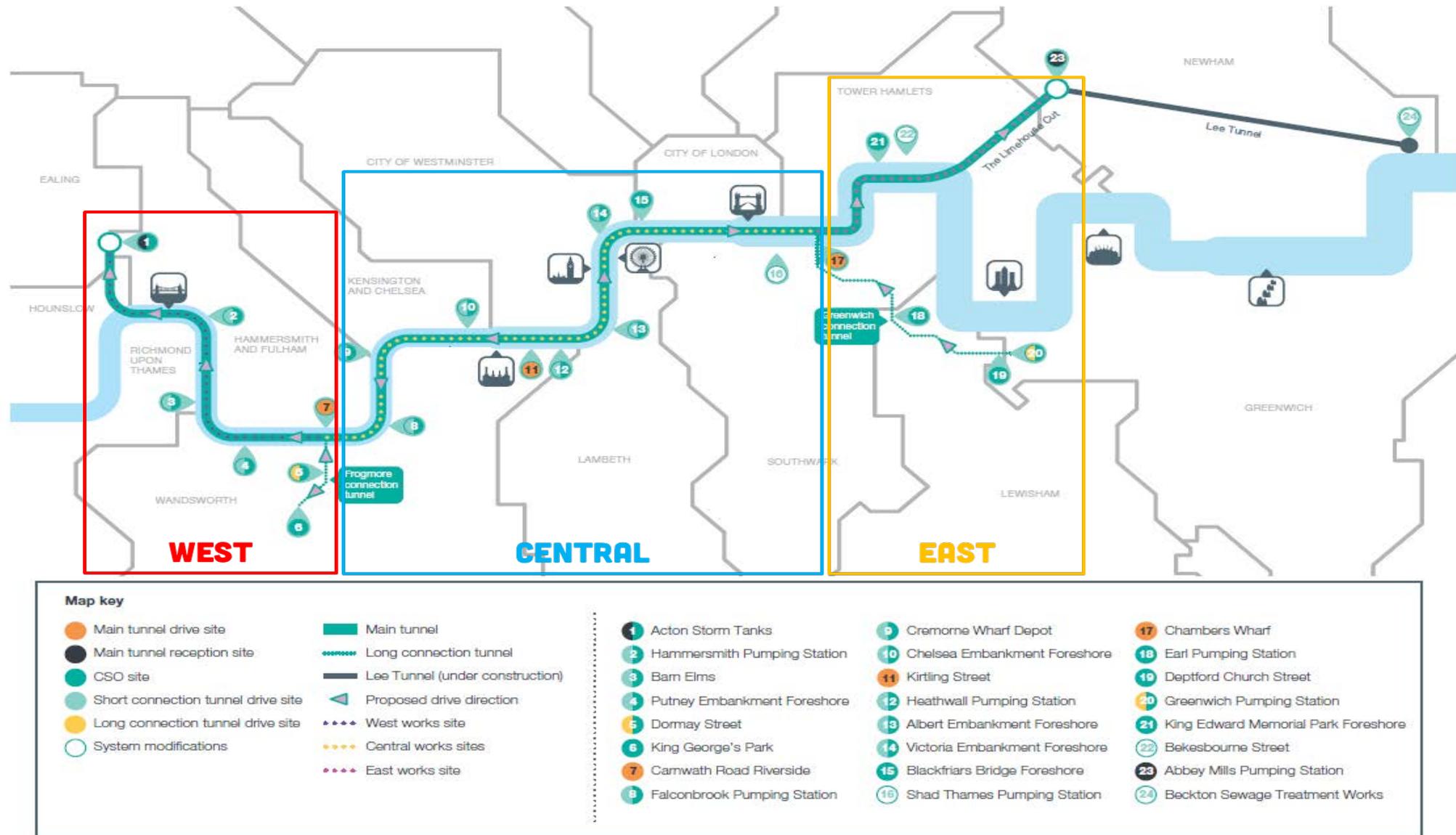
# Investment Programme – Regulatory Baseline

The outline schedule remains broadly representative of the project and its overall progress, although as we deliver the project we have and will make some 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).

# Investment Programme – Route and Sites



# Investment Programme – West

## Tideway Schedule – West Delivery Area The Slice Report

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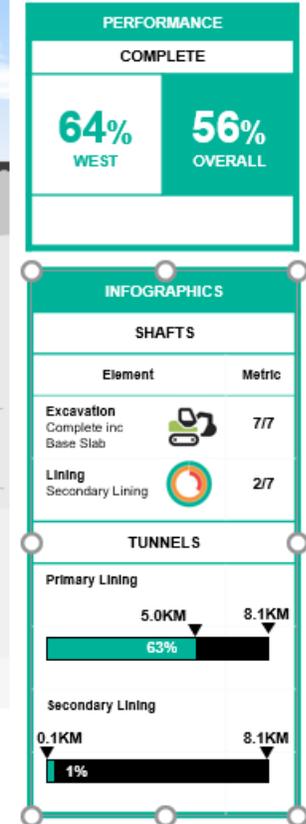
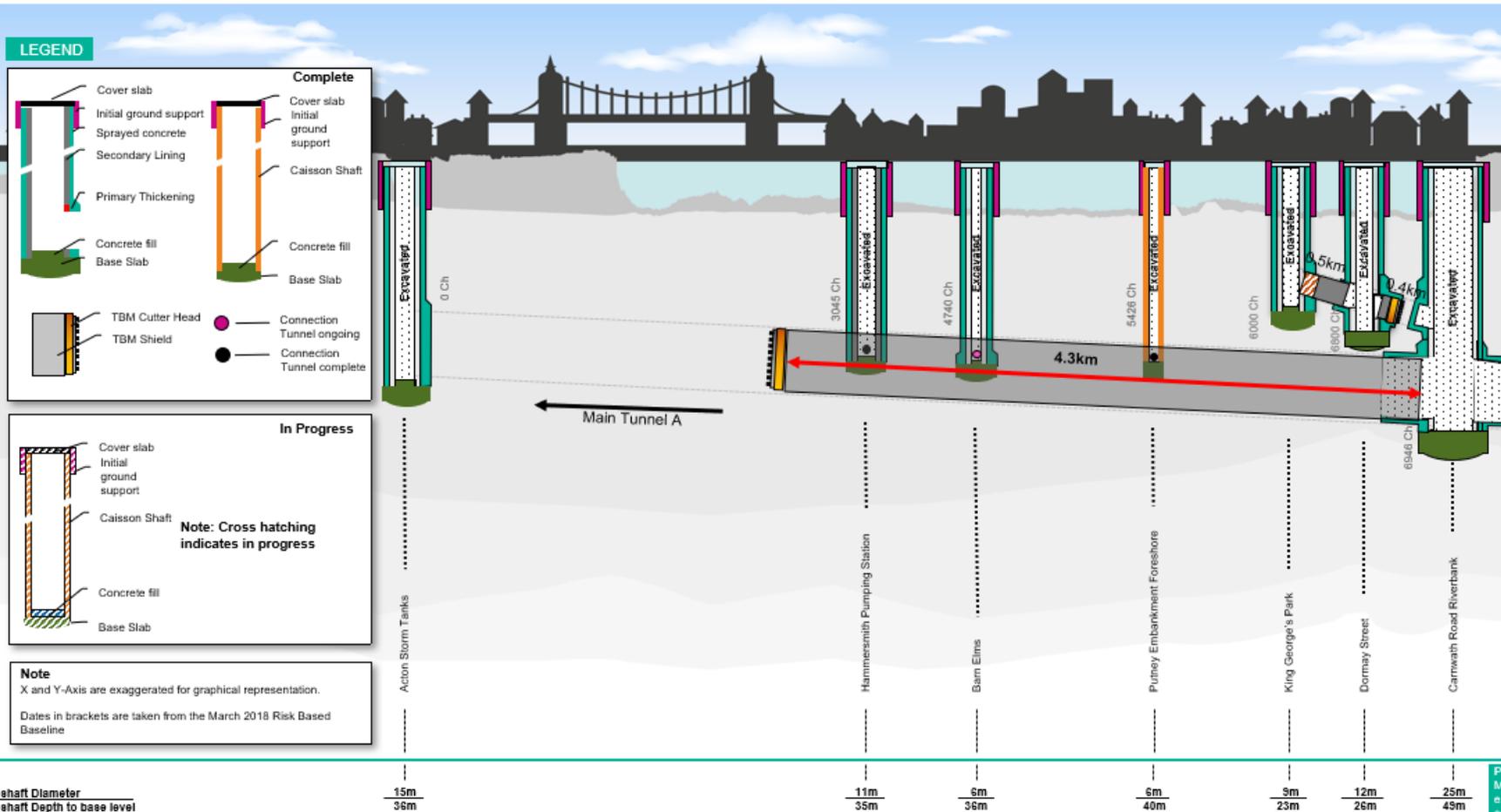
May

2020



Programme Assurance Office

### ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



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

## Investment Programme – West (continued)

- The West team are building 8.5km of tunnel which comprises 6.5km of main tunnel and a 2km connection tunnel from King George's Park to Carnwath Road.
- Overall works are 64% complete as of May 2020.
- All seven shafts have been excavated.
- TBM A Rachel has been constructing the main western part of the main tunnel having completed 4.7km of the journey as of May 2020; it is expected to arrive at Acton in the autumn.
- TBM Charlotte has finished constructing the Frogmore Connection Tunnel in early July 2020. The 1.1km connection tunnel, created at a depth of around 30 meters, will take sewage overflows from King George's Park into the main 25km tunnel at Carnwath Road.
- Our Hammersmith site was the first on the project to complete its 297m long connection tunnel, which will lead into the main super sewer. Additionally, the site has completed the secondary lining to the connection tunnel, and the shaft. The Vortex Generator arrived on site in June 2020, the first across the project.

### Further milestones include:

- Excavation of the interception chamber at Hammersmith.
- Construction of the lower level connection tunnel at Putney, excavation of the 36m deep shaft and the rectangular 9m deep penstock chamber. We also completed the 135m high level connection tunnel.
- Completion of the spray concrete lining of the shaft at Acton.
- At Barn Elms, excavation and primary lining of the 36m shaft was completed in October 2019 with pipe-jack work started in February this year.
- The COVID-19 pause has provided an opportunity to install the boreholes and monitoring wells to support the Connection Tunnel design.



# Investment Programme – Central

## Tideway Schedule – Central Delivery Area The Slice Report

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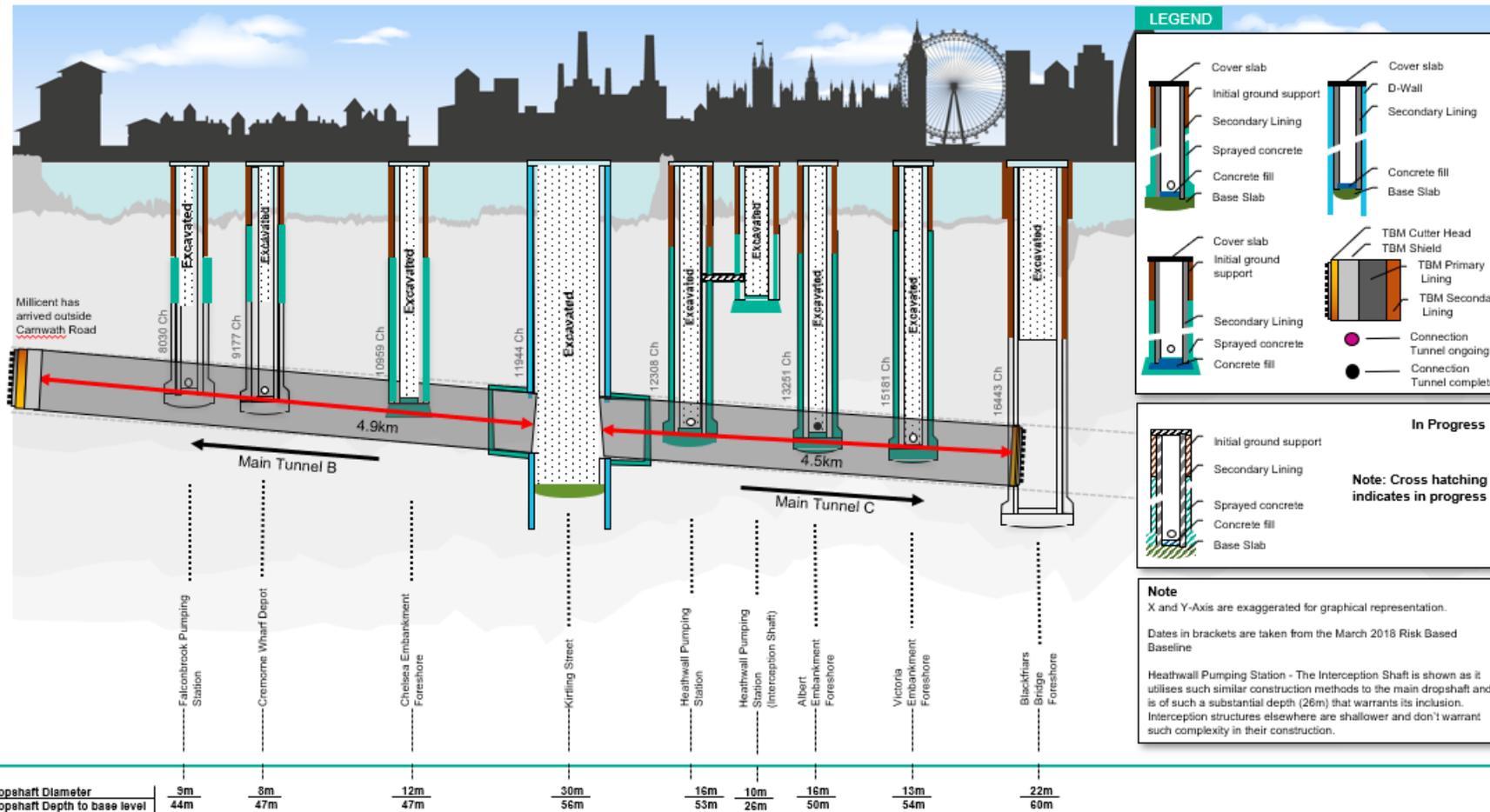
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Programme Assurance Office

### ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



### PERFORMANCE

COMPLETE

57%  
CENTRAL

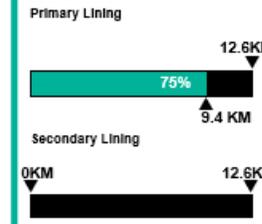
56%  
OVERALL

### INFOGRAPHICS

#### SHAFTS

Element	Metric
Excavation Complete inc Base Slab	6/9
Lining Secondary Lining	0/9

#### TUNNELS



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# Investment Programme – Central (continued)

- The overall works are reported at 57% complete as of May 2020 across the eight construction sites.
- Nine shafts, 6 with base slabs installed in the bottom marking completion of the primary lining and 3 under construction.
- TBM B Millicent - the westbound 4.9km long tunnel drive from Kirtling Street to Carnwath Road was safely completed in November 2019 as Millicent became the first TBM on the project to complete her section of the main tunnel. This entire stretch of tunnel was completed without a lost-time incident, totalling over 2.3m work hours.
- TBM C Ursula, launched in March 2019, has completed over 4.4km from Kirtling Street and reached the shaft at the Blackfriars Bridge Foreshore site where we the cutting tools were changed. It resumed its journey in June 2020 and is expected to arrive at Chambers Wharf in the autumn of 2020.

## Further milestones include:

- The 1,000th barge removing excavated tunnel material from Kirtling Street has departed the site in June with over 1,000,000 tonnes of tunnel spoil removed from Kirtling Street site by barge to date.
- Completed the mitigation on the Chelsea Wharf building next to the Cremorne Wharf site, which enabled shaft excavation to begin in January 2020. Cremorne Wharf temporary works were completed in the air treatment unit chamber in early June, giving way to the permanent works.
- We excavated of interception structures around the existing sewers, at Falconbrook Pumping Station and Chelsea Embankment Foreshore by the period end. Team at Falconbrook site has completed their shaft base slab pour in June.
- Completed the primary lining of the connection tunnel between the shaft and the main tunnel at Albert Embankment in January 2020.
- Completed the primary lining of the 42m culvert tunnel between the two shafts at Heathwall Pumping Station and completed the shorter culvert at Falconbrook Pumping Station.
- Modifications to the River bed to allow barge mooring at Cremorne Wharf allowing shaft spoil to be taken away by river. The shaft base slab cures from the successful concrete pour completed in June.
- Installed the support structure within the Low-Level Sewer at Victoria Embankment, which allows construction to be carried out without causing damage; which allowed the removal of the service subway and old river wall structures above the sewer, to enable sewer interception.
- Commenced secondary lining of connection culverts at Albert Embankment and Heathwall Pumping Station.
- All River Wall piles installed at sites where new public realm will be created – Chelsea Embankment, Albert Embankment, Victoria Embankment and Blackfriars Bridge Foreshore.



## Tideway Schedule – East Delivery Area

### The Slice Report

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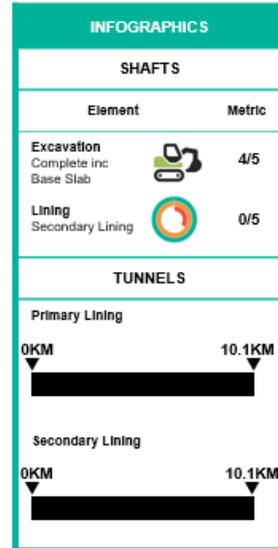
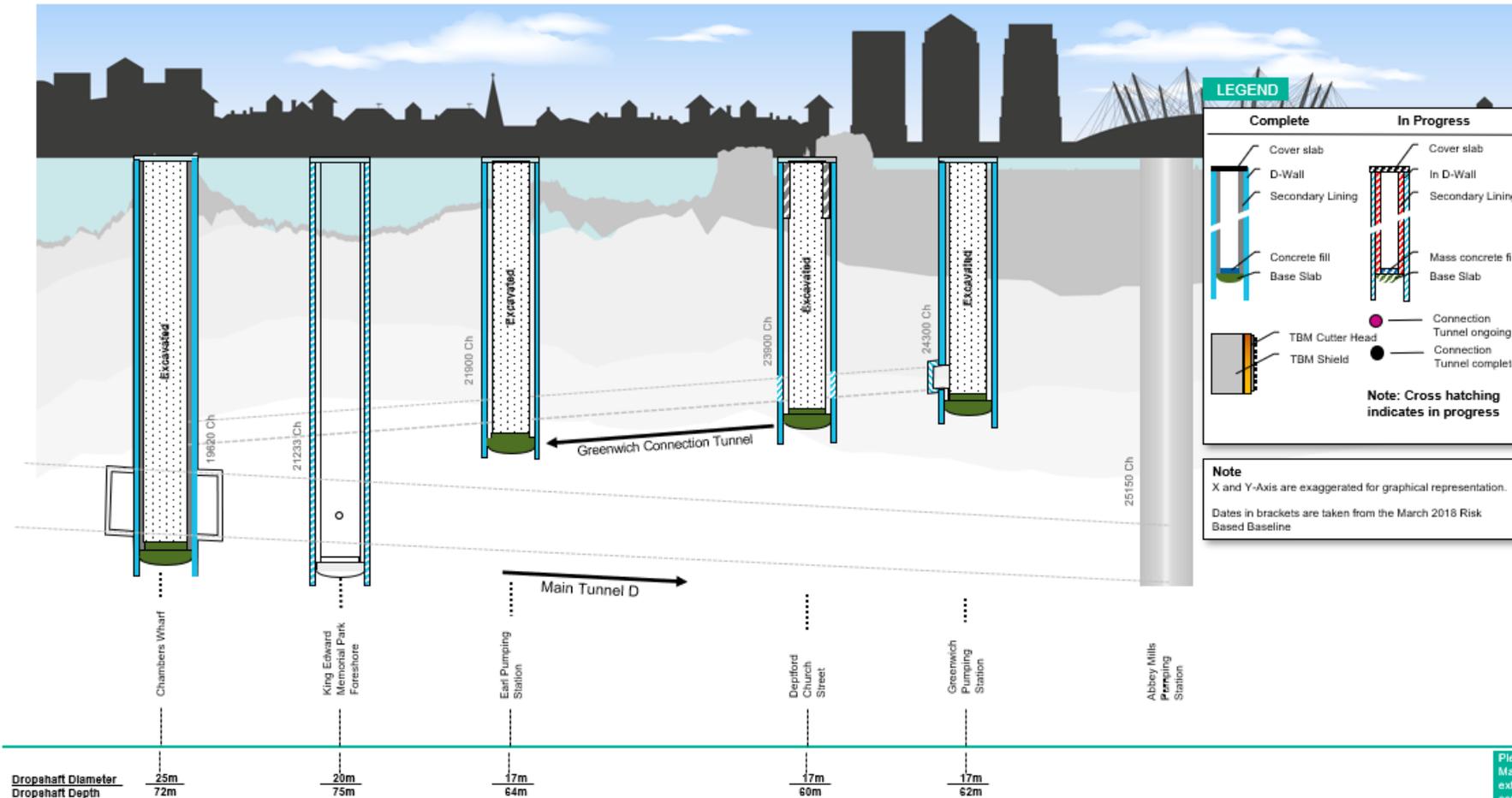
May

2020



Programme Assurance Office

#### ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



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

## Investment Programme – East (continued)

- Overall works are 48% complete as of May 2020.
- The East team continue working on five of the six construction sites. Works in the remaining site at Abbey Mills will start in 2021.
- Excavation of four of the five shafts is complete.
- At Chambers Wharf, the main drive site, the 60m deep shaft excavation was completed and the base slab poured. The concrete mix for the base slab contained the highest volume of cement alternative used to date, 75% of the cement was replaced with GGBS (Ground Granulated Blast-furnace Slag, a by-product from the blast-furnace industry) which meant that cement only made up 5% of the total volume of the material significantly reducing its carbon footprint.
- TBM D Selina is arriving on site in July 2020 and will commence tunnelling later in the year.
- TBM Annie is being transported and re-assembled at the Greenwich site.

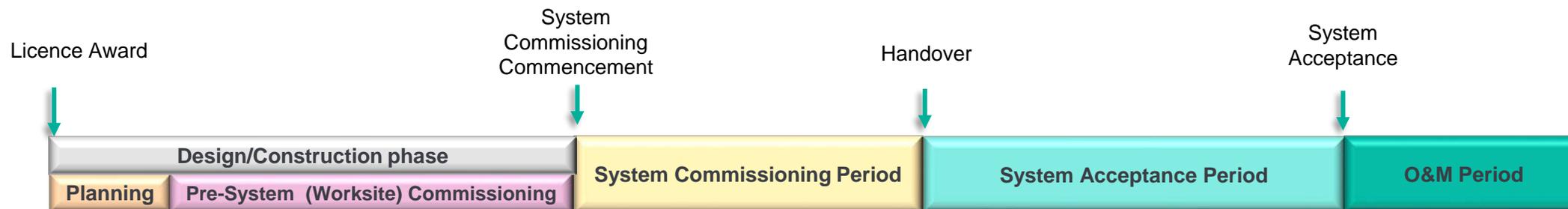
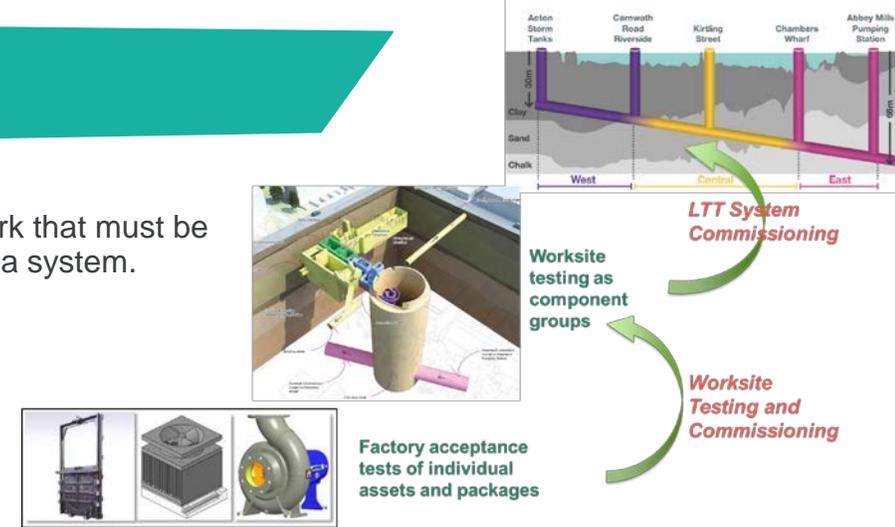
### Further milestones include:

- Strengthening works and deep soil mixing to improve poor ground conditions at King Edward Memorial Park were completed in autumn 2019. This site is the last shaft in the area yet to commence shaft excavation; however, the shaft diaphragm wall construction restarted in the period and is currently 70 per cent complete.
- At Deptford Church Street, we completed the excavation of the shaft which was almost 60m deep, this included the construction of the shaft base slab. Works are progressing with the construction of the CSO.
- The acoustic enclosure was completed at our Greenwich Pumping Station site, enabling us to complete shaft excavation, the shaft was completed with a 3m thick base slab. The team then constructed a 26m long tunnel via a sprayed concrete method which will house the TBM prior to launch. Post reporting period end we have completed slurry treatment plant.
- Dredging works to Deptford Creek are well underway. Dredging will maximise the tidal flow of the creek, meaning more barges will be able to gain access resulting in more material being taken away by river.



# System Integration and System Commissioning

- In addition to the major civil construction works, there are several mechanical and controls elements of work that must be undertaken to enable the tunnel to be integrated with the existing sewer network and therefore operate as a system.
- The area MWCs are responsible for providing the assets and packages that make up an individual worksite and the associated testing. They are making good progress with their alignment of factory acceptance testing (FAT). The first FATs of components have taken place successfully, witnessed by the PM team. The use of technology to allow the completion and remote witnessing of factory acceptance tests has been a big positive and a good example of the work to maintain progress on the project through the COVID-19 challenges. This has continued with covers and penstock casting inspections in the period.
- The System Integrator (Amey) covers system-wide control integration including telemetry, IT systems, control room interfaces and software. Their work is 52% complete overall to end May with software development 96% completed. Preparations are underway for formal factory acceptance testing (FAT) and development of a “reference system” which will provide a replica of the final built system in advance of its installation.
- Following completion of the worksite and controls testing, a period of system commissioning will take place in order to ensure that the TTT is integrated into the wider sewer network. In the commissioning period, the physical separation between the TTT and the Lee Tunnel will be removed, flows will be progressively allowed into the TTT and the Company will, with Thames Water's assistance, conduct a number of system commissioning tests. When the tests have been completed and the handover criteria met, Thames Water will issue a Handover certificate.
- Following Handover, system acceptance tests will be conducted by Thames Water with the support of the Company to optimise operation and maintenance activities (in particular in relation to storm events that were not able to be observed during the commissioning period). When the system has been monitored over a range of climatic and operational scenarios and certain system acceptance criteria have been met, Thames Water will issue a system acceptance certificate.
- Plans for system commissioning have continued to be developed and refined including identifying the detailed activities and assets that will be constraints to the commissioning process. This will help us improve the maturity of the commissioning schedule and build resilience.



# Financing Activity

- Tideway has successfully delivered the Financing Plan for 2019/20 raising £150m of new debt on a deferred basis, restructuring the RCF and reinforcing the position as a leading sustainable issuer.
- Since Licence Award, Tideway has made significant progress in the implementation of its financing strategy, raising £2.7bn of long-term debt in a mix of markets, formats and maturities. This represents 100% of long-term funding needs to cover construction costs as of 31 March 2020.
- There were no new derivative transactions in the period – our derivative portfolio continues to include the swaps hedging the first eight tranches of our £700m EIB loan and £70m of our £300m USPP 2017 notes.

Debt £m	RCF	EIB Loan	RPI Loan	RPI Bonds	CPI Bonds	Nominal	Totals
Drawn	-	320	100	433	275	550	1678
Undrawn	160	380	-	475	75	75	1165
<b>Total</b>	<b>160</b>	<b>700</b>	<b>100</b>	<b>908</b>	<b>350</b>	<b>625</b>	<b>2843</b>



- During the period, in January, we drew £80m from Tranche 4 of the EIB loan. Series 1 (£25m), Series 3 (£25m) and Series 7 (£50m) funded in June.
- As at 31 March, we had received £1,274m from our shareholders in the form of equity and shareholder loans, which was the full commitment at Licence Award. Part of the shareholder loans have been repaid and the balance at 31 March was £720.4m. The distribution policy was amended in December 2019 to replace semi-annual distributions with quarterly distributions. Two Restricted Payments of £21.3m in total were paid in December and March, corresponding to interest on the shareholder loan.
- At 31 March 2020, we had total liquidity of £1.7bn, comprising £532m of cash and £1.17bn of undrawn debt facilities. 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.

# Financing Activity – Covenants

£2.7bn long term debt

£160m RCF

100% needs to Handover as of 3/2020

Refinancing from 2025 (EIB) and 2027 (bond)

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

Index Linked debt as % of RCV

2020  
52%

Index Linked debt as % of total debt

2020  
72%

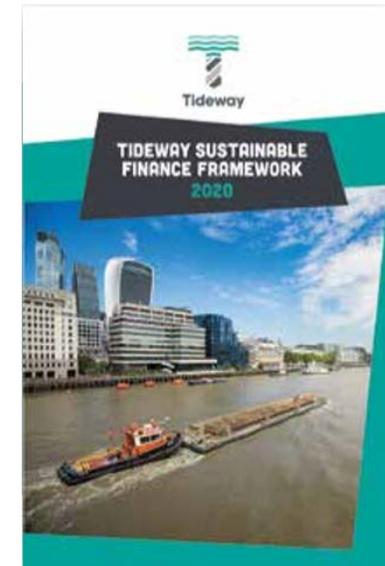
Gearing remains low in line with our equity-first approach. This will grow in the coming years as we progress through construction and draw on the deferred committed debt. The interest coverage ratio remains well above the covenant level.

2020  
Net debt/  
RCV  
50%

2020  
ICR  
4.99x

## Financing Activity – Sustainable Finance

- Tideway has 17 green bonds totalling £1.5bn and a £75m green USPP.
- Our Green Bond Framework was expanded into a Sustainable Finance Framework to encompass a wider array of funding instruments. It is aligned with the Capital Markets Association (ICMA) Green Bond Principles and the Loan Market Association Green Loan Principles, as well as with the Loan Market Association Sustainability Linked Loan Principles. It is available on our website.
- The RCF was restructured as a £160m Sustainable Linked Loan in January 2020. The agreed KPI is the meeting of at least 85% of the live Legacy Commitments and as at 31 March 2020 we exceeded the target by meeting 91% of the live commitments.
- Progress on our sustainable financing strategy is reported to our debt investors through our Sustainable Finance Report which was updated in July 2020. This report provides information to investors of the allocation of proceeds and impact of the project, including mapping of our Legacy commitments against the UN Sustainable Development Goals at target level where we expect to make a significant contribution during and/or after construction.
- S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway during the period which was published in April 2020. Tideway achieved a 74/100 score. This evaluation in an addition to the Corporate ESG Prime rating by ISS-oekom received earlier in the year.



**S&P Global**  
Ratings

# Historical Financial Performance

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

The Company recorded a £33.3m loss for the year ended 31 March 2020 (31 March 2019, here after referred to as “2019”: £31.0m loss). This is a result of fair value movements on the Company’s derivative financial instruments. The tunnel asset under construction totalled £2,593.5m at 31 March 2020 (2019: £1,828.6m).

## Allowable Costs

Our Allowable Costs of £673.5.0m (2019: £588.6m) includes £593.1m Direct costs and £80.4m of Indirect costs.

## Direct Costs

Direct costs are primarily the Main Works Contractors (MWC) costs which include the tangible construction activities. The direct costs incurred in the year have increased compared with 2018/19, reflecting the increased level of construction activities.

## Indirect Costs

The largest indirect cost is Resource Costs of £62.0m. This represents the cost to employ the c394 average FTEs (2018/19 c429 average FTEs) either employed or contracted by the Company. Other Indirect Costs totalled £18.4m in the year and this includes the cost of information systems, insurance, GSP, office and other running costs. Indirect costs have decreased compared with 2018/19 due to budget controls and cost cutting measures.

## Excluded Costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2020 were £91.4m. These comprise £92.0m of interest payable (including shareholder loans), £4.9m of costs which mainly relate to financing, partly offset by £5.5m interest receivable.

Analysis of Project Costs and the equivalent Net Cash Outflows (£m)	Year ended 31 March 2020			Year ended 31 March 2019		
	Costs	Timing Differences	Cash Outflow	Costs	Timing Differences	Cash Outflow
Direct Costs	593.1	(61.7)	531.4	504.4	0.4	504.8
Indirect Costs	80.4	(6.9)	73.5	84.2	(6.2)	78.0
<b>Total Allowable</b>	<b>673.5</b>	<b>(68.6)</b>	<b>604.9</b>	<b>588.6</b>	<b>(5.8)</b>	<b>582.8</b>
Excluded Costs	91.4	(19.6)	71.8	85.1	2.4	87.5
<b>Total</b>	<b>764.9</b>	<b>(88.2)</b>	<b>676.7</b>	<b>673.7</b>	<b>(3.4)</b>	<b>670.3</b>

Analysis of Capitalised Costs (£m)	Year ended 31 March 2020	Year ended 31 March 2019
Direct Costs	593.1	504.4
Indirect Costs	80.4	84.2
<b>Total Allowable</b>	<b>673.5</b>	<b>588.6</b>
Excluded costs	91.4	85.1
<b>Total Capitalised Costs</b>	<b>764.9</b>	<b>673.7</b>

# Historical Financial Performance (continued)

## Cash Flow and Cash

Net cash flows from operating activities of £149.1m (2019: £61.9m) represent movements in working capital and are mainly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water. The increase in trade and other payables is due to the timing of the March payment of our Main Works Contractors with £58.9m settled post year end.

Net cash flows used in investing activities of £813.8m (2019: £702.0m) show the gross cash outflows used in constructing the Thames Tideway Tunnel as well as movements to short-term deposits which represent money market funds where cash is held on deposit.

The net cash inflows from financing activities of £490.7m (2019: £356.6m) are largely the result of new borrowings drawn in the period which included £233.1m of index linked bonds and £260.0m of floating rate loans. These financing inflows were partly offset by £2.4m lease payments in relation to the Group's IFRS 16 leases.

## External Debt

Net debt at 31 March 2020 was £1,314.4m, which was £681.3m higher than the £633.1m net debt at 31 March 2019.

At 31 March 2020, the Company's borrowings were £2,408.6m being £720.4m of shareholder loans and £1,688.2m of other borrowings which include third party borrowings and intra group debt. These were in the form of £1,352.4m of fixed and floating rate loans and £1,056.2m of fixed rate and index linked bonds and loans.

In addition, the Company has secured deferred loans of £455.0m and deferred bond issuances of £550.0m 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 was restructured to incorporate a £300m reduction with the closed facility for £200m of which £160m is committed.

Due to the adoption of IFRS 16, the Group's outstanding lease liabilities totalled £7.0m at 31 March 2020 and these have been included now in the calculation of net debt. The Group has applied the modified retrospective option on adoption of IFRS 16 and as a result there is no prior year comparative.

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

Cash Flow (£m)	Year ended 31 March 2020	Year ended 31 March 2019
<b>Cash generated from operations before changes in working capital</b>	-	-
Decrease/(Increase) in trade and other receivables	0.8	(0.9)
Increase in trade and other payables	90.7	24.4
Increase in advance payment liability	57.6	38.4
<b>Net cash from operating activities</b>	<b>149.1</b>	<b>61.9</b>
Construction of infrastructure asset	(746.3)	(669.5)
Transfers to short-term deposits	(67.5)	(32.5)
<b>Net cash used in investing activities</b>	<b>(813.8)</b>	<b>(702.0)</b>
Proceeds from new borrowings	493.1	360.0
Repayment of shareholder loan principal	-	(3.4)
Lease liability payments	(2.4)	-
<b>Net cash from financing activities</b>	<b>490.7</b>	<b>356.6</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(174.0)</b>	<b>(283.5)</b>
Cash and cash equivalents at the start of the period	554.8	838.3
<b>Cash and cash equivalents at the end of the period</b>	<b>380.8</b>	<b>554.8</b>

# Historical Financial Performance (continued)

## Fair value measurements and valuation

Tideway has entered into long-term swaps with commercial banks to hedge the interest rate for tranches one to eight of the £700m EIB loan secured in May 2016 and £70m of the £300m US Private Placement notes secured in September 2017. No swaps were executed in 2019/20.

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

During the last twelve months, there was a negative movement of £33.3m in the fair market value of the index-linked swaps. This was primarily driven by a significant decrease in the implied forward Libor rates which is impacting the receive leg of the swaps.

## Tax

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

We did not recognise any taxable profits in the period (2018/19 £nil) and therefore have no corporation tax charges (2018/19: £nil).

# Liquidity and Debt Portfolio – March 2020

## Liquidity – March 2020

Facility	Amount (£m)
Cash	549
Committed and undrawn debt	1,165
<b>Total</b>	<b>1,714</b>

Facility	Drawn amount	Type	Drawdown date	Maturity (CY)
<b>Drawn</b>				
£75m CPI + 0.828%	75	Bond	Aug-17	2047
£300m 2.86%	300	USPP Loan Note	Sep-17	2032
£250m 2.375%	250	Green Bond	Nov-17	2027
£200m CPI+ 0.74%	200	Green Bond	Nov-17	2042
£100m RPI + 0.688%	100	Bond	Jun-18	2050
£80m Tranche 1	80	EIB	Jul-18	2051
£100m RPI + 0.249%	100	Bond	Dec-18	2040
£80m Tranche 2	80	EIB	Jan-19	2051
£100m RPI + 0.755%	100	Bond	Jun-19	2051
£80m Tranche 3	80	EIB	Jul-19	2051
£125m RPI + 0.192%	133	Bond	Jul-19	2049
£100m RPI + 0.01%	100	Loan	Sep-19	2049
£80m Tranche 4	80	EIB	Jan-20	2051
<b>Subtotal</b>	<b>1,678</b>			

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
<b>Committed and undrawn</b>				
RCF	160	Revolver	N/A	2025
EIB	380	Loan	Various 2020-2022	2051
£25m RPI + 1.035%	25	Bond	Jun-20	2048
£50m RPI + 0.787%	50	Bond	Jun-20	2052
£25m RPI + 0.951%	25	Bond	Jun-20	2054
£25m RPI + 1.042%	25	Bond	Jun-21	2048
£25m RPI + 0.954%	25	Bond	Jun-21	2054
£75m RPI + 0.01%*	75	Green Bond	Aug-21	2036
£75m 2.418%	75	Green USPP Loan Note	Sep-21	2041
£150m RPI + 0.01%**	150	Green Bond	Apr-22	2032
£75m CPI + 0.949%	75	Green Bond	May-22	2052
£50m RPI + 0.074%	50	Green Bond	May-22	2049
£50m RPI + 0.174%	50	Green Bond	May-23	2049
<b>Subtotal</b>	<b>1,165</b>			
<b>Total Debt</b>	<b>2,843</b>			

# Financial Ratios

We confirm that in respect of this Investor Report as of 31 March 2020, by reference to the most recent Financial Statements that we are obliged to deliver in accordance with paragraph 1 (Financial Statements) of Part A (Information Covenants) of Schedule 3 (Holdco Group Covenants) of the CTA:

- a) the Senior RAR<sup>(1)</sup> in respect of the relevant Test Period is equal to 49.96%
- b) The FFO ICR<sup>(2)</sup> in respect of the relevant Test Period is equal to 5.87
- c) The average FFO ICR in respect of the relevant Test Period is equal to 4.99

(together ***the Ratios***)

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

## Other Reportable Matters

### Significant management and board changes H2 2019/20

- In November 2019 Tideway announced that Angela Roshier was standing down as a Shareholder Director of Bazalgette Tunnel Limited and the other Tideway group companies, Bazalgette Finance plc, Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. Angela was replaced by Javier Falero as Shareholder Director for DIF Bid Co Limited, on each of the Tideway group company boards, effective 6 November 2019.
- Joseph Phillipsz stood down as Shareholder Director on the following entities: Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. Joseph was replaced by Nick Axam as Shareholder Director for Dalmore Capital 14 GP Limited on those company boards, also effective 6 November.

### Post period end

- There have been no significant management and board changes post period end.

### Acquisitions and disposals H2 2019/20

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

### Current Hedging Position

The current swap portfolio can be found on slide 33 in the appendix.

# Confirmation

We confirm that:

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



Mathew Duncan,

Chief Financial Officer

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

# APPENDICES

## Swap Portfolio – March 2020

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

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

# Reference to the CTA

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

Requirement	Reference
General overview	Page 4, Overview
Regulatory and Business update	Page 5-10, Regulatory and Business Update Page 11-21, Investment Programme
Capital Expenditure	Pages 25-27, Historical Financial Performance
Financing	Page 22-24, Financing Activity Appendix
Acquisitions or Disposals	Page 30, Other Reportable Matters
Current Hedging Position	Page 30, Other Reportable Matters Appendix
Ratios	Page 29, Ratios



**Tideway**

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