Tideway

# RECONNECTING LONDON WITH THE RIVER THAMES

ANNUAL REPORT
2023/24

# CONTENTS



*Image (this page): Andy Mitchell and others visiting the super sewer at Chambers Wharf.*
*Image (cover): The final tunnel.*

## INTRODUCTION

# WELCOME TO TIDEWAY'S ANNUAL REPORT AND ACCOUNTS FOR 2023/24.

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, maintain and finance the Thames Tideway Tunnel.

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## HIGHLIGHTS

### HEALTH, SAFETY & WELLBEING

**No major injuries** during construction.

**No significant incidents** as a result of our marine, MEICA or architecture and landscaping activities.

**70 RightWay Award nominations** all received project-wide recognising achievements and good practice across our sites.

**Continuing to strive for transformational performance** as we move into commissioning.

### SCHEDULE, COST & QUALITY

**All tunnels** have been secondary lined.

**Final shaft lid lifted into place** in East Section which marked the end of main construction.

**Construction quality remains good** with no critical defects reported.

**System Commissioning** commenced in April 2024, ahead of the Business Plan forecast.

### VISION, LEGACY & REPUTATION

**92% (44 of 48) active legacy commitments** achieved or on track to date.

**First new riverside space** opened to the public.

Minimising our carbon footprint we have achieved a **28% reduction on our anticipated carbon footprint.**

Visitor Centre, at our Abbey Mills site, hosted around **300 visitors in 11 months.**

### COMPANY & PEOPLE

**STAFF FAVOURABLE SURVEY RESULTS:**

**93% Tideway values and promotes diversity.**

**94% I am treated with respect as an individual.**

### FINANCING

**S&P Global Ratings** measuring the contribution to a low-carbon and climate resilient future.

**Tideway awarded** the highest 'Dark Green' rating.

# Chair's Introduction

## In this, my last introduction as Chair, I'm pleased to report on a year of important progress across the Tideway project.

**Underground construction was completed in March, and we made the vital connection to the Lee Tunnel in May – this is when the super sewer became an integral part of London's sewerage network. The teams are now working hard to activate this vital new piece of infrastructure.**

The year saw us complete work on a number of our sites, including the first of many new areas of public realm at Putney. I am confident that these attractive above-ground spaces will serve as a fitting reminder of, and tribute to, the complex engineering beneath.

While there remains important work to be done to bring the system into full operation, what has been completed to date is testament not just to the tens of thousands of people who have contributed to this project, but to the financing model.

Tideway is the first major UK project to use the government's Specified Infrastructure Project Regulations (SIPR) model to fund public infrastructure. And its resounding success in attracting private investment, securing competitive financing capital, and delivering this essential upgrade to London's sewerage network is clearer now than it has ever been.

A key measurable of the SIPR model's success is that, in 2015, before our work began, we undertook to the regulator and the government, that the cost of the project per household bill would not exceed £20-£25 per year (2014/15 prices). Despite many challenges – not least a global pandemic – the cost is likely to be well within that range.

What's more, consideration of this model for other major infrastructure investment is a clear endorsement of its utility and success. Alongside a cleaner river, this is central to Tideway's legacy.

The calls for action to protect and clean up the River Thames were clear and determined. Tideway has had unwavering support from a broad range of stakeholders throughout our works – from across the political divide, from local, regional and central government and from environmental and other interest groups.

The Environment Agency, as the regulator for waterways, demanded a solution and it was within Thames Water that our project was conceived. While Tideway exists today as a completely separate entity, the success of this project is theirs to share. Our two companies are now working closely through the commissioning phase toward our ultimate goal of transforming the health of the River Thames.

As we work to bring the system into full operation, to protect the river for generations to come, the health, safety and wellbeing of our teams remains our number one priority, and it is vital that we continue to abide by our core principle of keeping people safe as we complete the remaining above-ground structures and new areas of public space.

I would now like to take the opportunity to pay tribute to Richard Morse, who steps down as Deputy Chair in June. Richard's contribution to many key areas, including as Chair of the Audit and Finance Committee, has been invaluable to the Board and to me personally. I would also like to wish Michael Queen, every success when he takes over the Chair of Tideway at the end of September.

The construction industry has changed immeasurably since I began my career many years ago, and it is a privilege to sign off in this, my last role, as Chair of Tideway – a project that has proved to be an exemplar in many ways, raising industry standards in health safety and wellbeing, as well as through its financing and delivery.

Finally, I wish the team, led throughout by CEO Andy Mitchell, the very best for the future and thank them for their continued commitment and hard work in delivering this essential upgrade to one of the world's greatest cities.

**Sir Neville Simms**
Chair
*20 June 2024*

# Chief Executive Officer's Report

Welcome to this review of our performance. On 27 March 2024, our final shaft was 'capped off' at the Abbey Mills Pumping Station site near Stratford in east London, marking the completion of the main construction of the Thames Tideway Tunnel.

**This was closely followed on 13 May, when teams from Tideway and Thames Water completed the vital connection of the new infrastructure with the Lee Tunnel – creating a single London Tideway Tunnels system and marking the start of our commissioning phase.**

It is with great pride that I report these achievements and my first job here is to thank the thousands of women and men who have made them possible.

The Tideway project has been more than two decades in the making, the result of more than 40 million hours in the construction phase alone and many more in the early phases of planning, design, and feasibility. I would also like to thank our shareholders and Board for their support and encouragement to do the very best we could in every aspect of our work. This positive environment has given us the space, time and money to do so many of the positive things that we have done – the More-by-River strategy being just one example.

The fact that the Thames and its precious ecosystem will soon be protected provides hope for the future at a time of unprecedented concern for the health of our waterways. It also demonstrates that the UK, leading an international team, can successfully deliver complex infrastructure.

This report charts a different year for Tideway as we began to transition from a civil engineering project to an operational utility. It details our final construction milestones; the installation of mechanical and electrical networks; and our preparations for commissioning. It summarises our progress in health, safety, and wellbeing, reporting the eighth consecutive year of strong performance aligned to our aspiration to be transformational in this area. More than 22,000 people have now attended our EPIC health and safety induction programme – the cornerstone of our RightWay approach - and this will be one of our key legacies.

On costs, our estimate at completion remains £4.5bn and the impact on annual customer bills remains well within the range promised when the project began in 2015. The government support package, a key feature of our model which enabled us to secure more favourable financing rates to the benefit of customers, has not been required, and we do not expect it to be as we come to the final stages of the project.

Our ***Sustainability Report*** summarises our work to deliver a wide-ranging legacy, including the opening of our first new riverside public space at Putney Embankment and a 28 per cent reduction in our carbon footprint compared to the anticipated estimate.

Looking ahead to the next 12 months, we have much work to do as our company continues to evolve.

We must complete the activation of the new system, linking all sewage overflow points to the tunnel and then test it in different weather conditions. We will also finish off our above ground works - opening the remaining new riverside public spaces, with beautiful public artworks and architectural features intended to enhance London's riverscape.

We are working closely with Thames Water to commission the infrastructure and in 2025 we will hand it over for operation as part of the wider regional network. This completes the circle – Thames Water first made the case for this groundbreaking project, and they deserve much credit for its success.

We can look forward with confidence to the new system being fully operational, protecting the entire tidal Thames, and making London more resilient for the future.

Finally, on behalf of everyone at Tideway, I would like to thank Sir Neville Simms who is stepping down in September after nine years as our Chair. Sir Neville has led by example, enabling our company to flourish; his leadership has not only been essential to our success, but he has been an inspiration to me and our whole team.

Andy Mitchell

**Andy Mitchell CBE**
Chief Executive Officer
*20 June 2024*


*Andy Mitchell CBE, Chief Executive Officer*

## VISION

# RECONNECTING LONDON WITH THE RIVER THAMES

**WE DO THINGS SAFELY OR NOT AT ALL**

## PURPOSE

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

### DELIVERING OUR PURPOSE AND VISION

We bring our purpose and values to life through what we do and how we do it.

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

## VALUES

Our case studies reflect our values and how we align to the UN Sustainable Development Goals.

| | SAFETY | LEGACY | COLLABORATION | RESPECT | INNOVATION | SUSTAINABLE DEVELOPMENT GOALS |
|---|---|---|---|---|---|---|
| BUILD THE THAMES TIDEWAY TUNNEL | ● | ● | ● | ● | ● | SDG 6, SDG 9, SDG 11 |
| STAKEHOLDERS ENGAGEMENT | ● | | ● | ● | ● | SDG 17 |
| MENTAL HEALTH | ● | ● | | ● | ● | SDG 3 |
| EMPLOYERS PROJECT INDUCTION CENTRE (EPIC) | ● | ● | ● | | ● | SDG 3 |
| MORE BY RIVER | ● | ● | ● | | | SDG 3, SDG 11, SDG 13 |
| ETHICAL SUPPLY CHAIN | ● | ● | | ● | | SDG 8, SDG 12 |
| STAFF ENGAGEMENT | ● | | ● | ● | | |
| DIVERSITY AND INCLUSIVITY | | | ● | ● | ● | SDG 5, SDG 8 |
| SUSTAINABLE FINANCING | | ● | ● | | ● | SDG 8, SDG 17 |

# Our Commitment to Legacy & Sustainability

The purposeful nature of Tideway's business enabled us to align our commitments to many of the United Nations Sustainable Development Goals (UN SDGs). We did this mapping in 2018 as part of an academic research project in collaboration with private, public, professional and not-for-profit organisations.

We have completed our contribution to five out of the ten UN SDG goals and 16 out of 27 targets that map to our commitments. We identified that the project makes a long-term, direct contribution to SDG 6 (Clean Water and Sanitation) and SDG 11 (Sustainable Cities), as these will have a lasting impact in London.

## DURING CONSTRUCTION, WE HAVE MADE A SIGNIFICANT CONTRIBUTION TO:

**SDG 5:** achieved the two legacy commitments that were mapped to two targets under this goal.

**SDG 8:** mapped 23 legacy commitments to 8 targets under this goal. We have completed 21 commitments, achieving 18 of them.

**SDG 9:** achieved the two legacy commitments that were mapped to one target.

**SDG 12:** achieved the seven legacy commitments that were mapped to three targets.

**SDG13:** achieved the eight commitments that were mapped to two targets.

In 2020 we acknowledged that we negatively impacted some SDGs, in particular SDG 13 Climate Action because of our carbon footprint, however we have actively sought to minimise and mitigate this (refer to Carbon section of the Sustainability Report). We also temporarily impacted on SDG 15 Life on Land as we had to fell 156 trees to proceed with construction, but we have committed to planting 2 trees for every 1 tree removed (refer to Environment section of our Sustainability Report).

Achieving our remaining 11 commitments will complete our contribution to our core goals SDG 11 (Sustainable Cities) and SDG 6 (Clean Water and Sanitation) along with SDG 17 (Partnerships for the Goals) and SDG 3 (Good Health and Wellbeing).


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# Who We Are & What We Do

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

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

### OUR SHAREHOLDERS

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

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

### DELIVERING WITH OUR PARTNERS

Tideway has an alliance comprising Tideway, Thames Water, the Programme Manager (PM), three consortia known as the Main Works Contractors (MWCs) and our System Integrator Contractor (SIC) and we work closely with Thames Water and their team; they are responsible for important elements of the project and will ultimately operate the system.

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

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

### THE DELIVERY MODEL

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

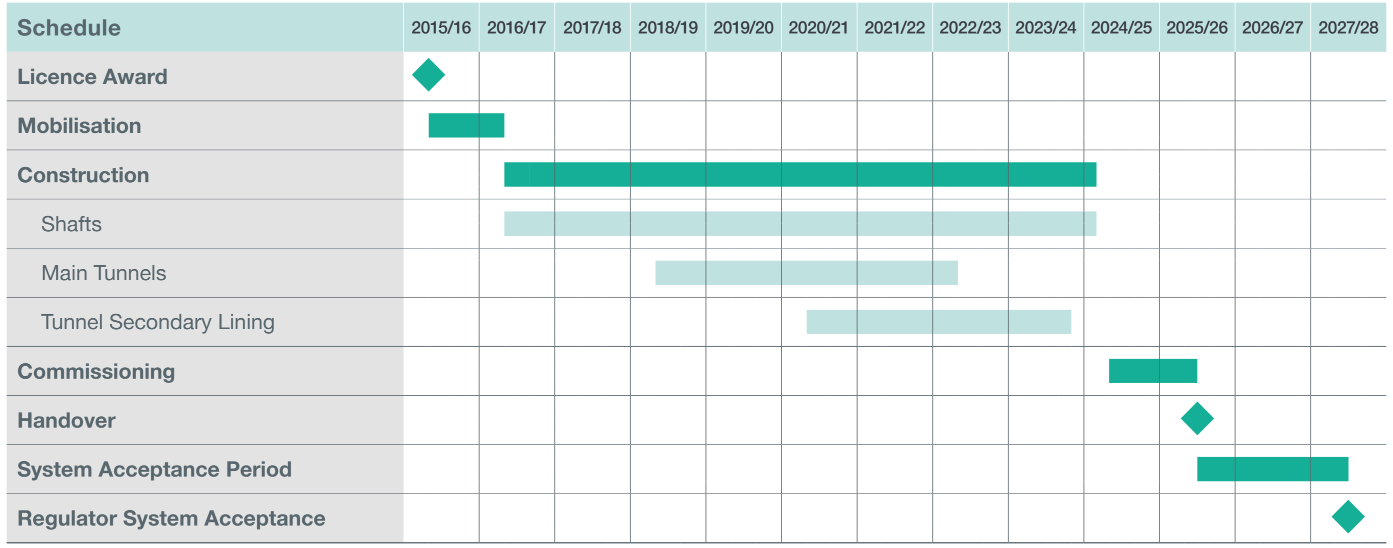
For the period until 2030, our revenues are calculated according to the framework set out in our Licence, which is primarily based on a percentage return (2.497 per cent) on the regulatory value of our company (Regulatory Capital Value or RCV). From 2030, we expect to be regulated in line with the rest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

### THE TIMELINE

## Tideway maintains a schedule with our partners for delivery of the project. There are four main stages. We are in the System Commissioning stage.

- **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 Thames Water enabling works were completed.
- **Construction**
  Excavating deep shafts at the three drive sites and each CSO interception shaft, followed by tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.
- **System Commissioning**
  After testing of the mechanical and electrical equipment at the worksites by the MWCs the SIC completes the connection of these sites to the overall London Tideway Tunnels (LTT) control system. All the elements of this system then undergo extensive testing in the dry before any sewage flows are received. Once this is complete, the final physical isolation is removed between the existing Lee Tunnel and the new Thames Tideway Tunnel. The CSOs along the Tideway Tunnel starting with the Abbey Mills CSO are activated to the new LTT system.
  Once these are all activated a series of storm tests are carried out in a gradually incremental manner over several weeks culminating in a 30-day period of automated operation. After this final test the tunnel is inspected, and the operation of the system handed over to Thames Water. At this Handover the MWCs’ activities will be complete, and the contractors will be demobilised.
- **System Acceptance period**
  Following Handover is the System Acceptance Period. This is a proving period of between 18 and 36 months in which the LTT will be operated across a variety of climatic conditions to demonstrate that it fulfils the project requirements. Once this is complete, Thames Water will become responsible for maintaining the near-ground structures and assets. Tideway will retain responsibility for the 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.
- **Timeline**
  The outline schedule sets out our current view on the schedule. It reflects our latest view following significant engagement with our delivery partners. As we continue to deliver the project we will make further changes to specific site schedules.

### OUTLINE SCHEDULE



# Who We Are & What We Do

## ENGAGING WITH OUR STAKEHOLDERS & PARTNERS

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

We listen to our stakeholders' views directly and through their representatives such as MPs and Members of the London Assembly. We continue to ensure that the communities we are working in are kept up to date on the progress being made, potential impacts and how they are being mitigated. We issue regular communications on individual site progress to our neighbours and we hold regular forums to give updates to, and get feedback from, them. These methods, plus a 24-hour helpdesk, ensure that we are always accessible. To support the project, we have established a range of independent parties and roles to ensure we engage fairly and effectively with each of our stakeholder groups and to support trust in the project.

The increased frequency of some of our key forums continued as we get closer to the completion of the project. The Thames Tideway Tunnel Forum (with consenting bodies and delivery partners) met every two months and our Liaison Committee (with government and regulatory stakeholders) met monthly. Towards the end of the year, weekly meetings with the Liaison Committee were planned in support of the start of commissioning in the new financial year.

### TIDEWAY HAS CONTINUED TO WORK HARD TO UNDERSTAND THE CONCERNS OF ITS STAKEHOLDERS AND THE IMPACTS OF ITS WORK ON ITS NEIGHBOURS.

More frequent meetings of the Thames Tideway Tunnel Forum have been helpful in facilitating dialogue. These meetings have once again covered a range of issues with an increasing focus on those relevant to the transition from the construction phase to commissioning. Meetings continue to be well-supported.

The number of complaints received in relation to works continued to fall this year, however, claims to the Independent Compensation Panel (ICP) increased slightly, as we had anticipated last year. We believe this can be attributed to more work taking place above ground than has been the case in the previous two-three years. One ICP decision was referred to the Independent Complaints Commissioner (ICC), and this was upheld. No complaints were referred to the ICC which is an indication of effective handling and resolution by Tideway and its contractors.

We have all learned during the life of the project about the nature of the impacts of construction work. There is no one size fits all approach - people have complex and differing needs – and Tideway and the independent bodies have shown a willingness to understand this and act accordingly, while at the same time respecting the importance of consistency in decision-making. I believe there are significant lessons to be learned for future projects.

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

*Work progressing at Blackfriars Bridge Foreshore, including the installation of the permanent artwork, 'Stages'.*

## STAKEHOLDER GROUPS

**Key Government and regulatory stakeholders**

Ofwat; Environment Agency; Department for Environment Food & Rural Affairs; Thames Water

**Consenting bodies and delivery partners**

Transport for London; Historic England; Marine Management Organisation; Port of London Authority; Greater London Authority

STAKEHOLDERS ALSO INCLUDE LANDOWNERS, ASSET OWNERS & LOCAL AUTHORITIES

**Communities directly impacted by construction**

RESIDENTS; BUSINESSES & LOCAL SERVICES; SCHOOLS

## ENGAGEMENT CHANNELS

| Liaison Committee meeting (including Thames Water) | Independently chaired Thames Tideway Tunnel Forum | Community Liaison Working Group meetings |
|---|---|---|
| | Bilateral meetings | Letter drops about works |
| | Stakeholder survey | 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 Chair of Tideway Reporting Group:** ICP, ICC, IAS report to the Tideway Reporting Group. The Reports are available on Tideway's *website*.

**Independent Chair 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.

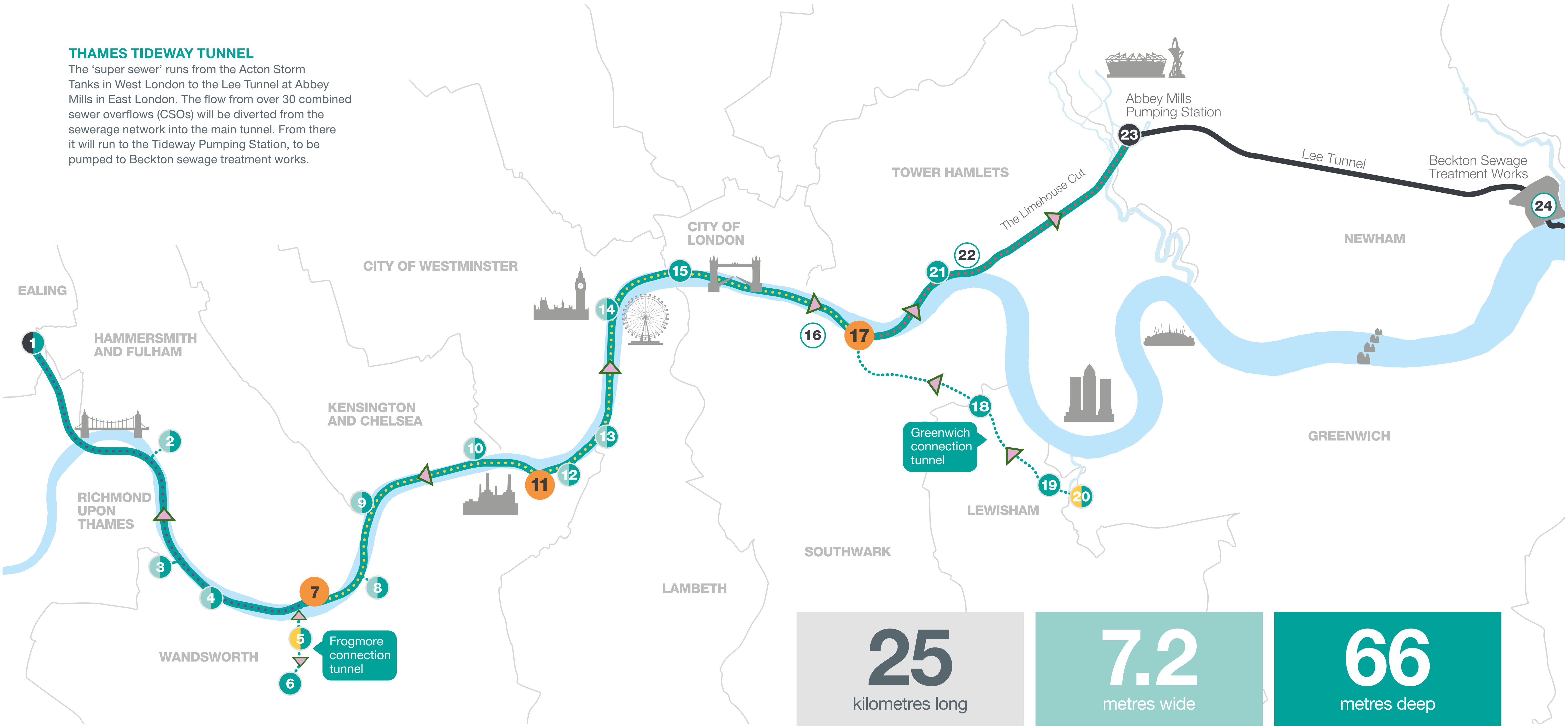
**Independent Compensation Panel (ICP):** Oversees and determines claims made under any of the non-statutory compensation policies.

**Independent Complaints Commissioner (ICC):** Assists stakeholders who are not satisfied with the ICP's response regarding a claim.

# The Tunnel Route

## THAMES TIDEWAY TUNNEL

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




Map key

- Main tunnel drive site
- Main tunnel reception site
- CSO site
- Short connection tunnel drive site
- Long connection tunnel drive site
- System modifications
- Main tunnel
- Connection tunnels
- Lee Tunnel
- Drive direction
- West works site
- Central works sites
- East works site

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

**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.

# Our Business Model

*The Value We Add*

## PURPOSE
## WHAT WE DO

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

## OUR VALUES
## HOW WE DO IT

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

**LEGACY**
Create a healthier future for London

**COLLABORATION**
Work together as an effective team

**RESPECT**
For people, places and resources

**INNOVATION**
Strive for excellence in project delivery

### CLEANER THAMES

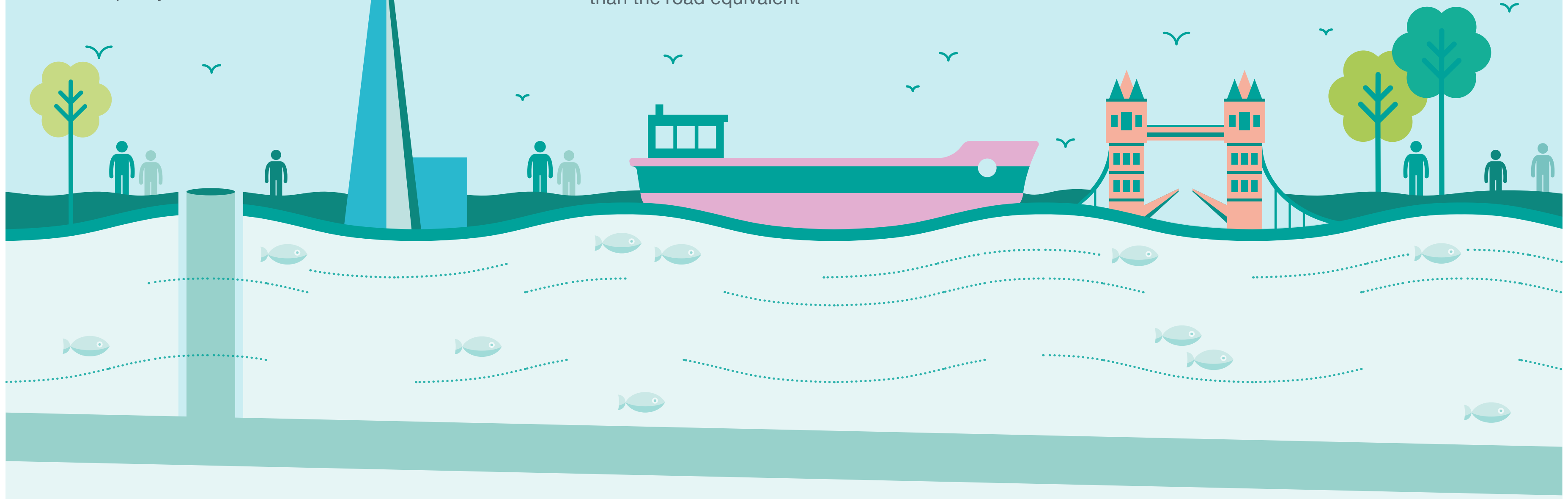
The Thames Tideway Tunnel will dramatically reduce CSO discharges, reducing sewage-related litter (and plastics) and improving water quality in the tidal Thames

### MORE BY RIVER

Our river transport strategy aimed to keep over 300,000 lorries off London's congested roads, and produce 90% less $CO_2$ than the road equivalent

### NEW PUBLIC SPACES

We are creating seven new areas of public land in the River Thames



## ENABLERS

**SAFE OPERATIONS/DELIVERY**

We strive to create and maintain a culture of doing things safely or not at all

**See Health, Safety & Wellbeing**

**COLLABORATIVE PROCESSES**

Tideway and Thames Water collaborate closely, while we maintain an experienced, competitive supply chain

**See Who We Are & What We Do – Delivering with our partners**

**EFFECTIVE GOVERNANCE, RESILIENCE AND OVERSIGHT**

Our risk management systems and policy provide a clear framework for managing and reporting risks

**See Risk Management section & Governance section**

**STAKEHOLDER FOCUS**

We aim to build enduring relationships with government, local authorities, our neighbours, partners, suppliers and others we impact

**See Engaging with our Stakeholders & Partners section**

**TALENTED AND PASSIONATE PEOPLE**

We work to attract, motivate, develop and retain the best talent

**See Company & People section**

**EFFICIENT FINANCING**

We aim to finance the project as efficiently as possible to ensure that we minimise our impact on bill-payers

**See Financing section**

## STAKEHOLDER VALUE

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

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

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

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

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

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

**INVESTORS**
- An appropriate return on investment

# Our Strategy & Priorities for 2024/25

The Executive Team and the Board have reviewed and developed targets and aspirations for 2024/25.

Reflecting on the year we have been able to evidence successful completion of many aspects of the project including the concrete cap at Abbey Mills signalling the end of main construction. We are confident that we will start cleaning up the river in 2024, with full operation in 2025.

For the coming financial year we will:

- Continue our focus on health and safety as we move into a new phase, with a focus on readiness to system activation and initial commissioning activities;
- Activate our connections to the tunnel across London to allow for testing of the system and beginning to protect the river from discharges;
- Collaborate with Thames Water to ensure continued support and commitment to the project's outcomes;
- Promote the benefits of the enhanced system for protecting the tidal River Thames; and
- Begin to transition the company towards an operational utility.

## 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 Health, Safety & Wellbeing (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

- Continue to reinforce HSW to achieve positive improvements on previous performance. This includes safe completion of construction activities, site/marine demobilisation and safe transition to Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) and commissioning activities.
- Implement the RightWay strategy for commissioning and review to determine effectiveness of HSW arrangements.

### Relevant Principal Risks:

- Health, safety and wellbeing.
- High impact, low probability events.

## SCHEDULE, COST & QUALITY

### Objective

We want to deliver the Thames Tideway Tunnel safely, at the right quality, and efficiently. Critical to the final year of main construction will be maintaining control and predictability so that all stakeholders relationships and interfaces can be managed well.

### Key Long Term Activities

Enabling all our delivery partners to safely, efficiently and predictably deliver the project, 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

- Working with the Programme Manager, all three MWCs, the SIC and Thames Water to safely deliver the most efficient schedule whilst maintaining strong oversight and control over cost for the 24/25 financial year.
- Maintaining TWUL's commitment to the agreed programme for Commissioning, Handover and Acceptance.
- Obtaining commitment from the Environment Agency (EA), OFWAT, Thames Water and Department for Environment, Food & Rural Affairs (DEFRA) to an approach and programme that best achieves early and successful outcomes.
- Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous timely, quality certification and particularly certification to achieve System Activation.
- Commercial status of all three MWCs, SIC and TWUL aligned to Tideway's objectives for cost and schedule which support an efficient, clean project close out.
- Continue to handback areas on completion of construction (including architecture and landscaping), and / or worksite testing and commissioning (as applicable).

### Relevant Principal Risks:

- Programme delivery.
- Supply chain failure.
- High impact, low probability events.
- Interfaces with Thames Water.
- Regulatory and political

## VISION, LEGACY & REPUTATION

### Objective

We want to maintain a supportive environment for completing the project and develop a positive reputation with our stakeholders. We want to continue to be a responsible business in all that we do and demonstrate our Environmental, Social and Governance (ESG) credentials in order to build and retain trust and deliver a lasting legacy.

### Key Long Term Activities

To ensure continued good relations with stakeholders including the consent granting bodies.

Promote the Tideway story to a broad range of audiences.

Address the needs and concerns of our neighbours including through our Community Investment programmes and engagement.

Deliver our legacy commitments.

Meet ESG reporting requirements.

Work with the end in mind to have a structured communications and engagement plan, which includes a clear narrative.

Continue to engage with internal audiences to maintain a 'one-team' culture.

Maintain political consensus through engagement with local, regional and national stakeholders.

### Priorities

- Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with Thames Water and critical stakeholders.
- Communicate the benefits of Tideway within the context of the heightened public awareness of sewage pollution and growing calls for it to be tackled.
- Ensure that we deliver on our essential ESG commitments and sign off our legacy, sustainability and community programmes effectively.

### Relevant Principal Risks:

- High impact, low probability events.
- Reputation.

## COMPANY & PEOPLE

### Objective

Deliver effective organisation change in line with project requirements. Continue to support a high-performing, motivated and engaged workforce which will deliver better value and help us retain key skills.

### Key Long Term Activities

Reinforcing values and behaviours.

Maintaining our commitment to diversity.

Maintaining a clear strategy for preserving organisational capability in critical roles.

Providing training and development and succession planning.

Offering competitive terms and conditions, benefits and incentives.

Delivering systems, processes and tools to support an effective Organisation.

Maintain/create policies, processes and activities which appropriately maintain the Tideway culture within a reducing organisation.

### Priorities

- Continue to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team and deliver restructuring activities in line with project requirements.
- Refine our strategy for the future of the company to transition from construction to an operational organisation.

### Relevant Principal Risks:

- High impact, low probability events.
- Reputation.

## FINANCING

### Objective

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

### Key Long Term Activities

Maintaining a low risk financing position by preserving our Baa1/BBB+ credit ratings and strengthening financing sustainability/ ESG performance.

Maintaining appropriate levels of liquidity.

Optimise our cost of finance to increase our return to shareholders.

Drive strong financial control and discipline across the company.

Continue to build trust and confidence with our stakeholders through high quality reporting, engagement and assurance.

### Priorities

- Maintain the Company Credit rating & deliver an Internal Rate of Return (IRR) in line with the financing plan.
- Maintain Estimate at Completion (EAC) to approved budget.
- Liquidity and Gearing management – continue focus on capital preservation and liquidity and seek to optimise returns on investment activities.

### Relevant Principal Risks:

- Programme delivery.
- High impact, low probability events.
- Credit risk rating.
- Inflation.
- Regulatory and political.

# 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.

## PRIORITIES

- Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas but specifically high-risk activities including marine, and secondary lining. Ensure Tideway transformational HSW behaviours and standards are realised in the forthcoming worksite testing and commissioning phases.
- Implement the HSW strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) installation and site commissioning risks and review to determine effectiveness.

## 2022/23 MEASURE

**MAINTAIN STRONG HSW PERFORMANCE, INCLUDING MARINE**

| Target | Actual |
|---|---|
| Safety record better than recent major projects<br>Improved performance on 2022/23 | On Track |

**NUMBER OF MAJOR INJURIES***

| Target | Actual |
|---|---|
| 0 | 0 |

**MEICA AND ARCHITECTURE AND LANDSCAPING WORKS**

| Target | Actual |
|---|---|
| 0 significant incidents due to MEICA or A&L activities | 0 |

**ACCIDENT FREQUENCY RATE 3 (AFR-3)***

| Target | Actual |
|---|---|
| 0.00 | 0.18 |

**ACCIDENT FREQUENCY RATE 7 (AFR-7)***

| Target | Actual |
|---|---|
| 0.00 | 0.13 |

## PERFORMANCE

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

The project's three-day Accident Frequency Rate (AFR-3) of 0.18 continues to be lower than comparable projects at an equivalent stage of construction. This is testament to the continued efforts, made at every level, to eliminate and reduce accident and injury occurrences.

During the year, there were 12 lost-time incidents (compared to 13 in 2022/23). Three of the injuries sustained were RIDDOR specified and three were RIDDOR reportable for being over 7 days lost time. There were 12 high-potential near misses. Any incident classified as significant, including the above categories, is subject to thorough investigation to determine immediate and root causes, so we can identify and implement actions to prevent recurrence and ensure lessons are shared and learned.

Tideway is proud of the open and transparent reporting culture on the project and the depth of investigations that are subsequently undertaken. We nurture this positive culture and are committed to continuing to strive for transformational performance as we complete construction and move into commissioning.

## RIGHTWAY

A RightWay in Commissioning Strategy Day took place in January, with representatives from across the Alliance, to discuss what RightWay will look like within each of the six RightWay pillars, through the latter, commissioning phases of the project.


With the transition from Construction to Commissioning, the teams are reflecting on how we continue to recognise HSW performance. The annual RightWay awards received 70 nominations with a project-wide ceremony in September.

We are proud of the achievements and good practice across our sites and participants value the recognition of the RightWay awards.

## HEALTH AND WELLBEING

We continue with our aim to focus on Health and Wellbeing to achieve relative parity with our work on Safety.

We seek to minimise and mitigate any health risks arising from our work, whilst supporting the wider Health and Wellbeing of our workforce.

## OCCUPATION HEALTH INSPECTIONS (OHI)

With our Occupational Health (OH) Service Provider we continue to deliver targeted health and wellbeing education and support. Initiatives included noise, fatigue, drug and alcohol awareness campaigns, defibrillation demonstrations and continuing to engage the workforce with blood pressure, cholesterol, and glucose checks.

We undertook an innovative skin cancer prevention screening pilot with CVB. High-definition scans of moles and lesions were recorded on site and sent virtually to be assessed by a dermatologist. The programme was delivered as a combined empowerment and education initiative to highlight the importance of sun protection and screening.

The OH team are encouraged to undertake site walks to interact with operatives and also communicate through toolbox talks and monthly newsletters supporting the campaigns.

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

Occupational Hygienists are also able to provide invaluable coaching during inspections to continue to improve the knowledge and understanding of the construction teams not only during the inspection, but also during activity design stages.

## MENTAL HEALTH

Mental Health of the workforce is a major driver for the project and has been led by the Mental Health Working Group since 2018. We continue to work with the Mates in Mind charity and deliver "start the conversation" and "manage the conversation" training.

We formed an Alliance-wide stress working group, supported by senior management, to address the work-related stress anticipated at this stage of a project. The group has worked proactively and has now introduced a new health and safety performance indicator related to managing stress for the coming year.

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

case study

# MARINE SAFETY

Having committed to move "More by River", utilising the river Thames to transport materials and remove excavation spoil from site wherever possible, Tideway engaged with HR Wallingford, global leaders in working sustainably with water, to scope a suitable validation process for Boat Masters and Mates employed to work on the Tideway project. The first Masters' course was held at HR Wallingford in 2016. The two and four-day courses were designed to refresh the Masters' and Mates' current skillsets and undertake emergency scenarios exercises within a controlled environment, via a simulator and classroom-based discussions.

Tideway has continued to work with the Thames Skills Academy (TSA), Port of London Authority (PLA) and Company of Watermen & Lightermen, to successfully introduce the first port-wide Continuing Professional Development (CPD) Programme for all Masters in command of an Intra-port Commercial Vessel. The key objective of the programme is to improve safety on the Thames, refreshing current knowledge and teaching new skills, as the industry changes. Launched in January 2024, two of the courses within the CPD programme include attendance at the immersive Tideway Marine EPIC Health & Safety training experience and the TSA/HR Wallingford simulator two/three/four-day courses.

## RIVER SAFETY TRAINING

Positive marine performance has been achieved throughout the year. Activities have transitioned towards demobilisation of sites, for example supporting the removal of cofferdams which were originally constructed at sites adjacent to the river to allow site works to be undertaken.

Education related to the dangers of working on, and next to, the river was undertaken through the Tideway Marine River Survival Refresher programme for both existing marine operatives and those new to the project and working on the Thames. Observations raised have been quickly resolved and best practice has been shared between the contractors.

Picture Caption XXX

# Schedule, Cost & Quality

## OBJECTIVE

We want to deliver the Thames Tideway Tunnel safely, at the right quality, and efficiently. Critical to the final year of main construction will be maintaining control and predictability so that all stakeholders relationships and interfaces can be managed well.

## PRIORITIES

- Working with the Programme Manager, all three MWCs, the SIC and Thames Water to safely deliver the most efficient schedule.
- Maintaining Thames Water's commitment through the joint approach, to the agreed programme for Preliminary Commissioning Commencement Date, Start of Systems Activation, System Commissioning Commencement Date, Handover and Acceptance.
- Obtaining commitment from the EA, OFWAT, Thames Water and DEFRA to an approach and programme that best achieves early and successful outcomes.
- Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous timely, quality certification and particularly certification to achieve Systems Activation.
- Commercial status of all three MWCs, SIC and Thames Water aligned to Tideway's objectives for cost and schedule which support an efficient, clean project close out.
- Continue to handback areas on completion of construction (including architecture and landscaping), and / or worksite testing and commissioning (as applicable).

## 2023/24 MEASURE

### DELIVERY AGAINST THE BEST VALUE FOR MONEY SCHEDULE – SCHEDULE HANDOVER

| Target | Forecast |
|---|---|
| Handover by quarter two 2025/26 | Fully operational in 2025 with the 'handover' date likely to be in the second half of that year |

### DELIVERY AGAINST THE REGULATORY BASELINE – COST*

| Target | Forecast |
|---|---|
| £3.5bn | £4.5bn |

## PERFORMANCE

Tideway completed underground construction activities in 2023/24 with the lowering of a 24m-wide, 1,200t concrete cover onto the 70m-deep shaft at Abbey Mills Pumping Station. Surface level activities, primarily architecture and landscaping works, will continue in 2024 while commissioning works commence within underground structures and tunnels.

The expected Handover date could potentially be in advance of the target date of quarter two 2025/26, following better than expected secondary lining rates in both of the East tunnels. The performance of secondary lining in East has also meant that preliminary commissioning was able to commence at the end of April 2024, ahead of the 2023/24 Business Plan forecast. The cost estimate is currently £4.5bn which is a one per cent increase from the previous year. This includes the impact of reaching commercial agreement with two of the three main works contractors and forecasting the impact of prolongation on indirect costs. We remain confident that the impact on customer bills will remain well within the pre-Licence award estimate of £20-25 (in 2014/15 prices).

The EAC forecast remains at £4.5bn in line with last year's report. Previous annual reports have set out the changes from the regulatory baseline.

Tideway and Thames Water continued to collaborate and implement the 'Joint Approach' towards Phased Commissioning, in order to deliver the earliest possible Preliminary Commissioning Commencement Date (PCCD), Start of System Activation, Handover and System Acceptance dates. The progress of this 'Joint Approach' is reported on a monthly basis to the Interface Committee and continues to set a good framework for on-going collaborative working. PCCD was declared and System Commissioning commenced on 29 April 2024 slightly ahead of the Business Plan for 2023/24 set over a year previously.

Tideway and Jacobs were proud to be shortlisted for the *UK Project Controls Social Impact of the Year award* which recognises complex 'programmes' that can demonstrate great controls not just on time, cost and quality but also on benefits (which can typically be realised way after the project has finished), for the legacy the project is creating and how it has impacted the lives in the communities both during delivery and after everyone has 'packed up and gone home'.

## CONSTRUCTION QUALITY

The level of non-conformance and re-work on the project has continued to remain at a satisfactory level, with no critical defects being reported this year and to date on the project. as noted in our Interim Report 2023/24, infiltration of groundwater into some tunnel sections was identified during the year. Independent investigations have concluded that the level of infiltration does not present structural or durability issues. Monitoring will be carried out during the System Commissioning period to confirm in service performance ahead of final construction completion certification.

Construction quality is the responsibility of the System Integrator Contractor and Main Works Contractors who self-certify their works. This self-certification is overseen through regular weekly and periodic surveillance by the Programme Manager.

In collaboration with Tideway and Thames Water, the Programme Manager developed an interim assurance process in 2024, utilising a site readiness for commissioning procedure and associated weekly readiness reviews, to provide confidence that all the required deliverable assurances for the Main Works Contractors and System Integrator Contractor works are in place to agree attainment of commissioning milestones.

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

## COMMERCIAL

Each of the MWCs' target prices have been adjusted to reflect Compensation Events (risks retained by Tideway). The primary areas of change to the MWCs relates to the close out of historical matters, finalisation of the programme to contractual completion and the implementation of Tideway's Phased Commissioning Plan requirements to the MWCs' scope of work. This includes the introduction of new and realignment of existing commercial incentives to maintain ongoing programme alignment between the MWCs and Tideway's programme objectives including the achievement of the Preliminary Commissioning Commencement milestone. All three MWCs continue to collaboratively work with Tideway to finalise and implement plans to achieve the remaining key milestone dates for the overall programme. Subject to final commercial discussions, all parties are incentivised and substantially aligned in their commercial approach for delivering the remaining works on the programme and in line with our health and safety objectives.

## SYSTEM COMMISSIONING

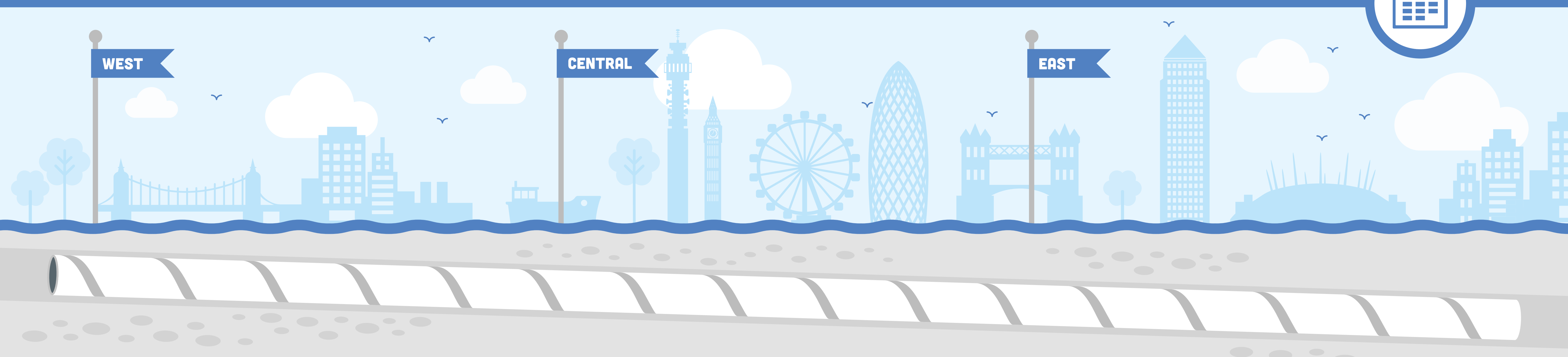
During the year significant progress was made by Tideway and all other Tideway Alliance members in preparing for system commissioning, with the System Commissioning Plan being finalised and formally accepted by Thames Water. It comprises a suite of around 80 documents that provide the integrated approach for the Alliance to work collaboratively together for the successful achievement of System Commissioning.

Alongside the System Commissioning Plan, Tideway and Thames Water agreed a deed of variation to the Interface Agreement in December 2023/24, a revised approach (Strategic Intent) to System Acceptance that allows operational and climatic data collection to commence at the earliest meaningful point. This is designed to increase the resilience of the programme leading to the formal Handover to Thames Water at the end of the System Commissioning period.

The System Commissioning Plan was finalised in 2023/24 and formally accepted by Thames Water and, with Tideway entering the System Commissioning Phase in 2024, access and control of the below-ground structures will be controlled by CVB, who has been appointed as System Commissioning Principal Contractor and are supported by the Commissioning Management Team.

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

# Schedule, Cost & Quality




### WEST AREA

**All West worksites** substantially complete with the exception of Carnwath Road Riverside, which still has Civil, Marine, MEICA and Worksite Testing to complete. The first of Tideway's new riverside spaces opened to the public.

**Highlights included:**

- All worksites substantially completed in the year, with the exception of Carnwath Road riverside.
- The completed riverside space at Putney became the first major part of Tideway's above-ground legacy when it was opened to the public at a community event in September. Our Barn Elms site also hosted a community event to mark its completion. Children from two local primary schools visited the 'bug hotel' which forms part of the site kiosk and was highly commended in November's Big Biodiversity Challenge Awards.
- Public artworks were unveiled at four sites including at Hammersmith, where a bronze plaque by Sarah Staton features a quote from Queen Caroline of Brunswick, and at Dormay Street where a series of four sculptural elements fixed to the fenders protect the intertidal terraces within Bell Lane Creek, by artist Yemi Awosile.
- The other sites moved towards completion, with shaft lids installed at Acton Storm Tanks and Carnwath Road Riverside and the acoustic enclosure being removed at Carnwath Road. The new park entranceway at King George's Park is due to open in the first quarter of 2024-25.

### CENTRAL AREA

**All shafts** 'capped off' in the Central section and site completions have begun.

**Highlights included:**

- The team substantially completed work at our Cremorne Wharf Depot site, the first Central site to achieve this milestone.
- We have installed all shaft covers, effectively closing up the tunnel through central London. At Central's riverside sites the team have been removing cofferdams, the temporary working areas built out into the river to allow us to construct infrastructure below ground. When the Victoria site's 'twin wall' cofferdam was removed, the new river wall and floodable public realm were made fully visible.
- Elsewhere, the new public spaces are continuing to take shape. Intertidal terraces at Albert Embankment have been planted to provide a biodiverse habitat when the terracing is submerged at high tide; tree avenues have been planted at Falconbrook and Victoria; and installation of artwork by artists Florian Roithmayr at Chelsea and Nathan Coley at Blackfriars is underway.

### EAST AREA

**Secondary lining** complete in East, all 25km of tunnels have been secondary lined and the final shaft lid across the project has been lifted into place.

**Highlights included:**

- The project's final major construction milestone involved lifting the 1,200-tonne concrete cover over the shaft at Abbey Mills Pumping Station in Stratford. This represented the heaviest lift on the project, surpassing those of Tideway's tunnel boring machines earlier in the programme.
- At King Edward Memorial Park cofferdam removal is underway and at Greenwich and Chambers Wharf the acoustic enclosures, required during tunnelling and secondary lining works, have been removed.
- Earl Pumping Station experienced ground collapse and inundation of the works during 2023. The site team worked well to successfully implement corrective measures allowing the progress of civils works to be delivered mitigating potential delays to SACD and SCCD.

### SYSTEM INTEGRATION

**Completed integration** for 15 out of the 21 sites which will link to the operational network control system.

**Highlights included:**

- System Integration (SI) is the part of the programme that ensures the readiness of the system for operation, maintenance and reporting at all sites across the Thames Tideway Tunnel system.
- The team have progressively integrated Tideway sites into the supervisory control and data acquisition (SCADA) system at Beckton and this will monitor and control the whole tunnel. By the end of the year a total of 15 of the 21 sites to be linked to the system were successfully completed, with the remainder planned for the first quarter of 2024-25. Additionally, secondary control rooms were installed and tested at three Thames Water sites, with cyber security penetration testing completed to confirm that the system is secure in preparation for coming into operation during system commissioning.

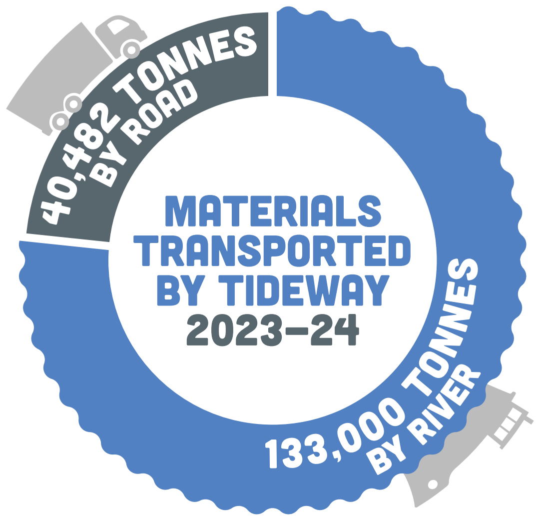
# Schedule, Cost & Quality

## RIVER IMPROVEMENT

During the year we transported **133,000 tonnes** of material by river compared with **40,482 tonnes** by road.

Our river movements consisted of completing secondary lining of Greenwich Connection Tunnel, the decommissioning of the temporary cofferdams within the central contract area at Victoria Embankment, Albert Embankment, Chelsea Embankment and Blackfriars Bridge. East has also been decommissioning their temporary cofferdam at King Edward Memorial Park.

The total quantities transported by river to date is 5,759,000 tonnes. This consists of 4,894,000 tonnes of specified materials that are required to be transported by river under the River Transport Strategy and 865,000 tonnes of additional materials that were transported as part of the More by River Strategy. The benefits of this were to avoid around 344,000 HGVs or 688,000 HGV journeys on London's road network; saving over 17.5 million HGV miles; and avoiding in the region of 24,400 tonnes of CO2. These carbon savings have been subject to third party verification. With construction more than 90 per cent complete, we have closed our legacy commitment related to transporting material by river. Further details of our Legacy progress can be found in our Sustainability Report.




## TO DATE

**5,759,000**
TONNES MOVED BY RIVER

## WHICH MEANS

**344,000**
FEWER HGVS ON THE ROAD

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

**Saving 24,400 tonnes $CO_2$ emissions**

*Tideway's site in the corner of the Barn Elms Playing Fields was completed and formally opened in September 2023.*

# Vision, Legacy & Reputation

## OBJECTIVE

We want to maintain a supportive environment for delivering the project and develop a positive reputation with our stakeholders.

We want to continue to be a responsible business in all that we do and demonstrate our ESG credentials in order to build and retain trust.

## PRIORITIES

- Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with TW and critical stakeholders.
- Communicate the benefits of Tideway within the context of the heightened public awareness of sewage pollution and growing calls for it to be tackled.
- Ensure that we deliver on our essential ESG commitments and sign off our legacy, sustainability and community programmes effectively.

## 2023/24 MEASURE

**SUPPORT FROM STAKEHOLDERS**

| Target | Actual |
|---|---|
| No material schedule impact as a result of stakeholder intervention | None |

**PERCENT OF LIVE LEGACY COMMITMENTS ON TRACK**

| Target | Actual |
|---|---|
| 85% | 96% |

DOWNLOAD SUSTAINABILITY REPORT 2023/24

## PERFORMANCE

We completed or 'closed out' 13 legacy commitments in 2023/24, bringing the total closed out to 38 – a total of 70%. We expect to complete a further 11 by the end of 2024/25, with five remaining commitments relating to long-term project benefits such as water quality.

The social value of our legacy programme received external industry recognition when we were highly commended in the community impact category of the 2023 British Construction Industry Awards.

Our latest reputation survey of 1,000 Londoners and 30+ opinion formers showed strong levels of support for the Tideway project among the public and our stakeholders.

## LEGACY

This year marked the substantial completion of our legacy programme which is made up of 54 measurable commitments. During the year an average of 93 per cent of our live commitments were on track and a total of 38 have now been closed out, with targets achieved or exceeded in 34.

Of the 13 closed this year, we achieved or exceeded our targets in 11 of them. These include:

- Five of our key employment-related commitments, including at least 25 per cent of staff living in one of our 14 London boroughs and 10 per cent being previously unemployed
- Ensuring all staff experience Tideway's induction programme EPIC (Employer's Project Induction Centre) – this is an immersive, interactive experience that has already been embraced by several projects in the UK and is seen as the future for delivering inductions. More than 22,300 people have attended the programme. EPIC is embedded and already delivering a legacy, so we have closed the commitment.
- Minimising our carbon footprint - with construction more than 90 per cent complete, we have achieved a 28% reduction on our anticipated carbon footprint of ~770,000 $tCO_2e$. Our verified scope 3 (embedded) carbon emissions to date is 553,625 $tCO_2e$. We will continue to track carbon for annual reporting. Further details can be found in the TCFD section and our Sustainability Report.

There were two commitments which closed without all targets being achieved. The first was for 20 per cent of staff employed at our three 'drive' sites (where the Tunnel Boring Machines began or ended their journeys) to live within those boroughs. The second related to a commitment to local jobs brokerages, where we had two measures that fed into this target. We achieved one measure, on employing skills and employment managers at each drive site, but did not achieve the other, a 95 per cent target for posting new jobs with boroughs (we achieved 85 per cent).

See our *Sustainability Report* for more details on our legacy programme.

## ENGAGEMENT AND COMMUNICATION

In a year when the issue of sewage pollution continued to be high on the agenda of public concerns, Tideway's proactive communication strategy to keep its stakeholders informed about the benefits and progress of the project was more important than ever.

We hosted site visits and held briefings for stakeholders, including elected representatives, with an increasing interest in the financial model for the project as well as its construction and wider benefits. We also had regular fora with local authorities, consenting bodies and residents to explain our progress towards completion. Our Visitor Centre, situated at our Abbey Mills site, closed in February after hosting around 300 visitors in 11 months.

We engaged local communities at events held to mark the completion of work at individual sites – see case study. We kept residents up to date through the 'River Times' newsletter and used this to survey residents, with 61 per cent of those who responded saying that Tideway has been a considerate neighbour during construction. Our 24-hour Helpdesk received 1,841 enquiries and 275 complaints – reductions of 3.5 per cent and 20 per cent respectively, compared with last year.

In 2023/24 we delivered a campaign called 'Loo Gardens' to raise awareness of the project and its benefits with the public. The 'garden' was an underground artistic installation in the tunnel at Kirtling Street, designed to highlight the nature benefits of the Tideway project. It was visited by 600 people and widely covered in the media. The lift of the shaft lid at Abbey Mills, the project's final construction milestone, generated coverage across national and local media and significant engagement on our social media channels. We use these channels to update and engage stakeholders and the public – by March 2024 we had 42,000 followers on LinkedIn

## CHARITABLE GIVING

We gave a total of £16,143 in charitable donations as well as £17,355 worth of in-kind donations. Staff across the project raised £13,735 for charity, including more than £7,000 in the 'Oarsome Challenge', a 16-mile row on the Thames through central London.

More detail on our community investment and work with charities *Sustainability Report*.

**£13,735** RAISED FOR CHARITY BY STAFF ACROSS THE PROJECT.

This includes over **£7,000** from competing in the 16-mile Oarsome Challenge row along the River Thames.

WE GAVE... **£16,143** IN CHARITABLE DONATIONS

AND ALSO.... **£17,355** OF IN-KIND DONATIONS

*'The Magnificent 8', one of seven Tideway teams to take part in the latest 'Oarsome Challenge', which raised around £40,000 for London Youth Rowing.*

case study

# NEW PUBLIC REALMS

Tideway has begun to deliver its above-ground legacy - and as construction work came to an end at some of our sites, we held events to unveil our first public art installations and our first new riverside space.

### PUTNEY

At Putney the riverside space was opened by local representatives including Fleur Anderson MP, alongside more than 50 of our key stakeholders. This was followed by a community event where locals tried out the views of the river and talked to project staff and artist Claire Barclay. Claire created the site's public art, which includes bronze oars that form the handrails of the area's balustrade and a new bronze start line marker for the University Boat Race.

### BARN ELMS

The completion at Barn Elms was marked by a community event which began with an official opening involving local MP Sarah Olney and which then saw children from two local primary schools learning about the site's artwork from artist Adam Chodzko and about the site's 'bug hotel', which uses the back of the site kiosk to encourage biodiversity.

### HAMMERSMITH

At Hammersmith, local MP Andy Slaughter unveiled a bronze plaque by artist Sarah Statton, which features a quote from Queen Caroline of Brunswick who lived nearby, and at Dormay Street a series of four sculptural elements by artist Yemi Awosile were on display – the sculptures are fixed to the fenders which protect the intertidal terraces within the Bell Lane Creek.

*Formal opening of Putney Embankment, with CEO Andy Mitchell, Cllr Kemi Akinola, Fleur Anderson MP, Nevil Muncaster, Thames Water.*

*Spectators watching the University Boat Race from the new public realm on Putney Embankment.*

*Artist Adam Chodzko talking local primary school students through his permanent artwork installation at Barn Elms.*


*Formal revealing of the permanent artwork at Hammersmith Pumping Station.*

# Company & People

## OBJECTIVE

Deliver effective organisation change in line with project requirements. Continue to support a high-performing, motivated and engaged workforce which will deliver better value and help us retain key skills.

## PRIORITIES

- Continue to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team and deliver restructuring activities in line with project requirements.
- Refine our strategy for the future of the company to transition from construction to an operational organisation.

## 2023/24 MEASURE

| | EMPLOYEE DIVERSITY* | PRESERVING A VALUES DRIVEN, SKILLED, DIVERSE AND ENGAGED WORKFORCE |
|---|---|---|
| | Percentage of women within Tideway at 31 March | |
| Target | 40% | Subjective |
| Actual 2023/24 | 36% | Green |
| 2022/23 | 33% | Green |
| 2021/22 | 36% | Green |
| 2020/21 | 36% | Green |
| 2019/20 | 36% | Green |

PERFORMANCE

We undertook our annual engagement survey in February 2023. Our favourable scores continued to show we are maintaining and, in some cases, improving our already high scores.

## PERFORMANCE ENGAGEMENT SURVEY

| | 2023/24 Favourable | 2022/23 Favourable | 2021/22 Favourable |
|---|---|---|---|
| TIDEWAY IS OPEN AND HONEST IN ITS COMMUNICATIONS WITH EMPLOYEES? | 88% | 83% | 85% |
| I AM TREATED WITH RESPECT AS AN INDIVIDUAL? | 94% | 90% | 93% |
| TIDEWAY VALUES AND PROMOTES DIVERSITY? | 93% | 89% | 89% |


*The team at Abbey Mills Pumping Station after successfully completing the 1,200 lid lift.*

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

# Company & People

## PERFORMANCE

As the Tideway project moves towards completion, our people have been looking back on their time on Tideway and talking about their experiences.

Here are the reflections of two project staff from completed sites at Hammersmith and Barn Elms. Their accounts are in line with our staff survey results including the 83 per cent favourable score for 'My job makes good use of my skills and abilities'. You can see the full interviews on the Tideway website *www.tideway.london/our-people.*

"Working with an active pumping station on site isn't easy. we had to work really, really closely with Thames Water."

We went in there, we managed the flows and more importantly we did it without any major safety incidents which was a huge achievement for the team.
On West we were the first to do penstock hydrostatic testing, the first to finish the connection tunnel, we were the first vortex lift. We felt really good when we did it, and we did it successfully, and saw other sites adopt what we did. We were very proud.

The team at Hammersmith is my favourite bit of this whole project – they are absolutely fantastic. A lot of work has gone in for us to work together – a lot of training, teaching each other, learning together. It is such a lovely family - I don't think I'll work anywhere like it ever again.

**I FEEL VERY LUCKY."**

**Anna Magrath**
Section Manager, Hammersmith

"You don't think you're in central London at all because you've got a river next to a green field and hedges and you get people rowing up the River and enjoying the River."

The engineering at Barn Elms is there to try and stop CSO flows into Beverley Brook and transfer those into the **#supersewer**.

My favourite thing at Barn Elms is the relationships with everyone onsite, working with a lot of people who are really like minded, always want to get the job done has been a pleasure.

I'm really proud of what I have been able to deliver - and how I have grown myself. I was looking at going into Finance but I realised I wanted some sort of legacy, I changed to civil engineering, where you are building something and I will be able to take friends and family and show them what I built and be really proud of what I've built.

**THE LEGACY IS BRILLIANT."**

**Louis Robjant**
Project Manager, Barn Elms

## PERFORMANCE

We improved our performance over last year increasing the percentage of women within Tideway from 33% to 36% (against a target of 40%).

We continued to focus on supporting women and other underrepresented groups working on the project, with blind recruitment, mentoring, coaching, targeted development activities and in-house inclusivity champions to ensure no bias in internal development and career progression.

| | 2021 | | | 2022 | | | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Headcount** as at 31 March 2024* | Female | Male | Total | Female | Male | Total | Female | Male | Total | Female | Male | Total |
| Board** | 1 | 12 | 13 | 1 | 12 | 13 | 1 | 11 | 12 | 1 | 10 | 11 |
| Senior Management | 14 | 21 | 35 | 14 | 17 | 31 | 10 | 17 | 27 | 8 | 12 | 20 |
| Other Employees | 109 | 191 | 300 | 90 | 168 | 258 | 78 | 158 | 236 | 78 | 139 | 217 |
| **Total *** | **124** | **224** | **348** | **105** | **197** | **302** | **89** | **186** | **275** | **87** | **161** | **248** |

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

** *Includes shareholder Directors*

## REPORT FROM DESIGNATED NON-EXECUTIVE DIRECTOR BARONESS MCGREGOR-SMITH

This is an exciting time for Tideway with the pace of change increasing as the project moves towards commissioning.

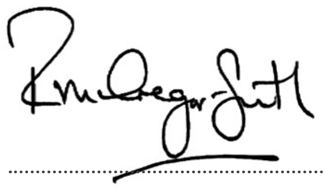
In my role as the designated non-executive director representing workforce matters, I am pleased to report that Tideway continues to maintain a supportive and strong inclusive culture with 93% of people reporting that Tideway "Values and Promotes Diversity".

Meeting with the Employee Forum representatives allows me to understand not only how Tideway's policies and practices support the team, but also how the culture underpins the way the company operates and responds. As the organisation evolves into the next phase, working with the Employee Forum, who are briefed and consulted on, potential future changes provides effective feedback and valuable insight for the Board and executive management. This openness in communication is reflected in the Forum feedback that individuals are now more comfortable with the annual alignment of roles and indicative end dates to the programme and what the change means for them personally. The executive management continues to be responsive to any concerns as they arise and provide support to their teams.

As open dialogue and respect are key to the process of implementing organisation change, I am pleased that the staff engagement survey results continue to remain high in these areas as detailed in the Company and People section and there has been no reduction in delivering an effective diversity & inclusivity agenda. I also note that our gender and ethnicity pay gap data has held up well, as detailed in the governance section of our remuneration committee report. Whilst the gap continues to be larger than the national median, I believe this remains a good achievement for a small organisation that has limited opportunity to make changes through recruitment or succession. Given that direct employees of Tideway now number under 100 and will continue to reduce, this measurement is likely to be retired this year.

The Board is committed to hearing the views of staff as the project progresses and I'd like to say thank you to the employee representatives who have taken part in our engagement activities this year.

**Designated Non-Executive Director**



**Baroness Ruby McGregor-Smith CBE**
*20 June 2024*

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

# Financing

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

## PRIORITIES
- Maintain the Company Credit rating & deliver Internal Rate of Return (IRR) and shareholder distributions in line with the financing plan.
- Liquidity and investment management – continue focus on capital preservation and liquidity and seek to optimise return.

## 2023/24 MEASURE

### COMPANY CREDIT RATING
| Target | Actual |
|---|---|
| Baa1/BBB+ | Baa1/BBB+ |

### DISTRIBUTION
| Target | Actual |
|---|---|
| Achieve 2023/24 financing plan | In line |

### LIQUIDITY
| Target | Actual |
|---|---|
| 12 months liquidity | 33 months liquidity |

### GEARING
| Target | Actual |
|---|---|
| Maintain gearing below 70% RAR trigger | 68.7% |

## PERFORMANCE
We achieved all our financing priorities for the year. We raised £250m of additional funding in the form of a green private placement which additionally strengthens our liquidity.
We currently benefit from 33 months of liquidity which covers our cash needs up to Handover and even a year after that.

We continue to benefit from a £160m revolving credit facility (RCF) which remains undrawn.

Following the latest £250m funding deal which settled in October 2023, Tideway's total committed debt funding stands at £3,417m and comprises of £3,257m of long-term debt all of which has now been drawn (the last deferred bond for £66m settled in May 2024) and the £160m undrawn RCF.

Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated sustainable market of the London Stock Exchange.

| Debt £m | RCF | EIB Loan | RPI Bonds | RPI Loan | CPI Bonds | Nominal Debt | Totals |
|---|---|---|---|---|---|---|---|
| Drawn | 0 | 700 | 932 | 100 | 350 | 1,175 | 3,257 |
| Undrawn | 160 | 0 | 0 | 0 | 0 | 0 | 160 |
| **Total** | **160** | **700** | **932** | **100** | **350** | **1.175** | **3,417** |

Debt covenants remain in line with our financing plan and fully compliant with our financing agreements, with Net debt/ Adjusted RCV (gearing) at 68.7 per cent (trigger level is 70 per cent, default level is 80 per cent) and Interest Coverage Ratio at 13.1x (trigger level is 1.3x, default level is 1.1x) as at 31 March 2024.

Cash and liquidity continued to be managed effectively and prudently, in accordance with our Investment Management Strategy.

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

*An engineer inside 'Loo Gardens', an artistic installation to symbolise the future health of the River Thames.*

case study

## DARK GREEN SHADE – A LOW CARBON AND CLIMATE RESILIENT FUTURE

During the year Tideway earned the highest 'Dark Green' rating based on the Shades of Green methodology of S&P Global Ratings.

The rating provided Tideway with a Second Party Opinion (SPO) on the £250 million borrowing Tideway secured in the year. This is a strong recognition of the substantial benefits the project will bring to improve water quality within its 25km stretch of the river Thames. The methodology assesses a company's debt instrument or framework and measures the extent of its contribution to a low-carbon and climate resilient future. We were also awarded an 'Excellent' governance score.

The Shades of Green methodology is an independent, point-in-time analysis. The shades range from Dark Green, awarded to projects like Tideway that have demonstrated that their activities correspond to a low carbon and climate resilient future. At the other end of the spectrum is Red, which relates to activities that are inconsistent with, and are likely to impede that transition.

# Financing

## SUSTAINABLE FINANCING

Our sustainable financing strategy aligns Tideway's financing both with the long-term target of cleaning the river and with the significant ESG efforts during construction which have been captured in Tideway's legacy commitments. All bonds issued to date are green and are listed in the London Stock Exchange Sustainable Bond Market. Tideway's total green debt issuance stands at £2,157m, which includes the 18 green bonds totalling £1,832m and £325m of green US private placements. The £160m RCF is structured as a sustainability-linked loan which includes a rebate linked to a sustainability key performance indicator (KPI) of meeting at least 85 per cent of the live legacy commitments. This year we exceeded the target by meeting 93 per cent of the live commitments. For the second year, the savings from the rebate were used to fund an additional 36 London-based projects designed to 'clean and green' the city through the Our Space Award, delivered by Groundwork London.

The sustainable financing strategy is supported by the Sustainable Finance Framework which was last updated in 2023. It is aligned with the International Capital Markets Association (ICMA) Green Bond Principles and the Loan Market Association (LMA) Green Loan Principles, as well as with the LMA Sustainability Linked Loan Principles. Our Sustainable Finance Framework is available on our ***website***.

Our Sustainability Report is aligned with the United Nations Sustainable Development Goals at target level. It also includes information for investors on the allocation of proceeds and impact of the project in line with ICMA's Green Bond Principles and LMA's Sustainability-linked Loan Principles.

Our Sustainable Finance Framework and the instruments issued under it are covered by the Second Party Opinion provided by S&P Global ratings. In September 2023 we were awarded the Dark Green rating with an 'Excellent' governance score under their Shades of Green methodology. It is published on our ***website***.

## HEDGING

Tideway has entered into long-term swaps with commercial banks to hedge the interest rate for tranches one to eight of the £700m EIB loan and £70m of the £300m US Private Placement notes. These are all economic hedges, completed in previous financial years and no swaps were executed in 2023/24.

## DISTRIBUTIONS

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

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

No distributions to the shareholders were paid in the year. £86.6m of shareholder loan interest was capitalised in the year and the shareholder loan now stands at £922.7m.

## LIQUIDITY

At 31 March 2024, we had total liquidity of £536.3m, comprising £376.3m of unrestricted cash and short-term deposits and the £160m undrawn RCF. This, combined with expected revenue collections, provides liquidity significantly in excess of our 12-month target, including all liquidity required to Handover and even for a year past that point.

## CREDIT RATINGS AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENTS

Fitch affirmed the credit rating at BBB+ with a stable outlook. Moody's maintained the Baa1 rating with a stable outlook. S&P Global Ratings completed an updated Environmental, Social and Governance Evaluation of Tideway in June 2023. Tideway achieved a score of 77/100, a one-point uplift from the previous assessment in 2022.

## INVESTMENT MANAGEMENT

We maintained substantial cash balances throughout the period, averaging £385m 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.

*The fully completed new public space at Chelsea Embankment.*

# Financial Performance Review

## ACCOUNTING POLICIES

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

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

## NON-GAAP MEASURES

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

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

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

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

## INCOME STATEMENT

During the year, Tideway reported a profit of £14.5m (2022/23: £144.6m profit), with no dividends paid or proposed (2022/23: £nil). We did not recognise any taxable profits in the period (2022/23: £nil) and the resulting corporation tax charge for the period was £nil (2022/23: £nil).

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

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

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

## STATEMENT OF FINANCIAL POSITION

The total carrying value of the tunnel asset under construction is shown in the table.

| Asset Under Construction (£m) | Year Ended 31 March 2024 | Year Ended 31 March 2023 |
|---|---|---|
| Net Book Value Brought Forward | 4,832.0 | 4,016.3 |
| Additions (Capitalised Costs)* | 568.7 | 815.7 |
| **Net Book Value Carried Forward** | **5,400.7** | **4,832.0** |

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

At 31 March 2024, costs of £5,400.7m were capitalised within the asset under construction in the Statement of Financial Position. This represents £568.7m costs during the year and £4,832.0m for the prior periods to 31 March 2023.

The table reflects the split of this years capitalised costs between the Direct costs, Indirect costs and Excluded costs.

| Analysis of Capitalised Costs (£m) | Year Ended 31 March 2024 | Year Ended 31 March 2023 |
|---|---|---|
| Direct Costs | 284.6 | 401.0 |
| Indirect Costs | 68.7 | 58.6 |
| **Total Allowable** | **353.3** | **459.6** |
| Excluded Costs | 215.4 | 356.1 |
| **Total Capitalised Costs** | **568.7** | **815.7** |

## DIRECT COSTS

Direct costs are primarily the Main Works Contractor costs and the System Integrator contract so reflect costs directly related to the secondary lining works and other related construction activities such as shaft construction and marine works. Direct costs have reduced compared with 2022/23 as the project comes closer to completion.

## INDIRECT COSTS

The largest indirect cost is Resource Costs of £46.5m. This represents the cost to employ an average of c232 Full Time Equivalents (FTEs) (2022/23 c252 average FTEs) either employed or contracted by the Company. Other Indirect Costs totalled £22.2m in the year and this includes the cost of information systems, insurance, GSP, office and other running costs. Indirect costs have increased compared with 2022/23.

## EXCLUDED COSTS

The Excluded costs (on an accruals basis) for the year ended 31 March 2024 were £215.4m. These mainly comprise of £232.0m of interest expense (including shareholder loan interest), £3.3m of costs which mainly relate to financing, partly offset by £19.8m interest income. Excluded costs are significantly lower than 2022/23 mainly as a result of the impact of lower inflation on existing index linked debt versus the levels of inflation seen during the prior year.

# Financial Performance Review

## COSTS AND NET CASH OUTFLOW COMPARISON

The table shows both the Allowable costs and Excluded costs and the equivalent Allowable Project Spend and Excluded Project Spend.

| | Year Ended 31 March 2024 | | | Year Ended 31 March 2023 | | |
|---|---|---|---|---|---|---|
| **Analysis of Project Costs and the Equivalent Net Cash Outflows (£m)** | **Costs** | **Timing Differences** | **Cash Outflow** | **Costs** | **Timing Differences** | **Cash Outflow** |
| Direct Costs | 284.6 | 8.1 | 292.7 | 401.0 | 51.5 | 452.5 |
| Indirect Costs | 68.7 | (9.6) | 59.1 | 58.6 | (1.4) | 57.2 |
| **Total Allowable** | **353.3** | **(1.5)** | **351.8** | **459.6** | **50.1** | **509.7** |
| Excluded Costs | 215.4 | (207.7) | 7.7 | 356.1 | (288.5) | 67.6 |
| **Total** | **568.7** | **(209.2)** | **359.5** | **815.7** | **238.4** | **577.3** |

For the year ended 31 March 2024, our Allowable Project Spend of £351.8m is £1.5m lower than the Allowable costs of £353.3m. The Excluded Project Spend outflow of £7.7m is £207.7m lower than the Excluded costs of £215.4m. This is mainly due to accretion costs on our debt for which the associated cash flow will not occur until the future.

## NET DEBT AND FINANCING

Net debt at 31 March 2024 was £3,670.5m, which was £383.5m higher than the £3,287.0 net debt at 31 March 2023.

**The table (below) compares the movements in net debt.**

| Net Debt (£m) | Year Ended 31 March 2024 | Year Ended 31 March 2023 |
|---|---|---|
| Cash* | 167.7 | 107.5 |
| Borrowings** | (3,618.2) | (3,219.1) |
| Accretion on Index Linked Financial Instruments*** | (219.2) | (174.0) |
| Lease Liabilities | (0.8) | (1.4) |
| **Net Debt** | **(3,670.5)** | **(3,287.0)** |

* ***Cash** excludes short term deposits*

** ***Borrowings** exclude the shareholder loans*

*** ***Accretion on Index Linked Swaps** sits within Derivative Financial Instruments in the Statement of Financial Positions (see note 11 to the financial statements).*

At 31 March 2024, the Company's total borrowings were £4,760.1m being £922.7m of shareholder loans and £3,837.4m of other borrowings which include third party borrowings and intra group debt.

Tideway has sufficient liquidity to cover project costs to Handover and beyond.

## CASH

Cash and cash equivalents at 31 March 2024 was £167.7m, which was £60.2m higher than the £107.5m cash and cash equivalents at 31 March 2023. The table below shows the movement in cash:

| Cash Flow (£m) | Year Ended 31 March 2024 | Year Ended 31 March 2023 |
|---|---|---|
| Cash generated from operations before changes in working capital | - | - |
| Decrease in trade and other payables | (18.5) | (45.4) |
| Decrease/(increase) in trade and other receivables | 29.0 | (5.9) |
| Increase in advance payment liability | 106.5 | 86.7 |
| **Net cash from operating activities** | **117.0** | **35.3** |
| Construction of infrastructure asset | (361.0) | (507.7) |
| Transfer to short-term deposits | (10.0) | (75.0) |
| **Net cash used in investing activities** | **(371.0)** | **(582.7)** |
| Proceeds from new borrowings | 315.7 | 323.2 |
| Repayment of lease liabilities | (1.5) | (2.0) |
| **Net cash from financing activities** | **314.2** | **321.2** |
| **Net increase in cash and cash equivalents during the period** | **60.2** | **(226.2)** |
| Cash and cash equivalents at the start of the period | 107.5 | 333.7 |
| **Cash and cash equivalents at the end of the period** | **167.7** | **107.5** |

Net cash flows from operating activities of £117.0m (2023: £35.3m) 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 which are deferred on the Statement of Financial Position during the construction phase of the project.

Net cash flows used in investing activities of £371.0m (2023: £582.7m) 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 £314.2m (2023: £321.2m) are largely the result of £315.7m proceeds from new borrowings (£250.0m US Private Placement loan, and £65.5m index link bonds), partly offset by £1.5m repayment of lease liabilities.

# Financial Performance Review

## FINANCIAL KEY PERFORMANCE INDICATORS (KPIS)

Under its Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (Senior RAR) and Funds from Operations Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios for 2023/24 are provided here.

### 1. Senior RAR

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%.

**2023/24 performance** = 68.7%

**2022/23 performance** = 67.0%

| | Senior RAR | | 31 March 2024 | 31 March 2023 |
|---|---|---|---|---|
| A | Net Debt – per CTA | | 3,456.3 | 3,065.4 |
| B | RCV – per CTA[1] | | 5,029.9 | 4,576.9 |
| C | Senior RAR | A/B | 68.7 | 67.0 |

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

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

| Reconciliation to reported net debt (£m) | 31 March 2024 | 31 March 2023 |
|---|---|---|
| Net Debt – per CTA | 3,456.3 | 3,065.4 |
| Short-term deposits | 230.0 | 220.0 |
| Other adjustments[1] | (15.8) | 1.6 |
| Reported Net Debt | 3,670.5 | 3,287.0 |

[1] Adjustments for Premium on £75m bond (series 17), partly offset by Discount on £250m bond (series 11) and Discount on £300m bond (series 18)

### 2. FFO ICR

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. The test period is twelve months to the reporting date.

**2023/24 performance** = 13.1 times

**2022/23 performance** = 4.8 times

| | FFO ICR | | 31 March 2024 | 31 March 2023 |
|---|---|---|---|---|
| D | Net Cash Flow – per CTA | | 116.4 | 75.8 |
| E | Debt Interest – per CTA | | 8.9 | 15.7 |
| F | FFO ICR | D/E | 13.1 | 4.8 |

The table provides a reconciliation of Net Cash flow and Debt Interest to the financial statements.

| Reconciliation to the Financial Statements (£m) | 31 March 2024 | 31 March 2023 |
|---|---|---|
| Increase in advance payment liability[1] | 106.5 | 86.7 |
| VAT adjustment per CTA | 9.9 | (10.9) |
| Net Cash Flow for CTA | 116.4 | 75.8 |

| Reconciliation to the Financial Statements (£m) | 31 March 2024 | 31 March 2023 |
|---|---|---|
| Net interest (exc. shareholder interest) | 8.6 | 15.4 |
| Commitment fees paid | 0.3 | 0.3 |
| Debt Interest – per CTA[2] | 8.9 | 15.7 |

[1] Part of "Cash from operations" within the Consolidated Cash Flow Statement

[2] Part of "Construction of infrastructure asset" within the Consolidated Cash Flow Statement

## REVENUE

Within the financial statements, all regulated revenue is deferred in the Statement of Financial Position, in line with our revenue recognition accounting policy. During the year, we received cash inflows of £106.5m (2022/23: £86.7m) from revenue, which includes some revenue from prior years.

## TAX

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

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

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

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

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

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

## TAX STRATEGY

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

1. **Tax planning and compliance:** We will engage in tax planning that supports our business and reflects commercial and economic activity. We will not engage in artificial tax arrangements and will adhere to relevant tax laws and seek to minimise the risk of uncertainty or dispute. Tideway is part of the Bazalgette Equity Limited Group, of which all members are domiciled in the UK. We consider the interaction with company members when we implement our tax policies.
2. **Relationship with HM Revenue & Customs (HMRC):** We will seek to build and maintain a constructive relationship with HMRC. We will work collaboratively wherever possible with HMRC to resolve disputes and to achieve agreement and certainty. We will engage with the government on the development of tax laws where we can and where the tax law change is relevant to Tideway's business activities.
3. **Transparency:** We support measures that build greater transparency, increase understanding of tax systems and build public trust.
4. **Tax risk management:** We identify, assess and manage tax risks and account for them appropriately. Risk management measures are implemented including controls over compliance processes and monitoring of effectiveness.
5. **Governance:** The Chief Financial Officer (CFO) is responsible for and implements our approach to tax, which is reviewed and approved by the Audit and Finance Committee. The CFO is also responsible for ensuring that appropriate policies and procedures are in place and maintained and that the financial control team, with specialist external support as necessary, has the appropriate skills and experience to implement the approach effectively.

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

# Risk Management

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

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

### RISK MANAGEMENT FRAMEWORK

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

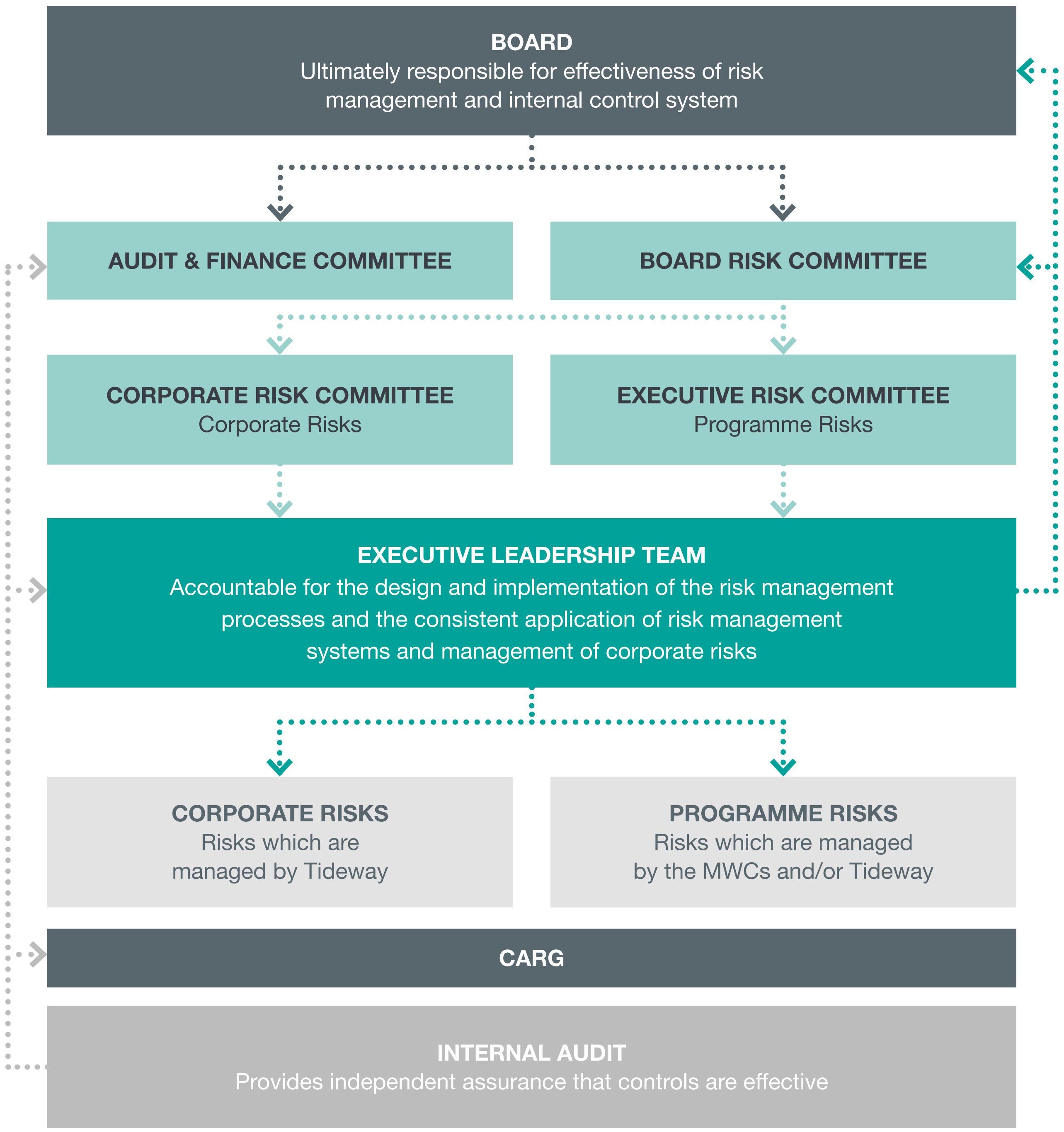
The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. It considers:

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

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

The Compliance and Assurance Review Group (CARG) is a CEO-led group focused on reviewing the Company’s activities, both as the client or through the PM and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities. As the company moves into a new phase of the project it is actively reviewing the approach to compliance and assurance to ensure it remains fit for purpose.

### OUR RISK MANAGEMENT FRAMEWORK




### PRINCIPAL RISKS

We assessed our principal risks regularly, updated our mitigations throughout the year and implemented changes to manage our risk exposure. We considered whether there were material changes to increase or decrease our risk exposure. There are eleven principal risks across nine categories and each is assessed against its target level.

While there have been developments across a number of risks, the overall exposure has remained broadly stable with the exception of inflation and Thames Water. Risk related to inflation has increased as inflation forecasts have fallen. Inflation has wide implications for Tideway’s business and shareholder returns. We note Thames Water’s evolving financial position and this has led to increased concern that its situation might change. We remain confident that Tideway’s revenues are well protected given water industry legislation and the licence obligations that apply to both Thames Water and Tideway. We continue to work effectively with Thames Water to deliver the benefits of the project.

### OUR RISK APPETITE

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

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

# Risk Management
*Principal Risks*

## 1 HEALTH, SAFETY & WELLBEING

### OVERALL

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

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

**Mitigation**
Our RightWay programme, aligned to the delivery programme, has recently been reviewed for the forthcoming Commissioning phase. Our EPIC programme continues and will be complemented by an induction programme specifically for the Commissioning Phase which will highlight the specific risks and control measures.

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

**Relevant Objective**
HEALTH, SAFETY & WELLBEING

**Commentary***
NO CHANGE IN RISK LEVEL

### MARINE

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

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

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

**Relevant Objective**
HEALTH, SAFETY & WELLBEING

**Commentary***
NO CHANGE IN RISK LEVEL

## 2 PROGRAMME DELIVERY

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

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

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

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

**This includes:**

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

**Relevant Objective**
SCHEDULE, COST & QUALITY
FINANCING

**Commentary***
NO CHANGE IN RISK LEVEL

## 3 SUPPLY CHAIN FAILURE

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

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

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

**Relevant Objective**
SCHEDULE, COST & QUALITY

**Commentary***
NO CHANGE IN RISK LEVEL

## 4 HILP – HIGH IMPACT, LOW PROBABILITY EVENTS

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

**Effect**
High Impact Low Probability (HILP) events could have a significant effect on cost, schedule, health and safety or our reputation. Their financial impact could exceed our insurance cover, damaging our financial position and our ability to deliver the tunnel.

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

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

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

**Commentary***
NO CHANGE IN RISK LEVEL

## 5 CREDIT RATING

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

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

Tideway has a licence obligation and financial covenants to maintain an investment grade credit rating. The loss of this rating could require remedial action that may require restructuring including raising equity. It would also impact Tideway's ability to raise debt and put downward pressure on shareholder returns.

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

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

**Relevant Objective**
FINANCING

**Commentary***
NO CHANGE IN RISK LEVEL

* *Compared to previous year*

# Risk Management
*Principal Risks*

## 6 INFLATION

### Description
There is a risk that a decrease in inflation or the Retail Price Index (RPI) reform could have a negative impact on Tideway's business.

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

Also, lower inflation could have a negative impact on our financial covenants, including those related to gearing.

### Mitigation
Tideway has issued 71 per cent of its long-term debt indexed to RPI and Consumer Prices Index (CPI). Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect interest cover and gearing ratios and equity returns.

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

### Relevant Objective
**FINANCING**

### Commentary*
**INCREASED EXPOSURE**

## 7 REPUTATION

### Description
There is a risk that an operational incident undermines confidence in Tideway's ability to deliver.

### Effect
An incident erodes confidence in Tideway's ability to deliver, and adversely impacts the company's interests.

### Mitigation
Tideway continues to take forward a proactive approach to communications and engagement, reflecting the evolution of the project. We have an experienced team in place delivering a proactive, multi-platform comms and engagement strategy as well as responding to issues as and when required.

### Relevant Objective
**COMPANY & PEOPLE**

**VISION, LEGACY & REPUTATION**

### Commentary*
**NO CHANGE IN RISK LEVEL**

## 8 THAMES WATER PERFORMANCE

### Description
Thames Water is a key partner for Tideway. In addition to the Revenue Agreement, we have an Interface Agreement that governs several important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period and access to the Thames Water network to facilitate Tideway works during the handover and acceptance process and in the operational period.

This year we need to work together with Thames Water to deliver the agreed System Commissioning Plan.

We also need to agree with Thames Water the System Acceptance Plan, which is crucial to the successful delivery of the System Acceptance period which follows Handover.

### Effect
Thames Water's failure to deliver its share of the works or support delivery of Tideway works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.

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

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

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

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

Tideway is monitoring the impact of Thames Water's corporate position and has received confirmation from Ofwat that the existing statutory and regulatory protections would continue to apply should Thames Water's status change. These include that the TTT is seen as essential for enabling Thames Water to comply with its sewerage duties under the Water Industry Act 1991 and that it has relevant revenue related licence obligations.

### Relevant Objective
**SCHEDULE, COST & QUALITY**

### Commentary*
**INCREASED EXPOSURE**

## 9 REGULATORY AND POLITICAL

### POLITICAL CLIMATE

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

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

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

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

#### Relevant Objective
**SCHEDULE, COST & QUALITY**

**FINANCING**

#### Commentary*
**NO CHANGE IN RISK LEVEL**

### REGULATION

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

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

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

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

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

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

#### Relevant Objective
**SCHEDULE, COST & QUALITY**

**FINANCING**

#### Commentary*
**NO CHANGE IN RISK LEVEL**

* *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. Tideway has now raised £3.3bn of long-term financing since Licence Award. As of 31 March 2024, this represented 100 per cent of funding needs to Handover (planned for 2025) and even a year after that. 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 has conducted a robust assessment of the principal risks (considering availability and effectiveness of risk mitigation plans) facing the Company, including those that could 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 nine principal risk categories and the scenario analysis (outlined in the table below) has covered six of these. The three risk categories that have been excluded from the analysis are:

- HILP events (apart from Covid-19 that has been included) as it is considered too remote for meaningful quantification and substantially covered by commercial insurance and/or the Government Support Package;
- Credit Rating Risk: Our credit ratings have remained unchanged since Licence award at Baa1 by Moody's and BBB+ by Fitch, being two levels above the covenants in the CTA and Licence. The factors that could lead to a downgrade remain material schedule delays or other significant delivery problems and unfavourable regulatory developments. The financial impact of any downgrade is indirectly captured in the programme delivery scenarios 1 and 2 below; and
- Reputational Risk as the financial impact cannot be quantified.

We have assessed the potential impact of the remaining six relevant principal risk categories on Tideway's viability by modelling several scenarios, which have been discussed and agreed by the Board. Before mitigations, we consider there are four key routes through which viability could be impacted: i) increases in the total costs of the project (including potential delays in the project as ultimately this will translate into a cost increase scenario), particularly if the Company were to bear a disproportionate share of these costs; ii) reduction in outturn inflation, iii) increase in interest rates and iv) disruption to our revenue collection including an increase in bad debt. For each of these routes, we have modelled scenarios representing impacts ranging from plausible downside to severe downside, as well as reviewing a scenario comprising the current estimate considered by the Board.

- Cost increase: Our current estimate of £4.5bn compares to our regulatory baseline of £3.5bn (£3.1bn in 2014/15 prices). For our plausible downside scenario, we modelled a 20% increase in the remaining costs to complete, taking the total to £4.59bn. This is consistent with our most recent internal scenarios. We consider a severe downside case to be a 25% increase in the remaining costs to complete, which equates to a total cost of £4.61bn.
- 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. Ofwat compares our total cost against the Threshold Outturn in 2014/15 prices and there is headroom in the plausible downside and severe downside scenarios of circa £160m (2023: £230m) and £150m (2023: £190m), respectively.
- High inflation is not a risk to Tideway as we receive higher revenue as the RCV increases with inflation. Therefore, for inflation risk we have modelled low inflation scenarios where outturn inflation is 1% and 2% lower than current expectations for 4 years, as well as a scenario of 0% average inflation in the period. The Bank of England policy response to high inflation has led to higher interest rates. Therefore, we have also modelled scenarios where outturn interest rates are 1% and 2% higher than current expectations for 4 years, as well as a scenario of 4% higher through to 2030. These sensitivities have been run in isolation (i.e. without including the benefit from higher inflation) to show that the worst case scenarios have limited impact. This is due to Tideway having already raised significant long-term financing with only a relatively small proportion left to raise before 2030 and all the financing raised to date is in either an inflation linked or fixed-rate format.
- As the bad debt impact has a limited 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. These scenarios also capture the risk of material disruption to our revenue collection due to other factors. This includes the potential impacts of Thames Water (TWUL) or a Special Administrator not paying Tideway revenue for a period of time before enforcement action is taken by Ofwat to address the situation or the issue being addressed by the revenue reconciliation mechanism.
- Finally, we have modelled a combined scenario with 20% cost increase, 2% lower inflation for 4 years, 50% revenue under recovery for 2 years and 2% higher interest rates for 4 years, which we consider a reasonable composite downside combination of impacts.

# Long-Term Viability Statement

The outcome of the sensitivities has been assessed considering a range of different financial ratios and the output of this analysis is summarised in the following table:

## SCENARIO ANALYSIS

| Principal Risk | Scenario | Assessment | Mitigation Strategies |
|---|---|---|---|
| **Programme Delivery** (incorporating delays, also including HSW, Supply Chain Failure, Thames Water performance, Political and Regulatory risks).<br>**Principal Risk No.**<br>**1. 2. 3. 8. 9.** | **Scenario 1.** An increase of 20% £0.1bn in the remaining cost to complete the project (net of any sharing of costs assumed with the Main Works Contractors).<br>**Scenario 2.** An increase of 25% £0.1bn in the remaining cost to complete the project (net of any sharing of costs assumed with the Main Works Contractors). | Tideway would be able to finance the increase in cost in Scenario 1 and Scenario 2 by flexing the amount of distributions to its shareholders and drawing existing available facilities. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants. | The programme risk is most significant during construction which is largely behind us, but some risk will still exist as the project enters the commissioning and systems acceptance period.<br>The programme risk is managed through Tideway's risk management framework, which is explained in the previous Risk Management Section.<br>The mitigation strategies for Scenarios 1 and 2 include the raising of new debt (within our gearing ratio requirement) and flexing the level of distributions to our shareholders. |
| **Inflation Risk** | **Scenario 3.** Outturn inflation 1% lower than current forecast for 4 years then reverts to the long term forecast.<br>**Scenario 4.** Outturn inflation 2% lower than current forecast for 4 years then reverts to the long term forecast.<br>**Scenario 5.** Average inflation 0% until 2030.<br>**Scenario 6.** Interest rates 1% higher than current forecast for 4 years then revert to the long term forecast.<br>**Scenario 7.** Interest rates 2% higher than current forecast for 4 years then revert to the long term forecast.<br>**Scenario 8.** Interest rates 4% higher than current forecast until 2030. | Over 70% of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way.<br>Gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants. | The key mitigation strategy for Scenarios 3, 4, 5, 6, 7 and 8 is that over 70% of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way.<br>The residual risk is considered acceptable. |
| **Thames Water (TWUL) Performance – Revenue Collection** (Including bad debt)<br>**Principal Risk No.**<br>**8.** | **Scenario 9.** A 50% under recovery in one year.<br>**Scenario 10.** A 50% under recovery in two years.<br>**Scenario 11.** A 50% under recovery in four years. | Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary and limited.<br>There is a possible risk that TWUL, given its current financial position, or a Special Administrator may choose not to pay an element of Tideway's revenue. This would not be consistent with TWUL's licence and would be expected to lead to a breach and enforcement action.<br>After mitigation gearing and interest cover ratios would be consistent with an investment grade rating and compliant with our financing covenants. | The value of the revenue collection increases each year as revenue is driven by the RCV which accumulates each year. However, the main mitigation strategy for Scenarios 9, 10 and 11 is that there is a building block that deals with the under recovery of revenue which mitigates the risk to an immaterial level.<br>Furthermore, we have considered the scenario of TWUL or the Special Administrator choosing not to pay Tideway's revenue. While the risk is reasonably low we have received clarification from Ofwat on the statutory and regulatory protections and actions that Ofwat would take in those circumstances. |
| **Combined Scenario** | **Scenario 12:** (1, 4, 7 and 10). This is seen as a highly unlikely scenario. | After mitigation gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants. | See above. |

*Note: For scenario 12 our modelling projects a change in capital will be required during 2024/25 to be compliant with our gearing financing covenant. However, as the value required is small, we would look at other actions, such as re-profiling some of the non-critical path expenditure and debt repayments, as a sufficient alternative.*

## 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 adversely affect the Company's viability. The Board also believes that financing will be available to Tideway over the period covered by the analysis.

We have undertaken a range of internal assurance activities, which the Board considers to provide a robust degree of assurance over the analysis. The internal assurance activities have included a first and second line of defence review as described in the Board statement on accuracy and completeness of data and information within this report.

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.

## GOING CONCERN

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.

**Richard Morse**
Deputy Chair and Independent Non-Executive Director (Chair of the Audit Committee)

The Strategic Report was approved by the Board on 20 June 2024 and was signed on its behalf by:

**Andy Mitchell CBE**
Chief Executive Officer

# Section 172 Statement

Section 172 of the Companies Act 2006 requires that when making decisions, the directors must act in the way they consider, in good faith, is most likely to promote the success of the company for the benefit of its members as a whole, while also considering the broad range of stakeholders who are affected by the company's activities. Section 172 requires directors to have regard (among other matters) to:

a. The likely consequences of any decisions in the long term.

b. The interests of the company's employees.

c. The need to foster the company's business relationships with suppliers, customers and others.

d. The impact of the company's operations on the community and environment.

e. The desirability of the company maintaining a reputation for high standards of business conduct.

f. The need to act fairly as between members of the company.

This statement, with references to other parts of the Annual Report, explains how the directors have had regard to the matters set out in section 172. We also explain some of the principal activities of the Board, how the interests of stakeholders were taken into account and what the outcomes of those activities were.

## LONG TERM DECISION MAKING

The directors understand the evolving nature of the project and the challenges associated with ensuring the business is prepared for current and future phases of the project. The strategic objectives approved in the 2023/24 Business Plan each include specified long-term activities, as set out in more detail in *Our Strategy and Priorities for 2024/25*. This year the Board has considered the development of the project and future phases of the company and project.

## THE INTERESTS OF THE COMPANY'S EMPLOYEES

The directors recognise that Tideway employees are vital to the successful completion of the project. It remains a strategic priority to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team. The Board has been briefed on internal resource requirements as the organisation moves into the commissioning and handover phases of the project and transitions from a construction to an operational organisation. Lady McGregor-Smith, in her capacity as the designated Non-Executive Director representing workforce matters, has met with employee representatives and reported their views to the Board.

For more information see the *Company and People section of the Strategic Report.*

## RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Alliance brings together Tideway, Thames Water, the Programme Manager, the Main Works Contractors and the System Integrator. We share lessons learned that enable us to best deliver the project. This year the Board oversaw an acceleration of significant collaborative planning to prepare for system commissioning.

Our legacy commitments include supporting ethical sourcing in the supply chain. See Tideway's Sustainability Report for further details. The steps Tideway has taken during the financial year to ensure that *modern slavery* is not taking place in any part of its business or supply chains have been outlined in the Tideway *Modern Slavery* Statement which is reviewed annually by the Board and is available on the Tideway website. More generally, it is a strategic objective to maintain a supportive environment for completing the tunnel and to develop a positive reputation with stakeholders. Tideway takes a proactive approach to engagement, using a range of communication channels to inform the public and engage with our neighbours. For more information on our approach to these matters see the *Vision, Legacy and Reputation section of the Strategic Report*.

## THE IMPACT OF THE COMPANY'S OPERATIONS ON THE COMMUNITY AND ENVIRONMENT

The directors are mindful of the long-term commitments contained in Tideway's Legacy Plan and the Board has had oversight of progress toward the delivery of our 54 legacy commitments and the contribution they make to the UN Sustainable Development Goals. See the *Our Commitment to Legacy & Sustainability section of the Strategic Report*.

The Board's HSSE Committee regularly reviewed performance on environmental and sustainability matters and related risks on the risk register. See the report on the activities of the HSSE Committee for more information.

## MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

Maximising our reputation and legacy is one of Tideway's strategic priorities as set out in the 2024/25 Business Plan See *Our Strategy and Priorities for 2024/25*.
The company's proactive approach to engagement and communication is regarded as key to public accountability.

Important stakeholder bodies – The Thames Tideway Tunnel Forum, the Independent Compensation Panel and the Independent Complaints Commissioner – are independently chaired and report annually to the Tideway Reporting Group. For more information see *Engaging with Our Stakeholders & Partners*.

Board members are actively involved in reviewing and approving Tideway's Annual Report and support our transparent approach to reporting against the provisions of Ofwat's principles for board leadership, transparency and governance and the UK Corporate Governance Code. For more information see the *Governance Standards section of the Governance Report.*

## THE NEED TO ACT FAIRLY AS BETWEEN MEMBERS OF THE COMPANY

Three shareholder directors sit on the Tideway Board where they represent the views of investors in Board discussions and decision-making. The arrangements we have in place to ensure Tideway maintains an independent Board for the purposes of strategic and risk management decisions are set out in the Governance Standards section of the Governance Report.

Other detailed information about our Shareholders and their relationship with Tideway is set out in the *Relationship with Shareholders section of the Governance Report*.

## EXAMPLES OF BOARD ACTIVITIES

| | Financing | System Commissioning |
|---|---|---|
| Summary | The Board approved:<br>• the issuance of £250m of green US private placement loan notes in June,<br>• the extension of intragroup loan agreements to align with the expected Planned System Acceptance Date and the new Liquidity Facility in September; and<br>• a new Liquidity Facility in January. | Tideway's plans to progress the project towards system commissioning were scrutinised by Board members throughout the year. In addition to the deep dives presented to the Risk Committee and the HSSE Committee (attended by a majority of board members), the Board had received reviews of the project schedule and milestones as well as the proposed strategy and priorities for the year ahead via discussions on monthly performance reports. The Board also received presentations on:<br>i. the programme for certificates that required Thames Water review;<br>ii. how progress towards system commissioning fed into plans for organisational restructuring in the medium term; and<br>iii. the system commissioning governance arrangements and the "Go/No Go" Process. |
| Stakeholder considerations | The strengthening of the Group's funding position will provide additional liquidity beyond the project Handover which is in the interests of all stakeholders. | Board Members received updates on matters affecting the Main Works Contractors and the System Integrator, as well as interfaces with Thames Water and Defra and Ofwat consenting for phased commissioning.<br>Workforce and organisational structure was also considered, acknowledging the need for change in line with project requirements.<br>Health and safety arrangements as the project moved from construction to the commissioning phase as overseen by CVB as the Principal Contractor during system commissioning were also reviewed. |
| Outcomes | The USPP issuance has strengthened Tideway's liquidity position and demonstrates debt providers' continued confidence in Tideway.<br>A liquidity facility will release cash currently held in Debt Service Reserve Accounts and improve our gearing metric. | The overall outcome of this oversight is that the Board has a good level of assurance that Tideway has worked in a positive collaborative manner with TWUL and other stakeholders to make it well placed to secure TWUL's commitment through the joint approach, to the agreed programme for PCCD, Start of Systems Activation, SCCD, Handover and Acceptance. |

# Climate Related Disclosures

*Introduction*

## The Thames Tideway Tunnel has a significant carbon footprint due to the embedded carbon within the built asset.

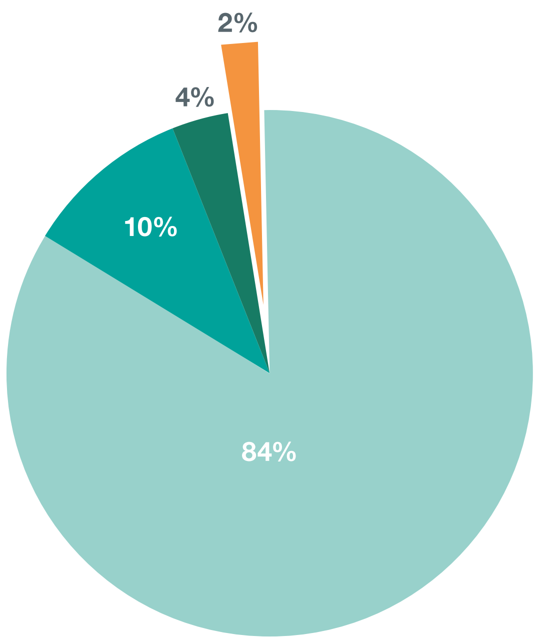
The Energy and Carbon Footprint Report that was produced for the Development Consent Order (DCO) in 2013 estimated a total carbon footprint in the decarbonised scenario of approximately 840,000 tCO2e with the principal impact being the greenhouse gas (GHG) emissions arising from the construction of the infrastructure, in particular embodied carbon in manufacturing of materials.

This carbon in materials equates to approximately 84% of the total emissions, with emissions from construction plant and machinery (construction worksite activities e.g. tunnel boring and emissions from plant and machinery) being around 10% of the total emissions. The transport of excavated material and construction materials represents approximately 3.5%. Emissions during the 120-year operational life of the tunnel represent approximately 2.5% of the total GHG emissions, which we refer to as operational carbon. The assumption made for the baseline, is that the UK electricity emission factor would reduce as the grid is decarbonised until the zero carbon target in 2035. This is consistent with Government plans unveiled in October 2021 confirming the UK commitment to decarbonise the electricity system by 2035. Operation of the tunnel, expected to start in 2025, will be the responsibility of Thames Water with most emissions representing Tideway's scope 3.

Through the procurement process, the forecast carbon footprint was reduced to ~770,000 tCO2e, an expected reduction of 8%. Our Main Works Contractors (MWCs) are required to minimise the carbon footprint of the project under the Works Information 1000 Environmental Management. This objective was also captured by Tideway in the Legacy Plan developed in 2014 and updated in 2017 which sets out targets for delivering a sustainable legacy. The MWCs are required to report their actual carbon on a quarterly basis and are held to a baseline figure.

For the second year, we appointed a 3rd party to undertake a critical review of our Scope 3 (embedded) emissions against the Greenhouse Gas Protocol guidance on assurance and verification. With construction more than 90 per cent complete, this was the final critical review. The process did not uncover any material issues and has provided us with certainty in the robustness of our data and has confirmed that our final Scope 3 (embedded) carbon footprint is 553,625 tCO2e, 28 per cent below our anticipated carbon footprint. Further details can be found in our ***Sustainability Report***.

The ability to change the carbon footprint of an infrastructure project of this nature in a significant manner is during the conceptual and design stages with reduced scope to effect further reductions during the construction period, such opportunities being discussed in this report. Once the tunnel is constructed and commissioned, the operational carbon will be minimal as the tunnel is a relatively passive asset. Therefore, certain parts of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations cannot be applied easily to a single infrastructure project. In particular, it has not been possible to set carbon reduction targets that meet the criteria of the Science Based Targets Initiative for example as the carbon footprint is concentrated during the construction and commissioning period, with a natural tailing off towards the end of construction.




## GREENHOUSE GAS EMISSIONS

- Materials
- Construction plant
- Construction transportation
- Operational life (120 years)

### COMPLIANCE STATEMENT

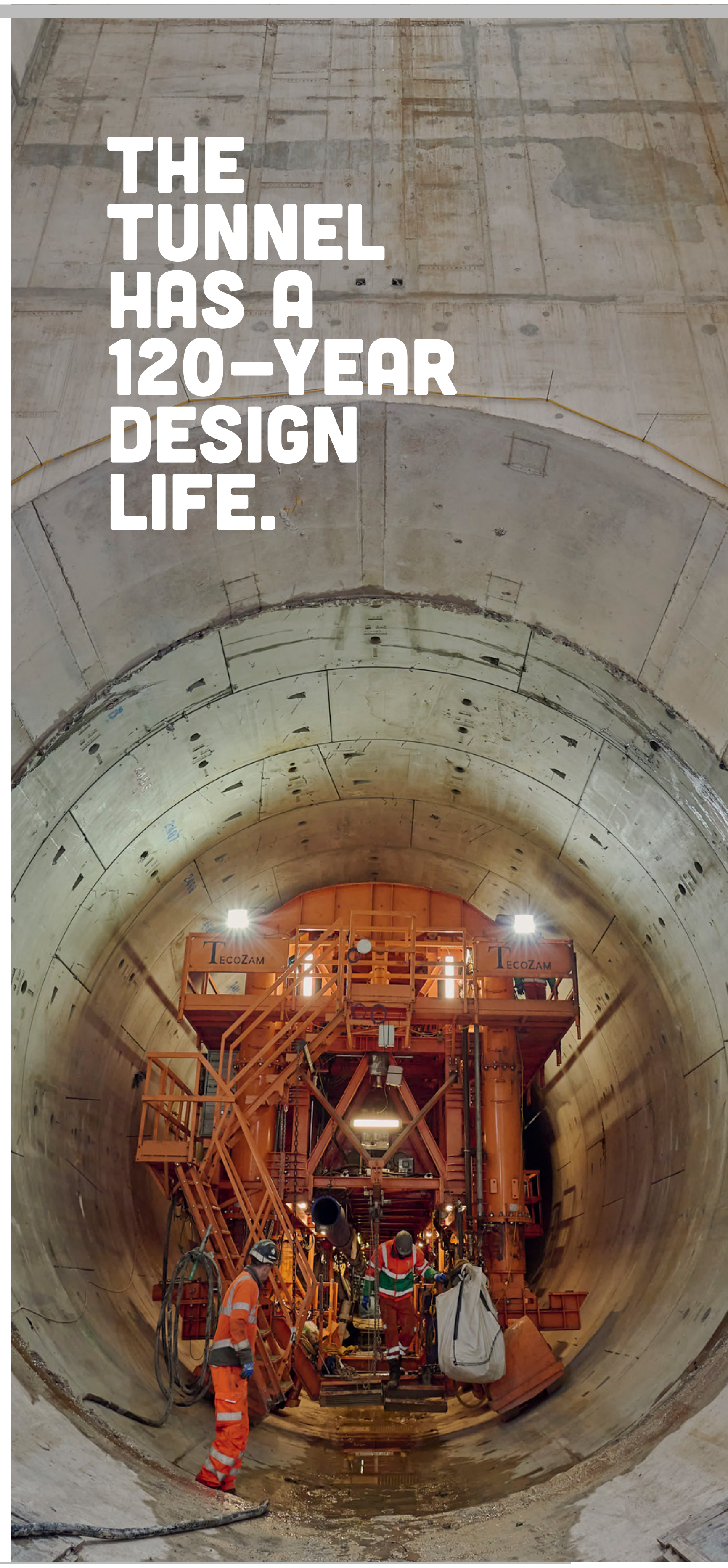
Tideway recognises the importance and supports the TCFD. We are committed to ensuring that our climate change disclosures align with TCFD recommendations.

Our fourth disclosure, set out below, is structured around the four TCFD themes of governance, strategy, risk management, metrics and targets. In line with the Directors decision to voluntarily report on TCFD matters as if Tideway were required to comply with the Listing Rules, we confirm in line with the FCA Listing Rule [14.3.27], our disclosures are consistent with the TCFD recommendations and recommended disclosures in respect of the financial year ended 31 March 2024.

Tideway undertook climate scenario testing based on the UK Climate Projections 2009 (UKCP09), the best available climate projections for the UK at the time of the original route selection and design decisions. UKCP09 is based upon the Met Office Hadley Centre climate models and provide probabilistic projections of future climate for each decade up to 2100 in overlapping 30 year time periods, along with high, medium and low emissions scenarios. Tideway have used the 10, 50 and 90 percentiles to explore the implications of these uncertainties for the 2050s (2040 to 2069) and 2080s (2070 to 2099) time horizons. Climate change coupled with population growth tested the resilience of this major infrastructure project to the wide variability of projected climate conditions.

There is an opportunity to update these projections with the UK Climate Projections 2018 (UKCP18) published in 2018 and updated in 2021. UKCP18 includes for the first time Representative Concentration Pathways (RCPs), a method for capturing assumptions about the economic, social and physical changes to our environment that will influence climate change within a set of scenarios. The conditions of each scenario are used in the process of modelling possible future climate evolution. It provides datasets that represent UK climate in scenarios of 2 °C and 4 °C of global warming and includes the new UKCP Local (2.2km) providing for the first time national climate change information on a similar resolution to that of current operational weather forecast models. Such an update is likely to be undertaken once the tunnel has been operating for a few years.

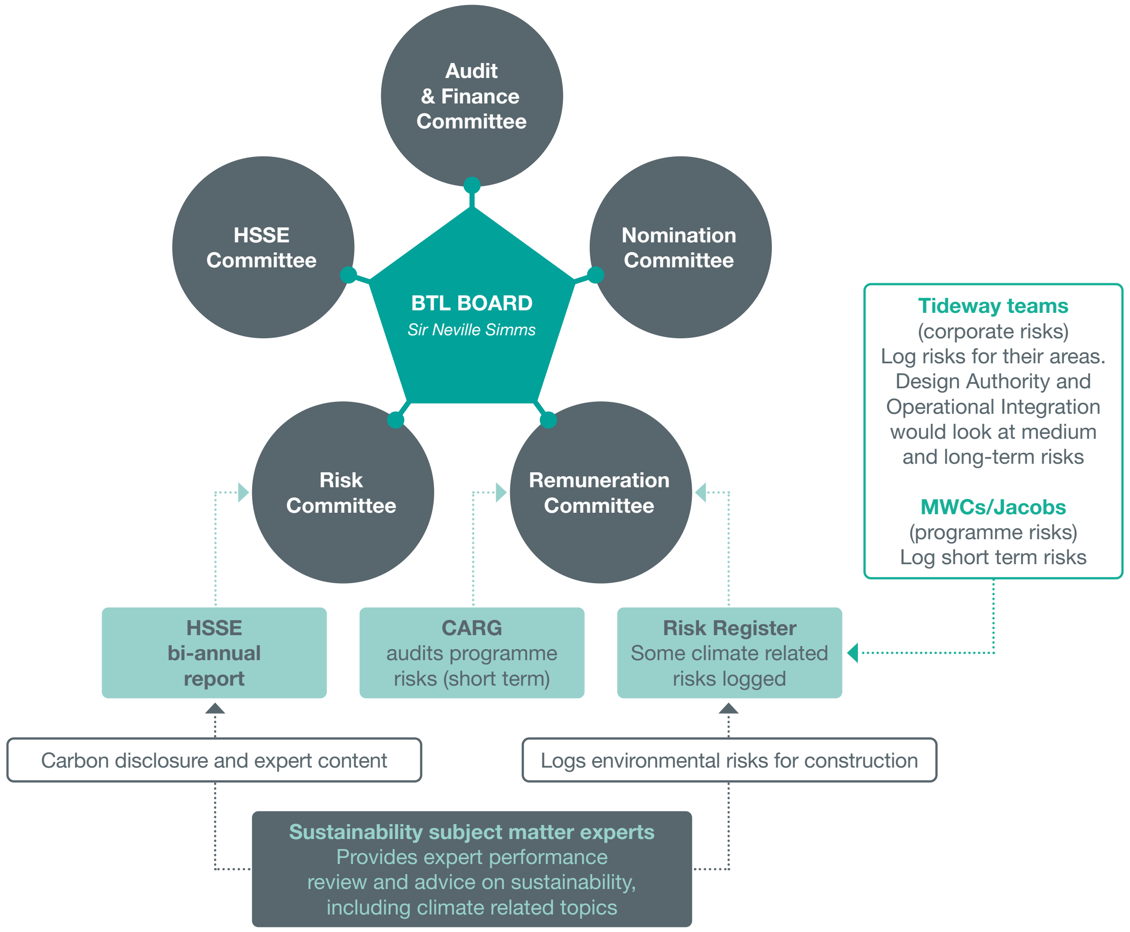
The tunnel has a 120-year design life. Over its design life there will be significant changes in climate and population that will influence the performance of the tunnel and whilst the project has not been designed to withstand every possible future scenario our modelling shows that the tunnel will continue to provide a good level of resilience for London as we see the impacts of climate change.



# Climate Related Disclosures

## 1. Governance

The governance around climate related risks and opportunities.

| Recommended Disclosure | Describe the Board's oversight of climate-related risks and opportunities | Describe the management's role in assessing and managing climate-related risks and opportunities |
|---|---|---|
| Response | The Board is responsible for setting the strategy and risk appetite for the Company and its approach to risk management. Important aspects of Tideway's business are subject to scrutiny by the Board's committees, which report their findings to the Board.<br>The Health, Safety, Security and Environment (HSSE) Committee of the Board meets twice a year. The Committee has a key role in 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. Among other things, the Committee reviews environmental and sustainability matters on the corporate risk register, including risks relating to the carbon footprint of the project.<br>The Board Risk Committee is required to meet at least three times a year. The Committee reviews our principal, corporate and delivery risks and risk management processes. All risks, including identified climate-related risks are included within this top-tier risk register. There is good overlap in attendance between the HSSE Committee and the Risk Committee which helps ensure consistency in approach.<br>The chair of the HSSE and Risk Committees have experience in managing environmental risk, including climate related.<br>The Audit and Finance Committee of the Board receives updates on developments of ESG and climate-related reporting and regulation as part of its discussion of the Company's Sustainable Financing Strategy.<br>The Board receives an update from the Chair of each of the HSSE, Risk and Audit and Finance Committee following each meeting. | Our business planning process provides the framework to assess and manage risks. Performance against our sustainability KPIs is tracked and discussed by the Vision, Legacy and Reputation (VLR) committee, which manages the strategic approach to sustainability and identifies issues for discussion at the monthly management review chaired by the CEO.<br>Carbon performance is reported quarterly to the Executive and to the Board and other stakeholders, including investors and regulators, through our quarterly management reports and the six-monthly HSSE Sustainability report.<br>The Client Sustainability lead provides technical advice on the implementation and compliance of the various environmental commitments such as the code of construction practice and technical input to the HSSE Committee , and they register corporate risks in their area. They work closely with Treasury on the Sustainable Finance Strategy, which has raised £2.3bn of sustainable financing.<br>The Legacy & Environment Committee is chaired by a Tideway Executive and attended by Tideway, Project Manager, Main Work Contractors Programme Directors, Environment and Legacy leads.<br>To ensure that any lessons are being shared with the wider industry, Tideway were one of the founding members of the knowledge sharing platform i3P and members of our Executive team and subject matter experts are also members in industry working groups on carbon such as the Infrastructure Client Group, the Major Projects Association and the Corporate Forum on Sustainable Finance. |
| References | Annual Report<br>HSSE and Risk Committees terms of reference<br>ESG Evaluation by S&P Global Ratings | Annual Report<br>Sustainability Report |
| Additional info |  | |

# Climate Related Disclosures

*2. Strategy*

## The actual and potential impacts of climate-related risks and opportunities on our businesses, strategy, and financial planning.

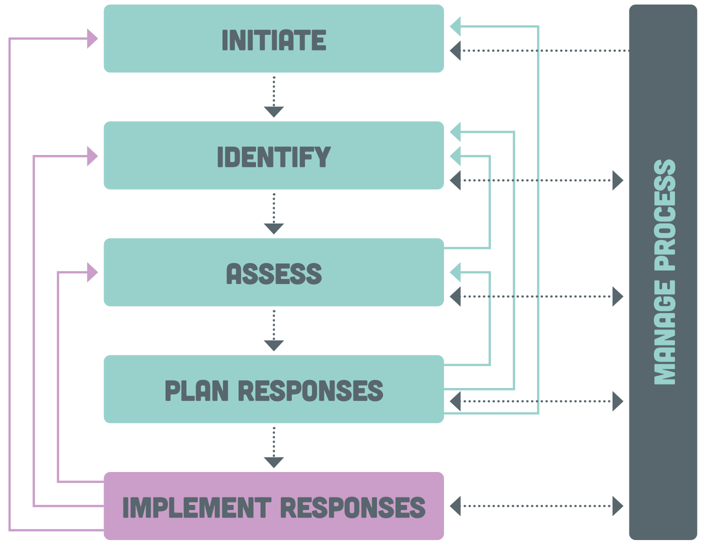
| Recommended Disclosure | Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term | Describe the impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning | Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario |
|---|---|---|---|
| Response | **Conceptual stage**<br>During the conceptual stage of the project, climate change was considered as having two principal impacts on the tideway:<br>• On the operation of the sewer system with drier summers potentially causing an increase in pollutant build-up which could increase the adverse impacts of the 'first flush' in any overflow from the tunnel and wetter winters that could lead to more overflows.<br>• On water quality processes in the tideway with increases in river water temperatures leading to dissolved oxygen depletion to lower dissolved oxygen saturation and faster reaction rates, particularly if residual discharges occur when the tunnel is full.<br>**Construction phase**<br>The most significant climate-related risks during the construction period are:<br>• Changes in design or the construction methodology to reduce a particular risk which results in increases in carbon.<br>• Compliance with the DCO, in particular maintenance of flood defences of London during the construction work on 11 of our river-based construction sites. This protection requires consenting from the Environment Agency (EA) and monitoring of weather data that is used to alert sites of potential adverse weather conditions or unusually high tides, that have the potential to breach any temporary protection measures.<br>Throughout the duration of the project there have been several noteworthy interventions which have resulted in reductions in construction carbon and have contributed to the 28 per cent reduction in our anticipated Scope 3 (embedded) carbon. Some were made during the conceptual and design phases before BTL was awarded the licence to build the tunnel. Examples include changes to the route of the tunnel, use of lower carbon concrete, thinner secondary lining, and a reduction in the transport emissions due to the increased use of the river to transport materials.<br>**Operational phase**<br>During the operational phase, the main risk will be how well the tunnel design withstands changes in climate, with the risk of drier summers, wetter winters and an increase in the population of London resulting in exceeding the capacity of the tunnel or the treatment centre. This tunnel is designed to accommodate climate and population scenarios until at least 2080 as per the DCO Energy and Carbon Footprint report.<br>Opportunities to reduce carbon footprint during the operational phase are limited. In any case, Tideway is only responsible for maintenance of the tunnel while Thames Water will be the operator, which further reduces the opportunity to reduce emissions as it may be reliant on decarbonisation of the grid.<br>The tunnel will be a high-quality asset built to achieve 120 years design life expected to require minimal maintenance of deep level assets contributing to the low carbon footprint during the long operational stage.<br>Once the tunnel is operational, the EA and Thames Water will discuss phasing out current mitigation measures that include the use of two vessels for oxygenation and two skimmers, with consequent reduction in carbon consumed in operating and maintaining these diesel-fuelled vessels. | **Construction phase**<br>Impact is limited given scope, advanced stage of construction and because breaching DCO requirements is subject to reasonable endeavours. There are, however, reputational and regulatory risks.<br>Notwithstanding the advanced stage of construction, the business remains alert, and possible changes in law could pose non-material near-term financial impact.<br>**Operational phase**<br>Should the parameters used in the DCO scenarios be exceeded, there would be potentially more frequent discharges in the Thames with limited implications on water quality, biodiversity and public health as annual CSO discharges would see a modest increase (see 2.c) below). Thames Water is responsible for the operation of the tunnel under the London Tideway Tunnels operating techniques agreed with the EA. | At the time of the original route selection and design decisions, the best available climate projections for the UK were the UKCP09 projections, based upon the Met Office Hadley Centre climate models. UKCP09 provides an estimate of the range of model-related uncertainties in the future projections, along with high, medium and low emissions scenarios. Tideway have used the 10, 50 and 90 percentiles to explore the implications of these uncertainties for the 2050s (2040 to 2069) and 2080s (2070 to 2099) time horizons.<br>Modelling of the future scenario suggests that in a typical year climate change and population growth will mean that by the 2080s the number of CSO discharge events into the tidal Thames will increase from the four that are predicted for present day conditions to five for the median projection, with a range from four (10 percentile) to eight (90 percentile) events for the medium emissions scenario.<br>The main tunnel would therefore continue to provide a good level of service (compared to the current frequency of more than 50 events in a typical year) in a plausible range of future conditions.<br>If the projected small increase in frequency of CSO discharge events does begin to occur over the coming decades, then there are feasible adaptations to the London Tideway Improvements that could be implemented in a timely and incremental way. These include further incremental Sewerage Treatment Works improvements which could be undertaken to treat projected additional sewage flow; integration with possible flood alleviation tunnels; and catchment scale implementation of Sustainable Drainage Systems (SuDS) or green infrastructure.<br>SuDS is not a feasible response to deal with current or future CSO discharges. SuDS could, however, augment the CSO control achieved by the project and partially mitigate against climate change. |
| References | Annual Report<br>Energy and Carbon Footprint Report – DCO document<br>S&P Global Ratings ESG Evaluation<br>Sustainable Finance Report<br>Operating Techniques | Prospectus<br>Licence<br>London Tideway Tunnels operating techniques | Resilience to Change - DCO document<br>Major Infrastructure Resilience to Projected Changes to Population and Climate* |

* *Authors: D. Crawford, A. Hon, A.P. Hagger, paper presented in 2016 at WefTec2016 conference.*

# Climate Related Disclosures

## 3. Risk Management

## How we identify, assesses and manage climate-related risks.

| Recommended Disclosure | Describe the organisation's processes for identifying and assessing climate-related risks | Describe the organisation's processes for managing climate-related risks | Describe how the processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management |
|---|---|---|---|
| **Response** | The Tideway Risk Management process aligns with the process the Association of Project Management (APM) has stipulated as to be considered good practice. *See flow chart below.*<br><br>The Tideway Risk Management process identifies and assesses risks, including climate-related risks pertaining to the delivery phase, within an ongoing monthly and quarterly review and reporting cycle. Our works planning and sequencing takes into consideration potential higher frequency of tidal surges and closures of the Thames barrier.<br><br>On a monthly basis risk reviews are held, and risks identified and assessed at (1.) site level with project delivery teams (Project Manager and Main Works Contractor), Asset Management/Design Authority and Engineering, (2.) Area wide and Programme wide level (3.) Corporate and Executive risk reviews (Operations, Regulatory, Legal, Finance, External Affairs, IS).<br><br>Risks are assessed quantitatively against project scoring schemes and qualitatively against corporate scoring schemes for probability and impact (Health and Safety, Direct Cost, Time, Reputation, Environment, Non-Project/Whole Life Costs etc.). Assessments are made by suitably skilled/experienced professionals, consulting subject matter experts (Project Managers, Quantity Surveyors, Engineering Leads etc.) as required. | Within Tideway, Risk Management is an active and iterative process that involves identifying and implementing response strategies for either threats or opportunities. The intent is to reduce or eliminate threats or enhance opportunities.<br><br>Each risk has an overarching management strategy and detailed response actions including the assigned response owners and timescales for review/closeout. These response actions are specific, 'time bound', appropriately allocated and monitored.<br><br>In order to enable consistent programme and business wide risk management, all identified risks are held on an enterprise risk management platform (ARM).<br><br>With Tideway reaching the end of tunnelling in April 2022 approximately half of the high impact low probability (HILP) risks associated with the construction of the project have now been retired. The Risk Management processes describe above covers all risks identified on the programme, including climate related risks.<br><br>**Supply Chain and stakeholders**<br><br>Our MWCs are required to report their Scope 3 (embedded) carbon on a quarterly basis and are held to a baseline figure.<br><br>We comply with greenhouse gas (GHG) reporting requirements outlined by Ofwat, the water regulator. We have updated our SWOT analysis - Strengths, Weaknesses, Opportunities, Threats. Our SWOT analysis of our data and methodology focuses on our scope 3 (embedded) emissions and can be found in the Carbon section of our ***Sustainability Report***.<br><br>The EA, another of our regulators, has placed climate risk at the centre of its operation and regulation.<br><br>Our equity and debt investors have an increased focus on integrating ESG factors into the investment processes and expect reporting on climate and other matters following recognisable international standards. Our three shareholders are members of the Principles for Responsible Investment with two having committed to Net Zero by 2050. | Within the Tideway Risk Management process all risks, including climate-related risks, are managed and reviewed in a hierarchy with risks escalated for management review and response as required.<br><br>The Board Risk Committee is supported by a Corporate Risk Committee and an Executive Risk Committee that considers on a rolling basis the programme risks across the West, Central and East areas.<br><br>The Executive Risk Committee holds monthly reviews with the Delivery Areas (West, Central, East, System Integration, Operational Integration, System Commissioning and Land & Property) with risks of concern escalated to Corporate Risk Committee and Board Risk Committee.<br><br>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 Programme Manager and MWCs. It applies the three lines of defence model, to review the appropriateness and compliance with our controls and assurance activities. |
| **References** | Annual Report | | |
| **Additional info** |  | | |



* Authors: D. Crawford, A. Hon, A.P. Hagger, paper presented in 2016 at WefTec2016 conference.

# Climate Related Disclosures

## 4. Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

**Recommended Disclosure:** Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes

**Response**

The origins of our legacy were set out in the Sustainability Statement, which was submitted as part of our DCO application. The Statement contains 15 objectives under 11 thematic areas used to appraise the sustainability performance of the project. Some of these objectives have been addressed through the planning stage, such as land use, while others will be realised as outcomes of the project during operation, e.g. enhanced river water quality.

Our commitments have evolved into 54 metrics within our Legacy Plan under five themes that capture the range of opportunities created by the project—Environment; Health, Safety and Wellbeing; Economy; People; and Place.

This year marked the substantial completion of the legacy programme. At the end of 23/24, a total of 23 Legacy commitments were live. Throughout the year we averaged 93 per cent of live legacy commitments on track., For the project to date, 48 commitments have been active, with 44 or 92 per cent achieved or on track. Out of the legacy commitments, four are climate related. Our Legacy performance dashboard in ESG Data section of our ***Sustainability Report***, details the Measure, Target and our Performance against these commitments.

The metrics and performance against our environmental and climate commitments, include water, construction waste and beneficial reuse of excavated material.

We have aligned ourselves to the World Resources Institute and the World Business Council for Sustainable Development definitions of Scope 2 and 3 emissions.

**References**

Sustainability Statement
Legacy Plan
Sustainable Finance Framework
Sustainability Report

**Recommended Disclosure:** Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 Greenhouse Gas emissions and related risks

**Response**

| | | 2023/24 | |
|---|---|---|---|
| **Scope 1 Emissions – Operational (OPEX)** | | **FY tCO2e** | **PTD tCO2e** |
| Operation of the tunnel | | | |
| **Total Scope 1 Emissions** | | **N/A until operation** | |
| **Scope 2 Emissions – Indirect Emissions** Electricity consumption used by Tideway (Bazalgette Tunnel Ltd) controlled offices at Camelford House, the Cottons Centre and Blue Fin | | | |
| Location based | | | |
| **Total Scope 2 Emissions** | | **40.4** | **-** |
| **Scope 3 Emissions – Embedded (Cradle to build)** | | | |
| **Materials (A1 – A3)** | Aggregates | 177.11 | **3,857.11** |
| | Asphalt | 29.84 | **38.84** |
| | Concrete | 25,274.20 | **353,991.20** |
| | Timber | 581.02 | **2,437.02** |
| | Steel | 3,737.90 | **87,780.90** |
| | Other | 1,813.07 | **18,249.07** |
| **Utilities (A5)** | Electricity | 923.85 | **31,817.85** |
| | Liquid Fuels | 1,529.68 | **28,363.68** |
| | HVO | 143.51 | **193.51** |
| | Waste | 179.22 | **6,618.22** |
| | Water | 44.77 | **292.77** |
| **Logistics (A4 – A5)** | Road transport | 838.36 | **12,599.36** |
| | River transport | 159 | **7,386** |
| **Total Scope 3 Emissions** | | **34,434** | **553,625*** |

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

*With construction more than 90 per cent complete, we have achieved a 28% reduction on our anticipated carbon footprint of ~770,000 tCO2e. Our verified scope 3 (embedded) carbon emissions to date is 553,625 tCO2e. Further details can be found in our* ***Sustainability Report****.*

**References**

Sustainability Report

**Recommended Disclosure:** Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

**Response**

The forecast carbon footprint of the project was ~770,000 tCO2e of which 97.5% is construction carbon as explained in the introduction.

**Construction phase targets**

The carbon related Key Performance Indicators (KPIs) are included in the Works Information that are part of the contracts between Tideway and the Main Works Contractors. Details of the KPIs that our MWCs provide can be found in our ***Sustainability Report***.

**Operation phase targets**

In a typical year, for mid-2020s conditions, the Thames Tideway tunnel will further reduce polluting discharges by circa 16 million cubic metres (avoided and captured for treatment). The tunnel is expected to capture approximately 96 per cent of the overflow volume that currently enters the river in a typical year and reduces the number of individual overflow events at any controlled CSO from over 50 down to four or less. The residual CSO discharge would be approximately 2.4 million m3 per year.

**References**

Resilience to Change - DCO document
Sustainable Finance Framework
Sustainability Report
Works Information

# CORPORATE GOVERNANCE




*Image: The thick wall separating the Lee Tunnel and the Thames Tideway Tunnel which was removed in Spring 2024.*

# The Chair's Introduction

**On behalf of the Board, I am pleased to introduce Tideway's corporate governance report for the year ended 31 March 2024.**

**The report presents information on the Board of Tideway, the Board's principal areas of focus during the year and the activities of the various Board Committees. It also gives examples of how the Board's remit demonstrates its accountability to Tideway's stakeholders and the impact of the outcomes from its decision making or scrutiny.**

As the project proceeds towards its commissioning stage, we remain committed to maintaining high standards of corporate governance and a robust framework for the control and management of Tideway. As in previous years, our governance arrangements meet the objectives set out in Ofwat's board leadership, transparency and governance principles (the Principles). Tideway also complies with all but three of the requirements of the UK Corporate Governance Code (the Code). These relate to the requirements that: at least half the Board, excluding the Chairman, should comprise Independent Non-Executive Directors (provision 11); and in respect of Chair and Board appraisals (provisions 12 and 21). How we adhere to robust governance arrangements appropriate for Tideway's needs is set out in the Governance Standards section of this report, and more detailed reporting on our compliance with the Principles and the Code is available on Tideway's ***website***.

For much of the year matters arising at Board level have focused, as one would expect, on issues relating to delivery of the project and on preparing for the stages ahead, including arrangements for commissioning and handover. Attendant risk factors were also considered throughout the year, both by the Board and through the Risk Committee. These matters are summarised under the Board Activity section of the report which describes the Board's priorities and key discussions, and progress against specific issues.

## EVALUATION

The results of the Board evaluation carried out earlier this year confirmed there are healthy relationships between Board members and a good level of discussion and debate in Board decision-making. The Board remained conscious of the benefits that wider diversity would bring. Following the recent appointments noted below, this will continue to be a factor when shortlisting future Board members to lead Tideway.

## BOARD CHANGES ANNOUNCED

On behalf of all Directors, I would like to thank Richard Morse for his commitment and outstanding contribution to the Board. After serving for nearly nine years, he will step down from the Board at the end of June 2024. During his tenure, Richard has held several key roles on the Board, including as Deputy Chair, Senior Independent Director, Chair of the Audit Committee and latterly, the Audit & Finance Committee. Richard has been a stable and insightful voice on the Board throughout his time on the Board. We send Richard our very best wishes for the future. I am delighted that Baroness McGregor-Smith has agreed to succeed Richard as Deputy Chair, Senior Independent Director and Chair of the Audit & Finance Committee.

My retirement from the Board in the Autumn of 2024 was announced at the same time as Richard's. After nine years as Chair, I will leave this hugely important environmental project in good shape, having been involved from the project's development phase to the commencement of commissioning. I wish Michael Queen, who will succeed me as Chair, the very best as he leads the Board to handover, system acceptance and operations.

## LOOKING FORWARD

The Board's priority for 2024 is the execution of our agreed strategy, working with Thames Water to deliver a cleaner, healthier River Thames. Alongside this, the company will consider appropriate internal organisational change as Tideway transitions into an operational utility.

**Sir Neville Simms**
Chair

*Her Royal Highness the Princess Royal, unveiling the plaque for Chelsea Quay.*

# Board Leadership, Transparency and Governance

*The Board Members*

**Key to Committees**: A Audit & Finance · H Health, Safety, Security & Environment · N Nomination · RE Remuneration · R Risk · Committee Chair

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Sir Neville Simms FREng

**Chair of the Board and Chair of Nomination Committee**

*Appointed August 2015, having met the independence criteria*

#### 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 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, Chair of International Power plc and until May 2005, Chair of Carillion plc. He was also joint Chair of the Channel Tunnel contractors' consortium, TML for the final three years of the project. Sir Neville chaired the Building Research Establishment Trust, as well as several construction industry bodies, 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 Chair of the Board and Chair of Audit & Finance Committee**

*Appointed August 2015*

#### Key Skills and Experience

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

#### Background

Richard has a background in investment banking 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 a Partner at Opus Corporate Finance. Richard has been involved in the project since 2013 when he joined the board of subsidiary Thames Tideway Tunnel Limited, to assist in the set-up of Tideway.

#### External Appointments

- **Chair** – The Renewables Infrastructure Group (TRIG)
- **Chair** – The Woodard Corporation
- **Non-Executive Director** – CCm Technologies Limited
- **Non-Executive Director** – Heathrow Southern Railway Limited
- **Trustee** – The Leeds International Pianoforte Competition
- **Chair** – Bandmaster Solutions Limited, through which he is a partner in Opus Corporate Finance LLP

### Baroness Ruby McGregor-Smith CBE

*Appointed June 2019*

#### Key Skills and Experience

- Chartered accountant with significant board-level experience in operations and change management.
- The first Asian woman to become Chief Executive of a FTSE 250 company

#### Background

Baroness McGregor-Smith is the former President of the British Chambers of Commerce and she was Chief Executive of MITIE Group plc from 2007 to 2016. As one of the few female chief executives in the FTSE 250 and FTSE 100, she grew MITIE's employee base from circa 23,000 to 65,000, making it one of the UK's largest private sector employers. She was made a life peer of the House of Lords in 2015. Recognised by the Financial Times as one of the top 50 female business leaders in the world in 2013, she also served as the Chair of the Women's Business Council between 2012 and 2016, and she authored the Independent Report to the UK Government on Race in the Workplace, published in 2017. In 2020 she was appointed by the UK Government to lead the In-Work Progression Commission, providing an independent review into the barriers that prevent people from progressing in work and increasing pay.

#### External Appointments

- **Chair** – Airport Operators Association
- **Chair** – Institute of Apprenticeships and Technical Education
- **Non-Executive Director** – Atkins Realis Inc
- **Non-Executive Director** – Talis Group
- **Non-Executive Director** – Everyman Media Group plc

### Michael Queen

**Chair of Remuneration Committee**

*Appointed August 2015*

#### Key Skills and Experience

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

#### 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

- **Chair** – Coller Capital
- **Pro-Chancellor** – University of Surrey
- **Non-Executive Director** – TAQA (International Industrial Company)

### Mike Putnam

**Chair of Risk Committee and HSSE 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 a Chartered Engineer and a Fellow of both the Institution of Civil Engineers and the Royal Institute of Chartered Surveyors and is experienced across the development, construction and services sectors. 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 several 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** – Transpennine Route Upgrade Programme Board
- **Vice Chair** – Arcadis (the global design and cost consultancy business headquartered in Amsterdam)
- **Non-Executive Director** – Finning Inc*

**Appointed 07 May 2024*

# Board Leadership, Transparency and Governance

*The Board Members*

**Key to Committees**: A Audit & Finance; H Health, Safety, Security & Environment; N Nomination; RE Remuneration; R Risk; Committee Chair

## NON-EXECUTIVE SHAREHOLDER DIRECTORS

A H

### Chris Morgan

**Amber Infrastructure**

*Appointed September 2021*

#### Key Skills and Experience

- Significant experience of managing infrastructure investments.
- Detailed knowledge across a range of sectors including regulated utilities, transportation and social infrastructure.

#### Background

Chris is an infrastructure investment professional with over 15 years' experience. He has worked at Amber Infrastructure since 2012 where he is a Senior Investment Director responsible for managing various infrastructure investments. Prior to joining Amber, Chris worked at Deloitte where he provided advice to clients in connection with corporate transactions. Chris has a first-class degree in Accounting and Finance from the University of Southampton and is a Fellow of the Institute of Chartered Accountants in England and Wales.

A H N RE R

### 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 Co-Head of Infrastructure for Allianz Capital Partners, one of the Allianz Group's asset managers for alternative equity investments and part of Allianz Global Investors. He has been responsible for all asset management activities for the direct infrastructure investment portfolio since 2016 and from 2020 he has also taken responsibility for the Renewable Energy portfolio as well. He sits on several other boards, including Porterbrook (UK rolling-stock leasing), Affinity Water (UK water supply) and Silex (Norwegian offshore gas transmission).

Prior to joining Allianz, Andrew was a senior Principal Investor and Asset Manager for 3i in its infrastructure team for nearly ten years. Before that, he worked at Ambac and Citi. Andrew has an MA in History from Gonville and Caius College, Cambridge.

N RE R

### Alistair Ray

**Dalmore Capital**

*Appointed May 2015*

#### Key Skills and Experience

- Over 20 years' experience in the infrastructure sector.
- Wide range of board-level experience, spanning several 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, including at Edison Capital, Noble Group, Merrill Lynch and 3i Infrastructure plc. He was a founding member of the infrastructure team at 3i and was involved in the acquisition of Anglian Water and the purchase of stakes in Oiltanking GmbH. Alistair was also a Non-Executive Director of CAF Bank and is a Director of Cory Holdco Limited.

## DEPUTY COMPANY SECRETARY

### Mo Siakpere

*Appointed June 2023*

#### Key Skills and Experience

- Mo has held governance roles in private companies and the not-for-profit sector including London & Quadrant Housing Trust, Anglo American Luxembourg and The Children's Society.
- Prior to that she trained as a Solicitor and spent several years at a large London law firm.

#### Background

Mo holds a Law Degree and Masters in Corporate Governance & Business Ethics.

# Board Leadership, Transparency and Governance
*The Board Members*

## EXECUTIVE DIRECTORS

### Andy Mitchell CBE, FREng
**Chief Executive Officer**
*Appointed August 2015*

#### Key Skills and Experience
- Civil engineer who has managed high-profile UK and overseas projects.

#### Background
Andy was appointed CEO of Tideway in 2014 and was formally appointed to the Tideway Board on Licence Award in 2015. He joined the project from Crossrail where he was Programme Director and a Board member. He has worked around the world, including on developments such as Hong Kong Airport and Hong Kong West Rail. He also worked for Network Rail, 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, and former Chair of the Infrastructure Industry Innovation Platform (i3P) and the Infrastructure Client Group (ICG). He was awarded a CBE in 2015 for Services to Civil Engineering. Andy was Co-Chair of the Construction Leadership Council between 2018 and 2022, and in 2020 he was named Personality of the Year at the Building Awards in recognition of his efforts working with Government to prepare for Brexit and to support the industry through the coronavirus pandemic. In 2023 Andy was awarded the ICE President's Medal.

### Mathew Duncan
**Chief Financial Officer**
*Appointed November 2018*

#### Key Skills and Experience
- Financial expertise in the construction and infrastructure sectors.
- Experienced on large scale infrastructure projects in various industry sectors.

#### Background
Before joining Tideway, Mathew was the Finance Director of Crossrail Ltd, the company responsible for delivering the new high-frequency, high-capacity railway for London and the Southeast known as the Elizabeth line. Prior to that he worked for Balfour Beatty in a number of roles, the last one as 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.

### Roger Bailey
**Chief Technical Officer**
*Appointed August 2021*

#### Key Skills and Experience
- Track record delivering complex engineering projects.
- Extensive experience in infrastructure sector.

#### Background
Roger joined the project in 2012 and took on the role of Asset Management Director in 2014 and then Chief Technical Officer in 2018. He was appointed to the Board in 2021. 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.

# Board Leadership, Transparency and Governance

*The Board Members*

## EXECUTIVE MANAGEMENT TEAM

### James Smith
**Programme Delivery Director**

Responsible for the delivery of all infrastructure across the project.

**Background**

James joined Tideway in 2013. He has over 30 years' experience working in project delivery, working on some of the largest infrastructure programmes in the UK including Thameslink and Crossrail however, his passion has always been for the water industry.

He has held a number of senior roles across delivery on the project over the past 10 years, but his first involvement came in 2001 as the project manager for the Tideway Tunnel Strategic Study, which was the original study which led to the scheme as we see it today

### Julie Thornton
**Human Resources Director**

Responsible for employee engagement, development, diversity and HR strategy.

**Background**

Julie joined the project in 2013. Her corporate career began over 25 years ago at IBM, where she went on to be Head of HR for Global Services, UK, before moving to Citibank as Vice President for HR in EMEA in Geneva and London. Julie's experience includes business services, oil and gas, and construction sectors.

Julie is a Non-Executive Director of Sizewell C.

### Lucy Webster
**Director of External Affairs and Communications**

Responsible for external and internal communications, brand, stakeholder engagement and public affairs, community engagement, sustainability and legacy and Tideway's corporate responsibility programme.

**Background**

Lucy joined Tideway in 2016 from Metropolitan, a large housing provider. Prior to this, she held senior communications and public affairs roles in the transport and regeneration sectors. She spent six years at Transport for London, including as Head of Communications for London Underground and worked on the preparation for the London 2012 Olympic Games, including planning and land assembly.

### Celia Carlisle
**General Counsel and Company Secretary**

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

**Background**

Celia joined the project in 2013 from the Olympic Delivery Authority. She has over 25 years' experience, both in-house and in private practice, of advising major infrastructure projects on their procurement, construction, governance, regulation and 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 and also on the panel of the ICE Independent Assurance panel.

### Steve Hails
**Business Services and Health, Safety and Wellbeing Director**

Responsible for business services, including information systems, facilities, security, quality and environment together with advising on health, safety and wellbeing issues, and promoting a positive health and safety Company culture.

**Background**

With over 20 years' experience in the development and implementation of effective strategies, policies and systems in engineering and construction environments, Steve had worked for Nuclear Electric, Procter & Gamble, the Engineering Employers' Federation, Siemens Energy and Crossrail before joining Tideway in 2016. Steve is also a Non-Executive Director on the Programme Board for the Palace of Westminster Restoration and Renewal project. He was the previous Chair of the Board of Trustees of Mates in Mind (the mental health charity for UK construction) and is one of the founding members of the Health in Construction Leadership Group. Steve is a Fellow of the Institution of Civil Engineers, a Chartered Member of IOSH and, in April 2018, became the first Honorary Fellow of the British Occupational Hygiene Society. In 2019, Steve was recognised as one of the top 10 Corporate Allies at the National LGBT Awards.

### Matthew Parr
**Director of Strategy and Regulation**

Responsible for strategy, business planning, corporate risk, revenue, regulatory and government relations and annual reporting.

**Background**

Matthew joined the project in 2011 to focus on the funding of the Tideway project through its development and delivery phases and to establish its approach to value and legacy. Prior to this, he was a Director at a management consultancy where he advised governments, regulators, companies and investors in the utility and infrastructure sectors. Before moving into consultancy, Matthew held various positions at Ofwat.

Matthew is a member of the Executive Steering Group for Thames Estuary 2100 (TE2100) Next Delivery Vehicle. TE2100 is focused on managing flood risk and adapting riversides to manage rising sea levels on the tidal Thames Estuary.

### Richard Lewis
**Asset Ownership Director**

Responsible for the commissioning plan and delivering an integrated operable CSO control system, ensuring the tunnel is ready for operation with the Thames Water network.

**Background**

Richard joined the project in 2015 in the Project Sponsor team taking on the role of Asset Ownership Director in 2020. He has over 25 years' experience in the water and chemical process industries, both supporting operational assets and delivering complex projects. Richard is a Fellow of the Institute of Mechanical Engineers and Member of the Project Management Institute.

# 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, 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 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, which report to the Board, and final decisions are made at Board level. Descriptions of the Committees' roles and activities are set out in this section.

The Board has approved a schedule of delegated authority (SoDA) which authorises management to approve certain decisions up to specified limits, beyond which Board approval must be obtained. This assists with implementation of decisions relating to funding and investment, contractual commitment and change, invoicing and payments, procurement, recruitment, treasury, the discharge of consents and claim settlement. The Board reviews the SoDA each year and by exception.

Certain matters are reserved to Shareholders for approval and these are set out in full in this section. Nevertheless, the Board considers all such issues and advises Shareholders as appropriate. The Board is ultimately responsible 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.
- **Chair and Chief Executive Officer:** deciding the division of responsibility between the Chair 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 and Finance 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 meetings:** 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

Regular Board and Committee meetings are scheduled throughout the year. Ad hoc meetings may be held at short notice when Board-level decisions of a time-critical nature need to be made, or for exceptional business, as required by business needs.

The Board is required by its terms of reference to meet at least six times a year and in the period met formally nine times. Two Board workshops were also held during the year and a number of additional updates were organised giving Board members an opportunity to discuss emerging issues. The majority of sessions were held in-person or Board members opted to dial-in where attending in person would be impractical.

The Board has focused on a range of issues including operational delivery, risk management, stakeholder engagement and governance. This table summarises some of the Board's key discussions and actions and progress made against both strategic priorities and specific activities.

#### Company and People

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Engaging with the workforce | Reviewed the report from the Non-Executive Director representing workforce matters, Lady McGregor-Smith, further to her engagement with employee representatives.<br>*See the Company and People section for more information*. |
| Refine strategy for future of the company to transition from construction to an operational utility | Received a briefing on future organisational strategy. |

#### Health, Safety & Wellbeing

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas | Received regular monthly performance updates on health, safety and wellbeing, including performance against the Health and Safety Performance Index (HSPI). |

#### Schedule, Cost & Quality

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Working with the Programme Manager, all three MWCs, the SIC and TWUL to safely deliver the most efficient schedule. | Discussed topics including:<br>• MWC safety, schedule, cost and quality.<br>• Received a half-year assessment of performance against the 2023/24 business plan.<br>*See the Strategic Report section for more on Tideway's objectives and priorities*. |
| Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous timely, quality certification and particularly certification to achieve Systems Activation. | Reviewed and discussed management's monthly operational performance reports.<br>Received updates from the Board's HSSE and Risk Committees in respect of their briefings on preparations in advance of commissioning and the safety in commissioning plan.<br>Received updates on key business activities, including briefings on: operational matters regarding the bulkhead at Abbey Mills; Shaft F wall removal; installation of control system architecture by the System Integrator; financial sensitivities; reviews of asset quality and performance; safety and productivity on site; and schedule performance. |
| Obtaining commitment from the EA, OFWAT, TWUL and DEFRA to an approach and programme that best achieves early and successful outcomes. | Engagement on Ofwat's 2024 Periodic Review in relation to the impact on TWUL and the project. |

# Board Leadership, Transparency and Governance

*The Board's Role and Responsibilities*

## BOARD ACTIVITY

### Vision, Legacy and Reputation

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with TW and critical stakeholders | Reviewed and advised on plans for reputation management. |

### Risk Management

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Reviewing risk appetite | Reviewed the Board's risk appetite and Tideway's principal risks.<br>*See the Risk Management section of this report*. |
| Monitoring risk management and control | Reviewed the effectiveness of the risk management and internal control systems.<br>*See the Risk Management section of this report*. |
| Monitoring key operational risks | Received detailed briefings on key risks including relating to health and safety, productivity, programme and cost. |
| Monitoring position of Thames Water | Received briefings on Tideway's risks and protections with respect to Thames Water's reported financial position. |

### 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 regular governance updates from the Deputy Company Secretary. |
| Ensuring appropriate assurance | Reviewed, via the Audit and Finance Committee, and approved the 2023/24 Assurance Plan. |
| Ensuring compliance with duties under the Modern Slavery Act | Reviewed and approved changes to Tideway's Modern Slavery Statement. |

### Regulatory matters

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Monitoring regulatory requirements | Discussed Tideway's engagement with Ofwat regarding delay to the 2022/23 audit.<br>Received updates on Tideway's engagement on Ofwat's 2024 Periodic Review in relation to the impact on TWUL and the project. |
| Ensuring regulatory reporting requirements are met | Reviewed and approved the Annual Performance Report and the Revenue Statement, prior to submission to Ofwat. |
| Ensuring compliance with the project licence | Reviewed and discussed licence compliance, including approving the Risk and Compliance Statement and the Statements on sufficiency of financial and non-financial resources. (See the Annual Performance Report for statements.) |

### Financing

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Maintain the company credit rating and deliver IRR and shareholder distributions in line with the Financing plan | Reviewed and approved the Financing Plan.<br>Reviewed and approved the Sustainability Report.<br>Reviewed scheduled distributions to shareholders and approved decisions to defer distributions accordingly.<br>*See the Financing section for more information*. |
| Liquidity and investment management | Reviewed, and, on recommendation by the Audit & Finance Committee, approved changes to intra-group financing agreements.<br>Reviewed and, on recommendation by the Audit & Finance Committee, approved proposals for a green US private placement.<br>Reviewed and, on recommendation by the Audit & Finance Committee, approved proposals for entry into a Liquidity Facility. |

### Financial Reporting and Taxation

| Strategic Priorities and Actions Arising | Progress |
|---|---|
| Reviewing past and projected financial performance | • Reviewed and approved the Annual Budget.<br>• Reviewed and approved the half year and full-year financial statements.<br>• Approved the appointment of PwC as the Group's new auditors. |

## THE DIRECTOR'S ATTENDANCE AT SCHEDULED BOARD MEETINGS

| Total Meetings Held in Period: | | 9 |
|---|---|---|
| Sir Neville Simms | Independent Non-Executive Director | 9 |
| Richard Morse | Independent Non-Executive Director | 9 |
| Baroness Ruby McGregor-Smith | Independent Non-Executive Director | 5 |
| Mike Putnam | Independent Non-Executive Director | 9 |
| Michael Queen | Independent Non-Executive Director | 9 |
| Andrew Cox | Shareholder Director | 8* |
| Alistair Ray | Shareholder Director | 6 |
| Chris Morgan | Shareholder Director | 8 |
| Andy Mitchell | Executive Director | 9 |
| Mathew Duncan | Executive Director | 8 |
| Roger Bailey | Executive Director | 9 |

** In accordance with article 20 of the Company's Articles of Association, Andrew Cox appointed Sebastian Schwengber as his alternate to attend one Board meeting.*

# 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.

### Ofwat's principles for board leadership, transparency and governance

We are required by our Licence to meet the objectives contained in Ofwat's 2019 principles for board leadership, transparency and governance and to explain in a manner that is effective, accessible and clear how we are meeting the objectives. The Board has reviewed the objectives and is satisfied that we complied with them. To demonstrate our compliance we have carried out a mapping exercise which sets out each of the objectives and describes the measures we had in place to meet them.

This is available for review on our ***website***.

### The UK Corporate Governance Code

We also measure our governance arrangements against the principles set out in the 2018 UK Corporate Governance Code (the Code) and we are pleased to report that we complied with the applicable principles set out in the Code other than in the following areas:

i. **The requirement that at least half the Board, excluding the Chair, should comprise Independent Non-Executive Directors.** In the period we had five Independent Non-Executive Directors, including the Chair, on the Tideway Board. This makes the Independent Non-Executive Directors the single largest group on the Tideway Board.

The Board believes it has the right combination of Executive Directors, Shareholder Directors and Independent Non-Executive Directors for the role of the Board supporting the organisation. Importantly, no individual or group can dominate the Board's decision making, and the Board is satisfied that the Independent Non-Executive Directors are independent in character and judgement, with no relationships or circumstances which are likely to affect or could appear to affect their independence. Each of the Board Committees is chaired by an Independent Non-Executive Director and the Shareholders' Agreement, entered into at Licence Award, supports these principles, containing legally binding commitments to maintain an independent board.

The significant independent representation and limited matters reserved to Shareholders help ensure that the Board is independent and in control of the regulated business and able to operate in a sustainable way in line with the long-term nature of the sector.

More information features in the composition of the Board section. The limited matters reserved to Shareholders are set out in the Relationship with Shareholders section, and information on our process for identifying and managing conflicts of interests is available on the Tideway website.

ii. **The requirement that the Non-Executive Directors should meet without the Chair present at least annually to appraise the Chair's performance.** This year's board evaluation exercise did not include an appraisal of the Chair. This was due to the assessment that this was not necessary given Tideway's search for a new Chair during the period and consistent positive feedback about the Chair's performance throughout his tenure.

Since the year end Baroness McGregor-Smith has been appointed as the Senior Independent Director and will be responsible for the Chair's appraisal going forward.

iii. **The requirement that there should be a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors and for FTSE 350 companies, the Chair should consider having this externally evaluated at least every three years.** There has been partial non-compliance of this provision.

Rather than conduct an external annual board evaluation facilitated by an independent firm as would have been scheduled this year, in light of the searches for a new Chair and Deputy Chair that were ongoing and the likelihood of changes in roles for the remaining Independent Non-Executive Directors, it was concluded by the Chair, after taking soundings from the Deputy Chair and the Shareholder Directors, it would be more beneficial to Tideway to roll the external evaluation over so that the new Chair can commission it to take place during 2024/25. An internal board evaluation took place instead during the period with the objective of being both rigorous and focused. The individual Committees of the Board were not evaluated during the financial year, although the Board appraisal did consider the effectiveness and connectivity of the Committees as a whole. Additionally, there was no individual performance evaluation. See the Board Evaluation section of the report for a summary of the findings from the Board evaluation.

The Board has noted the changes to the UK Corporate Governance Code as set out in the 2024 edition (the 2024 Code) which is applicable for accounting periods beginning on or after 1 January 2025. The Company will report on its compliance with the 2024 Code in the Annual Report and Accounts for the year ended 31 March 2026.

Further detailed mapping, setting out the principles of the Code and the measures Tideway had in place to meet them, is also available for review on the Tideway ***website***.


*The lid in position on top of the shaft at Abbey Mills*

# Board Leadership, Transparency and Governance

## *Governance Standards*

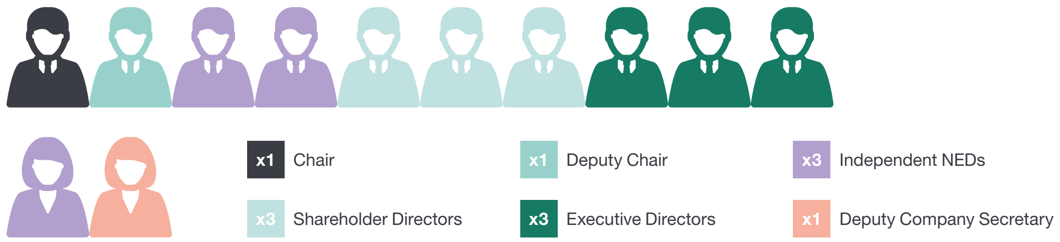
### THE BOARDROOM TABLE

As at 31 March 2024 the Tideway boardroom table consisted of 11 Directors, eight of whom were Non-Executive, plus the Deputy Company Secretary. Five of the Non-Executive Directors were independent, including the Chair of the Board, Sir Neville Simms.

### EXPERIENCE OF THE BOARD AS OF 31 MARCH 2024

**Male**
**83%**

**Female**
**17%**




### SECTOR EXPERIENCE

Board members have a wide range of expertise, including financial, operating and regulatory experience in the construction, finance and infrastructure sectors.

We recognise that as the project progresses the matters requiring Board consideration will change and we intend to keep Board members' 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.

Details of the Tideway Directors, including their dates of appointment, are in their biographies..


Further information on the process for Board appointments and succession arrangements is available on the Tideway ***website***.

### DIVISION OF RESPONSIBILITIES WITHIN THE BOARD

#### Chair

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

The Chair 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 Chair's key functions are to:**

- manage the Board and run Board meetings promoting a culture of openness and debate;
- 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;
- determine with the Deputy Company Secretary which decisions are reserved to the Shareholders;
- facilitate constructive Board relations and effective contribution of Non-Executive directors; and
- ensure that directors receive accurate, timely and clear information.

It is important that the Chair and CEO work well together, to provide effective and complementary stewardship. The Chair 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, CTO, 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 Chair the external representation duties for Tideway.

#### Senior Independent Director

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

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

#### Non-Executive Directors

The Board included eight Non-Executive Directors, three of whom represent the current Shareholders and five of whom are independent. The Shareholder Directors represent the views of investors in Board discussions and decision-making. The Independent Non-Executive Directors (who form the largest group) ensure there is a balance of perspectives, drawing on a wide range of skills and experience, so that the Board can make high quality decisions that address diverse stakeholder needs.

All the 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.

# Board Leadership, Transparency and Governance

*The Board*

## DIVISION OF RESPONSIBILITIES WITHIN THE BOARD *Continued*

### Executive Directors

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

The CFO is responsible for commercial and risk strategy involved in delivering the project, plus overall cost and schedule performance. He manages Tideway's finances, including financial and business planning, management accounting and control processes and treasury. The CFO is also responsible for Tideway's strategy and regulation team.

The CTO is responsible for ensuring completion of the project and handover to Thames Water. As such, the CTO leads the Completion & Handover Team and is responsible for technical oversight, property and commercial agreements, compliance with planning permission, system commissioning and the operational integration of the completed Thames Tideway Tunnel asset into the existing sewer network. The CTO works closely with the CEO and CFO.

## BOARD DEVELOPMENT, CONFLICTS AND EVALUATION

### Development

We provide a range of opportunities to ensure Board members maintain a deep understanding of the business and stay abreast of developments affecting Tideway's legal and regulatory environment. During the year the Board received regular presentations and updates on topics including the main works contracts, compliance with quality standards, health and safety, preparations towards system commissioning, legacy and reputation, and operational matters. All Board members were offered the chance to visit our sites and this year the majority of Board members have been on site, enabling them to speak directly to staff responsible for delivering the project and to see the works first hand.

There have been no new appointments to the Board in the period, but ordinarily new directors joining the business are given a comprehensive induction programme tailored to their skills, experience and role on the Board.

### Board Evaluation

Tideway conducts annual evaluations of the performance of the Board, its Committees, the Chair and individual directors. This year's Board evaluation was conducted internally and did not extend to an evaluation of the performance of individual directors and the Chair for reasons that are outlined above in the Corporate Governance Code section. In addition, Board members were asked to consider implementation of the recommendations from the 2023 Board evaluation. This year's evaluation was high level, inviting Board members to comment on the performance of the Board and the efficacy of its Committees and the quality of their interface with the Board.

The evaluation covered matters including but not limited to:

- Whether the Board discussed matters openly and came to its decisions as a constructive unit.
- Whether the Board had the right mix of skills and experience for the year ahead and for the future of the company, after the project becomes operational.
- Whether the Board have good communications with shareholders and other stakeholders.
- Whether the Board met the overarching objectives set out in Ofwat's principles on board leadership, transparency and governance.

Overall, the results and feedback were positive. Board members are satisfied that the Board had a good open environment, noting plenty of dialogue and discussion, well facilitated by the Chair and Committee Chairs. The balance of experience and skills on the Board is appropriate for the current stage of the project. It will be necessary to assess the kind of experience and skills that will be required for the Board in the future as the project moves into upcoming phases. They consider that the needs of stakeholders are regularly discussed and the Executive Directors and the Chair maintain good levels of communication with stakeholders. Board members also reflected positively on the quality of board papers and deep dives.

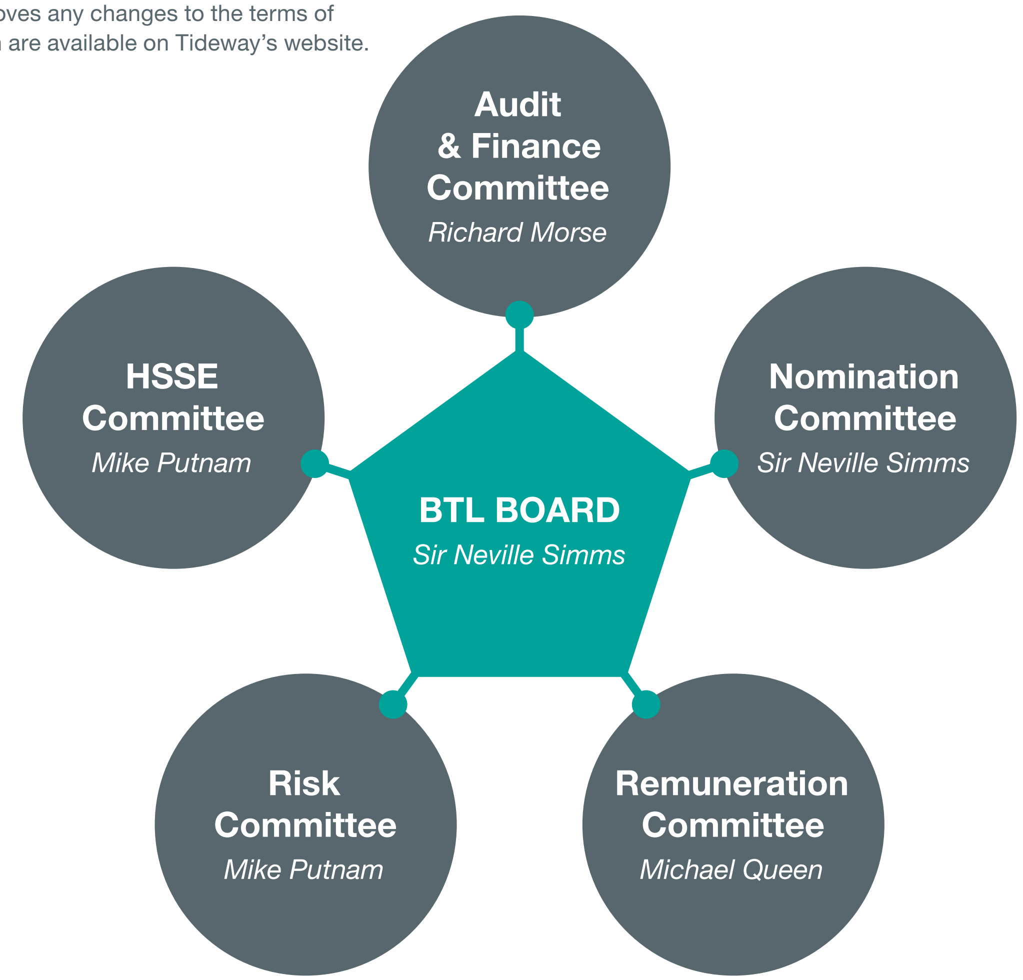
Regarding the actions arising from last year's Board evaluation, it was agreed that progress had been made toward reforming Board reports to highlight progress to PCCD. Board members noted that further steps will be needed to implement succession arrangements. Recruitment for a new Chair and Deputy Chair was ongoing and resulted in the appointment of a new Chair and Deputy Chair post balance sheet. The succession roadmap will be kept under review and updated as plans are developed for the final phases of the project and the future of Tideway.

A lack of diversity at Board-level was again acknowledged in the board evaluation. It was noted this had been considered during the recruitment exercise for the new Chair and Deputy Chair and would be factored into upcoming succession plans alongside ensuring the Board had the right skills and experience for future phases of the project.

## BOARD COMMITTEES

The Board has five Board Committees. The Committees meet regularly, 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 most meetings other than 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. 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, which are available on Tideway's website.




## BOARD COMMITTEE STRUCTURE

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

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.

# Committee Reports
## *Risk Committee Report*

**Mike Putnam**
Chair of Risk Committee

I am pleased to present this report on the work of the Risk Committee.

### COMPOSITION OF THE COMMITTEE

The Risk Committee is made up of four Independent Non-Executive Directors (including myself) and two Shareholder Directors. Together we share a thorough understanding of the Tideway project, significant experience in the infrastructure sector and an appropriate balance of risk management expertise.

All members of the Board are entitled to attend the Committee and the majority of Board members are frequently present, which adds to the depth of discussion in Committee meetings and assists decision making at Board level. As a matter of course we invite the Director of Strategy and Regulation, the Director of Programme Controls, the General Counsel and the Head of Internal Audit. Other relevant experts are also invited to attend Committee meetings where required.

### ROLE OF THE COMMITTEE

The role of the Committee is to review and report to the Board on risk management, mitigation and internal control. This includes determining the nature and extent of the principal risks Tideway faces. (These are described in the Strategic Report Risk Management section.) 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 is chaired by the Director of Strategy and Regulation and meets every six months to consider corporate risks that may affect the financial and reputational viability of the business. The Executive Risk Committee is chaired by the Chief Financial Officer and meets regularly to review programme risks that could affect the physical delivery of the project. I have regular meetings with the Director of Strategy and Regulation and the Chief Financial Officer to help ensure proper information flows from these committees, up to the Board's Risk Committee.

| Membership of the Risk Committee *4 Meetings Held* | | Attendance |
|---|---|---|
| **Mike Putnam** Chair | Independent Non-Executive Director | 4 |
| **Andrew Cox** | Shareholder Director | 3 |
| **Richard Morse** | Independent Non-Executive Director | 4 |
| **Michael Queen** | Independent Non-Executive Director | 4 |
| **Alistair Ray** | Shareholder Director | 3 |

### ACTIVITIES IN THE YEAR

The Committee met formally four times in the year and undertook the following main activities:

| Subject | Activities |
|---|---|
| Risk appetite monitoring | Considered reports on key risk exposures, emerging, potential risks, including those related to commissioning, and matters driving risk across the project.<br>Assessed and challenged the appropriateness of Tideway's overall risk appetite and approved the principal risks. |
| Risk management and governance | Received regular risk reports covering principal and corporate risks, programme and project risks and the mitigations in place.<br>Received updates from the Compliance Assurance Review Group (CARG) which is chaired by the CEO and challenges relevant staff on compliance and assurance matters.<br>Received reports from Internal Audit with observations on the CARG covering management's approach to the process.<br>Received a presentation describing Tideway's risk retirement profile. |
| Internal controls | Reviewed Tideway's Risk Management Policy and Risk Management Strategy. |
| Deep dive on Port of London Authority consents | In June the Committee focused on Tideway's interface with the Port of London. This included looking in depth at the barriers delaying the granting of outstanding consents for construction of permanent or temporary works for Tideway that affected the tidal Thames. The Committee also considered the steps taken to narrow down disputed issues and propose actions and mitigations to seek their resolution to facilitate achieving completion and handover. |
| Deep dives on the countdown to Commissioning | In September the Committee considered plans for the T-26 week review of the activities being undertaken and the resources deployed across the Alliance to verify Tideway was on track to achieve the early system commissioning milestones of the Preliminary Commissioning Commencement Date, the System Activation Commencement Date and the System Commissioning Commencement Date.<br>An additional meeting was held in January for the Committee to receive a T-12 update on the continued monitoring and reporting activities undertaken to support Tideway's ongoing progress towards commissioning and specifically PCCD target. This outlined key risks and measures taken to mitigate them. |
| Construction quality | In September the Committee reviewed construction quality across the three areas. This included ingress and egress levels and comparisons with levels expected in concrete tunnels. The Design Authority and independent external advisors confirmed the long term durability and structural integrity of the tunnel. |
| Gearing | In January the Committee considered a presentation on Tideway's projected gearing, scenario analysis and gearing management options. |
| Annual effectiveness review | Carried out an annual review of effectiveness which considered:<br>• Tideway's risk appetite and desired culture in relation to risk;<br>• the operation of risk management and internal control systems, including the determination of principal risks;<br>• the integration of risk management and internal controls with Tideway's strategy, business model and business planning processes;<br>• changes in the nature, likelihood and impact of principal risks and Tideway's ability to respond to change in the business and the external environment;<br>• the extent, frequency and quality of communication from Tideway's management to the Board regarding the results of risk monitoring;<br>• issues dealt with over the course of the year, including actions to address weaknesses or control failings;<br>• the effectiveness of Tideway's public reporting processes; and<br>• Tideway's approach to financial resilience, particularly in the context of decision-making relating to distributions. |
| Risk function | Noted plans to review Tideway's risk function during 2024/25. |

# Committee Reports

## *Nomination Committee Report*

**Sir Neville Simms FREng**
**Chair of Nomination Committee**

The Nomination Committee is made up of four Independent Non-Executive Directors and two Shareholder Directors, a majority of Independent Non-Executive Directors. I have been the Committee Chair since Tideway was established. I have chaired a number of companies and 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. The Committee would expect to meet at least once during the year.
The Committee meets 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;
- approving the appointment of new Non-Executive Directors; and
- reviewing the development plans of all staff members.

### ROLE OF THE NOMINATION COMMITTEE

The Committee is 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 regarding any changes;
- considering succession planning for Directors and senior executives, considering the challenges and opportunities facing Tideway, and the skills and expertise needed on the Board in the future; and
- evaluating the balance of skills, knowledge, experience and diversity on the Board before the Board makes an appointment. In the light of this evaluation, it prepares a description of the role and capabilities required for an appointment.

In identifying suitable candidates the Committee:

- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates from a wide range of backgrounds; and
- considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.

### ACTIVITIES

The Committee focused on Board succession planning for the Executive Management Team as well as reviewing the overall bench strength of the Senior Leadership team and renewing the Independent Non-Executive Directors' appointments.

As part of planned succession activity, a subcommittee of the Nomination Committee was formed to seek a new Chair and Deputy Chair. Egon Zehnder was appointed to carry out the search for a new chair and ran a competitive process.

I will be stepping down in September 2024 after nine years as the independent Chair. As a result of the search, which included two external candidates on the short list, independent Director Michael Queen has been appointed to succeed me.

Richard Morse, who has served as Deputy Chair and Chair of the Audit and Finance Committee, is retiring from the Board in June 2024 on completion of the annual reporting cycle.

Independent Non-Executive Director Baroness Ruby McGregor-Smith will succeed Richard Morse as Deputy Chair and Chair of the Audit and Finance Committee.

| **Membership of the Nomination Committee** *1 Meeting Held* | | **Attendance** |
|---|---|---|
| **Sir Neville Simms** Chair | Independent Non-Executive Director | 1 |
| **Andrew Cox** | Shareholder Director | 1 |
| **Richard Morse** | Independent Non-Executive Director | 1 |
| **Alistair Ray** | Shareholder Director | 1 |
| **Mike Putnam** | Independent Non-Executive Director | 1 |
| **Baroness Ruby McGregor-Smith** | Independent Non-Executive Director | 0 |

*Left to right, General Sir Adrian Bradshaw, Deputy Lieutenant for Greater London and Governor of the Royal Hospital Chelsea; Tideway Chair, Sir Neville Simms; Her Royal Highness, The Princess Royal; Tideway CEO Andy Mitchell.*

# Committee Reports

## *Health, Safety, Security And Environment Committee Report*

**Mike Putnam**
Chair of HSSE Committee

### I am pleased to present this report on the work of the HSSE Committee.

The Committee's members have an in-depth knowledge of Tideway's business and an appropriate balance of expertise in matters concerned with health, safety, security and the environment. In my role as Chair of the Committee I bring a background of leadership in business, construction and infrastructure and first-hand experience of priorities attached to health, safety, security and environmental matters.

### COMPOSITION

Including myself, the Committee has two Independent Non-Executive Directors and two Shareholder Directors. All members of the Board are entitled to attend the Committee and we also invite the Director of Business Services and Health, Safety and Wellbeing and the Legacy and Sustainability Manager. Further invitations are extended to relevant staff as required.

### ROLE OF THE HSSE COMMITTEE

Tideway is committed to best practice, continual improvement and a transformational approach to health, safety and wellbeing. We are committed to creating a healthier environment for London by reducing the overflow of untreated sewage into the tidal Thames, and environmental sustainability commitments form a key element of our legacy programme.

The Board acknowledges that effective leadership on HSSE matters must come from the top of the organisation. The HSSE Committee 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 overseeing significant Tideway actions relating to HSSE. This includes incident investigation reports and the close out of actions resulting from any serious incidents the Committee sees fit to review.

The 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. The Legacy and Sustainability Manager sits on the Alliance Legacy and Environment Committee which meets annually to provide strategic support and challenge on legacy and environmental issues. Both forums feed into the HSSE Committee.

| **Membership of the HSSE Committee** *2 Meetings Held* | | **Attendance** |
|---|---|---|
| **Mike Putnam** Chair | Independent Non-Executive Director | 2 |
| **Andrew Cox** | Shareholder Director | 1* |
| **Sir Neville Simms** | Independent Non-Executive Director | 2 |
| **Chris Morgan** | Shareholder Director | 2 |

* *In accordance with article 20 of the Company's Articles of Association, Andrew Cox appointed Sebastian Schwengber as his alternate to attend one HSSE Committee meeting.*

### ACTIVITIES

In accordance with its terms of reference, the Committee met twice in the year.

| Subject | Key Activities |
|---|---|
| HSW performance | Addressed detailed reports on the HSW performance of the MWCs, Programme Manager and Tideway. Among other things, this included oversight of steps taken by MWCs to implement HSW and site security improvement plans. |
| Sustainability performance | Reviewed the performance of the MWCs, Programme Manager and Tideway on sustainability and legacy commitments. This included, but was not limited to, oversight of legacy commitments and environmental KPIs and updates on Tideway and the MWCs progress on carbon monitoring and verification. |
| Sustainability Report | Considered the proposed Sustainability Report summarising Tideway's performance against its approach to Sustainable Finance and in response to TCFD. |
| HSW strategy | Reviewed Tideway's HSW strategy 2023-2025 reflecting the continuing development of the project and establishing a plan to improve performance across the Tideway Alliance. The potential transferability of EPIC training messaging was also considered. |
| Risk registers | Reviewed and considered the priority of matters included in the HSW and Environmental risk registers. |
| HSW Assurance | Received an update to the HSW Assurance Plan which forms part of Tideway's risk management activities, ensuring compliance with various statutory and contractual HSW obligations. |
| Social Impact | Considered Tideway's Social Impact Report reflecting on the social impact of Tideway's Legacy programme. |
| Deep dive on the Principal Contractor Role during Safety Commissioning | Received and considered a presentation on the System Commissioning Safety Management Plan as a framework for managing health and safety in response to the specific hazards and risks of tunnel inundation and hazardous gases associated with System Commissioning. The role of the System Commissioning Principal Contractor was also outlined. |

# Committee Reports

## *Audit and Finance Committee Report*

**Richard Morse**
Chair of Audit and Finance Committee

I am pleased to present this report on the work of the Committee.

### COMPOSITION

I have over 30 years' experience of infrastructure and energy transactions as an investment banker. 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.

There is a majority of independent Committee members, based on a Committee composition of three Independent Non-Executive Directors including myself and two Shareholder Directors. All of the Independent Non-Executive Directors have recent and relevant financial experience.

All members of the Board may attend our Committee meetings. We invite the Head of Internal Audit, the Director of Strategy and Regulation and the General Counsel to attend as a matter of course, and other relevant staff as required.

### ROLE OF THE AUDIT AND FINANCE COMMITTEE

The Committee reviews and reports to the Board on all financial reporting matters. We 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. We also review and report to the Board on Tideway's treasury policy, treasury strategy and financial strategy. The reporting process takes place after each Committee meeting when I report back to the Board on the Committee's activities, the main issues discussed and matters of particular relevance, with recommendations where relevant.

**Our main responsibilities are to:**

- review the half-year and annual financial and regulatory statements, including considering any significant areas of judgement and the ability of the Board to confirm that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and 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 external audit and report to the Board on the effectiveness of the audit process and how the auditor's independence and objectivity have been safeguarded;
- 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; and
- review and present to the Board any funding, hedging or investment, or any material change to Tideway's financing arrangements.

| Membership of the Audit and Finance Committee *7 Meetings Held* | | Attendance |
|---|---|---|
| **Richard Morse** Chair | Independent Non-Executive Director | 7 |
| **Andrew Cox** | Shareholder Director | 7 |
| **Baroness Ruby McGregor-Smith** | Independent Non-Executive Director | 7 |
| **Chris Morgan** | Shareholder Director | 6 |
| **Michael Queen** | Independent Non-Executive Director | 5 |

### ACTIVITIES

The Audit and Finance Committee met seven times in the year.

| Subject | Key Activities |
|---|---|
| Financial and regulatory statements | Considered the appropriateness of the accounting policies.<br>Reviewed significant issues in respect of the half-year and annual financial statements. |
| Annual external audit | Considered issues arising from the statutory and regulatory audits. |
| Internal audit | Reviewed the policy, plan, activities and effectiveness of the Internal Audit function.<br>Oversaw the process of securing cover for the Head of Internal Audit whilst she was on maternity leave. |
| External auditor | Oversaw the process of engagement with an outgoing external auditor with regard to regulatory reporting requirements.<br>Reviewed the proposed appointment of PwC as the company's new external auditor for recommendation to the Board.<br>Considered a paper from PwC outlining their intended approach to the 2023/24 Annual Report and Accounts. |
| Compliance and assurance | Considered the company's approach to compliance and assurance. |
| Financial and narrative reporting | Reviewed the company's approach to annual reporting including regulatory requirements. |
| Sustainable finance | Reviewed the company's Sustainability Report.<br>Considered the approach to future ESG reporting requirements. |
| Long-term viability statement and Going Concern statement | Considered management's approach and recommendations relating to the Long-Term Viability Statement and Going Concern Statement for adoption by the Board and inclusion in the Annual Report and Accounts. |
| Treasury strategy and performance | Received detailed reports on financing market conditions.<br>Reviewed the performance of Tideway's financing strategy. |
| Distributions | Considered scheduled distributions to shareholders and recommended capitalising deferred interest to the Board. |
| Funding, hedging and investment | Considered opportunities relating to funding, hedging and investment management including the recommendation of:<br>i. entry into a green fixed private placement; and<br>ii. revisions to intra-group financing arrangements;<br>iii. entry into a liquidity facility<br>to the Board. |
| Gearing | Received presentations on gearing projections and scenario analysis including relevant risk and gearing management options. |

# Committee Reports

*Audit and Finance Committee Report*

## SIGNIFICANT MATTERS CONSIDERED IN RESPECT OF THE 2022/23 FINANCIAL STATEMENTS

The Audit and Finance Committee has considered a number of significant issues in relation to the financial statements. These mainly related to the judgements in relation to the 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 2024, including changes from the prior period.

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 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, which reviews the effectiveness of Tideway's risk management and internal control systems throughout the year and regularly reports to the Committee. The Committee provides further review and challenge including:

- 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;
- approach to assurance, particularly considering requirements contained in Tideway's Project Licence, consents, financial obligations and other legal duties;
- 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. The Head of Internal Audit reported functionally to the CFO in the period. To help preserve the independence of the function, she also met regularly with the Chair of the Audit and Finance Committee without Executive management being present. This practice has continued with the interim Head of Internal Audit whilst the Head of Internal Audit is on maternity leave.

The Committee has a role to oversee the work of the Internal Audit function to ensure it is as robust and effective as possible including:

- 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.

The Committee was pleased to note the smooth transition between the Head of Internal Audit and the interim Head of Internal Audit whilst providing maternity leave cover.

Based on the Committee's oversight of the Internal Audit function, the Committee considers that the Internal Audit function is independent and effective.

## CONFIDENTIAL REPORTING PROCEDURES AND WHISTLEBLOWING

The 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 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 its staff which has been advertised throughout the organisation. It covers a 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 direct access to a confidential whistleblowing reporting process with Crimestoppers. The Head of Internal Audit acts as the Whistleblowing Officer and monitors, investigates and reports both to the General Counsel and the Committee on any concerns raised and the resulting outcome.

Based on the Committee's oversight of the Whistleblowing process, the Committee considers that the Whistleblowing process is effective.

## AUDITOR APPOINTMENT, INDEPENDENCE AND OBJECTIVITY

This is the first financial year in which the Annual Report and Accounts have been audited by PricewaterhouseCoopers LLP (PwC), which was appointed following a competitive tendering process in compliance with the Company's Specified Infrastructure Projects Regulations (SIPR) for external audit services and as described in our 2022/23 Annual Report. The contract permits us to continue to reappoint PwC on an annual basis, subject to the requirements of the Companies Act. The current external audit engagement partner is Andy Grimbly. I have been pleased to note the seamless handover between external audit firms.

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

During the period the Committee considered PwC's performance in relation to:

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

The Audit & Finance Committee reviews the non-audit services provided by the external auditor, taking into account any relevant ethical guidance on the matter. Non-audit services are approved by the Audit & Finance Committee and the Committee is satisfied that PwC is independent of the company and that the provision of permitted non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

The Committee has considered and approved the fees for non-audit services carried out by PwC.

| Fees for non-audit services paid to Auditors | 2024 £000 | 2023 £000 |
|---|---|---|
| **Non-audit services** | | |
| Other regulatory assurance services | 33 | 22 |
| Total | 33 | 22 |

We have met the PwC 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. The Committee concluded it is satisfied with the independence of the auditor and the overall quality of the audit process and accordingly, the Committee agreed to recommend PwC's reappointment as auditor for the 2024/25 financial year.

This report was approved by the Board of Directors on 20 June 2024

**Richard Morse**
Chair of the Audit and Finance Committee

# Committee Reports

## *Remuneration Committee Report*

**Michael Queen**
**Chair of Remuneration Committee**

I am pleased to present this report on the work of the Committee for the financial year ended 31 March 2024.

Tideway continues to strive to be a world-class employer, offering an inclusive culture, fair pay and competitive 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.

Underpinning the remuneration strategy is the Company's culture of respect, fairness and equity of application of the policy across the organisation, irrespective of role or seniority. Therefore, the approach to pay and benefits for both the Executive Directors and all employees are applied in the same way. Our Company annual bonus targets are set with the aim of promoting individual and collective motivation to realise the Company's objectives and purpose, focusing on Health and Safety, the time, cost and quality of build and importantly the impact on our communities and support to our people. In this way, we align the interests of customers, who are ultimately paying for the project through their water bills with the investors who are funding the project. Ultimately delivering the positive environmental impact of cleaning up the river Thames.

### COMPOSITION

The Committee has three Independent Non-Executive Directors (including myself) and two Shareholder Directors. The Committee has an appropriate balance of experience and in-depth knowledge of Tideway's business.

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** *2 Meetings Held* | | **Attendance** |
|---|---|---|
| **Michael Queen** Chair | Independent Non-Executive Director | 2 |
| **Andrew Cox** | Shareholder Director | 2 |
| **Richard Morse** | Independent Non-Executive Director | 2 |
| **Alistair Ray** | Shareholder Director | 2 |
| **Sir Neville Simms** | Independent Non-Executive Director | 2 |

### ROLE OF THE REMUNERATION COMMITTEE

The Committee has delegated responsibility for:

- setting the remuneration policy for all Executive Directors and the Company's Chair, 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 in other companies of comparable scale and complexity;
- recommending the design of, and determining targets for, any performance-related pay schemes and recommending 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.

### ACTIVITIES

Tideway is a dynamic, multi-year construction project, requiring a progression of skills and expertise over its life, in a competitive employment market. This requires us to constantly review and translate Tideway's remuneration policy into individual remuneration and incentive packages for staff and senior management. We aim to retain and incentivise the whole workforce, including the senior Executive team.

Each year, the Remuneration Committee reviews the overall compensation and benefits for all employees and compares them to various market benchmarks. The review, based on external projections of inflation and salary movements, awarded increases in a range between 8% for the lowest paid employees to 5.5% for senior managers. The Executive Directors received an increase of 4.5%.

Supporting our people during financially difficult times is important for the overall health and stability of the organisation. In October 2022 a temporary, additional allowance for employees below the Senior Management Team had been introduced and this was reviewed and continued until 31 March 2024 when it ended. The monthly cost of living allowance ranged from 8% down to 2%, ensuring that those on the lowest income were provided with the most support.

I would like to thank our Shareholders for their views and constructive input during this challenging time.

The Committee reviewed the overall Executive remuneration, to ensure it remains appropriate and fair. 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 implemented in 2019 was designed to incentivise management to transition the Company smoothly to Handover and Acceptance of the Tunnel. Whilst speed of construction is 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 to deliver a positive environmental impact by reducing raw sewage discharge into the Thames.

In the year final payments under LTIP 2 were awarded on the basis reported last year. No changes have been made to LTIP 3 in the year. All incentives are subject to satisfactory Health and Safety performance and the Committee has the discretion of assessing the final award.

Over the coming years the project will move into different phases. The Committee therefore continues to review the overall remuneration and incentivisation for the Executive management team and key roles to ensure stability and retention of critical knowledge and experience. Specific awards were therefore agreed for key roles as well as the Executive Directors, based on the required retention period. The Committee agreed that these were proportionate to the commitments required and delivery on the project. These awards are subject to claw back and malus. The Remuneration Committee may, in its absolute discretion reduce (including to nil) the accrued Award Amount or require the repayment of amounts up to the value of the full award if already paid, to take account of such circumstances as they may reasonably determine, that are deemed to be the result of the recipient's actions, including, without limitation, any of the following: material misstatement of the Company's results; fraud or gross misconduct; poor health and safety performance; poor regulatory performance; serious reputational damage or material loss caused by the recipient's actions; poor project performance against either schedule and/or budget; failure to deliver expected value to customers. The first of these retention awards to Executive Directors were made in March 2024 and are recorded here.

# Committee Reports

## *Remuneration Committee Report*

### REMUNERATION POLICY REPORT

The Company's remuneration policy continues to reflect the complexity and significance of one of Europe's largest infrastructure projects. Executive Directors' remuneration comprises three elements: base salary; an annual bonus; and LTIPs. We assess annual bonuses on a combination of individual and Company performance, to incentivise and reward success in line with our annual business plan objectives and Company purpose.

Willis Towers Watson, as required, 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. There continues to be 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.

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. Pensions are calculated on base salary only.

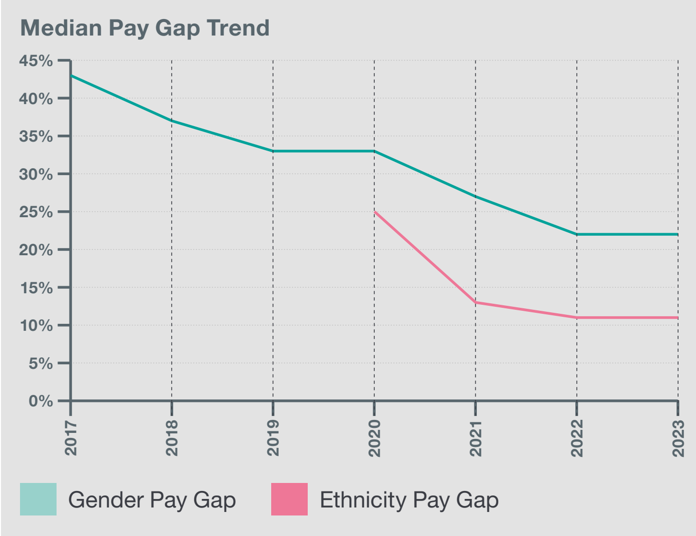
All employees have a base-level benefits package, covering holidays, pension, life insurance and private medical cover. Additional benefits are provided based on job level (such as car allowances and level of medical insurance cover) or personal circumstances (such as relocation allowance).

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. Maximum bonus opportunities for our staff range from 10% to 50% of salary, depending on their seniority and role. Details of the bonus opportunity for Executive Directors are provided in the tables.

Tideway has no collective agreements in place and salary increases are determined based on an individual's performance and internal and external relativities. The overall salary pot increase was 5.75% in 2023/24. Individual annual increase reviews 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 AND ETHNICITY PAY GAP REPORTING

As Tideway employs less than 250 people we are not required to report our gender pay gap data, however the Committee took the decision to report in 2019, and for the fourth year we have included our Ethnicity Pay Gap data. This is in line with our principles of transparency.




I am pleased with the improving results but recognise that as our organisation reduces in size as the project moves towards completion, we will review the veracity of continued reporting.

In a traditionally male dominated industry we continue to look at ways to reverse this imbalance through measures such as inclusive recruitment, a focus on new talent in underrepresented groups in our succession planning activity, mentoring and promoting flexible working, and targeted development opportunities.

We are proud that the Tideway project employs 36% women, but we recognise that continued focus to improve diversity at the senior levels within Tideway is required to address the structural imbalance.

We continue to take practical steps to achieve our broader diversity and employment goals, including an employee network, Encompass, with several working groups which focus on gender, disability, LGBT+ and race. Each diversity strand has an Executive sponsor, to support diversity and inclusion activities and programmes across the Project. The Company will continue to work towards increased diversity of representation across all levels of the Company.

Tideway prides itself on being an inclusive employer and this is reflected in our Employee Engagement Survey results. This confirmed that we continue to live our values, with a 94 per cent favourable response to the question "I am treated with respect as an individual".

# Committee Reports

*Remuneration Committee Report*

## 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 2024, are set out here.

| Executive Director Base Salary Arrangements | |
|---|---|
| Purpose and strategy | The overall remuneration package is set to attract and retain Directors of the appropriate calibre, to reflect the organisation's size, complexity and external market competition and company values. |
| 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:<br>• individual performance;<br>• internal and external comparators; and<br>• 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 where there is:<br>• increase in role scope or responsibility, including a promotion;<br>• external market data showing that the salary is not competitive; and/or<br>• 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 2023/24 are set out later in 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, as well as personal targets. Targets are set annually by the Remuneration Committee and notified to the Board.<br>The Remuneration Committee approves the assessment of achievement.<br>All bonuses are discretionary and can be removed or adjusted at the Committee's discretion. |
| Opportunity | Maximum bonus opportunities<br>CEO – 100%<br>CFO – 80%<br>CTO – 80%<br><br>Awards for 2023/24 were:<br>CEO – 80%<br>CFO – 64%<br>CTO – 64% |

Performance metrics

| Objective | Requirement | 2023/24 Minimum | Achievement (forecast) |
|---|---|---|---|
| Health Safety and Wellbeing | Maintain Strong HSW performance | Safety record better than other recent major projects. Improved performance on 2022-23. | Generally continued strong performance against targets. |
| Schedule Cost and Quality | Monthly Schedule Performance | Deliver schedule milestones.<br>Lee Tunnel outage by 1st May 2024. | 82.3% of milestones delivered against target of 75%.<br>Lee Tunnel outage on target. |
| | Year-end position in line with outturn budget (Estimate at Completion) | Remain within key parameters of financing plan. | All key Financing Plan parameters met except for IRR. |
| | Asset Quality, Fitness for Purpose & Durability | No Significant delays due to quality issues. | No delays due to quality issues. |
| Vision Legacy and Reputation | Support from stakeholders | No material schedule impact as a result of stakeholder intervention. | Independently run stakeholder survey showed support levels at 90%. 93% of legacy targets achieved (target 85%). |
| Company and People | Organisation changes delivered against plan, whilst preserving a values driven, skilled, diverse and engaged workforce | Subjective (evidence of effective organisation transition including surveys/polls and feedback from the Workforce Engagement Director with Employee Reps). | Engagement survey data shows small increase in positive scores across most indicators. All indicators were above 80% positive. Positive feedback from employee reps to Workforce Director. |
| Personal objectives | Achievement of personal objectives | As per individual plan. | As per individual plan. |

**These targets are shared with all staff.**

- The Committee has discretion to weight each of the above requirements as it sees fit.
- The Committee has assessed that the Company achieved 80 per cent of its goals overall, as EAC and schedule performance were given more weight by the Committee. A range of inputs, including the project's health and safety record, performance schedules, employee surveys and independent research detailing our reputation in the external market are used.
- The 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.

## EXPLANATION OF PERFORMANCE METRICS CHOSEN

The metrics chosen were designed to ensure that all staff members remained engaged with the project's priorities, of time and budget, whilst underpinning the Company's core values of transformational health and safety, stakeholder and employee engagement. Delivering the operational tunnel will ensure improved environmental goals of a cleaner river Thames.

Company targets for Directors and Executive Management are 50 per cent of the bonus opportunity, with individual targets making up the other 50 per cent. For other employees, the split is 25 per cent Company targets and 75 per cent 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 | |
|---|---|
| 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 £4,000 per annum. |
| 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, CFO | |
|---|---|
| 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 per cent of 2016/17 base salary in the first available payroll occurring after its award and 112.5 per cent of 2016/17 base salary in each of the following two years.<br>**Tranche 2** is awarded on the Tunnelling Completion Date (broadly defined as the date on which all tunnelling is complete). The maximum amount that may be paid under Tranche 2 is up to 150 per cent of the base salary pertaining at the tunnelling start date, on the first available payroll occurring after award, and up to 300 per cent (subject as set out below) of such base salary in the following year.<br>**Tranche 3** is awarded at Handover and is payable as to two-thirds at Handover of the tunnel and one third at System Acceptance. Amounts paid out depend on the timing of system wide Handover and acceptance of the tunnel, the costs of achieving this. LTIP3 is calculated as up to 200 per cent of salary for each of the years from scheme introduction to Handover. |
| Performance metrics | 100 per cent of the Tranche 1 LTIP will be awarded if the Committee is satisfied that tunnelling 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 tunnelling has occurred by the date (the LAD) scheduled when the Company's Licence was awarded. The reduction between 100 per cent and nil will be calculated on a site-by-site basis. The award will reduce by 20 per cent for each site that has not started tunnelling by the LAD or such lesser percentage (calculated on a straight-line basis, per tunnel if tunnelling commencement occurs between LAD and Pre LAD.1). The Committee has discretion to increase or reduce the award by up to a further 20 per cent, depending on the length of tunnel bored by the LAD.<br>**Achievement:** Based on tunnelling start dates and overall tunnel completed, the amount awarded under this LTIP was 44% in September 2019. The performance amounts payable to the CEO and COO are disclosed in the renumeration tables for the financial year 2020-21. The final payment was made in September 2021 and is now closed.<br>100 per cent of the Tranche 2 LTIP will be awarded if the Committee is satisfied that the six individual Tunnelling Completion dates have occurred on or before a specified date. The award will reduce to nil if the Individual Tunnelling Completion Date has not occurred by the specified date and will reduce on a straight-line basis if the Individual Tunnelling Completion Date occurs between those two dates.<br>**Achievement:** Based on tunnelling completion dates for all 6 tunnels, the amount awarded under this LTIP was 86%. The amounts payable to the CEO, CFO and COO are disclosed in the remuneration tables for 2022-23. The first payment was made in May 2022, and the second and final payment was made in May 2023.<br>For Tranche 3, 100% of LTIP3 will be paid if the Committee considers that Handover and System Acceptance has or will occur on the date scheduled at Licence Award (the LAD) and agreed forecast costs have been met. The award is adjusted downwards if either the schedule or cost are not met.<br>The 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. |

# Committee Reports
## *Remuneration Committee Report*

| Executive Director Retention Arrangements Applicable to the CEO, CFO and CTO | |
|---|---|
| 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 Retention bonus is split into three tranches. Each is designed to encourage completion of the project as swiftly as possible, without compromising health and safety or quality, and to deliver our stated legacy aims of cleaning up the river. |
| Opportunity | Tranche 1 (25%) is awarded on the date that the tunnel achieves is Pre-commissioning Commencement date, tranche 2 (37.5%) at Handover and the tranche 3 (37.5%) on Systems Acceptance.<br>The overall maximum opportunity to Systems Acceptance is:<br>CEO 7.9x salary<br>CFO 8.3x salary<br>CTO 7.1x salary<br>Salary is calculated as at April 2022. |
| Performance metrics | Completion of project milestones, The Committee has discretion to reduce all or any tranche of the retention to zero for, inter alia, health and safety or regulatory breaches or malus. |

### POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

Here we set out the potential remuneration for Executive Directors in various bonus award scenarios.

| | 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 |

Here is the relative split of remuneration between fixed (base salary, benefits and pensions) and variable elements (annual bonus) for the Executive Directors under the three scenarios.

| 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 Chair and Deputy Chair 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.<br>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 in 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 Governance Report.

# Committee Reports
## *Remuneration Committee Report*

### REMUNERATION
The total remuneration earned by each Director is shown in the following table. These tables have been audited.

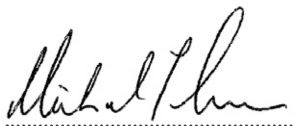
| Year Ended 31 March 2024 | Base Salary £'000 | Taxable Benefits £'000 | Annual Bonus £'000 | LTIP £'000 | Retention Bonus | Pension Contributions £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Andy Mitchell | 523 | 17 | 354 | - | 1,000 | 4 | 1,898 |
| Mathew Duncan* | 351 | 34 | 188 | - | 700 | - | 1,273 |
| Roger Bailey | 323 | 17 | 174 | - | | 4 | 518 |
| Sir Neville Simms | 275 | 10 | - | - | | - | 285 |
| Mark Sneesby** | - | - | - | - | | - | - |
| Richard Morse | 100 | | - | - | | - | 100 |
| Mike Putnam | 68 | 6 | - | - | | - | 74 |
| John Holland-Kaye*** | - | - | - | - | | - | - |
| Michael Queen | 68 | - | - | - | | - | 68 |
| Baroness Ruby McGregor-Smith | 68 | - | - | - | | - | 68 |
| **Total** | **1,776** | **84** | **716** | **-** | **1,700** | **8** | **4,284** |

| Year Ended 31 March 2023 | Base Salary £'000 | Taxable Benefits £'000 | Annual Bonus £'000 | LTIP £'000 | Pension Contributions £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Andy Mitchell | 468 | 16 | 464 | 1,774 | 5 | 2,727 |
| Mathew Duncan* | 330 | 32 | 247 | 825 | - | 1,444 |
| Roger Bailey | 305 | 16 | 228 | - | 5 | 554 |
| Sir Neville Simms | 275 | 10 | - | - | - | 285 |
| Mark Sneesby** | - | - | - | 1,224 | - | 1,224 |
| Richard Morse | 100 | - | - | - | - | 100 |
| Mike Putnam | 67 | 6 | - | - | - | 73 |
| John Holland-Kaye | 67 | - | - | - | - | 67 |
| Michael Queen | 67 | - | - | - | - | 67 |
| Baroness Ruby McGregor-Smith | 67 | - | - | - | - | 67 |
| **Total** | **1,746** | **80** | **939** | **3,833** | **10** | **6,608** |

** Mathew Duncan received a grossed-up payment in lieu of a pension contribution.*
*** Mark Sneesby resigned in September 2021, the payment in the year ended 31 March 2023 reflects cash settlement of an LTIP.*
**** John Holland-Kaye resigned as a Statutory Director in the year ended 31 March 2023.*

### 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 2024.



**Michael Queen**
Chair of the Remuneration Committee

** Mathew Duncan received a grossed up payment in lieu of a pension contribution.*
*** Mark Sneesby resigned in September 2021, this in year payment reflects cash settlement of an LTIP.*

# Relationship with Shareholders

## OUR OWNERS

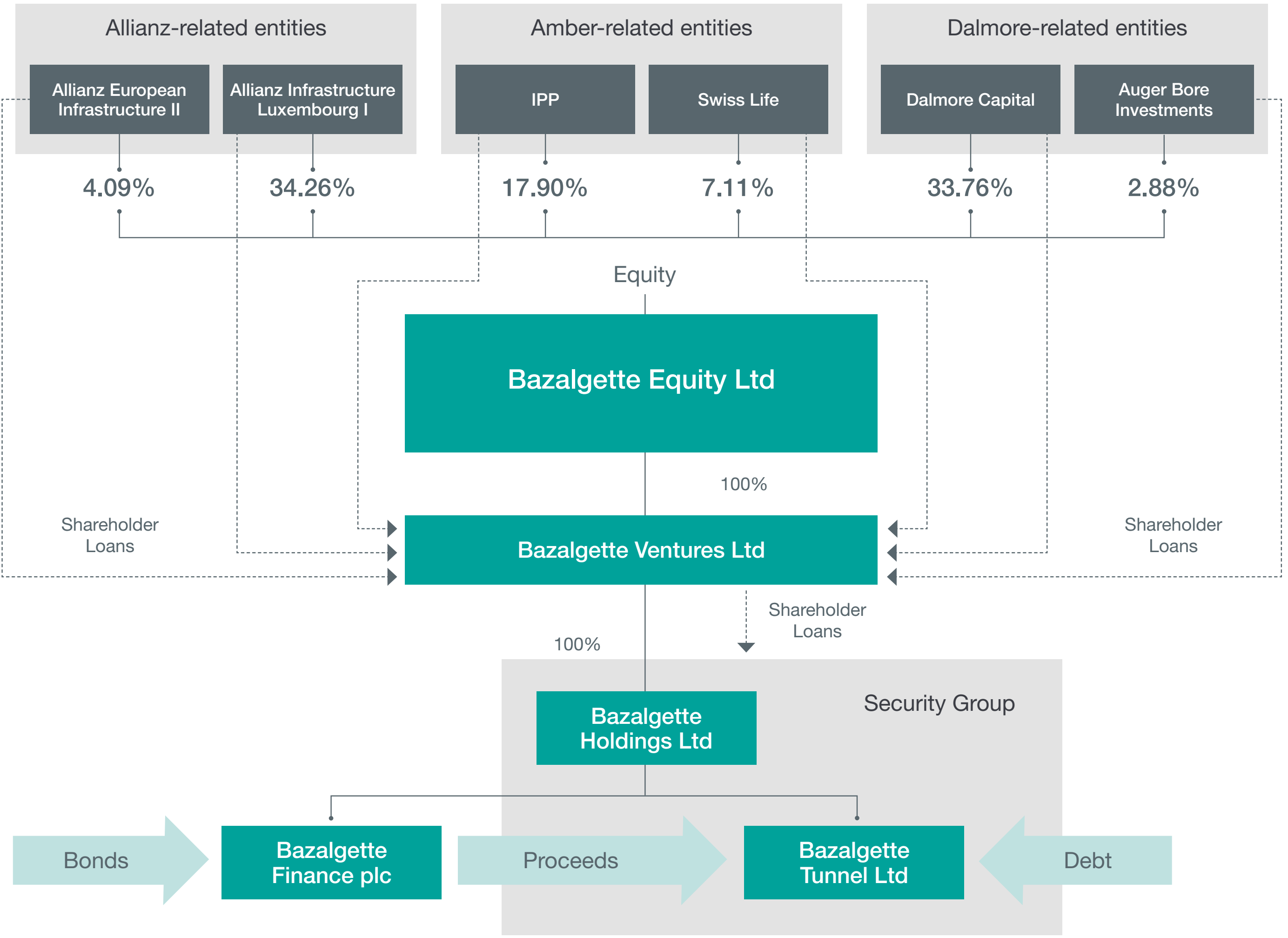
Tideway is owned by a consortium of investors. Here we set out our equity investors and their equity interests as at 1 June 2024.

| Shareholder and Shareholding | Description |
|---|---|
| Allianz Infrastructure Luxembourg I S.a.r.l. **34.26%** Allianz European Infrastructure II Acquisition Holdings S.a.r.l **4.09%** | The Allianz Group is one of the world's leading insurers and asset managers with around 125 million* private and corporate customers in nearly 70 countries. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing around €737 billion** on behalf of its insurance customers. Furthermore, its asset managers PIMCO and Allianz Global Investors manage about €1.7 trillion of third-party assets. Thanks to its systematic integration of ecological and social criteria in its business processes and investment decisions, Allianz is among the leaders in the insurance industry in the Dow Jones Sustainability Index. In 2023, over 157,000 employees achieved total business volumes of €161.7 billion and an operating profit of €14.7 billion for the group. The investment in Tideway is funded from the balance sheets of various Allianz Group insurance companies and the Allianz European Infrastructure Fund II, managed by Allianz Capital Partners GmbH. |
| Dalmore Capital 14 GP Limited **33.76%** Auger Bore Investments Limited **2.88%** (Both Dalmore related entities) | Dalmore Capital is an independent fund manager, with a focus on long-term, limited-volatility infrastructure investments, particularly in the UK. Dalmore has interests in over 130 infrastructure assets and has assets under management of over £5.7bn. For its investment in Tideway, Dalmore established dedicated investment vehicles which have secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors. |
| IPP (Bazalgette) Limited **17.90%** Bazalgette (Investments) Limited **7.11%** (Both Amber related entities) | Amber Infrastructure is an international infrastructure specialist, focused on investment origination, development, asset management and fund management. With approximately £5 billion of funds under management, Amber invests across eight funds and a number of managed accounts, including International Public Partnerships Limited (INPP, a London Stock Exchange listed infrastructure company), for public and private sector investors. Amber's core business focuses on sourcing, developing, advising, investing in and managing infrastructure assets across the public, transport, energy, digital and demographic infrastructure sectors that support the lives of people, homes and businesses internationally. Amber is headquartered in London with offices in the UK, Europe, North America, Australia and New Zealand and employs over 180 infrastructure professionals. Amber manages the IPP and the respective investment of a fund advised by Swiss Life Asset Managers in Tideway which are held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited respectively. Swiss Life Asset Managers is one of the-largest managers of institutional assets in Switzerland, with over 2,100 employees and more than 165 years of experience in managing the assets of the Swiss Life Group. Assets under management amount to CHF 256bn as of 31 December 2023. The core competencies of Swiss Life Asset Managers lie in actively managed solutions in Infrastructure, Real Estate, Fixed Income, Equities and Multi-Asset classes. |

The Shareholder Directors are the primary conduit by which the Board interacts with the Shareholders and understands their views, both individually and collectively. As described in the Governance Standards section, a number of arrangements are in place to ensure Tideway maintains an independent Board for the purposes of strategic and risk management decisions. Matters reserved to Shareholders are detailed here, together with a description of the one occasion in the year when these reserved powers arose.

## TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is Bazalgette 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 and their role is described here.




* Including non-consolidated entities with Allianz customers.

** As of 31 December 2023

# 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. |

## RELATIONSHIP WITH SHAREHOLDERS

Each shareholder controlling 10 per cent 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 per cent 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 per cent 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 per cent 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 Chair 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. These matters require the approval of Shareholders holding either 75 per cent or 90 per cent of Tideway's equity. Each Shareholder has the number of votes on such matters equal to its shareholding in Bazalgette Equity Limited.

The Shareholder reserved matters are described in full, here, together with a summary of the nature of each matter. Although these matters are reserved to the Shareholders, the Board expresses its view before any Shareholder decisions are taken. The Board retains responsibility for all matters related to Tideway's strategy and is accountable for all aspects of Tideway's business.

In the year, matters reserved to Shareholders arose just once in the Board's decision-making activities, relating to the appointment of a new external auditor for the statutory and regulatory audit and related services for the Tideway group companies from 2023/24 onward.

## SHAREHOLDER RESERVED MATTERS REQUIRING 75% APPROVAL

| Nature of Matter | Description |
|---|---|
| General corporate | Matters relating to the issue of any shares in any Tideway group company. |
| Incurring of commitments, liabilities etc. | Unless contemplated by the Annual Business Plan or Budget. |
| Acquisitions or disposals | Including capital expenditure over 5% of the regulatory capital value of the Project ("RCV") (see Tideway's Annual Performance Report for value), 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.<br>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 5% of RCV.<br>Entering into any guarantee in excess of 5% of RCV.<br>The appointment to the Board or removal of an Executive Director, as recommended by the Nomination Committee.<br>The conduct of litigation and claims involving any Tideway group company, where the potential liability may exceed 5% of RCV.<br>Any material submission or application to Ofwat, whether pursuant to the Licence or otherwise.<br>Any request that Ofwat refer a matter to the Competition and Markets Authority.<br>The submission of any material tax claim, disclaimer, election or consent.<br>The issuances or withdrawal of notices pursuant to the Government Support Package.<br>The replacement of a Main Works Contractor, System Integrator or Project Manager during the Construction Period.<br>The appointment of a Tideway representative to the Liaison Committee and any voting in relation to material variations to the scope of the project.<br>The approval of or entry into a related party transaction. |

## SHAREHOLDER RESERVED MATTERS REQUIRING 90% APPROVAL

| Nature of Matter | Description |
|---|---|
| Partnership, joint venture or other agreement | Entering into any partnership 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 any Tideway group company 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 any Tideway group Company. |
| 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 any Tideway group company by way of capitalisation or application of any profits or reserves. |
| Schemes or 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 any Tideway group company is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010. |

# Directors' Report

The Directors present their Annual Report and the audited Company financial statements of Bazalgette Tunnel Limited (the Company) for the year ended 31 March 2024. The Company is incorporated and domiciled in the United Kingdom. The registered company number is 09553573 and the Company's registered address is 6th Floor, Blue Fin Building, 110 Southwark Street, London, SE1 0SU.

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

## OWNERSHIP AND RELATIONSHIP WITH ASSOCIATED COMPANIES

Bazalgette Tunnel Limited is owned by a consortium of investors. These investors are Dalmore Capital 14 GP Limited, Auger Bore Investments Limited, Allianz Infrastructure Luxembourg I S.a.r.l, Allianz European Infrastructure II Acquisition Holdings S.a.r.l, IPP (Bazalgette) Limited and Bazalgette (Investments) Limited. Further information on our equity investors and their equity interests as set out in the Governance Report.

## DIRECTORS

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

## CORPORATE GOVERNANCE

Full disclosure on the Company's Corporate Governance activities is set out in the Governance Report and is incorporated by reference into this Directors' 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.

## FINANCIAL RESULTS AND DIVIDENDS

Following the Company's accounting policies (see note 1 to the financial statements), all costs that meet the capitalisation criteria are capitalised and all regulatory revenue received is currently deferred on the Statement of Financial Position. This accounting treatment is expected to continue throughout the construction phase of the project.

The Company recorded a £14.6m profit for the year ended 31 March 2024 (31 March 2023, here after referred to as "2023": £144.6m profit). This is a result of fair value movements on the Company's derivative financial instruments. The tunnel asset under construction totalled £5,400.7m at 31 March 2024 (2023: £4,832.0m).

An explanation of the financial results of the Company are set out in the Financial Performance Review. The Company did not pay any dividends in the year (2023: £nil). During the year, £nil (2023: £20.8m) of shareholder loan interest was paid and £nil loan principal was repaid during the year (2023: £nil). 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 in note 11.

## INVOLVEMENT OF EMPLOYEES

Details of how the Company undertakes engagement with its employees is detailed in the Company and People section of the Strategic Report.

The average number of people employed by the Company (including Directors) during the year was 97 (2023:106). Details relating to the Company's employment policies and values are set 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 totalling £16,143 during the year (2023: £19,186). 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 (2023: £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. Our Main Works Contractors originally signed up to the Fair Payment Charter which has since been superseded by the Prompt Payment Code, most of our major suppliers are signatories to this. The creditor days for the year ended 31 March 2024 were approximately 5 days (2023: 3 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. 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.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

## DIRECTORS' CONFIRMATIONS

The directors consider 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.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

M. Duncan

**Mathew Duncan**
Chief Financial Officer

Blue Fin Building, 110 Southwark Street, London. SE1 0SU
20 June 2024

# ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2024
Registered number 09553573



*Image: The final tunnel.*

# Independent Auditor's Report

*to the members of Bazalgette Tunnel Limited*

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

**Opinion**

In our opinion, Bazalgette Tunnel Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Company Statement of Financial Position as at 31 March 2024; the Company Income Statement, the Company Statement of Other Comprehensive Income, the Company Cash Flow Statement, and the Company Statement of Changes in Equity for the year then ended; the Material accounting policy information; and the notes to the financial statements.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## OUR AUDIT APPROACH

**Overview**

Audit scope

- As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits we also addressed the risk of management override of internal controls, including evaluation whether there was evidence of bias by the directors that respresented a risk of material misstatement due to fraud.

Key audit matters

- Valuation of financial derivatives
- Completeness of costs recognised during the year

Materiality

- Overall materiality: £113,205,800 based on 2% of total assets.
- Performance materiality: £56,602,900.

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of financial derivatives**<br>The derivative position as at 31 March 2024 was a liability of £148.0m (2023: liability of £118.5m).<br>The pre-credit risk valuation is relatively objective and as a result this element of the derivative valuation is not deemed to be a significant risk. The CVA/DVA adjustment (or post credit risk valuation) is designated as a significant risk as the credit risk adjustment valuation methodology can be judgemental as there is no prescribed approach in IFRS 13.<br>Refer to page 71 and note 11 of the financial statements. | We obtained an understanding and addressed the design and implementation of financial controls relating to derivatives process and the related accounting treatment.<br>We have performed the following procedures to address the risk of valuation of financial derivatives:<br>We obtained independent confirmations from external counterparties and agreed terms to contracts in order to confirm the existence and terms of all derivative contracts. Where confirmations were not obtained, alternative audit procedures have been performed.<br>Engaged with our specialist valuations team, who have performed independent testing of the pre-credit risk adjusted valuations and over the full CVA/DVA adjustment to support the engagement team in their assessment of the balances.<br>Performed analysis of the directional movement in the derivative position relative to movements in inflation and interest rates.<br>Assessed the disclosure of derivatives in the financial statements.<br>Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate. |
| **Completeness of costs recognised during the year**<br>Bazalgette Tunnel Limited incurred a significant amount of expenditure in the year in relation to the construction of the tunnel. As at 31 March 2024 additions of £568.7m (2023: £815.7m) were capitalised in the tunnel. These are material in the context of the company. Refer to note 6 of the financial statements.<br>The overall tunnel build is a significant infrastructure project for the UK, as such we consider there to be a significant risk in respect to the completeness of costs in the financial period. | We obtained an understanding and addressed the design and implementation of financial controls relating to the completeness of costs recognised during the year.<br>We obtained confirmations of invoiced amounts during the year from Main Works Contractors (MWC's) and ensure that they have been appropriately recorded within Tideway's accounts.<br>We tested all MWC's invoices back to the trial balance to ensure all costs captured in the year are complete.<br>We performed testing over liabilities recognised after year end to assess if they indicate there are costs that should have been recognised during the period.<br>We tested accruals recognised at year end.<br>We made inquiries directly with CH2M Hill United Kingdom (Jacobs) (Independent project manager working with Tideway and MWC) with the support of members of our major contracts team to corroborate information shared by management.<br>From the inquiries made with management, knowledge gained from auditing other areas and the reading of minutes. We consider the costs recognised in the year to be complete based on the procedures performed. |

# Independent Auditor's Report
*To the members of Bazalgette Tunnel Limited*

**How we tailored the audit scope**
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We tailored the scope of the audit to ensure we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which operates.

The entity consists of one operation segment and is managed from a single location in the United Kingdom.

**The impact of climate risk on our audit**
As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

**Materiality**
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall company materiality | £113,205,800 |
| How we determined it | 2% of total assets |
| Rationale for benchmark applied | The entity function is to build a single asset. Therefore, using total assets as a benchmark is considered appropriate. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £56,602,900 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the lower end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £5,660,290 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models supporting the forecasts used by management to support their going concern assumption and reconciling these to Board approved budgets;
- Evaluated management's models used in going concern assessment, and how these models capture events and conditions that may cast doubt on ability to continue as a going concern;
- Reviewed and challenged management's estimates and assumptions included within the forecast, assessing these for reasonableness including confirmation that no debt is maturing in the going concern assessment period;
- Assessed the plausible but severe downside scenarios;
- Performed sensitivity analysis on management's forecast cash flows;
- Obtaining covenant compliance certificates; confirming that all the key covenants that impact the continued access to finance have been considered over the relevant time periods and verifying the mathematical accuracy, and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget;
- Performing a comparison of budget versus actual for the year ended 31 March 2024 and understanding where variances had arisen. Through this testing we obtained reasonable assurance over management's ability to forecast accurately; and
- Evaluated the adequacy of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial 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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic report and Directors' Report**
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

## CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' 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 its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

# Independent Auditor's Report

*To the members of Bazalgette Tunnel Limited*

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

**Responsibilities of the directors for the financial statements**

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements**

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 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 these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat regulations including licence conditions and Environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006, Tax legislation and Employment law. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of journal entries to manipulate the financial results in the year including journals to decrease the value of the asset under construction and journals that credit the profit and loss. Audit procedures performed by the engagement team included:

- Discussions and enquiries of management, the internal audit function and legal, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where available along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports; and
- Performing unpredictable procedures including testing for manipulation of key inputs related to covenant compliance, understatement of costs in the year and consideration of unexpected users who may have posted journals during the year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

## OTHER VOLUNTARY REPORTING

**Directors' remuneration**

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Andy Grimbly

**Andy Grimbly**
Senior Statutory Auditor

**For and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, Reading. 20 June 2024**

# Financial Statements

## COMPANY INCOME STATEMENT

*For the year ended 31 March*

| | Note | 2024 £m | Restated* 2023 £m |
|---|---|---|---|
| Net operating costs | *2,3* | - | - |
| Finance income | *4* | - | - |
| Finance costs | *4* | - | - |
| Gains on financial instruments | *4* | 14.5 | 144.6 |
| **Profit before tax** | | **14.5** | **144.6** |
| Taxation | *5* | - | - |
| **Profit for the year** | | **14.5** | **144.6** |

## COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

*For the year ended 31 March*

| | Note | 2024 £m | 2023 £m |
|---|---|---|---|
| Profit for the year | | 14.5 | 144.6 |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive income for the year attributable to owners of the parent** | | **14.5** | **144.6** |

*Notes 1 to 17 form an integral part of these financial statements.*

## COMPANY STATEMENT OF FINANCIAL POSITION

*As at 31 March*

| | Note | 2024 £m | Restated* 2023 £m | Restated* 1 April 2022 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | *6* | 5,401.8 | 4,833.8 | 4,020.1 |
| Trade and other receivables | *7* | 20.9 | 29.2 | 54.4 |
| Derivative financial instruments | *11* | - | - | - |
| | | 5,422.7 | 4,863.0 | 4,074.5 |
| **Current assets** | | | | |
| Trade and other receivables | *7* | 69.9 | 82.5 | 48.2 |
| Cash and cash equivalents | *8* | 167.7 | 107.5 | 333.7 |
| Short-term deposits | *8* | 230.0 | 220.0 | 145.0 |
| | | **467.6** | **410.0** | **526.9** |
| **Total assets** | | **5,890.3** | **5,273.0** | **4,601.4** |
| **Current liabilities** | | | | |
| Trade and other payables | *9* | (129.3) | (121.8) | (148.3) |
| Lease liabilities | | (0.7) | (1.1) | (2.1) |
| Derivative financial instruments | *11* | (1.5) | - | - |
| | | **(131.5)** | **(122.9)** | **(150.4)** |
| **Non-current liabilities** | | | | |
| Advance payment liability | *9* | (484.5) | (378.0) | (291.3) |
| Lease liabilities | | (0.1) | (0.3) | (1.3) |
| Borrowings | *10* | (4,540.9) | (4,055.2) | (3,526.3) |
| Other payables | *9* | (11.9) | (37.7) | (53.9) |
| Derivative financial instruments | *11* | (146.5) | (118.5) | (162.4) |
| | | **(5,183.9)** | **(4,589.7)** | **(4,035.2)** |
| **Total liabilities** | | **(5,315.4)** | **(4,712.6)** | **(4,185.6)** |
| **Net assets** | | **574.9** | **560.4** | **415.8** |
| **Equity** | | | | |
| Share capital | *12* | 509.7 | 509.7 | 509.7 |
| Retained earnings | *12* | 65.2 | 50.7 | (93.9) |
| **Total equity** | | **574.9** | **560.4** | **415.8** |

*Notes 1 to 17 form an integral part of these financial statements.*

*These financial statements on pages 66 to 73 were approved by the Board of Directors on 20 June 2024 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 2022 | 509.7 | (93.9) | 415.8 |
| Profit for the year | - | 144.6 | 144.6 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **-** | **144.6** | **144.6** |
| **Total contributions by and distributions to owners** | **-** | **-** | **-** |
| **Balance at 31 March 2023** | **509.7** | **50.7** | **560.4** |
| | | | |
| Balance at 1 April 2023 | 509.7 | 50.7 | 560.4 |
| Profit for the year | - | 14.5 | 14.5 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **-** | **14.5** | **14.5** |
| **Total contributions by and distributions to owners** | **-** | **-** | **-** |
| **Balance at 31 March 2024** | **509.7** | **65.2** | **574.9** |

*Notes 1 to 17 form an integral part of these financial statements.*

## COMPANY CASH FLOW STATEMENT

*For the year ended 31 March*

| | Note | 2024 £m | Restated*** 2023 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Decrease/(Increase) in trade and other receivables | *7* | 29.0 | (5.9) |
| Decrease in trade and other payables | *9* | (19.7) | (45.5) |
| Increase in advance payment liability | *9* | 106.5 | 86.7 |
| **Cash flows from operations** | | **115.8** | **35.3** |
| **Net cash flows from operating activities** | | **115.8** | **35.3** |
| **Cash flows used in investing activities** | | | |
| Construction of infrastructure asset ** | *6* | (359.8) | (507.7) |
| Funds placed in short term deposits | | (230.0) | (220.0) |
| Short term deposits matured | | 220.0 | 145.0 |
| **Net cash flows used in investing activities** | | **(369.8)** | **(582.7)** |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | 315.7 | 323.2 |
| Lease liability payments | | (1.5) | (2.0) |
| **Net cash flows from financing activities** | | **314.2** | **321.2** |
| **Net increase/(decrease) in cash and cash equivalents during the year** | | **60.2** | **(226.2)** |
| Cash and cash equivalents at the start of the year | *8* | 107.5 | 333.7 |
| **Cash and cash equivalents at the end of the year** | *8* | **167.7** | **107.5** |

*Notes 1 to 17 form an integral part of these financial statements.*

* *Refer to financial statement note 16 for details on prior year restatements.*

** *Construction of infrastructure asset includes capitalised interest paid of £25.4m (2023: £44.7m) and capitalised interest received of £16.7m (2023: £8.5m).*

*** *Funds placed in short term deposits/short term deposits matured have been restated to represent their gross values.*

## 1 MATERIAL ACCOUNTING POLICY INFORMATION

### Basis of preparation

Bazalgette Tunnel Limited (the "Company") is a private company incorporated, domiciled and registered in England, UK. The registered number is 09553573 and the registered office address is 6th Floor, Blue Fin Building, 110 Southwark Street, London SE1 0SU.

The Company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards (UK-Adopted IFRS). The financial statements are prepared in accordance with the historical cost accounting convention except where UK-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.

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

The financial statements are presented in Pounds Sterling.

### 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 Systems Acceptance, which is when Thames Water accept the tunnel asset, the asset under construction will be de-recognised and a finance lease receivable will be recognised by the 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 IFRS 16 'determining whether an arrangement contains a lease' and IFRIC 12 'service concession arrangements' were considered. It was concluded that the tunnel arrangements were outside the scope of IFRIC 12 and as the Company controls the asset the arrangements fall within the scope of IFRS 16. 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:

**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, this includes assessment of any pain/gain and/or compensation events accrued under the contract. Due to the significance of these costs and their materiality in the context of the financial statements, the directors need to ensure their completeness, existence and validity is appropriately monitored, controlled and recorded.

**Capitalised Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset form part of the cost of that asset. The borrowing costs that are capitalised into the asset under construction are those that would otherwise have been avoided if the expenditure on the Thames Tideway Tunnel has not been made. Included within our capitalised borrowing costs are accretion on the index linked swaps and payments and accruals of interest on these swaps. This is based on the principle that borrowing costs should include these costs that could have been avoided if expenditure on the Thames Tideway Tunnel had not been made. The methodology used to calculate the accrued accretion on the inflation linked swaps is consistent with our approach to calculating accretion on our contractually arranged index linked debt, i.e. it is calculated based on the forecast inflation figure as of the next interest payment date.

### Going concern

After considering the current financial projections and facilities available, and through modelling plausible and severe sensitivities, the Directors of the Company are satisfied that the Company has sufficient resources for its operational needs and will remain in compliance with relevant financing covenants for at least the next 12 months from the date of approving these financial statements. Further to this, the Directors have assessed the Company's viability over the period to 2030 within the Long-Term Viability Statement section of this Annual Report.

Cash flow forecasts modelled included current, plausible downside and severe downside cost scenarios. The current scenario is consistent with our estimate at completion (EAC) of £4.5bn. For our plausible downside scenario, we modelled a 20% increase in the remaining costs to complete, taking the total to £4.6bn. We consider a severe downside case to be a 25% increase in the remaining costs to complete, which equates to a total cost of £4.6bn. Under the current, plausible and severe downside scenarios the group continues to have sufficient liquidity and is in compliance with covenants throughout the going concern period.

At 31 March 2024, the Company had total liquidity of £536.3m, comprising £376.3m of unrestricted cash and short-term deposits, and the £160m undrawn RCF. This, combined with expected revenue collections, provides liquidity significantly in excess of our 12-month target, including all liquidity required to the project handover.

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

### Property, plant and equipment

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

**Assets under Construction – Recognition and measurement**

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

The construction phase of the Thames Tideway Tunnel project commenced in 2015 and is expected to be completed at System Acceptance (refer to key project dates as outlined in the Strategic report). 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 2024 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.

**Assets under Construction – Depreciation**

Assets under construction are not depreciated.

### Lease accounting – Lessee

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

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

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

The Company applies the following practical expedients under IFRS 16:

- The same discount rate to all property leases as they share similar characteristics;
- Excludes short-term leases with lease terms of less than 12 months;
- Excludes leases of identifiable low-value assets from consideration; and
- The Company separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

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

The ROU assets, being the Company's property leases, are being depreciated over their lease terms.

The Company incurs interest costs calculated periodically on the outstanding lease liabilities on these property leases.

### Borrowing costs

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

The borrowing costs that are capitalised are those that would otherwise have been avoided if the expenditure on the Thames Tideway Tunnel had not been made. Borrowing costs that have been capitalised within Property, Plant and Equipment are included within "Asset under Construction" please see note 6 to the financial statements. Please refer to note 4 "Finance Income and Costs" for details of financing costs for the year.

# Financial Statements

*Notes to the Financial Statements*

## 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 by reference to its recoverable amount. The recoverable amount of the asset is deemed to be the Company's RCV and the regulated return that is generated from that.

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' at each reporting date to determine whether there are impairment losses.

Any impairment losses are recognised in the Income Statement.

## Revenue

The Company's billable revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of billable 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, billed revenue is deferred as the services associated with this revenue have not satisfied all the conditions of the five-step revenue recognition model under IFRS 15. Therefore, revenue will be recognised at the point that all conditions are satisfied which will not be until System Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the 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.

## 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. Where a portion of a derivative financial liability cannot be deferred for at least 12 months after the balance sheet date, that portion is presented as a current liability; with the balance being presented as a non-current liability. Where a portion of a derivative financial asset is expected to be realised within 12 months of the balance sheet date, that portion is presented as a current asset; with the balance of the financial asset being shown as a non-current asset.

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.

## New accounting standards and future changes

The Company has adopted the following new or amendments to accounting standards during the financial year:

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

The above new or amendments to accounting standards did not have any material effect on the Company at adoption.

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

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current; and
- Amendments to IFRS 16 – Leases.

## 2 AUDITOR'S REMUNERATION

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Audit services** | | |
| Statutory audit - company | 303 | 266 |
| **Audit related assurance services** | | |
| Regulatory audit services provided by the statutory auditors | 20 | 23 |
| **Other non-audit services** | | |
| Other regulatory assurance services | 33 | 22 |
| | **356** | **311** |

*All of these fees have been capitalised in both financial years.*

# Financial Statements

*Notes to the Financial Statements*

## 3 EMPLOYEE COSTS

The average number of persons employed by the Company (including directors) during the year was 97 (2023: 106). The aggregate employment costs of these persons were as follows:

| | 2024 £m | 2023 £m |
|---|---|---|
| Wages and salaries | 15.9 | 11.2 |
| Termination benefits | 0.4 | 0.7 |
| Social security costs | 2.8 | 2.0 |
| Contributions to defined contribution pension plan | 0.5 | 0.5 |
| Capitalised into asset under construction | (19.6) | (14.4) |
| | – | – |

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

| | 2024 £m | Restated 2023 £m |
|---|---|---|
| **Finance income** | | |
| Interest income | (19.8) | (11.4) |
| Capitalised finance income into asset under construction | 19.8 | 11.4 |
| **Finance income** | - | - |
| **Finance costs** | | |
| Interest expense on borrowings† | 188.0 | 263.4 |
| Interest expense on lease liabilities | - | 0.1 |
| Financing fees | 2.0 | 1.9 |
| | 190.0 | 265.4 |
| Capitalised finance cost into asset under construction | (190.0) | (265.4) |
| **Net finance costs** | - | - |
| **Financial instruments at fair value through profit or loss:** | | |
| Fair value gain on Index linked swaps | (14.5) | (144.6) |
| Interest and accretion on Index linked swaps | 44.0 | 100.7 |
| Net financial instruments at fair value through profit or loss | 29.5 | (43.9) |
| Capitalised interest and accretion on index linked swaps into asset under construction | (44.0) | (100.7) |
| **Gains on financial instruments** | **(14.5)** | **(144.6)** |

*† Includes accretion costs on index linked borrowings of £83.6m for the 12-month period to 31 March 2024 (2023: £169.4m).*

## 5 TAXATION

| | 2024 £m | 2023 £m |
|---|---|---|
| Total current tax | - | - |
| **Total Income Statement tax expense** | **-** | **-** |

The Company's effective tax rate for the year ended 31 March 2024 is 0% (2023: 0%) which is 25% lower than (2023: 19% lower than) the standard rate of corporation tax in the UK due to the items shown below.

### Reconciliation of Effective Tax Rate

| | 2024 £m | 2023 £m |
|---|---|---|
| Profit before tax | 14.5 | 144.6 |
| Expected tax charge using UK corporation tax rate of 25% (2023: 19%) | (3.6) | (27.5) |
| Items not taxable[1] | 3.6 | 27.5 |
| **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.*

### Deferred Tax

| | Carried forward interest expense £m | Tax losses £m | Financial instruments £m | Total £m |
|---|---|---|---|---|
| Potential deferred tax assets/ (liabilities) at 31 March 2023 (restated) | *1.5* | 11.2 | (12.7) | – |
| Potential credit/(charge) to income statement | *3.4* | 0.2 | (3.7) | – |
| Potential deferred tax assets/ (liabilities) at 31 March 2024 | *4.9* | 11.4 | (16.3) | – |

### Unrecognised deferred tax assets

As at the Statement of Financial Position date, there is an unrecognised deferred tax asset of £261.8m on gross temporary differences of £1,047.1m (2023: £212.4m DTA on gross temporary differences of £849.5m). The temporary differences do not expire and are made up as follows:

### Gross unrecognised temporary differences

| | 2024 £m | 2023 £m |
|---|---|---|
| Trade losses | 4.5 | 3.5 |
| Aggregate disallowed net interest expense (post 1 April 2017) | 1,042.6 | 846.0 |
| **Total** | **1,047.1** | **849.5** |

These deferred tax assets have not been recognised due to uncertainty around their future utilisation. Supported by professional advice, management continues to review objectively verifiable information in order to determine whether there will be probable forecast taxable profits against which these assets could be utilised. If in a future period sufficient certainty can be obtained over such forecast taxable profits, a portion, or all of the deferred tax asset could be subject to recognition.

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. The deferred tax assets above have been calculated with regards to the Company's tax position based on the future tax rate of 25%.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Right-of-use assets (ROU) £m | Asset under construction £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2023 | 9.7 | 4,832.0 | 4,841.7 |
| Additions | 1.0 | 568.7 | 569.7 |
| Disposals | (8.6) | - | (8.6) |
| Balance at 31 March 2024 | 2.1 | 5,400.7 | 5,402.8 |
| **Accumulated depreciation** | | | |
| At 1 April 2023 | (7.9) | - | (7.9) |
| Depreciation charge | (1.7) | - | (1.7) |
| Disposals | 8.6 | - | 8.6 |
| Balance at 31 March 2024 | (1.0) | - | (1.0) |
| **Net book value at 31 March 2024** | **1.1** | **5,400.7** | **5,401.8** |
| **Net book value at 31 March 2023** | **1.8** | **4,832.0** | **4,833.8** |

### 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 2024.

The amount of borrowing costs capitalised during the year was £232.0m (2023: £352.8m) with a capitalisation rate of 100%. Included within this borrowing costs capitalised during the year is accrued accretion on index linked swaps of £44.0m (2023: £100.7m) on the basis that this cost would have been avoided if the expenditure on the Thames Tideway Tunnel had not been made. The cumulative total of finance interest and expense costs capitalised project to date at 31 March 2024 was £1,156.7m (2023: £924.7m)

### Right-of-use Assets

During the year, the Company disposed of one of its property leases which expired, and subsequently entered into a new property lease.

The right-to-use assets are being depreciated over the lease terms on the Company's property leases under IFRS 16.

## 7 TRADE AND OTHER RECEIVABLES

| | 2024 £m | 2023 £m |
|---|---|---|
| Trade receivables | 9.1 | 7.5 |
| Intra-group loans receivable (see note 15) | 23.5 | 22.6 |
| Accrued income | 22.1 | 22.5 |
| Other receivables | 7.5 | 21.5 |
| Prepayments | 28.6 | 37.6 |
| | **90.8** | **111.7** |
| **Non-current assets** | **20.9** | **29.2** |
| **Current assets** | **69.9** | **82.5** |

Accrued income of £22.1m (2023: £22.5m) 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 £10.4m (2023: £14.7m) in relation to the Government Support Package and £1.3m (2023: £5.5m) in relation to insurance contracts and £16.3m (2023: £16.9m) financing related costs.

Non-current assets consist of £0.1m (2023: £0.1m) intra-group loans receivable and £20.8m (2023: £29.1m) of prepayments at 31 March 2024. The table below analyses the Company's non-current assets at 31 March 2024 into recovery maturity groupings based on the remaining periods up to their expected future fully recovered date at the Statement of Financial position date.

| | 2024 £m | 2023 £m |
|---|---|---|
| Between one and two years | 1.5 | - |
| Between two and five years | 9.1 | 15.6 |
| After more than 5 years | 10.3 | 13.6 |
| **Total** | **20.9** | **29.2** |

### 8 CASH AND CASH EQUIVALENTS

| | 2024 £m | 2023 £m |
|---|---|---|
| Cash and bank balances | 43.6 | 13.5 |
| Cash equivalents | 124.1 | 94.0 |
| **Cash and cash equivalents per cash flow statement** | **167.7** | **107.5** |

Cash equivalents comprise deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value. Short-term deposits with a maturity of greater than 3 months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £230.0m (2023: £220.0m).

**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 £21.4m at 31 March 2024 (2023: £4.1m) which is sufficient to cover the next 12 months of financing cost payments.

### 9 TRADE AND OTHER PAYABLES

| | 2024 £m | Restated 2023 £m |
|---|---|---|
| Trade Payables | 2.1 | 38.6 |
| Contract retentions payable | 8.8 | 16.4 |
| Accrued expenses | 95.6 | 54.8 |
| Accrued intra-group expenses (see note 15) | 5.0 | 21.1 |
| Deferred income | 29.7 | 28.6 |
| Advance payment liability | 484.5 | 378.0 |
| | **625.7** | **537.5** |
| **Non-current liabilities** | **496.4** | **415.7** |
| **Current liabilities** | **129.3** | **121.8** |

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 £29.7m (2023: £28.6m) 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.

At 31 March 2024, amounts owed to the Company's main works contractors sit within the above accrued expenses. At 31 March 2023, £37.6m in respect of these amounts were included within trade payables.

The table below analyses the Company's non-current liabilities at 31 March 2024 and 31 March 2023 into relevant maturity groupings based on the remaining periods up to their future payable date.

| | 2024 £m | 2023 £m |
|---|---|---|
| Between one and two years | 3.0 | - |
| Between two and five years | 493.4 | 415.7 |
| After more than 5 years | - | - |
| **Total** | **496.4** | **415.7** |

### 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 licenced 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.

All deferred bonds have now been fully drawn down.

Where Bazalgette Finance plc previously issued bonds with deferred draw dates, the proceeds from these bonds were only passed to the Company when the proceeds were received from the bond purchaser on the subsequent 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** | 2024 £m | Restated 2023 £m |
|---|---|---|
| £250m 2.375% fixed-rate bond 2027 [a] | 248.9 | 248.6 |
| £75m 0.828% index-linked bond 2047 [a, d, e] | 96.3 | 92.6 |
| £200m 0.740% index-linked bond 2042 [a, d, f] | 229.5 | 222.8 |
| £100m 0.688% index-linked bond 2050 [a, d] | 136.4 | 129.5 |
| £100m 0.755% index-linked bond 2051 [a, d] | 132.4 | 125.8 |
| £100m 0.249% index-linked bond 2040 [a, d, g] | 134.0 | 126.6 |
| £125m 0.192% index-linked bond 2049 [a, d, h] | 175.6 | 167.0 |
| £25m 1.035% index-linked bond 2048 [a, d, i] | 32.5 | 30.8 |
| £25m 0.951% index-linked bond 2054 [a, d, j] | 32.5 | 30.8 |
| £50m 0.787% index-linked bond 2052 [a, d] | 65.1 | 61.9 |
| £25m 1.042% index-linked bond 2048 [a, d, i] | 31.9 | 30.2 |
| £25m 0.954% index-linked bond 2054 [a, d, j] | 31.9 | 30.2 |
| £75m 0.010% index-linked bond 2036 [a, d] | 101.8 | 97.9 |
| £300m 2.750% fixed-rate bond 2034 [a] | 298.9 | 298.8 |
| £150m 0.010% Index-linked bond 2032 [a, d] | 178.6 | 170.1 |
| £75m 0.949% Index-linked bond 2052 [a, d, n] | 85.3 | 81.8 |
| £50m 0.074% index-linked bond 2049 [a, d, o] | 68.4 | 64.7 |
| £50m 0.174 index-linked bond 2049 [a, d, o] | 68.4 | - |
| Shareholder loan notes 8.000% fixed rate 2064 [b] | 922.7 | 836.1 |
| **Third party borrowings** | | |
| £300m 2.860% fixed-rate loan 2032 [c] | 300.0 | 300.0 |
| £100m 0.010% index-linked loan 2049 [d, k] | 130.7 | 124.5 |
| £75m 2.418% fixed-rate loan 2041 | 75.0 | 75.0 |
| £700m (£620m Sonia+1.094% floating-rate, £80m index-linked+0.010% loan 2051 [d]) [l,m] | 714.1 | 709.5 |
| £50m 6.020% fixed rate loan note 2033 | 50.0 | - |
| £150m 6.050% fixed rate loan note 2035 | 150.0 | - |
| £50m 6.110% fixed rate loan note 2038 | 50.0 | - |
| **Total borrowings** | **4,540.9** | **4,055.2** |
| **Current liabilities** | **-** | **-** |
| **Non-current liabilities** | **4,540.9** | **4,055.2** |

*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 and loans are linked to movements in either the Consumer Price Index (CPI) or Retail Price Index (RPI)*
*e) This debt amortises (requires repayment of debt accretion) 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) This debt amortises from 2045*
*i) This debt amortises from 2044*
*j) This debt amortises from 2050*
*k) This debt amortises from 2040*
*l) The Company has entered into swap agreements that convert £620.0m of this debt into index-linked debt*
*m) This debt amortises from 2025*
*n) This debt amortises from 2042*
*o) This debt amortises from 2034*

### Deferred Loans

As at 31 March 2024, the Company had no third-party loans deferred (2023: £nil). Proceeds of £nil (2023: £40.0m) from deferred loans were received during the year.

### Deferred Purchase Bonds

There were no bond issuances placed during the financial year ended 31 March 2024 (2023: £nil). As at 31 March 2024, a total of £nil (2023: £66.0m) of bonds are deferred. Bond proceeds of £65.7m (2023 £283.0m) from deferred bonds were received during the year, and these bonds have maturities of 2049.

### 11 FINANCIAL INSTRUMENTS

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

### Financial Assets

| | 2024 £m | Restated 2023 £m |
|---|---|---|
| **Financial assets at fair value through profit and loss:** | | |
| Derivative financial instruments – Non-current | - | - |
| *Financial assets:* | | |
| Trade and other receivables | 62.2 | 74.1 |
| Cash and cash equivalents | 167.7 | 107.5 |
| Short-term deposits | 230.0 | 220.0 |
| **Total** | **459.9** | **401.6** |

Trade and other receivables above exclude prepayments. Trade and other receivables are classified and measured at amortised cost under IFRS 9. Impairment of these assets as assessed under the simplified expected credit loss model was immaterial at 31 March 2024 and at 31 March 2023, and therefore not recognised within the year.

### Financial Liabilities

| | 2024 £m | Restated 2023 £m |
|---|---|---|
| **Liabilities at fair value through profit and loss:** | | |
| Derivative financial instruments – Current | **1.5** | **-** |
| Derivative financial instruments – Non-current | **146.5** | **118.5** |
| Other financial liabilities: | | |
| Trade and other payables | **111.5** | **130.9** |
| Lease liabilities | **0.8** | **1.4** |
| Borrowings | **4,540.9** | **4,055.2** |
| **Total** | **4,801.2** | **4,306.0** |

# Financial Statements

## *Notes to the Financial Statements*

### Fair Value Measurements

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

The fair values of financial instruments and a comparison to their carrying value is shown in the table on the following page. The 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 2024 | | Restated 31 March 2023 | |
|---|---|---|---|---|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| **Financial liabilities at amortised cost: Non-current** | | | | |
| Borrowings – fixed-rate sterling loans | (1,547.7) | (1,789.8) | (1,211.1) | (1,046.1) |
| Borrowings – fixed rate bonds | (547.8) | (476.0) | (547.4) | (466.6) |
| Borrowings – index-linked bonds and loans | (1,825.4) | (1,291.8) | (1,676.7) | (1,436.9) |
| Borrowings – floating-rate sterling loans | (620.0) | (593.6) | (620.0) | (595.9) |
| **Financial Liabilities at fair value through profit and loss** | | | | |
| Derivatives – index-linked swaps | (146.5) | (146.5) | (118.5) | (118.5) |
| **Financial Liabilities at fair value through profit and loss: Current** | | | | |
| Derivatives – index-linked swaps | (1.5) | (1.5) | - | - |
| Total | (4,688.9) | (4,299.2) | (4,173.7) | (3,664.0) |

### 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 credit risk. 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 2 as the calculation of the estimated fair value is based on market data inputs which are observable directly or indirectly. The calculation does include unobservable inputs with regards to the determination of credit risk for the Company but these are not considered significant to the valuation.

The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2024:

| | 2024 Level 2 £m | Restated 2023 Level 2 £m |
|---|---|---|
| **Financial instruments at fair value** | | |
| Derivative financial liabilities – Index-linked swaps* | (148.0) | (118.5) |
| | (148.0) | (118.5) |

### Capital Risk Management

The Company's principal objectives in managing capital are:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders,
- Maintain an optimal capital structure to reduce the cost of capital,
- To finance the Company while minimising risk – Tideway will adopt a low risk financing strategy. The Company will maintain at all times a robust investment grade credit rating;
- Minimise financing 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/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, with both Moody's and Fitch maintaining a stable outlook. 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 monitors capital on the basis of the following gearing ratio:

- Net Debt divided by Adjusted RCV.

During the year 31 March 2024, the Company's strategy, which was unchanged from prior years, was to maintain a gearing ratio of less than 70% and preserve the investment grade Baa1 (Moody's) and BBB+ (Fitch) credit ratings. These credit ratings were unchanged in the year and the gearing ratios at 31 March 2024 and 31 March 2023 were as follows:

| | 2024 £m | 2023 £m |
|---|---|---|
| Net Debt ** | 3,456.4 | 3,065.4 |
| Adjusted RCV ** | 5,029.9 | 4,576.9 |
| Gearing % | 68.7% | 67.0% |

The Company's gearing level remains in line with the Company's capital management strategy and is fully compliant with the financing arrangements and regulatory obligations.

The Company's revolving credit facility (RCF) maturing in 2027 of £160.0m remained undrawn at the Statement of Financial position date (2023: £nil draw down).

The Company raised £250.0m in form of a private placement during the year (2023: £nil). The Company's sister company Bazalgette Finance plc did not issue any bonds during the year (2023: £nil) and the total bond issuance continues to stand at £1.8bn (2023: £1.8bn).

### 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 Audit and Finance 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 financing strategy. The Company also has an executive level Funding and Financing Committee, chaired by the CFO, which considers financial, treasury, compliance, tax and regulatory matters in detail on a monthly basis.

The 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 2024, the Company had total liquidity of £536.3m, comprising £376.3m of unrestricted cash and short-term deposits, and the £160m undrawn RCF. This, combined with expected revenue collections, provides 33 months of liquidity, not including the RCF, which is significantly in excess of our 12-month target.

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 following tables 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.

| | 2024 £m | 2023 £m |
|---|---|---|
| **Borrowings** | | |
| Within one year | (158.3) | (133.8) |
| Between one and two years | (152.3) | (130.9) |
| Between two and five years | (686.4) | (629.0) |
| After more than 5 years | (8,393.2) | (7,841.1) |
| Total | (9,390.2) | (8,734.8) |
| **Derivative financial instruments** | | |
| Within one year | 42.3 | 40.1 |
| Between one and two years | 28.3 | 36.8 |
| Between two and five years | 60.0 | 67.8 |
| After more than 5 years | (355.7) | (350.5) |
| Total | (225.1) | (205.8) |

For the maturity profile of financial instruments recognised as liabilities, other than borrowings and derivative financial instruments, refer to note 9.

* Accrued Accretion on index-linked swaps at 31 March 2024 was £219.2m liability (2023: £174.0m), which forms part of the overall fair value of the derivative financial instruments being presented above.

** As defined in the Company's Common Terms Agreement (CTA).

# Financial Statements

## *Notes to the Financial Statements*

### 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).

A default on a financial asset is when the counterparty fails to make contractual payments as per pre-agreed payment terms.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorises a loan or receivable for write off when a debtor fails to make contractual payments past due. Where loans or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

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 licenced 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. The risk of Thames Water failing to pay Tideway's revenue is currently considered low. However, the Company's exposure to Thames Water is reviewed on a regular basis given Thames Water's current financial position and the potential scenario of a Special Administrator choosing not to pay an element of Tideway's revenue is also carefully assessed. This would not be consistent with Thames Water's licence and would be expected to lead to a breach and enforcement action.

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 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 2024 was £459.9m (2023: £401.6m). 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 2024 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 continues to recognize the expected transition from RPI to CPIH from the next regulatory period starting in 2030 as the underlying measure of inflation for price control periods. HM Treasury and the UK Statistic Authority have confirmed that RPI will be aligned with CPIH from February 2030, which aligns well with Ofwat's transition.

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

The table below summarises the sensitivity at 31 March 2024 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 Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an 1% increase or decrease in the year-on-year RPI inflation rate as shown in the table below. This analysis assumes all other variables remain constant.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | £m +1% | £m -1% | £m +1% | £m -1% |
| (Loss)/profit | (50.2) | 52.9 | (56.9) | 60.5 |
| Equity | (50.2) | 52.9 | (56.9) | 60.5 |

### Net Debt Reconciliation

This section sets out an analysis of net debt and movements in net debt for each of the periods presented:

| | Notes | 2024 £m | 2023 £m |
|---|---|---|---|
| Cash and Cash Equivalents | 8 | 167.7 | 3,065.4 |
| Borrowings (a) & (b) | 10 | (4,540.9) | (4,055.2) |
| Lease Liabilities | | (0.8) | (1.4) |
| **Net Debt** | | **(4,374.0)** | **(3,949.1)** |

*(a) Borrowings includes the £922.7m Shareholder loan notes (2023: £836.1m) which is excluded in the Company's CTA Net Debt figures per the Financial Performance Review section of the annual report.*

*(b) Borrowings excludes £219.2m of accretion on index-linked swaps (2023: £174.0m) which are captured in Derivative Financial Instruments, however this accretion on index-linked swaps is included in the Company's CTA Net Debt Figures per the Financial Performance Review section of the annual report.*

| | | Financing Liabilities | | | Other Assets | |
|---|---|---|---|---|---|---|
| | Notes | Borrowings £m | Lease liabilities £m | Sub-total £m | Cash and Cash equivalents £m | Total £m |
| **Net Debt at 1 April 2022** | | **(3,526.3)** | **(3.4)** | **(3,529.7)** | **333.7** | **(3,196.0)** |
| Proceeds from new borrowings (Presented as cash flows from financing activities) | | (323.2) | – | (323.2) | 323.2 | – |
| New leases Liabilities | | – | – | – | – | – |
| **Other Changes*** | | | | | | |
| Accretion interest expense on index-linked borrowings | 4 | (169.4) | – | (169.4) | – | (169.4) |
| Capitalised Interest on Shareholder Loan Notes | 10 & 15 | (36.6) | – | (36.6) | – | (36.6) |
| Bond premium/discount unwind | | 0.3 | – | 0.3 | – | 0.3 |
| Lease liability payments (Presented as cash flows from financing activities) | | – | 2.0 | 2.0 | (2.0) | – |
| Transfers to Short-term deposits (Presented as cash flows from investing activities) | | – | – | – | (75.0) | (75.0) |
| Cash flows from operating activities (Presented as cash flows from operating activities) | | – | – | – | 35.3 | 35.3 |
| Cash flows used in Construction of Infrastructure asset (Presented as cash flows used in investing activities) | | – | – | – | (507.7) | (507.7) |
| **Net Debt as at 31 March 2023** | | **(4,055.2)** | **(1.4)** | **(4,056.6)** | **107.5** | **(3,949.1)** |
| Proceeds from new borrowings (Presented as cash flows from financing activities) | | (315.7) | – | (315.7) | 315.7 | – |
| New leases Liabilities | | – | (0.9) | (0.9) | – | (0.9) |
| **Other Changes*** | | | | | | |
| Accretion interest expense on index-linked borrowings | 4 | (83.6) | – | (83.6) | – | (83.6) |
| Capitalised Interest on Shareholder Loan Notes | 10 & 15 | (86.6) | – | (86.6) | – | (86.6) |
| Bond premium/discount unwind | | 0.3 | – | 0.3 | – | 0.3 |
| Lease liability payments (Presented as cash flows from financing activities) | | – | 1.5 | 1.5 | (1.5) | – |
| Transfers to Short-term deposits (Presented as cash flows from investing activities) | | – | – | – | (10.0) | (10.0) |
| Cash flows from operating activities (Presented as cash flows from operating activities) | | – | – | – | 115.8 | 115.8 |
| Cash flows used in Construction of Infrastructure asset (Presented as investing activities) | | – | – | – | (359.8) | (359.8) |
| **Net Debt as at 31 March 2024** | | **(4,540.9)** | **(0.8)** | **(4,541.7)** | **167.7** | **(4,374.0)** |

**Other changes include non-cash movements, including accretion interest expense on index-linked borrowing, capitalised interest on shareholder loan notes and bond premium/discount unwinds during the year.*

# Financial Statements

*Notes to the Financial Statements*

## 12 CAPITAL AND RESERVES

### Called-up Share Capital

| Allotted, called-up and fully paid ordinary shares of £1 each | Ordinary shares 2024 No. | Ordinary shares 2023 No. |
|---|---|---|
| At the beginning of the year | 509,672,601 | 509,672,601 |
| Issued for cash | - | - |
| **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 Company's Governance section of the Annual report.

### Retained Earnings

| | 2024 £m | 2023 £m |
|---|---|---|
| At the beginning of the year | 50.7 | (93.9) |
| Profit for the year | 14.5 | 144.6 |
| **At the end of the year** | **65.2** | **50.7** |

## 13 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 contingent liabilities at the Statement of Financial Position date.

## 14 RELATED PARTIES

The Company's related party transactions throughout the current financial year were made on terms equivalent to those that prevail in arm's length transactions.

Amounts outstanding on borrowings from Bazalgette Holdings Limited were £922.7m of loan principal (2023: £836.1m) and £0.2m of interest (2023: £16.5m) at 31 March 2024. During the year £86.6m (2023: £36.6m) of loan interest was capitalised back into the intercompany loan principal.

Bazalgette Holdings Limited deferred £0.2m (2023: £16.5m) of outstanding interest payable on the intercompany loan by the Company during the year.

Amounts outstanding on loans from Bazalgette Finance plc are £2,148.4m (2023: £2,010.1m) and interest outstanding on these loans totals £4.8m (2023: £4.8m).

During the year ended 31 March 2024, the Company paid £21.9m (2023: £20.8m) to Bazalgette Finance plc with regards to interest payments under its back to back loan terms.

Amounts outstanding on intra-group loans at 31 March 2024 made to Bazalgette Holdings Limited are £58k (2023: £55k) and made to Bazalgette Finance plc are £23.4m (2023: £22.6m).

### Key management personnel

Key management personnel comprise the directors of the Company. The remuneration of the directors is provided in the governance section of the annual report within committee reports, see the *remuneration committee report*.

## 15 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 financial statements for both the Bazalgette Holdings Limited and the Bazalgette Equity Limited are available at *www.tideway.london*.

## 16 PRIOR YEAR RESTATEMENT

| Statement of financial position (extract) | 31 March 2023 £m | Increase/ (Decrease) £m | 31 March 2023 (Restated) £m | 31 March 2022 £m | Increase/ (Decrease) £m | 1 April 2022 (Restated) £m |
|---|---|---|---|---|---|---|
| **Non current asset** | | | | | | |
| Derivative financial instruments | 50.7 | (50.7) | - | - | - | - |
| **Current liabilities** | | | | | | |
| Trade and other payables | (117.0) | (4.8) | (121.8) | (146.3) | (2.0) | (148.3) |
| **Non current liabilities** | | | | | | |
| Borrowings | (4,229.2) | 174.0 | (4,055.2) | (3,596.8) | 70.5 | (3,526.3) |
| Derivative financial instruments | - | (118.5) | (118.5) | (93.9) | (68.5) | (162.4) |
| **Net assets** | **560.4** | **-** | **560.4** | **415.8** | **-** | **415.8** |
| Retained earnings | 50.7 | - | 50.7 | (93.9) | | 93.9 |
| **Total equity** | **560.4** | **-** | **560.4** | **415.8** | | **415.8** |

The historic presentation of the accrued interest and accretion relating to the derivative financial instruments as part of the Borrowings was not in line with IAS 1 paragraph 59. The above presentational restatement is to correctly reflect the accrued interest and accretion relating to derivative financial instruments within the Derivative Financial Instrument line in the statement of financial position. There has been no change to the net assets of the company as a result of this presentational correction.

The above presentational restatement has also resulted in the prior year net finance (cost)/income figure presented in the Company's income statement at 31 March 2023, to be disaggregated into separate line items of finance income, finance costs and gains on financial instruments.

Furthermore, the above presentational restatement has affected amount disclosed in the following notes to the financial statements which have been restated:

- Financial Statements note 4 – Finance income and costs;
- Financial statements note 9 – Trade and other payables;
- Financial statements note 10 – Borrowings; and
- Financial statements note 11 – Financial instruments.

## 17 SUBSEQUENT EVENTS OCCURRING AFTER THE REPORTING DATE

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