Tideway

RECONNECTING LONDON WITH THE RIVER THAMES

ANNUAL REPORT 2017/18

Contents

Vision and Purpose

Tideway is an independent regulated water company, with a vision to reconnect London with the river Thames.

We will achieve this vision by delivering the Thames Tideway Tunnel, a major new sewer which is urgently needed to protect the tidal River Thames from pollution.

The tunnel is the largest project in the water sector since the construction of Sir Joseph Bazalgette's interceptor sewers in the 1860s. It is being financed by the private sector, with half the equity provided by UK investors. This includes a large number of UK pensioners, through investment by major pension funds.

We aim to deliver on time and budget, at the right quality. The health, safety and wellbeing of our people and the public are paramount – we intend to work safely or not at all.

We are working closely with our local stakeholders in delivering the tunnel, delivering benefits for them, our investors, Thames Water's bill payers and the environment. Collaborative working is critical to ensuring that we leave a positive and lasting legacy for London.

2017/18 Highlights

2017/18 has seen Tideway make good progress towards its ambition to safely deliver the Thames Tideway Tunnel at best value and for the longer-term benefit of London. Some of our key achievements this year included:

Health, Safety and Wellbeing

- Zero major injuries in the year.
- Continued development of transformational Health, Safety and Wellbeing (HSW) with a variety of new initiatives, including new safety induction training for vehicle drivers, to protect vulnerable road users.

Schedule, Cost and Quality

- Remain on track to deliver the project to both time and our regulatory baseline cost.
- Mobilised onto 20 out of 21 sites and over 1,800 people.
- Three tunnel boring machines (TBMs) on site and ready with tunnelling starting late 2018.

Vision, Legacy and Reputation

- Approximately 20,000 heavy goods vehicle loads removed from our roads due to our use of the river.
- Successfully piloted a variety of innovations, including an electric hydrofraise, which reduces noise and emissions and high visibility low entry cabs, which improve road user and worker safety.
- Completed more than 2,500 STEM education volunteering hours and more than 7,000 community volunteering hours.
- Well on the way to delivering our legacy commitments.
- Extended our stakeholder reach through a variety of new mediums, including launching social media channels and a publication informing local residents of progress across the project.

Company and People

- Employee engagement and enablement has improved for the third year in a row.
- Fully delivering on our commitment to be a modern employer, through flexible working initiatives, supporting inclusivity, and having over 99.6% of people on the project paid at or above the London Living Wage – with plans in place to resolve cases of non-compliance.
- Corporate resilience improved through activities such as enhancing our assurance process and conducting incident/crisis management exercises.
- Recognised by Business in the Community as one of '50 workplaces in a class of their own striving for gender equality'.

Financing

- Regulatory Capital Value of £1,043.4m in outturn prices, as at 31 March 2018.
- Sufficient long term financing locked in to beyond System Acceptance through £1.05bn total issued during the year.
- Largest corporate sterling issuer of green bonds through £450m of green bonds raised, with an additional £325m post year end, taking total to £775m.
- Largest UK CPI-linked issuer and managing our regulatory position with £275m of CPI-linked debt raised during the year, with an additional £75m post year end.
- ~3x over-subscribed £250m debut public bond issue.
- Diversified our investor base with a £300m US private placement.


Tideway
MAMMOET

Strategic Report

Rachel, Tideway's first TBM to arrive in London, and the lifting of the machine's cutterhead at Carnwath Road in Fulham

Strategic Report
Chairman's Introduction

SIR NEVILLE SIMMS
NON-EXECUTIVE CHAIRMAN

It has been another very busy year for Tideway, with good progress being made on all fronts, as you will see throughout this annual report. The benefit of having started with a clean sheet of paper means, of course, that we have been able to determine what sort of company we want and intend to be, but I am nonetheless impressed by the challenging stance that the executive team has taken on such important issues as health, safety and wellbeing, on consideration for our neighbours, in caring for the environment and on setting up a resilient project and corporate platform to support the best value for money timetable to completion possible.

Step-changes in performance seldom happen without a clear vision and a resolute commitment to doing things better, and Tideway's efforts on delivering a transformational approach to health, safety and wellbeing very much fall into this category. Our award winning, mandatory, one day Employee Project Induction Centre (EPIC) has now been attended by 12,000 people and serves as a very clear introduction to how we want to set new standards for attitudes and performance throughout the project and for our industry. The results are very tangible when one visits any of our work locations.

Resilience in our financial situation and in our ability to deliver the project has been a cornerstone for Tideway and attractive market conditions mean that we have continued to secure keenly priced deferred funding for future years, improving upon the provenance of our borrowing and on terms that provide better value for bill payers and investors alike.

Rarely has there been a more important time for the industry to look to emerging technologies and innovation to find smarter, better ways of delivering and maintaining infrastructure, and we are proud of the role that Tideway has played in anchoring and developing the Infrastructure Industry Innovation Platform (i3P) as well as leading by example through our "The Great Think" in-house innovation programme.

Increased scrutiny by both the Secretary of State for the Environment and our economic regulator Ofwat reflects legitimate public interest in the delivery of water services at a price that represents excellent value for money. The competitive tender for the ownership of Tideway, overseen by Government and Ofwat, has already delivered significant benefits to customers in terms of the cost of capital and hence the impact on bills.

Our aim as a Board is to continue to ensure that costs to customers are minimised through the timely and efficient delivery of the construction programme while also balancing the interests of all stakeholders through our governance, strategy and financial arrangements.

We have always sought to achieve the highest standards of corporate governance, which starts with the composition and calibre of the Board and it was a pleasure to welcome John Holland-Kaye as a new independent non-executive director early in the year. Andrew Cox also joined the Board as the shareholder director for Allianz Infrastructure Luxembourg I S.a.r.l., in place of Jaroslava Korpanec, who stood down in March with our thanks for her contribution to the establishment of Tideway and best wishes for the future.

During the year, we announced that our CFO Mark Corben has decided to leave Tideway in 2018 to move on to new challenges. On behalf of Tideway I would like to express my gratitude to him for the important contributions he has made through the development of the delivery model, the establishment of the company, and the successful delivery of the financing strategy. We wish him well for the future. The Board has undertaken a search for our new CFO and we expect to be able to announce an appointment shortly.

All of the great things being achieved by Tideway enjoy the wholehearted support of the Board, our shareholders and independent non-executives alike and we are all fully committed to seeing that the high standards achieved to date continue and evolve through what promises to be another exciting, productive and, we intend, safe year.

Sir Neville Simms,
Chairman

Tideway's Blackfriars Bridge Foreshore site is visible to the north of Blackfriars Bridge

Chief Executive Officer's Report

ANDY MITCHELL CBE,
CHIEF EXECUTIVE OFFICER

This year, Tideway has continued to establish itself as a resilient water company and a robust delivery project, and in many ways we can now rightly say that we have moved from company mobilisation to full-on delivery mode. We have been very clear that we wanted to be transformationally different on health, safety and wellbeing, using EPIC as the starting point for everyone working on the project. With over 4 million work hours in the year, and over 7.5 million overall, there have been no major injuries to date. There is a very evident culture across all teams that encourages open and honest talk about doing things safely or not at all and understanding what we can do to make tomorrow even better than today. We do not live in a perfect world, however, and there were four lost time injuries in the year which resulted in over 7 days lost-time, which is four too many. We continue to help each other learn from all incidents that happen. To make our induction and training as effective as possible, we now have an EPIC Logistics course for vehicle drivers and we are developing an EPIC River course for those working on the marine side. We have also become a sponsor and early adopter of the Mates in Mind programme, to support the mental wellbeing of our people.

As well as pursuing the earliest start for our tunnel drive sites, we have now mobilised on 20 of our 21 sites (with the final one not due until late 2019). We are very much aware that we are both visible and are having an impact on our neighbours and London more generally. Over the year, we have seen what we think is the world's first deployment of an electric powered hydrofraise machine, which reduces on-site noise when constructing the diaphragm walls that form many of our shafts, and a growing fleet of low entry cab HGVs, which allow much greater visibility and hence much safer trucks for London's busy roads. Our commitment to staying off the roads when possible continues, with all three TBMs having been delivered by river and through having exported nearly 200,000 tonnes of excavated spoil and imported more than 130,000 tonnes of material – taking an estimated 20,000 HGV loads that would otherwise have been on the roads. This is better for congestion, road safety and air quality. Such an increase in river traffic does bring with it the need to maintain and improve standards of training and competence. Our multi-year backing of the Thames Skills Academy and the HR Wallingford virtual reality Thames simulator have been a vital boost to help the river operators gear up to this challenge.

The year has been a very productive one for our contractors, with their designs reaching over 75% complete, at the same time as having secured over 60% of the consents necessary to allow sites to be mobilised and the construction works to start. Overall, we are some 25% complete, with shaft construction in hand up and down the river. Indeed, the first shaft at Kirtling Street (Battersea) has been excavated to adit depth. We have also started our first horizontal tunnelling at this site, in preparation for the launch of the first of three TBMs to be set off in the coming year. We intend to deliver the project in line with our regulatory baseline for cost and time. During the year each of the three main works contracts have increased in value due to work and employer risk not covered in the original contract with the MWCs. These amounts have been covered by allocating contingency included in the original budget which means that that there is less unallocated contingency available to fund any Company retained risks that materialise in future. However, as work progresses the Company has the benefit of greater clarity over the cost and timing of the remaining works generally.

We are very pleased to have reached a point of financial resilience where we have secured sufficient funding to cover our construction costs, having raised over £1bn of new term debt during the year, with an additional £325m raised post period end. Equally pleasing is that as part of this, Tideway is now the single largest issuer of green sterling bonds in the world, and with a spread of nominal, deferred, RPI and CPI based loans that fits our spend profile, and enhances the resilience of our financing.

The support of many UK pension funds has been very welcome and it was a pleasure to host a site visit for a number of UK pension holders, whose funds are contributing to and benefitting from their investment in Tideway. We look forward to doing more of the same in future.

Our people are vital to the project's success and I am delighted that for the third year running, we have had improved results in the employee engagement survey. We have also been recognised as one of top 50 companies in the UK striving for gender equality.

We have always been clear on the importance of what we are doing to the health of the river and the environment, and the beneficial impact that this will have. We have been equally clear that this must cover what we do now, as well as the legacy that we leave behind. Whether this means our insistence on the London Living

Tideway's executive team volunteering at Chiswick Eyot last year

Wage, the number of apprenticeships and local employment near our works, the number of staff volunteering hours or the things we do with our three corporate charities (South London Cares, Drive Forward Foundation and Single Homeless Project), we exceeded all of our targets for last year and aim to do even better next year.

Our relationship with London Youth Rowing has gone from strength to strength, with the development of a programme targeted at schools within our main working boroughs. This will help those who would not otherwise have access to the health, team membership and self-esteem that rowing can provide. Likewise, the Ahoy Centre hosted our single largest group charity event last year, with 90 of us rowing nine miles down the Thames and raising over £37k for the great work that the Ahoy Centre does with underprivileged children.

Alongside these activities, and with an eye to the role that a clean river can play in enhancing social and commercial benefit, we launched the first Putney foreshore festival in September 2017. This aimed to promote river leisure pursuits through a fun foreshore/street party atmosphere, which worked well with approximately 5,000 attendees, and forms the blueprint for bigger and better events in the years to come.

If we want to find better, more efficient ways of doing things then we have to embrace innovation. Our in-house "The Great Think" innovation programme has already seen some brilliant ideas brought to fruition, as well as allowing Tideway to anchor the launch of the country-wide Infrastructure Industry Innovation Programme (i3P).

It has been a very productive and encouraging year and one that stands us in good stead to see the safe delivery of our construction works next year. I would like to recognise and thank all those who have been so supportive to date, and all at Tideway pledge to justify and repay that effort.

Andy Mitchell

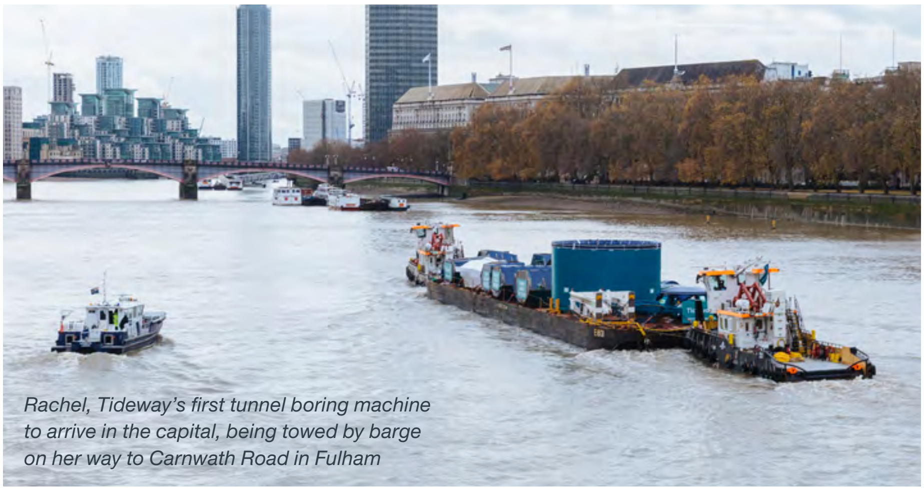
Andy Mitchell CBE,
Chief Executive Officer

'We have always been clear on the importance of what we are doing to the health of the river and the environment, and the beneficial impact that this will have.'


THAMES21

Who We Are and What We Do

An independent regulated water company financed by private capital, established to intercept sewage otherwise destined for the tidal River Thames.



Rachel, Tideway's first tunnel boring machine to arrive in the capital, being towed by barge on her way to Carnwath Road in Fulham

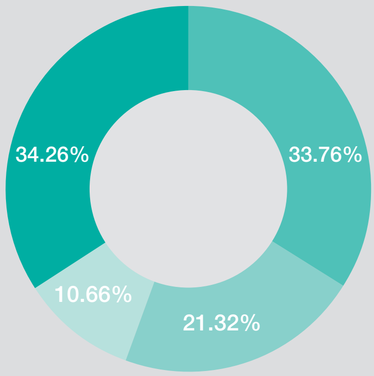
'It has been a very productive and encouraging year and one that stands us in good stead to see the safe delivery of our construction works next year.'

Andy Mitchell, CEO

Bazalgette Tunnel Limited, trading under the Tideway name, began operating as an independent regulated water company in August 2015, when Ofwat awarded us our Licence to design, build, commission and maintain the Thames Tideway Tunnel. The 25km tunnel beneath London, which has been dubbed the 'super sewer', will store and transfer tens of millions of tonnes of untreated sewage each year, which currently pollute the tidal River Thames.

Our Shareholder group has extensive experience of investing in and managing a wide range of infrastructure assets in the UK and overseas. Since Licence Award, our Shareholders have invested £1.3bn. UK investors have contributed over half the total equity raised, including a large number of UK pensioners through investment by major pension funds, giving UK pensioners an investment in Tideway.

The shareholder group comprises:



The Shareholders are represented on our Board, with one director each for Allianz, the Amber group, Dalmore and DIF. More information can be found in the Corporate Governance section of this report, on pages 104 - 107.

COO Mark Sneesby repairing the embankment at Chiswick Eyot during an Executive team volunteering day

Who We Are and What We Do
Continued

The tunnel's design will make it self-cleaning and will minimise ongoing operational and maintenance requirements.

THAMES TIDEWAY TUNNEL SCHEME

London's sewer network was built by Sir Joseph Bazalgette in the 1860s, to cope with up to four million people. The system now struggles to serve a city of more than eight million. This population increase means that the network is regularly overwhelmed, resulting in discharges into the Thames via combined sewer overflows (CSOs), which were designed to release excess sewage flows during heavy storms. These discharges have increased from one or two a year in Victorian times to an average of one a week more recently. This results in tens of millions of cubic metres of sewage entering the tidal section of the Thames each year.

The total estimated cost of the tunnel is £4.2bn, in 2014/15 prices. Ofwat has set a regulatory baseline of £3.1bn (in 2014/15 prices, with the total of £3.5bn in outturn prices) for Tideway's element of the programme, with the rest delivered by Thames Water. The real impact on Thames Water customers' annual bills for the entire project is estimated to be around £20-25 per household by the mid-2020s (in 2014/15 prices), considerably lower than the £70-80 per household originally estimated. The tunnel's design will make it self-cleaning and will minimise ongoing operational and maintenance requirements during its expected life of at least 120 years.

REGULATORY OVERSIGHT

Tideway is an independent regulated water company, with a new delivery model designed to attract private sector capital to finance infrastructure and deliver value for money to customers. This enables us to finance our functions, earn a reasonable return on our investors' capital and maintain an investment grade credit rating. Our bespoke regulatory framework provides a revenue stream in both the construction and operational periods. Revenues are billed and collected on our behalf by Thames Water from its wastewater customers and passed to Tideway.

For the period until 2030, 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 (the Regulatory Capital Value or RCV). From 2030, we expect to be regulated in line with the rest of the water industry, with price control reviews every five years.

OUR DELIVERY PARTNERS

Our delivery partners include our Programme Manager (PM), consortia known as the Main Works Contractors (MWCs) for the works in the West, Central and East areas (see table right) and our System Integrator, Amey OWR.

We have also created an overarching Alliance, governed by an Alliance Agreement between us, Thames Water, the MWCs and the System Integrator. This agreement incentivises collaborative behaviour around the construction programme's aims and outcomes, including the key milestones and the objective of meeting overall cost, driving everyone to manage costs and risks in an integrated way.

Role	Contractors	
West Contract	**BMB JV:**	Bam Nuttall Ltd Morgan Sindall Plc Balfour Beatty Group Ltd
Central Contract	**FLO JV:**	Ferrovial Agroman UK Ltd Laing O'Rourke Construction Ltd
East Contract	**CVB JV:**	Costain Ltd Vinci Construction Grands Projects Bachy Soletanche Ltd
System Integrator		Amey OWR Ltd
Programme Manager		Jacobs (formerly CH2M)

Central London looking east toward Canary Wharf, January 2018

Who We Are and What We Do

Thames Tideway Tunnel

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

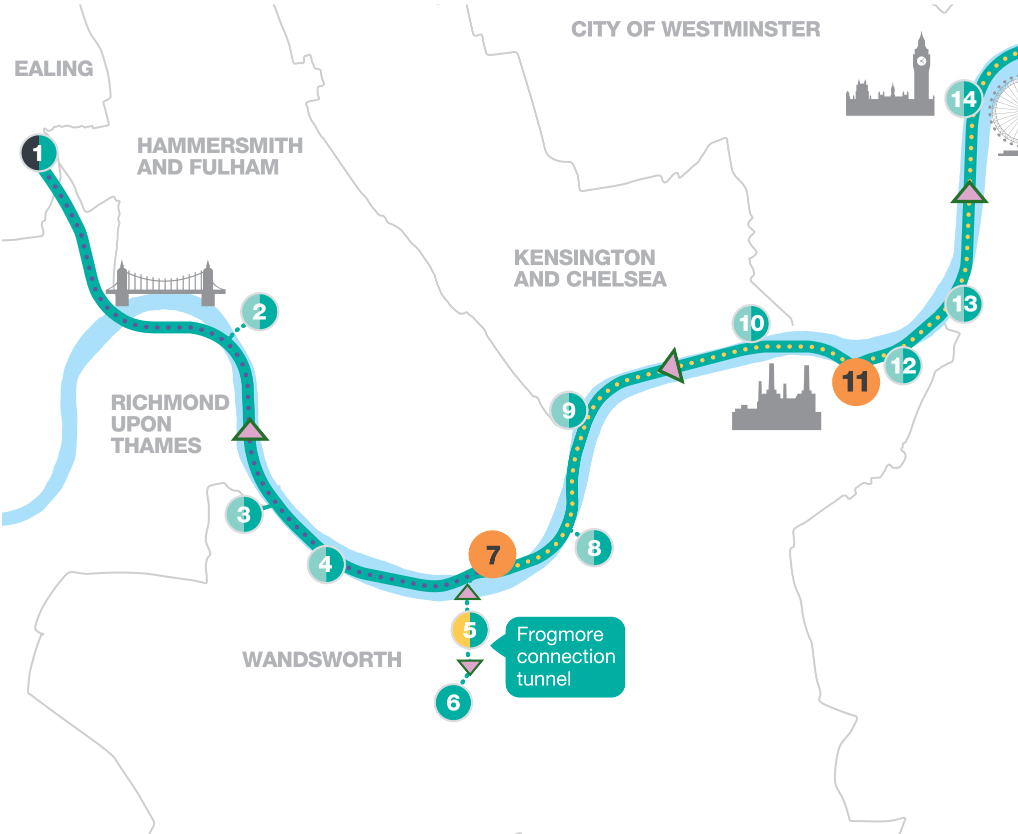
metres deep

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.

THE ROUTE

The tunnel will run from the Acton Storm Tanks in west London to the Lee Tunnel at Abbey Mills in east London, with most of the tunnel being under the River Thames. The flow from over 30 CSOs will be diverted from the existing sewerage network into the main tunnel, where it will continue to flow by gravity to the existing Lee Tunnel. From there it will run to the Tideway Pumping Station, to be pumped to Beckton sewage treatment works.

The main tunnel construction will use tunnel boring machines in four drives from three main sites, with two additional connection tunnel-drive sites. The main drive sites are in Fulham in the West, Battersea in the Central section and Bermondsey in the East. Additional works will intercept the CSOs and connect them to the main tunnel.



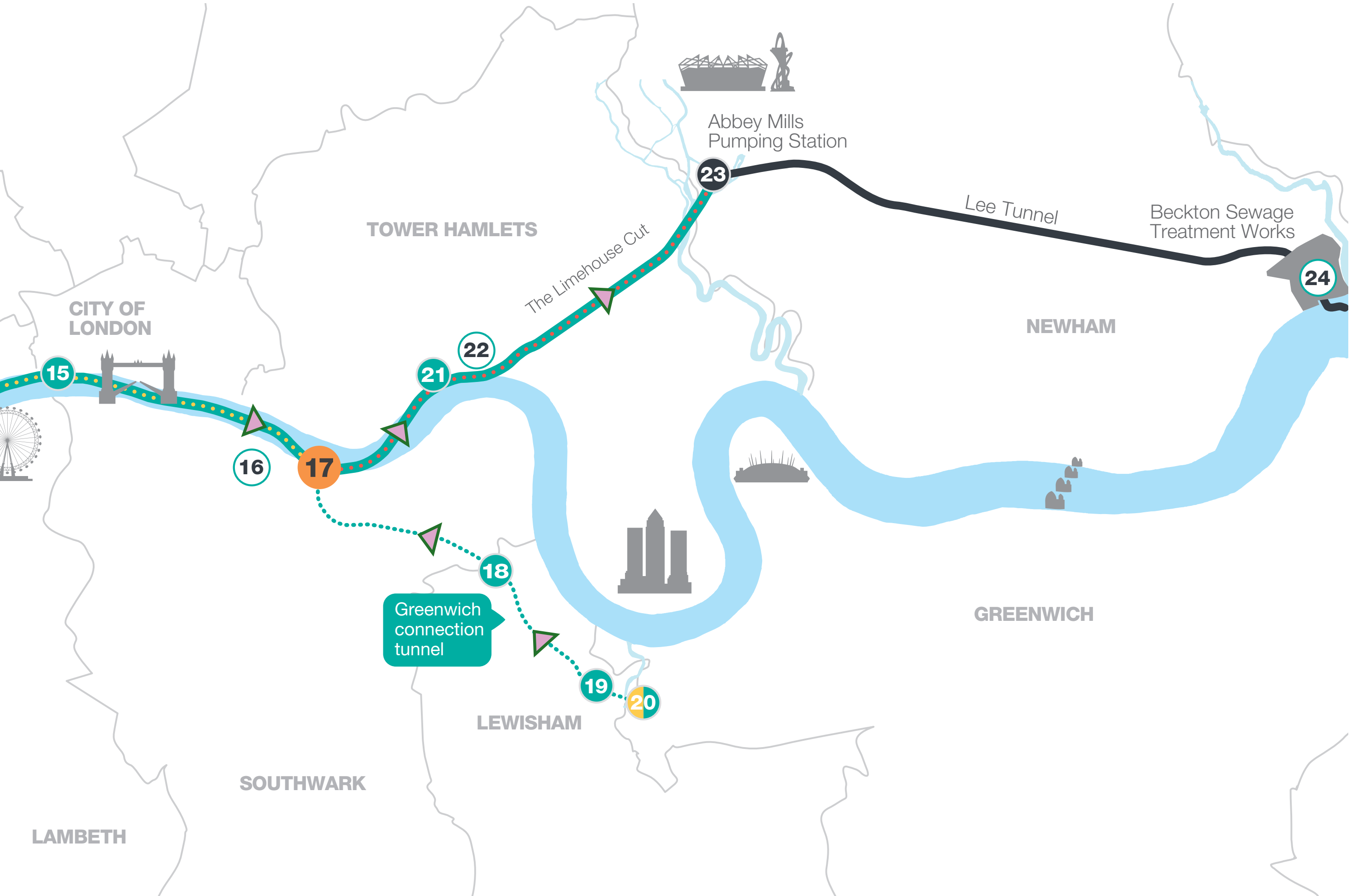
The tunnel generally follows the River Thames from Acton to Limehouse, then continues north-east to Abbey Mills Pumping Station where it will connect to the Lee Tunnel.

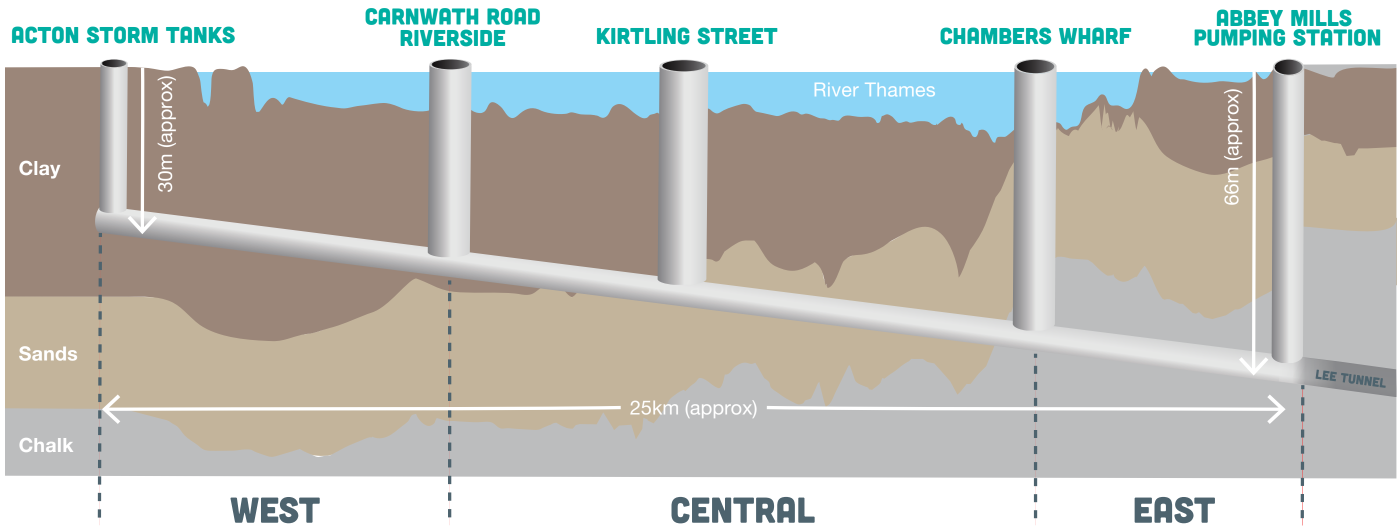
Map key

- 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





Who We Are and What We Do
Continued

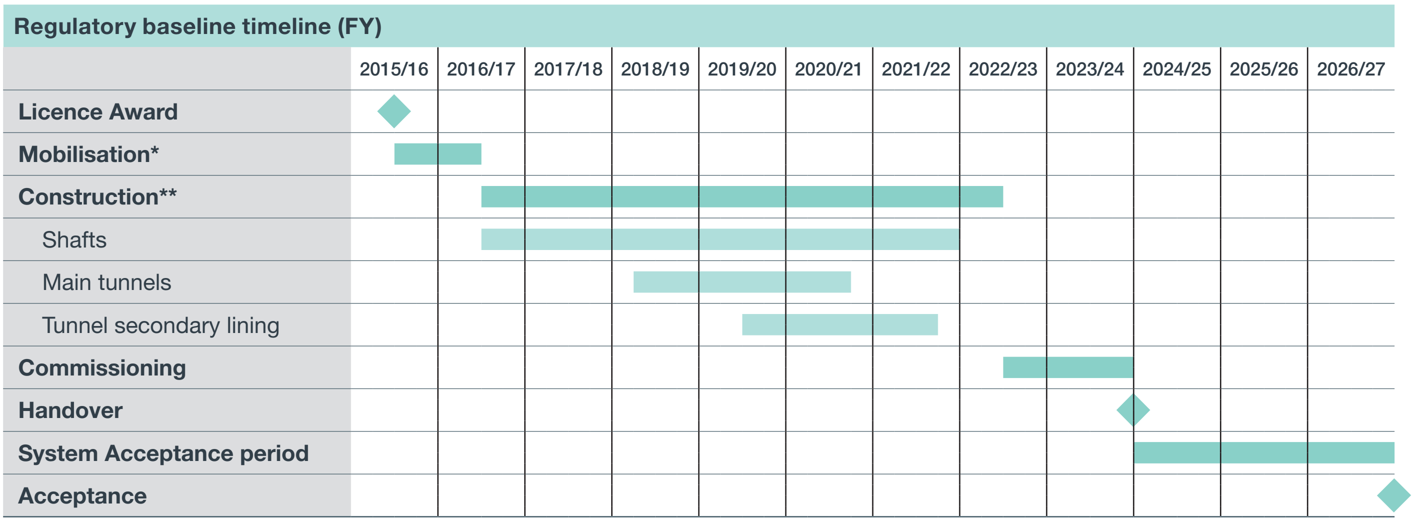
THE TIMELINE

Following License Award and the award of the Main Works Contracts, we agreed a baseline schedule with our MWCs that met the licence date, which we call the Current Regulatory Baseline.

The key stages in the schedule include:

- **Mobilisation of the MWCs**
  This initially started off site, with mobilisation of resource, the start of detailed design work, consenting applications and procurement of subcontractors and materials. The mobilisation then moved on site as these activities progressed, construction sequencing was finalised and any applicable enabling Thames Water Works were completed.
- **Construction**
  This includes tasks such as excavating deep shafts for the three drive sites and each of the CSO interception shafts, tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.
- **Commissioning**
  This will be done in two stages and includes worksite testing for each worksite and the connection of all the worksites and tunnels to one system - the London Tideway Tunnel (LTT) system. Once this is complete, Handover occurs, with the Thames Tideway Tunnel (TTT) Works handed from the MWCs to Tideway. At this stage, the MWCs' activities are complete and the contractors are demobilised.
- **System Acceptance period**
  This is an 18 to 36 month proving period, in which the LTT will be operated across a variety of storms and conditions, to demonstrate it fulfils the project requirements. Once this is complete, Thames Water takes over the responsibility to maintain 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 through into the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, and performing any maintenance required.

CURRENT REGULATORY BASELINE



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

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

Members of the public standing in front of one of two tunnel boring machines being launched from Kirtling Streetin Battersea during an open day

Business Model

DELIVERING FOR OUR STAKEHOLDERS – OUR LEGACY FOR LONDON

In addition to the benefits the tunnel will bring, we are committed to maximising the long-term benefits we create for all our stakeholders and to delivering a positive and lasting legacy for London.

Over the coming years, we aim to transform the way in which things are done in the industry. Starting with health, safety and wellbeing, we are treating people differently from the very beginning, seeking much higher levels of engagement and commitment to doing things better and safer. We want to see a step change in the health and wellbeing of everyone working on the project, with people leaving healthier than when they started.

Our key enablers and the value we create for stakeholders are set out in the table opposite.

We want to see a step change in the health and wellbeing of everyone working on the project, with people leaving healthier than when they started.

Left to right: *Joel Mvula Mwaka, an electrical apprentice at Chambers Wharf; Mayor of London Sadiq Khan; Tideway CEO Andy Mitchell*

Enablers	
Safe Operations/Delivery We strive to create and maintain a culture of safely or not at all	
See Health, Safety and Wellbeing section	**Pages 36 - 39**
Effective Governance/Oversight/GSP* Our risk management systems and policy provide a clear and consistent framework for managing and reporting risks. The Board regularly reviews how we identify, evaluate and manage risks.	
See Risk Management section	**Pages 26 - 31**
Talented and Passionate People We work to attract, motivate, develop and retain the best talent – our performance and ability to thrive depends on it.	
See Company & People section	**Pages 52 - 55**
Experienced and Competitive Supply Chain (PM & MWCs) We have an experienced and competitive supply chain with the right incentives in place and strong information links across each of our three contract areas, so we can share lessons learned. **Collaborative Thames Water Relationship** We work closely and co-locate with Thames Water to ensure that we have a collaborative relationship.	
See Schedule, Cost and Quality section	**Pages 40 - 45**
Stakeholder Focus We aim to build enduring relationships with government, local authorities, local communities, partners, suppliers and others we impact on this project.	
See Vision, Legacy and Reputation section	**Pages 46 - 51**
Efficient Financing We aim to finance this project as efficiently as possible, to ensure that we can minimise our impact on bill payers in the future.	
See Financing section	**Pages 56 - 58**

Stakeholder Value

London

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

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

Environment

- A positive impact on the tidal River Thames, through the development of the tunnel
- 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

Bill Payers

- Minimising the impact on Thames Water wastewater customers

Investors

- An appropriate return on their investment

Industry/ Supply chain

- Providing opportunities for companies and for workers to develop skills and gain experience
- Industry leading innovations that are shared via i3P

See our ‘Reconnecting London with the River Thames’ case study on pages 20 - 21

** Government Support Package.*

Business Model
Continued

STAKEHOLDER ENGAGEMENT

To be regarded as truly successful, we believe the Thames Tideway Tunnel must leave a wider legacy than just a cleaner, healthier Thames. Part of this legacy will be judged by the project's overall reputation once it is delivered.

We want to reconnect London with its river and engage with stakeholders at all levels, including elected representatives, opinion formers, interest groups and local communities, to help achieve this. We use the quarterly TTT Forum to bring together representatives of the directly affected boroughs and other statutory consultees.

In particular, we engage fully with local communities by proactively informing them about the project through targeted communications to residents and site-specific online information, while dealing with their issues on a one-to-one basis via locally-based teams and a 24-hour helpdesk.

We have independently-chaired community liaison working groups (CLWGs) at some of our live sites and community information centres at our main drive sites.

In addition to those listed opposite, we engage proactively with a wide range of other stakeholders with an interest in the project, including elected representatives and policy makers, industry associations and professional bodies, and environmental and river recreation groups.

Category

Key Government and regulatory stakeholders

Stakeholder

Ofwat

Environment Agency

Defra

Channel

Quarterly Liaison Committee meeting (including Thames Water)

Independent roles and assurance

Independent Technical Assessor (ITA):
The ITA review Tideway and Thames Water reporting to the Liaison Committee.

Consenting bodies and delivery partners	Communities directly impacted by construction
Greater London Authority Local authorities Port of London Authority Transport for London Marine Maritime Organisation Historic England Landowners and asset owners	Residents Businesses/local services Schools
Quarterly Thames Tideway Tunnel Forum Bilateral meetings	Regular Community Liaison Working Group meetings Letter drops about works Quarterly newsletters Dedicated web pages and other communications

Independent Chairman of Tideway Reporting Group, a group set up to oversee stakeholder reporting. He also oversees the ICP and ICC.

Independent Chairman for TTT Forum.

Additionally, there are a variety of independent services available to support stakeholders, which include:

Independent Advisory Service (IAS):
The IAS offers independent help and support to stakeholders living and working close to our construction sites.

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

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

case study

RECONNECTING LONDON WITH THE RIVER THAMES

VOLUNTEERING AND FUNDRAISING

Staff from across the Tideway Alliance volunteered a total of 7,012 hours in 2017/18, to support charities and community organisations across London – from fish sampling with the Zoological Society of London to on-water rowing sessions for youngsters with London Youth Rowing.

One of Tideway's flagship volunteering programmes is Thames River Watch, which is funded by Tideway and run by the environmental charity Thames21. This programme recruits and trains volunteers from along the tidal Thames to collect data about litter and water quality. Thames River Watch is contributing vital data to increase understanding of the plastic pollution epidemic and this data is supporting campaigns for change.

In relation to our work with Thames21, in 2017/18, there were:

- 342 monitoring surveys
- 14 litter-picks involving more than 1,400 community volunteers
- 940 Alliance hours volunteered in the Thames River Watch programme

Reconnecting with the Thames was also a major theme of Tideway's staff fundraising year. In May 2017, 90 staff rowed nine miles from Chelsea to Deptford as part of the 'Oarsome Challenge', raising £37,500 for the Ahoy Centre in Deptford,a charity that supports disadvantaged children through rowing, kayaking and sailing.

Tideway staff ahead of their fundraising paddle board challenge

"The support from Tideway has been incredible – firstly, with some of their volunteers helping out at the centre and then to secure 15 teams to fundraise and complete the rowing challenge for us. The funds raised will support more disadvantaged and vulnerable young people to achieve and find employment and enable them to have a future."

Clive Ongley, Founder and CEO of the Ahoy Centre

Andy Triggs Hodge with Bill Bailey at the 2017 Foreshore Festival in September

CELEBRATING THE RIVER

Thousands of people flocked to Putney in September 2017 to celebrate the River Thames as part of the Foreshore Festival. Organised by Tideway, the first of this annual event gave families and others the chance to learn about and reconnect with the River Thames by participating in paddle-boarding and rowing taster sessions, watching presentations from the Museum of London Archaeology and the environmental charity, Thames21 – and much more.

Visitors included local MP Justine Greening, the comedian Bill Bailey and more than 4,000 passers-by.

"It was fantastic to see so many people enjoying the foreshore and the river and getting involved in sports and activities they hadn't tried before. I'm delighted that the festival showed just how much potential a cleaner River Thames holds for recreation and enjoyment."

Andy Triggs Hodge, Tideway Project Manager and three-time Olympic rowing gold medal winner

Thanks to the success of Tideway's inaugural Foreshore Festival, the event is being repeated in Putney and replicated in Shadwell, East London.

ENCOURAGING AN ACTIVE LONDON

The ‘Active Row’ programme, which encourages children aged between 11 and 18 to get active and rowing, is supported by Tideway and Sport England and run by London Youth Rowing. During the year, the programme had engaged over 2,700 young people. Over the next four years, it will engage with 76 schools and 8,000 pupils in London.

As part of our reconnection strategy, Tideway has invested in a new slipway at Shadwell Basin, home of the Shadwell Basin Outdoor Activity Centre. The new slipway will remain in place long after the project is complete, allowing safe access to the river for those who regularly use the centre.

“Events like Active Row are really important to young people, as they encourage them to be more active, show how much fun you can have, teach the importance of teamwork and build confidence.”

Dionne Henry, Tideway Team Administrator and Active Row volunteer

ENHANCING THE RIVERSIDE, SUPPORTING COMMUNITIES

Hoarding

For our artwork at Putney Embankment Foreshore, we asked an artist to collaborate with the local community on designs for the hoarding, with the overarching theme of heritage. The artist Amy Pennington focused on mudlarking, delivering a series of workshops and drop-in sessions on mudlarking, drawing the river, and collecting, which culminated in a performance.

The result, ‘14 days of washing up on Putney’, features hand-drawn objects including clay pipes, horseshoes, bones, pottery fragments and broken toys, all accompanied by labels that offer unexpected, imaginative insights into these finds.

Tideway has brought together artists and local communities to create artwork for the 10km of hoardings on the project. In 2017/18, we organised 51 workshops or public engagement sessions, involving 589 people, including 48 pupils during a series of workshops in schools.

Playground

Tideway has built a permanent play area in King Edward Memorial Park to replace the one that was lost during construction. Opened in February 2018, the playground features a range of imaginative, social and exploratory play areas, as well as those that encourage physical activity.

The new playground at King Edward Memorial Park caters for a range of ages as well as children with disabilities, thanks to a wheelchair-accessible ramping path, a roundabout and a double slide, in line with our legacy commitments to improve accessibility and with the London Borough of Tower Hamlets’ aspirations.

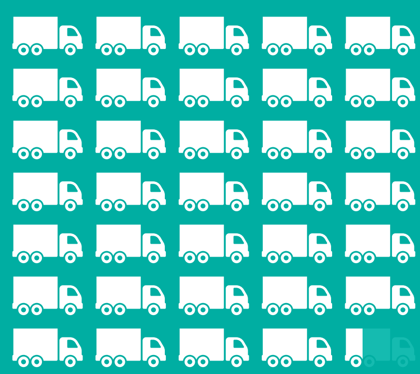
ENHANCING THE RIVER ECONOMY FOR THE BENEFIT OF LONDONERS

Our construction sites’ proximity to the Thames presents us with an opportunity to use the river as a major transport artery and revitalise London’s river economy. We are committed to upskilling a new generation of Boat Masters, while our use of the river will ensure that tens of thousands of lorries are kept off London’s streets, ensuring a safer environment for road users.

During 2017/18, we exported nearly 200,000 tonnes of excavated spoil and imported more than 130,000 tonnes of material, including three TBMs, by barge – taking an estimated 20,000 lorries off the road.

For every barge used to transport waste

34.25 lorries were kept off the road



At least 90 per cent of the material excavated from our tunnels will be exported by river.

Our Vision, Values and Strategy

OUR VISION

Tideway's business is to design, build, commission and maintain the TTT, to leave our capital city's river cleaner than it has probably been for over a hundred years. This alone could be a sufficient ambition for Tideway, but we believe that seeing the TTT simply as an engineering endeavour would be a huge lost opportunity. Our focus is not just what we are doing, but how we are doing it and the broader benefits we can deliver to the range of stakeholders we affect.

The increase in sewage pollution over many decades caused London to turn its back to the river, breaking the once vital link between London and the Thames. We aim to re-establish that connection. Furthermore, in a city where roads are getting busier every year, wherever possible we are using the river to transport our materials, with the aim of revitalising the river economy and reducing road congestion, making the roads safer.

Equally, when the Thames Tideway Tunnel is commissioned, and the river's health is restored, Londoners will be able to reconsider the river's leisure value. That could mean more water sports, pursuits on the foreshore, fishing or simply the enjoyment of being near a clean and healthy watercourse.

Our vision is to reconnect London with the River Thames.

OUR VALUES

- **Safety:** Transform the health, safety and wellbeing of all
- **Legacy:** Create a healthier future for London
- **Collaboration:** Working together as an effective team
- **Respect:** For people, places and resources
- **Innovation:** Striving for excellence in project delivery

We understand the significance of what we are doing and are proud of its importance for London's future health and prosperity. We are also very clear that we will not achieve it at any cost. First and foremost is the safety of those employed through us and of the public we work amongst. We intend to do things safely or not at all.

We recognise that we will be a distraction for our neighbours and those with whom we come in contact. We want to develop our relationships with our stakeholders, as we recognise that we will be more effective and efficient when we treat everyone with respect, empathy and integrity – treating people as we would like to be treated.

We know we need to be clear in our intentions and communications and must respect our environment. We are inspired by what we are doing, and we hope to inspire others by what we do, how we do it and the potential for London that we will unlock.

OUR STRATEGY

Throughout the year, we ensured that our targets and aspirations encouraged and allowed us to deliver best performance for all our key stakeholders. To develop our targets and aspirations, we assessed our performance against our key performance indicators and stakeholder requirements. Additionally, we assessed the current external environment and future industry trends, which allowed us to identify areas of best practice and areas for improvement.

The Executive Team and the Board discussed the insights from this exercise. We used the lessons learned to develop our ambitions and targets and to provide best value and resilience to our shareholders and stakeholders. To ensure that awareness of, and commitment to, these aspirations spreads throughout Tideway, we use the most important performance indicators in allocating company bonuses for all staff and personal bonus measures for the executive directors. We report the performance against these indicators publicly.

Through this process, we found that we had made significant progress against most of our key performance indicators and priorities, with some areas requiring further work in the coming year.

The external environment had also changed quite significantly, particularly in the political and supply chain space, and the understanding of this helped shape our future priorities. Lastly, we reviewed a variety of schedule milestones based on an internal review and assessment of the external environment across a range of areas including designs, consents, mobilisation of sites and marine activity.

The outcomes of this review resulted in refinements to our long-term objectives and activities. The notable changes were as follows:

- For **Health, Safety and Wellbeing**, we added 'Drive for an equivalent high level of HSW performance in the marine environment'. This was included as marine works will be a lasting legacy for Tideway and require prioritisation as we are developing it from the ground up.
- For **Company and People**, we added 'reinforcing Tideway's values and behaviours' to emphasise its importance as we enter a stable phase of the project and focus on empowerment to improve efficiency and effectiveness.
- **Schedule, Cost and Quality:** We adjusted the objective to reflect our focus on 'delivering the Thames Tideway Tunnel safely at the right quality and to best value'.

Our strategy is set out in detail on the following pages.

Our Vision, Values and Strategy
Continued

2018/19 STRATEGY

Health, Safety and Wellbeing

Objective and Outcome:
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:

- An HSW programme which is recognised as transformational in comparison to previous projects
- Delivering HSW the 'RightWay', in line with the delivery programme, verified by appropriate assurance
- Maintaining a focus on health and wellbeing, to achieve relative parity with safety
- Driving for an equivalent high level of HSW performance in the marine environment

Priorities for 2018/19 :

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

Relevant Principal Risks:

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

Schedule, Cost and Quality

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

Key Long Term Activities:

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

Priorities for 2018/19:

- Work with the Programme Manager to deliver the best value for money schedule possible
- Work with the Programme Manager to ensure the MWCs' marine operations are in line with our requirements
- Seek all appropriate opportunities to increase efficiency
- Ensure that the asset being delivered is of the right quality
- Develop our relationship with TWUL as interfaces evolve at all levels, to support efficient delivery

Relevant Principal Risks:

- Programme delivery
- Supply chain failure
- High impact, low probability events
- Interfaces with Thames Water infrastructure
- Regulation
- Brexit

Vision, Legacy and Reputation

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

Key Long Term Activities:

- Ensuring continued good relations with stakeholders, including the consent granting bodies
- Addressing the needs and concerns of our neighbours
- Delivering on all of our legacy plans
- Protecting and promoting Tideway's reputation

Priorities for 2018/19:

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

Relevant Principal Risks:

- High impact, low probability events
- Reputation

Company and People

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

Key Long Term Activities:

- Implementing our diversity programme
- 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
- Reinforcing Tideway's values and behaviours

Priorities for 2018/19:

- Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team

Relevant Principal Risks:

- High impact, low probability events
- Reputation

Financing

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

Key Long Term Activities:

- Maintaining a low-risk financing position by preserving our Baa1/BBB+ credit ratings
- Maintaining appropriate levels of liquidity
- Optimising our cost of finance, to increase our return to shareholders
- Continuing to build trust and confidence with our stakeholders through high-quality reporting, engagement and assurance

Priorities for 2018/19:

- Support the organisation to deliver the best result for bill payers and shareholders
- Undertake opportunistic funding issuance across formats
- Continue focus on capital preservation and liquidity and seek to optimise returns

Relevant Principal Risks:

- Programme delivery
- High impact, low probability events
- Financing
- Inflation
- Regulation
- Brexit

Risk Management

OUR RISK APPETITE

To manage the risks we face, we need to 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 GSP, our Board can further refine the residual risk through the strategies it sets. While setting these strategies, a focus on operational, financial, and corporate resilience across Tideway's activities has been crucial, as it helps to ensure that we take a long-term view on risk.

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

- Setting new standards for health, safety and wellbeing by developing programmes such as RightWay, to support our target of zero fatalities or serious injuries, off-site or on-site.
- Requiring industry leading operational standards on the river, through our compliance with the code of practice and validation of worker skills via new training approaches, such as the vessel simulation training facility.
- Mitigating liquidity risk and interest rate risk, by raising significant amounts of long-term debt well in advance of needing the financing.

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

OUR RISK MANAGEMENT FRAMEWORK

Our ability to deliver the positive outcomes we want to achieve for all of our stakeholders depends on our ability to manage risk.

Risk management is embedded in our culture and is central to achieving our objectives and priorities. We have developed and implemented a framework which gives us a clearly defined process for identifying, analysing and controlling both corporate and project delivery risks throughout the business. Our approach includes actively monitoring risks, which are maintained on a comprehensive risk management database. This database, called Active Risk Manager, includes quantifications of project risks in terms of potential cost and schedule impact, and allows us to monitor the effectiveness of our mitigating actions.

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.

The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. The Executive Risk Committee considers on a rolling basis the programme risks across the West, Central and East areas. During the year, we separated out the review of corporate risks from programme risks, to strengthen the approach to both risk groups.

Throughout this risk management process, we actively review and manage new and emerging risks. In the year, we continued to review our exposure to cyber risk, due to its rising prevalence. This resulted in strengthened internal systems and the refinement of current processes. Due to these mitigations and the residual impact should an attack occur, we continue to believe this is not a principal risk for Tideway.

PRINCIPAL RISKS

The past year has yet again seen considerable progress across the project, which is continuing to have a positive impact on our principal risks. The Operational Performance Review and Finance Review sections set out the specific progress we have made in the year, particularly with respect to our continued focus on health, safety and wellbeing and construction.

The main changes in the year have been:

- a reduction in our reputation risk, to reflect our strengthened relationship with key stakeholders;
- an increase in Thames Water Performance risk, reflecting asset and performance issues whilst acknowledging a co-operative approach; and
- the addition of political risk to the existing regulatory risk. This is to reflect the increased political scrutiny of the water sector and other regulated industries. We also saw Moody's reduce its rating for the Ofwat regulatory regime from Aaa to Aa.

It has been another successful year for our financing, as we secured a significant amount of our long term external debt requirements which improved certainty over our financing costs and provides liquidity to System Acceptance. Because of our financing activities, we have been able to remove interest rate risk from financing risks.

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

Risk Management

Principal Risk Table

PRINCIPAL RISK TABLE

Set out in the table are our principal risks, which are those that could have a material adverse impact on our business, reputation or financial condition. Each principal risk is owned and managed by a named member of the senior management team.

	1 Health, Safety and Wellbeing	2 Programme Delivery
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. 2018/19 sees mobilisation of full marine capability, which brings with it associated health, safety and wellbeing risks.	We are delivering a capital investment programme of £3.5bn (£3.1bn in 2014/15 prices). While there is experience of delivering similar projects in London, it is possible that the construction could take longer than planned and/or cost more.
Effect	A safety failure could cause injury, affect health and wellbeing or lead to loss of life. A single serious event or multiple events could also lead to delays or stoppages that could prevent us meeting our time and cost targets.	A delay in delivering the tunnel would delay Londoners' benefits from the project and could attract regulatory enforcement. Cost increases above the regulatory baseline would increase charges to those customers receiving wholesale services from Thames Water, increase financing requirements and reduce returns for our shareholders.
Mitigation	We are implementing our RightWay programme, which is aligned to the delivery programme. It includes the RightStart approach to establishing the very best facilities and arrangements on-site. We are also continuing and developing our EPIC programme, which is mandated for all people working on our sites and for different prospective activities, including marine activities.	Our approach to selecting and working with our contractors will help us to deliver the programme on time and to budget. This includes: • World-class contractors, with experience of tunnelling in London • Contracts that transfer certain risks to our contractors that they are better placed to manage • Establishment of the Alliance, to encourage co-operation and support across the project • An integrated, proactive approach to risk management
Relevant Objective	• Health, Safety and Wellbeing	• Schedule, Cost, and Quality • Financing
Commentary	**No change in risk level*** We have actively reviewed this risk during the year, particularly as we have mobilised on the majority of our sites. Additionally, we have updated the risk description to reflect the importance of ensuring we mobilise marine capability safely as it ramps up.	**No change in risk level*** Overal, our assessment of the risk and mitigation measures is unchanged, with some cost pressures balanced by contingency, coming through in the year.

	3 Supply Chain Failure	4 High impact, low probability (HILP) events	5 Financial risks
Description	Our delivery strategy is based on outsourcing works. Our ability to deliver therefore depends on our contractors' performance. Our contractors operate in a very competitive environment and may experience financial difficulties through the delivery of the project.	Major investment programmes are complex and challenging, and we could suffer incidents that were highly unlikely but have a significant impact. These could affect the tunnel or assets belonging to others.	**Credit Ratings Risk** Adverse operational or financial performance, or factors external to the Company, could result in a credit rating downgrade.
Effect	If our contractors do not deliver at the standards we expect, we may not be able to deliver our investment programme on time and on budget.	HILP events could have a significant effect on cost, schedule, health and safety or our reputation. Their financial impact could exceed our insurance cover, damaging our financial position and our ability to deliver the tunnel.	The loss of an investment grade credit rating would affect our ability to raise debt.
Mitigation	The procurement process ensured our contractors were technically excellent and financially strong, and limited our exposure to any one contractor. The contracts contain step-in rights, whereby one contractor could replace another, which would help mitigate against financial failure. The members of all three consortia are joint and severally liable.	We minimise the chance of these events occurring by using best-in-class design, programme management and appropriate construction techniques. Our contractors have extensive experience of similar projects in London and we mandate compliance with the Joint Code of Practice for Risk Management of Tunnelling Works in the UK. In the unlikely event that we make a claim that exceeds the limits of our insurance, the GSP provides support.	We have a robust delivery model, within a regulated framework, and a GSP. Maintaining or improving the timeline to deliver the tunnel will enhance confidence in our credit worthiness. We maintain a conservative financial profile and actively manage risks. We regularly engage with rating agencies.
Relevant Objective	• Schedule, Cost, and Quality	• Health, Safety and Wellbeing • Company and People • Schedule, Cost, and Quality • Financing • Vision, Legacy, and Reputation	• Financing
Commentary	**No change in risk level*** We conducted a full review of our supply chain (including subcontractors) to assess the risk within our contracts, due to Carillion going into liquidation earlier in the year, even though it is not part of our supply chain. This was in addition to our business as usual supply chain reviews. We continue to monitor this closely and have undertaken appropriate contingency planning.	**No change in risk level*** We view the risk as broadly unchanged.	**Risk increased*** We note Moody's has reduced its rating of the water sector's regulatory regime from Aaa to Aa.

** Compared to previous year*

Risk Management
Principal Risk Table

	6 Inflation Risk	7 Reputation Risk	8 Thames Water Performance
Description	There is a risk of inflation that is lower than assumed in our business plan.	We are particularly focused on the risk that poor performance on our sites, on the river or with our neighbours could damage our reputation and support.	Thames Water is a key partner for Tideway. We have a number of important interactions with Thames Water, including its delivery of the Thames Water Works during the construction period, the Handover and Acceptance process and in the operational period. Thames Water also passes revenue through to Tideway.
Effect	Our revenues are directly linked to the Retail Price Index (RPI), and lower inflation would therefore reduce our cash flow unless our costs moved on the same basis. Our RCV is indexed to RPI until 2030, and lower inflation would reduce nominal cashflows and returns.	The loss of support from our neighbours or consent granting bodies could lead to delays and higher costs.	Thames Water's failure to deliver its share of the works could affect our ability to deliver our investment programme on time and on budget. If Thames Water does not comply with the Revenue Agreement, it could have a financial impact.
Mitigation	Tideway has issued RPI and CPI-indexed debt. Reductions in revenue due to low inflation would therefore be partially offset by reductions in interest cost. The resulting correlation between nominal RCV and nominal debt will help to protect equity returns.	We actively develop relationships with key stakeholders. For example, through our CLWGs we seek to find the best ways of addressing neighbours' concerns,in advance of works happening. The more-by-river strategy will see us using the river wherever feasible to ease congestion and to promote the use of the river. We have established the Tideway brand, as part of our efforts to build trust and confidence and communicate the legacy and long-term benefits we aim to deliver.	Tideway and Thames Water have worked closely together through all key milestones to date. The Alliance Agreement incentivises Thames Water to help us deliver the programme. Thames Water is also incentivised to deliver its share of the works in a timely manner, through its regulatory settlement. We have worked with Thames Water to develop and agree arrangements for managing the revenue process.
Relevant Objective	• Financing	• Company and People • Vision, Legacy, and Reputation	• Schedule, Cost, and Quality
Commentary	**No change in risk level*** We view the risk as broadly unchanged.	**Risk reduced*** As we have now mobilised on most of our sites and developed relationships with stakeholders, this risk has been reduced. We continue to conduct a proactive communication strategy, to manage the reputational impact of our works.	**Risk increased*** There have been some operational challenges in the past year, which have increased this risk. We are working closely with Thames Water to mitigate this.

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

** Compared to previous year*

Long-Term Viability Statement

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

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

- identified the most appropriate period over which to make the assessment;
- evaluated the Company's current position and future prospects; and
- considered the potential impact of principal risks over the period and, where appropriate, analysed the potential financial impact under a suitable set of sensitivities.

The Board considers that it is now 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 during the last year. 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.

The viability assessment takes into account our business and financing plan which is prepared as part of our annual planning process. The plan is consistent with our performance since Ofwat granted our Licence in August 2015 and with our financial position at the end of the financial year. In the period covered by this Annual Report, we continued to implement our financing plan and raised £1.05bn of long-dated debt. Post period end we raised additional £325m in long-dated bonds. Tideway has now raised £2.5bn of long-term financing since Licence Award, and we would be able to fund our operating activities and fixed charges until 2030, using cash available in our balance sheet, the committed and undrawn debt facilities (including the £750m Revolving Credit Facility), and the revenue we will generate over the period.

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.

We have assessed the potential impact of the principal risks on Tideway's viability by modelling a number of scenarios, which have been discussed and agreed by the Board. We consider that there are three key routes through which viability could be impacted: increases in the total cost of the project, reduction in outturn inflation, and an increase in bad debt. For each of these routes, we have modelled three scenarios representing impacts ranging from moderate to severe. For increases in the total cost we have modelled 10%, 20% and 30% increases in remaining cost to complete the project. For inflation risk we have modelled scenarios where outturn inflation is 1% and 2% lower than current expectations, as well as a scenario with 0% average inflation in the period. For bad debt, we have assumed a 50% lower revenue collection in one, two and four years in the period. Finally, we have modelled a combined scenario with 20% cost increase, 2% lower inflation and 50% revenue under recovery for 2 years, which we consider a reasonable 'worst case' combination of impacts given that we do not believe principal risks are strongly correlated.

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

The outcome of the sensitivities has been assessed considering a range of different financial ratios. In all downside scenarios modelled, the ratios are robust, above the minimum requirements in our financing covenants and consistent with an investment grade rating, and Tideway does not call on the Government Support Package. The output of this analysis is summarised in the following table.

SCENARIO ANALYSIS TABLE:

Risk	Scenario	Assessment
Programme delivery (includes HSW risk, Supply Chain Failure, Thames Water performance)	**Scenario 1.** An increase of 10% in the remaining cost to complete the project	Tideway would be able to finance the increase in cost by flexing the amount of distributions to its shareholders. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 2. An increase of 20% in the remaining cost to complete the project	
	Scenario 3. An increase of 30% in the remaining cost to complete the project	
Inflation risk	**Scenario 4.** Outturn inflation 1% lower than current forecast	A high percentage of Tideway's debt portfolio is linked to inflation, and therefore our assets and liabilities would move in a similar way. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 5. Outturn inflation 2% lower than current forecast	
	Scenario 6. Average inflation 0% until 2030	
Thames Water performance - Revenue collection	**Scenario 7.** A 50% under recovery in one year	Our revenue includes a building block that deals with under recovery of revenue, and therefore the impact would be temporary. Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.
	Scenario 8. A 50% under recovery in two years	
	Scenario 9. A 50% under recovery in four years	
Combined scenario	**Scenarios 2, 5, and 8.**	Gearing and interest cover ratios would be consistent with an investment grade rating, and compliant with our financing covenants.

Long-Term Viability Statement
Continued

In reaching its conclusion, the Board has taken into account Ofwat's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Company's viability.

The Board also believes that financing will be available to Tideway over the period covered by the analysis, although given the Company's liquidity position this assumption is no longer critical to arrive at the conclusion. In this respect, the Board believes that it is reasonable to assume that the purchasers of our deferred bonds will honour their commitments given the diversification and credit worthiness of the institutions with which Tideway has entered into such agreements.

We have undertaken a range of internal assurance activities, which the Board considers provide a robust degree of assurance over the analysis. This long-term viability statement has also been reviewed by KPMG as part of the statutory audit. The Board considers that this combination of internal and external assurance means that checks have been carried out by parties with the most appropriate skills and knowledge.

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

The Board has also considered it appropriate to prepare the financial statements on the going concern basis. The Directors believe, after due careful enquiry, that the Company and Group have sufficient resources to continue in operational existence for the foreseeable future and therefore consider it appropriate to adopt the going concern basis in preparing the 2018 financial statements.

Staff volunteering at Cody Dock in East London in September 2017


CAPITAL
CLEAN-UP
CREW

Performance Review

HEALTH, SAFETY AND WELLBEING

Figures from 2017/18

Number of major injuries

Target	Actual
0	0

Number of reportable accidents*

Accident Frequency Rate 3

Target	Actual
0.00	0.09

Accident Frequency Rate 7

Target	Actual
0.00	0.09

** Per 100,000 hours worked – includes both Tideway employees and contractors*

Definition:

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

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

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

Our priorities and performance for the year

Tideway's health, safety and wellbeing (HSW) objective is to achieve zero fatalities or major injuries, off-site and on-site. We will do this by setting new standards for HSW through our transformational programme. This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages.

In support of this, our priorities for 2017/18 were to:

- continue the RightStart programme introduced in 2016/17, which aimed to reduce the number of incidents in the first six months on-site, when accidents typically occur;
- continue to focus on leading indicators and assessment through our Health and Safety Performance Index (HSPI);
- validate Tideway's approach to HSW through employee engagement;
- ensure no increase in risk as a result of marine activities; and
- increase our focus on occupational health and wellbeing across the programme.

Despite the ramp up on most of our sites, we were pleased that there were no major injuries this year, which was a significant achievement for both Tideway and the people working on the project. However, we did have a number of lost time incidents, including four injuries which contributed to AFR-7. We are committed to finding ways to do things better and we have investigated these lost time incidents and implemented the lessons learned. Overall, our AFR-7 of 0.09 compares very favourably with other large infrastructure projects during their mobilisation phase, and we will strive to continue this.

We recognise the importance of measuring ourselves against others and were pleased to achieve second place for a "medium sized" organisation in the new entrant category for Vitality's Britain's Healthiest Workplace 2017 competition. The results have highlighted strengths and improvement areas, which we will take forward, as well as a clear direction for our health and wellbeing programme.

RightWay

RightWay is Tideway's HSW strategy and approach. It is shaped by:

- the recognition that 'we are all in it together', with a true sense of collaboration and a commitment to a common goal;
- learning from previous projects, to identify best practice and implement it on Tideway;
- a supportive yet challenging collaboration between us and our supply chain;
- the creation of a supportive environment for our teams to thrive in; and
- the recognition that we need to focus on our people and innovative approaches, to push beyond mere compliance and make significant improvement.

In 2017/18, we embedded RightStart Reviews. These confirm that site start up and welfare arrangements are effectively implemented in advance of any new works and that they meet Tideway's transformational aspirations. RightStart Reviews complement standard readiness reviews, which confirm that all engineering, health, safety and security, and consents requirements are in place. RightStart Reviews ensure that we and the contractors discuss and agree the criteria that they are required to demonstrate, for example relating to welfare or security.

The Transforming Health and Safety Working Group (THSG) is Alliance-wide. It was established to look at how we can make a difference to on-site activities, through the people involved in leading day-to-day health and safety. During the year, the THSG improved its effectiveness and rigour by involving a broader range of stakeholders and by improving the structure of its meetings, to ensure more transparency of sub-group activities and greater visibility of actions raised in the group, to support the sharing of best practice.

EPIC

We established our innovative and interactive induction programme, EPIC, in 2015/16 and it has been widely recognised as industry leading. It is a mandatory, one-day immersive induction course, using actors and a structured management training approach to help every individual understand what we want to achieve and how we can all work together to make Tideway the safest and healthiest project yet. EPIC provides a common language for everyone joining Tideway, before they start work.

To date, over 12,000 employees and contractors have attended the programme, including approximately 4,900 in 2017/18. This includes people working on Tideway and from other interested companies, allowing us to further improve health and safety in the industry.

Following feedback from drivers attending the induction, EPIC Logistics was developed and launched in 2017/18. This was also approved by the Driver and Vehicle Standards Agency. EPIC Logistics aims to help HGV drivers on Tideway understand their role in ensuring the safety and wellbeing of everyone on the project, as well as the public.

In December 2017, Tideway, in partnership with Active Training Team, won the 'Health, Safety and Wellbeing Initiative of the Year' category at the 2017 New Civil Engineer Tunnelling Awards. In addition, EPIC has been shortlisted for the following 2018/19 awards:

- **Construction News Awards 2018** 'Training Excellence' category;
- **Water Industry Achievement Awards 2018** 'Health and Safety Initiative of the Year' category for EPIC; and
- **Ground Engineering Awards 2018** 'Health and Safety Award' category.

Performance Review
Continued

HSPI
We introduced HSPI in 2016/17. It enables us to develop a balanced scorecard, so we can measure the HSW performance of the contractors working on the project. HSPI comprises a set of leading performance indicators, developed by analysing accident and incident data from previous projects and considering future risk profiles. Each performance indicator is scored either:

- **0** (does not meet basic HSW expectations);
- **1** (meets basic HSW expectations);
- **2** (exceeds HSW expectations); or
- **3** (meets transformational HSW expectations).

We review all indicators annually, to ensure they remain challenging and relevant to current and future works and support our approach to transformational HSW. HSPI enables us to introduce targeted improvements, specific to each MWC, to improve HSW on our sites further.

In 2017/18, the overall HSPI score improved from 2.15 at 31 March 2017 to 2.24 at the end of March 2018, with 11 of the 14 measures meeting or exceeding an average score of two.

Health, Safety and Wellbeing Culture Survey
Our first annual HSW Culture Survey completed in December. The survey explored employees' attitudes and perceptions in key areas of HSW and was intended to identify further opportunities for improvement. Initial reports were shared with the MWC and PM teams in January and we have identified initial areas of improvement, such as managing stress. We are now carrying out further work to develop action plans to address these improvement areas.

Mates in Mind
We recognise that mental health is a major issue in our sector and is important to our people and the project. Tideway is therefore a sponsor and early adopter of the Mates in Mind programme, which has also been adopted by the MWCs and PM. Mates in Mind aims to raise awareness and understanding of mental health and mental ill-health in construction, helping people to understand how, when and where to get support and breaking through silence and stigma by promoting a culture of positive wellbeing throughout the industry.

Start the Conversation
Tideway launched 'Start the Conversation' training sessions in February 2018, as part of the Mates in Mind programme. The 45 minute sessions are delivered by trained Tideway employees and aim to create general awareness and understanding of mental health and its biggest barriers, particularly in the workplace. To date, 110 Tideway employees have attended sessions, with further sessions being rolled out by MWCs on sites across the programme.

Mental Health First Aiders
In addition to training 40 mental health first aiders to date, we hosted our first Mental Health First Aiders Networking Group event on 23 February. The group provides a support network for all trained mental health first aiders on the programme. The networking events will be held regularly, ensuring attendees are refreshed on key topics that were taught in training.

Marine Training

Marine training is important because of the significant positive impact we can have as the river economy develops. We are seeking to drive change in an industry that has had less attention to date than general construction and as a result has a different culture.

Our HSW Training Team has worked extensively with Thames Skills Academy (TSA) to introduce a Personal Survival course, which is suitable for our operatives. In addition to providing information about the riverside environments, the course allows candidates to experience entering the water with an auto-inflating lifejacket. With the TSA, Tideway has worked with HR Wallingford to develop a programme for Boat Masters and vessel Mates, including use of Thames river simulators. The programme continues to be rolled out with the marine operators. During the year, 8 Boat Masters have been trained across the programme, bringing the total over the project to 24.

The Marine Safety Group was formed in 2017/18 to encourage dialogue between marine contractors, MWCs, Programme Manager and Tideway. This includes sharing of best practices and lessons learned following incidents, and the development of new initiatives to help improve all aspects of marine operations on Tideway.

The group identified two key actions for implementation across the programme:

- Development of an EPIC refresher module focused on marine safety, which is currently in the early development stage.
- Engagement of an independent body to carry out an audit on marine activities. This was conducted during the final quarter of 2017/18. The initial findings were presented at the Marine Safety Working Group, with the final report currently being produced.

Security and Incident and Crisis Management

During the year, we implemented new incident management procedures following a review of our processes. The new procedures are now aligned to national best practice and the Joint Emergency Services Interoperability Principles (JESIP). In addition, we conducted two incident/crisis management exercises at our head office, using a new exercise provider, London Resilience (the resilience forum for London). This makes Tideway the first private sector company to conduct an exercise with London Resilience.

Performance Review
Continued

SCHEDULE, COST AND QUALITY

Figures from 2017/18

Delivery against the regulatory baseline – cost*

Target	Actual
£3.5bn	£3.5bn In line with our target

Delivery against the regulatory baseline – schedule

Target	Actual
Handover by quarter one 2024	Handover by quarter one 2024 In line with our target

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

Our priorities for the year

Our objective is to deliver the Thames Tideway Tunnel safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, as well as delivering environmental benefits more quickly and reducing disruption to local residents.

Our focus on the highest levels of safety, the best schedule possible and the most efficient use of the river all serve our ambition to deliver the tunnel at the lowest possible cost.

Performance

This has been a challenging but highly successful year, as we have significantly progressed design and consenting and started on all but one of our sites. The change at many of our sites is clear to see, as we look forward to starting tunnelling this year.

Our performance in the year is in line with the challenging targets we set ourselves to make a positive start and de-risk the delivery of the project. The last year has a built a solid foundation on which we can continue to deliver the project, ensuring we are in line with our regulatory cost of £3.5bn (outturn prices) and handover by quarter one 2024.

To achieve this, we have worked through the challenges typical of the early phase of any major infrastructure project in a busy city. These included developing high-quality designs, building teams with the right skills and expertise, establishing the construction sites and securing the necessary consents, so we could start major engineering works in some of the most congested areas of London. Making a positive start, while keeping our people as safe as possible, has given us greater confidence on meeting our schedule.

We have made significant progress at our three main drive sites. At Carnwath Road in the West, we have constructed an acoustic shed to minimise disruption to residents and begun excavating the shaft. At Kirtling Street in our Central section, we have excavated the shaft down to 53m and constructed the launch tunnels for the TBMs. This is our first piece of tunnelling on the project and paves the way to launch the TBMs later this year. At our Chambers Wharf site in the East, we have completed the construction of a cofferdam to increase the size of the site. This has allowed us to install a diaphragm wall in the chalk, in readiness for excavating the shaft.

The edge of the cofferdam at Chambers Wharf in Bermondsey

Performance Review
Continued

In preparation for receiving our TBMs, we held a public competition, with over 24,000 votes submitted, to select names based on well-known women from the boroughs the machines will be launched from. Following this, the project took delivery of three TBMs (Rachel, Millicent and Ursula) this year.

Area	West		Central		East	
TBM	**Rachel**	**Charlotte**	**Millicent**	**Ursula**	**Selina**	**Annie**
In recognition of	Rachel Parsons, who established the first women-only engineering company in Fulham.	Charlotte Despard, a key figure in the suffragette movement.	Dame Millicent Fawcett, a suffragist, intellectual, and political leader, who is the first woman to be commemorated with a statue erected at Parliament Square.	Audrey ‘Ursula’ Smith, a cryobiologist at King’s College Hospital in South London, who discovered the use of glycerol to protect human red blood cells during freezing.	Selina Fox, a pioneering doctor who set up Bermondsey Medical Mission for the poor and disadvantaged residents in Bermondsey. It still continues today as a charity.	Annie Scott Dill Russell, the first female scientist to work at the Greenwich Observatory and who worked as a ‘Lady Computer’. She worked for the Astronomer Royal William Christie and paved the way for women in science.

During the year, we have seen our initiative to encourage the use of low entry cab (LEC) HGV’s bear fruit, with the first concrete deliveries from this type of vehicle. The LEC vehicles ensure better visibility for drivers, reducing the likelihood of injuring vulnerable road users.

Rachel, the tunnel boring machine building the western section of the tunnel, arriving by barge through central London

Commercial

The Company has made certain scope changes under the contracts, such as the 'More by River' initiative and changes at Blackfriars due to a reassessment of our interaction with other utilities. The combination of these factors has resulted in an increase to each of the Main Works Contractors' target prices since Licence Award. Due to this and in line with normal practice, the Company has allocated contingency within the Regulatory Baseline to reflect the increase in target prices. This contingency was included in the original baseline to recognise the cost impact of Company retained risks. As we allocate contingency there is less unallocated contingency available within the Regulatory Baseline to fund any Company retained risks that materialise in future. However, as work progresses the Company has the benefit of greater clarity over the cost and timing of the works generally. We remain on track to deliver the project to both time and our regulatory baseline cost.

Working with our stakeholders

Securing the consents required was key to achieving start on site. We have therefore worked closely with all of the consent granting bodies: Transport for London (TfL), the Port of London Authority (PLA), the Marine Maritime Organisation (MMO), the Environment Agency (EA) and local authorities. As we have set up joint offices with the Programme Manager and MWCs, we have focused on finding ways to work as collaboratively as possible with the consent granting bodies, some of whom joined in the co-location. As a result, we have developed good working relationships with all consent granting bodies.

More by River

We know the importance to our neighbours and to London of using the river as much as possible. Our commitment to do 'More by River' aims to get as much traffic as possible off the roads, increase safety and reduce congestion around our sites, and benefit air quality and congestion in London more generally. During the year, we delivered three TBMs by river to our sites at Carnwath Road and Kirtling Street. We also use the river to deliver materials to all of our foreshore sites and to remove spoil excavated.

AREA SUMMARY

West Area

Tideway's west team has been working with the MWC, BMB, to successfully mobilise on all seven of the west sites: Acton Storm Tanks, Hammersmith Pumping Station, Barn Elms, Putney Embankment Foreshore, Dormay Street, King George's Park and Carnwath Road Riverside.

The most obvious sign of progress is at our Carnwath Road site, where we have started excavating a shaft from which we will launch the TBM. We have built an acoustic enclosure to reduce the impact on local residents, which includes two gantry cranes and a concrete batching plant to support the shaft construction and tunnelling. We have also installed around 500 piles to support the site structures and strengthen the river wall, allowing us to move materials by river.

Rachel, our first TBM to arrive on the project, was delivered to Carnwath Road Riverside site on 1 December 2017 and will tunnel to Acton Storm Tanks. Charlotte, the second TBM for the West, is currently being refurbished and will arrive at Dormay Street later in the year. Charlotte will construct the Frogmore Connection Tunnel from King George's Park in Wandsworth to Carnwath Road.

At Putney, the year began with completion of the temporary slipway, which opened for public use in June 2017. The main works design and construction methodology were changed at the Putney site, so they are safer and offer significant potential savings and a shorter construction programme than the original solution. Both the temporary and permanent works piling are planned to be completed by the end of 2018, as well as starting construction of the shaft. In March 2018, the Heads of the River Race and the University Boat Race both used the site safely and successfully. Our team ensured that the University Boat Race Slipway, which is within our site, could be used to start the races.

BMB started at Dormay Street in June 2017, with the welfare facilities and office opening in November 2017 on Causeway Island. We installed a 30m footbridge over the Bell Lane Creek, to allow safe access for workers and increase efficiency between the two sections of the site. River wall strengthening works are ongoing prior to shaft construction, with shaft piling in May 2018.

At Hammersmith, we completed all pilling works and have begun modifications to the Inlet Works, new pumping station, shaft and culvert excavation.

At Barn Elms, construction of the new changing rooms has started and they are scheduled to be open in Autumn 2018.

King George's Park was handed over to BMB by Thames Water in November 2017. One of the key activities was completing the temporary footpath through the site, which was handed over and opened by the London Borough of Wandsworth Parks Team in December 2017. In addition, we built a bridge to protect the existing sewer, allowing vehicles and plant to access the entire site.

Acton Storm Tanks was the final of the seven sites to mobilise in November 2017. Site set up has begun, together with initial enabling works.

Our team in the West has worked hard to minimise disruption for the local residents and hold regular meetings to allow local communities to engage with the project.

Performance Review
Continued

Central Area

Working with the MWC, FLO, our central team made concerted and high-profile progress across all eight sites in the central area. Our progress over the past year has built on the solid foundation of the previous year, with some significant works packages complete and many more started.

Progress has been most significant at the main drive site at Kirtling Street, where we completed the shaft excavation, following the completion of the diaphragm walls forming the sides of the shaft. The site now has a shaft more than 50m deep and more than 30m in diameter, providing an imposing and dramatic beginning to the construction of the main tunnel. Above ground, the site team has constructed an acoustic enclosure, which is a 25m tall structure designed to protect our neighbours from noise arising from the works inside.

At Blackfriars, the team has worked hard to overcome some significant engineering challenges caused by the project's reassessment of the tunnel's proximity to two large Victorian gas mains. We have had to ensure that the mains are not damaged by our works and we have been working very closely with Cadent, City of London and TfL to come up with a solution. This has required us to alter our method of construction and, during this year, we will explore innovative ways to complete the scheme at this complex site. The team has done an excellent job and we have started construction of a cofferdam, in line with our programme.

At Victoria Embankment, we have continued site works to drive a sheet pile cofferdam, providing a strong wall in the river foreshore behind which we can begin construction of the drop shaft and associated structures. Both the Blackfriars and Victoria sites have also made a significant mark on the landscape, with striking hoardings and cabins in some of the most visible parts of the city, which are popular with tourists and Londoners alike.

At Albert Embankment, we completed works to install protective noise insulation, providing the mitigation required for businesses next to the site. This was followed by the construction of a sheet piled cofferdam and works to divert several important utilities at the site.

We have set up Heathwall pumping station, close to Kirtling Street, with the installation of cabins and the completion of enabling works to protect utilities running close to the worksite.

The acoustic shed at Tideway's Kirtling Street site in Battersea. This structure limits noise and allows for 24-hour working

The Chelsea Embankment Foreshore site has provided a unique challenge, with the site team working hard to accommodate the specific needs of the annual Chelsea Flower Show alongside our works. With piling started, the team is engaging well with the Royal Hospital Chelsea to protect its vital income streams during the main works construction.

At Cremorne Wharf, the Central team has worked with Thames Water to support its works around the Counter's Creek Flood Alleviation Scheme. We are now working to set up the site at Cremorne Wharf, carrying out a range of works in the existing sewer network and on the site to prepare for main works construction.

At Falconbrook Pumping Station, works to set up the site have continued, with Tideway taking possession of the site from Thames Water and setting up site hoarding and preparing for main works.

The Central team has continued to engage with our local communities and holds sessions monthly for all affected. At our Blackfriars site, we produce a monthly newsletter which is shared with all local businesses and residents, helping to ensure positive working relationships. The team is involved in the community, carrying out volunteering activities including helping with a local homeless charity and painting and repairing a local community centre.

We successfully took delivery of the two TBMs for the Central Section by river. The TBMs, named Millicent and Ursula, were built in Le Creusot, France, and have travelled 500 miles to London.

The next year will be critical for the Central Section of the project, as we launch the two TBMs and expand our foreshore sites into the river. Following the concerted efforts of the site teams, the Central Delivery Team is in a strong position to tackle the challenges of the coming year.

East Area

2017/18 saw significant progress across the eastern section, reflecting the collaborative approach between us and CVB, our MWC for the east.

At our main drive site, Chambers Wharf, we successfully completed the cofferdam, which increased the size of the site by 40%. The existing jetty was then removed and the team has now completed the diaphragm walls of the shaft using an innovative electrically powered hydrofraise. This reduces noise and shows our commitment to mitigating the impact on our neighbours and other local stakeholders. The works saw 35,000 tonnes of material being excavated, all of which was removed from site by barge in line with Tideway's More by River commitment. Similarly, all reinforcement cages for the walls were delivered to site by barge. We successfully completed fissure grouting at the site with the creation of a grout block of 17,000m^3, to reduce the permeability of the chalk at the tunnel apertures. The site is now preparing to begin archaeology undertakings, shaft excavation and the installation of the acoustic enclosure.

At King Edward Memorial Park we opened the new permanent playground. This leaves a lasting legacy for the community in Tower Hamlets and has been well received locally. Completion of the cofferdam is taking longer than planned, due to unexpected ground conditions which require the team to install some additional piles. During the installation of the cofferdam at King Edward Memorial Park a jack-up barge became unstable and as a precaution we evacuated the neighbouring flats. This obviously caused concern and disruption to our neighbours and we have taken their feedback in refining our incident management plans. Diaphragm walling is now planned to start in 2019.

Excellent progress continues at Greenwich pumping station, where the team has worked closely with key stakeholders. A significant incident in the sewers at Greenwich led Thames Water to revise its sewer entry conditions across all of its assets and Tideway is working closely with Thames Water to embed these arrangements. Close collaborative working with Thames Water, Network Rail and Docklands Light Railway was instrumental in ensuring that diaphragm walling started on time and recent progress has been ahead of our regulatory baseline.

At our Deptford Church Street site, the offices are now fully installed and the team is getting ready for the start of diaphragm walling. At Earl Pumping Station, work continues with site preparation.

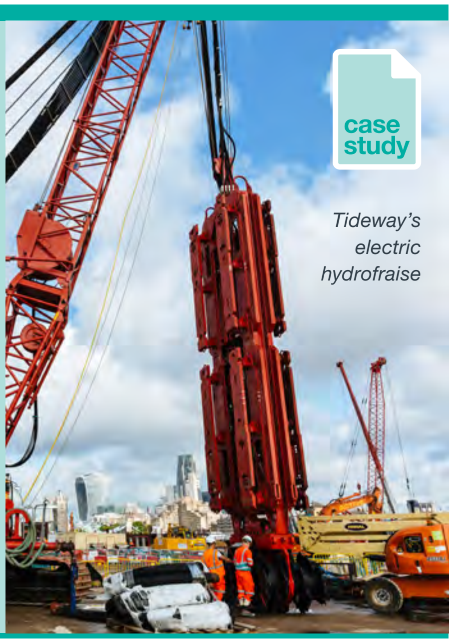
The two east TBMs, Selina and Annie, will be used to drive the tunnel from Chambers Wharf to Abbey Mills and the Greenwich Connection Tunnel. Design and manufacture of the TBMs is currently under way in Germany and the team is developing delivery options for them, utilising the river as much as possible.

Engaging with our local residents and stakeholders remains key for the East team, as we recognise the impact that works can have on them. Community Liaison Working Groups are now running at all our sites. The community information centre is open every week at Chambers Wharf and is a valuable space to engage with local residents and stakeholders. The team also continues to work closely with our consenting bodies and local authorities and maintains strong and open relationships with our key stakeholders.

INNOVATION

Tideway's Innovation programme has had an exciting year in terms of engagement campaigns within and outside the company, innovations invested in and fruits of previous years' innovations being realised. Colleagues across the Alliance continued to develop novel solutions, implement innovative technologies, and share their knowledge on the online industry innovation portal, with 50 innovations published online, and 80 new ideas submitted to our Innovation team. Tideway invested over £270,000 in new ideas, which included over £93,500 for Plant Telematics and over £21,000 for low carbon Cement Free concrete trials, both successful pitches aimed at reducing the project's carbon footprint as well as cost. Plant Telematics estimates significant cost savings to be realised – Approximately £400,000 in the first year alone.

Tideway continued to engage across the industry to support collaboration and innovation. This included Andy Mitchell Chairing the cross-industry group i3P (Infrastructure Industry Innovation Platform) and hosting its first live funding event, i3P Spark, which had over 30 collaborative submissions from member organisations, with £100,000 from the i3P Collaborative Innovation Fund invested in three winning pitches from the final; ideas deemed to have the highest potential to benefit the whole industry.



Tideway's electric hydrofraise

Performance Review
Continued

VISION, LEGACY AND REPUTATION

Figures from 2017/18

Percent of live legacy commitments on track

Target	Actual
75%	79% Monthly Average

Apprentices per project staff

Target FTE	Actual FTE
1 in 50	1 in 50 Monthly Average

STEM* volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	4.7 hours 2527 hours in total

Community volunteer hours per project staff**

Target (per 3 FTE)	Actual (per 3 FTE)
1 hour	13.9 hours 7012 hours in total

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

"Trees for Cities is extremely proud to be working with Tideway, a very environmentally focused company delivering a long-lasting and high-impact project. The trees will continue to help bring communities together for generations to come."

David Elliot
Chief Executive of Trees for Cities and Commissioner for London Sustainable Development Commission.

Our priorities for the year

We want to create a supportive environment for delivering the tunnel, by building positive relationships with our stakeholders and demonstrating that we are meeting our commitments to leave a positive legacy.

Legacy

Our objective for 2017/18 was to ensure that we continue to integrate our legacy commitments into all facets of our operations. Our Legacy Statement sets out detailed commitments for delivering lasting project benefits, from realising jobs and skills opportunities to keeping our carbon emissions down. This year our aim was to exceed our ambitious target of 75 per cent of live legacy commitments being on track at the year end. By the end of the year, 79 per cent were on track, which meant we exceeded our target when averaged across the year, with plans in place to address the lagging commitments. In addition, an independent assessment of the social value of our legacy commitments has shown that the anticipated return on investment for every Tideway pound spent was approximately £3.39.

54 Legacy Commitments

37 Live Commitments

These included:

Health, Safety & Wellbeing	• EPIC • Boat Masters Health & Safety training • Industry leading lorry and vulnerable road-users initiatives
Environment	• Minimise carbon footprint
Economy	• Use of CompeteFor to encourage SMEs (small or medium sized enterprises) to compete for contracts • Supporting the London and UK Economy • Fair Payment Charter • Encourage Innovation
People	• London Living Wage • Local employment • Creating an inclusive environment • STEM education
Place	• 2 for 1 Tree replacement • Arts and Heritage Strategy • Community Investment activities

Stakeholders

With work now under way at 20 of our 21 sites, we are more visible and our work has greater impact. This year we continued to build relationships with the communities we work within, as well as a wide range of other stakeholders across London.

Community Liaison Working Groups (CLWGs) now operate at each site in various formats, depending on the specific nature of the works and the best way to engage local residents and stakeholders. Our Helpdesk, which operates 24 hours a day, seven days a week, dealt with over 4,000 calls during the year and updates and news about the project published via social media channels saw a significant uptake.

Our contractors' community relations teams are based on site, reflecting our commitment to engaging with the communities in which we are working. The last year also saw the opening of the Community Information Centre at Carnwath Road, adding to the centres at Kirtling Street and Chambers Wharf. The centres allow us to host visits and events, to explain our works and the construction milestones to our stakeholders.

With greater activity on site, we have been able to use site tours as a way of engaging our stakeholders with our work. These complement the regular Tideway boat tours that we run to explain project aims, objectives and progress. Approximately 400 stakeholders joined one of the 50 boat tours held in the year, with plans in place to deliver these types of engagement opportunities for a general public audience in the year ahead. As part of the Government's flagship Skills Summit, we hosted the Education Secretary on a site visit to Kirtling Street, together with national media, to showcase Tideway's apprenticeship commitments.

To mark the centenary of the Representation of the People Act 1918, Tideway participated in the Government's 'suffragette flag relay', celebrating 100 years since women over the age of 30 were given the right to vote. A replica of the suffragist flag has travelled the country to mark the anniversary and made a stop at our Kirtling Street site as part of the celebration, further emphasising Tideway's commitments to diversity and gender parity.

The Government's 'Suffrage Flag Relay' stopped at Kirtling Street where women from across the Alliance celebrated 100 years since some women won the right to vote

Performance Review
Continued

Carbon

Tideway is a signatory to the Infrastructure Carbon Review. We made good progress in the year, achieving 75% of our Carbon Action Plan target. Further work is being undertaken with the remaining 25% to ensure that we achieve 100%. This resulted in progression along the maturity matrix, which is reported in full to the Department for Business, Energy & Industrial Strategy (BEIS). In the past year, our MWCs have been able to obtain more accurate carbon data, which resulted in our carbon footprint being reduced to 787,889 tonnes from 840,000 tonnes CO2e. Our MWCs continue to report carbon performance on a quarterly basis, which will start to show the benefits of initiatives funded through our innovation programme (see the innovation case study on page 45) and maximising our use of the River Thames as an artery to import and export materials (refer to 'Reconnecting London with the River Thames' case study on Page 20-21).

"The Thames Tideway Tunnel will modernise our capital's ageing sewage system and dramatically reduce the amount of sewage overflowing into the river. By issuing this Green Bond and inviting green investment, Tideway continues to build on its green credentials – significantly improving the quality of the Thames and encouraging people and wildlife to thrive."

Dr Thérèse Coffey MP
Defra Minister

case study
Find out more about our **Innovation Programme** page 45

case study
Learn more about **River Economy** page 21

Dr Thérèse Coffey MP, Parliamentary Under Secretary of State, Defra

Community investment and charitable giving

As part of our commitment to engaging with and supporting the communities we are working in, we actively support a number of community-based projects and charities.

Our partnerships with London Youth Rowing (LYR) and Thames21 had significant achievements in the year. LYR's new Active Row programme, funded by Sport England and Tideway, helped more than 2,700 young people to get active through rowing, representing a great start towards its target of reaching 8,000 youngsters over four years. Thames River Watch is the Tideway-funded programme run by the environmental charity Thames21, which recruits and trains volunteers to collect data on litter found in the Thames. This data was used by the GLA's Environment Committee to support its case for new policies on plastic waste. Mayor of London Sadiq Khan subsequently announced the introduction of water fountains to help tackle the problem.

case study
Read more about our **Volunteering & Fundraising** page 20

Our local community investment programme ramped up in the year, to keep pace with the increase in our on-site activity. Highlights included the completion of a new children's playground at King Edward Memorial Park in Tower Hamlets; the start of work to build a new arts and community centre in Sands End, Fulham; and the funding of a new lease for a community centre in Kensington and Chelsea, to allow the World's End and Lots Road Big Local, a local trust, to continue to support community projects.

Tideway staff also continued to raise considerable amounts for London charities. One of the highlights was in June, when 90 staff in 12 boats rowed nine miles down the Thames from Chelsea to Deptford. With Tideway matched funding, they raised £37,000 for the AHOY Centre at Deptford, which supports disadvantaged and disabled children through rowing and water sports.

At the end of 2017, Tideway staff elected three new charity partners as the focus for their fundraising: South London Cares, which is a community network of younger professionals and older neighbours helping one another; Single Homeless Project, which supports homeless people across London; and Drive Forward Foundation, which supports care leavers aged 16 to 24 looking for employment. During 2017/18, Tideway staff raised a total of £43,303 for charity through organised and individual events. Tideway itself gave a total of £40,062 in charitable donations in 2017/18, in addition to the community investments mentioned above.

Tideway volunteers ahead of a litter-pick last year

Staff from across the Alliance 'volunteered with passion', clocking up 7,012 hours in the year volunteering for causes and communities across London, an 80% increase on last year.

£83,365

of corporate charitable donations from Tideway and its client team in 2017/18.

Performance Review
Continued

Educational outreach

In 2017/18, Tideway's education programme celebrated its fifth year of operation, over which period some 3,000 hours of volunteering have taken place. In the last financial year alone, the programme has reached over 4,000 young people with over 400 hours volunteered by Tideway staff.

The programme continues to develop new and innovative approaches to working with schools and colleges, to promote careers in engineering and construction whilst also delivering programmes that have become commonplace in our school engagement calendar.

A new development this year was the launch of our augmented reality tunnelling application, which provides teachers, students, and the wider community with an interactive way to learn about the project and has already been downloaded hundreds of times. This marks a new direction for our online educational resources, away from set piece lesson activities, towards shorter interventions that provide teachers with the flexible resources they need for a modern classroom environment.

Meanwhile our activity for British Science Week, STEM on the Thames, saw over 500 young people participate in an exciting week of activity out on the River Thames, learning about engineering, the river and the environment around them.

We are forging deeper relationships with new partner schools in strategically important boroughs. Over 80 STEM ambassadors have participated in events with our partner schools or supported careers fairs, work experience students or educational programmes with our partners, such as the Construction Youth Trust.

During 2017/18

Tideway have
166 Ambassadors

Who have delivered
409.5 hours
of STEM activities

To
4,307 young people

Supply chain

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

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

- requirement for all full-time site and office-based employees on Tideway to be paid at least the London Living Wage, with robust assurance processes in place to identify and address any non-compliance
- our Fair Payment Charter, which supports BEIS's ambition to ensure the construction industry has standard 30 day payment terms. We issued the Charter to all 1,029 supply chain companies in the UK and the 33 companies from outside the UK, and required them to comply with it;
- responsible sourcing, which requires all of our key building materials, principally steel, cement, aggregates and timber, to be certified to either Building Research Establishment's (BRE) responsible sourcing standard BES 6001 Very Good or above, CARES Sustainable Constructional Steel (SCS), Eco-Reinforcement or FSC or PEFC timber, as applicable;
- staff engage in policies, procedures and awareness events covering the complexities of human rights and ethics in the supply chain, including our Modern Slavery Statement, Anti Bribery and Anti-Corruption procedures;
- compliance with the Ethical Trading Initiative Base Code.

Tideway supply chain spend to date has:

Reached
1,029 companies

Across
12 UK regions

And
25 London boroughs.

Performance Review
Continued

COMPANY & PEOPLE

Figures from 2017/18

Employee diversity*

Percentage of women within Tideway at 31 March 2018

Target	Actual
40%	36%
	37% previous year

Employee engagement

Tideway employee survey: percentage of favourable responses

Target	Actual
63%	64%
	63% previous year

Employee enablement

Tideway employee survey: percentage of favourable responses

Target	Actual
67%	71%
	67% previous year

** Includes Tideway employees and our programme manager*

Our priorities for the year

Our priority for 2017/18 was to evolve the capabilities of the organisation, to support and encourage efficient delivery through a motivated and empowered team.

Performance

Overall it was a successful year, with a variety of initiatives delivering benefits across the organisation, including the office move and implementation of our Tideway Operating Model (TOM). We introduced innovative ways of working, both physically and virtually, and we continue to promote flexible working arrangements to improve wellbeing and employee satisfaction. We also implemented new office layouts to improve collaboration in our new London Bridge office.In addition, we reviewed our communication channels to make more information available and ensure all staff are kept up to date and have the right information and tools to be effective in their day-to-day work.

These changes were reflected in our 2017 employee survey, which included Tideway, Jacobs (formerly CH2M), agency workers and subcontractors. Employee engagement increased from 63 per cent to 64 per cent and enablement from 67 per cent to 71 per cent, indicating that we are improving and that our people feel valued and empowered.

Review of Corporate Structure

During the year, we invested time in ensuring that all parts of the organisation are clear on their respective roles and responsibilities, and developed the TOM, which clarifies and optimises the role of the Client, Programme Manager and MWCs. This has led to some restructuring within the Company, to realign roles to the TOM and to align the organisation to the current delivery phase of the project. Our efforts in this area were reflected in the 2017 Engagement survey, which saw an eight percentage point improvement in the "Work, Structure and Process" category. This is seven per cent above the UK norm.

Collaboration continues to improve across the project, as a result of implementing improved IT collaboration systems and tools, which have been positively received, as well as the relocation from Paddington to London Bridge, which has brought the organisation physically closer together as well as improving our working space.

The TOM developments, along with the information system and process improvements, were recognised in the Engagement survey with a nine percentage point increase in people agreeing that decisions are made at the lowest level. However, the overall score of 28 per cent is below the UK norm and will be the focus of training and continuous improvement activities for the coming year.

During Autumn 2017, we achieved compliance with the 2015 versions of ISO 9001, the Quality Management standard, and ISO 14001 Environmental Management, and maintained compliance with OHSAS 18001: 2007 for Health and Safety.

Diversity and Inclusivity

Through our employee-led diversity forum, Encompass, we focus on all aspects of diversity. Some of the key activities and achievements in 2017/18 included:

- employing the Business Disability Forum to assess our premises and develop an improvement plan;
- completing our first Stonewall LGBT+ survey, achieving 227th out of 460 with an action plan for improvement; and
- being named in The Times Top 50 Employers for Women 2018, with Chief Executive Officer Andy Mitchell a Finalist in the Gender Champion Award category.

Inclusivity is important for Tideway and we continue to outperform external benchmarks when employees are asked whether the company values and promotes diversity. Our score for this question was up one percentage point to 90 per cent favourable, which is above the UK average.

We recognise the importance of diversity and its positive impact on Company performance. Gender diversity is a key performance indicator for us and we finished the financial year with 36 per cent female staff. This is below our end of year target of 40 per cent. However, we continue to seek ways to achieve our aim of gender parity by the end of construction.

Headcount (as at 31 March 2018)*	Female 31 March 2018	Male 31 March 2018	Total 31 March 2018	Female 31 March 2017	Male 31 March 2017	Total 31 March 2017
Board**	2	11	13	3	9	12
Senior Management	20	33	53	18	34	52
Other Employees	153	271	424	159	261	420
Total *	**175**	**315**	**490**	**180**	**304**	**484**

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

** *Includes shareholder Directors*

Talent

We reviewed our talent management and succession planning during the year, as a regular health check of the business and to ensure we have appropriate bench strength for key roles, as part of Tideway's structured performance review process. Tideway's organisational size and shape will continue to evolve over the life of the project and our approach ensures that individuals are supported in their career within the project, as well as their potential external roles in the future.

During the year, we made progress on our plans to develop the next generation of talent and help local and disadvantaged people into employment.

This included targets for Tideway and our contractors to employ apprentices, local people and ex-offenders as follows:

- One in 50 staff should be a new apprentice. As at the year end, 52 apprentices were employed, of which 38 are new apprentices on the project. This equated to 1 in 53 people being a new apprentice and the average for the year is 1 in 47.
- One in 100 should be an ex-offender. Currently 19 ex-offenders have been recruited through our work with ex-offender organisations and 1 in 107 are ex-offenders, with a average for the year of 1 in 104.
- 25 per cent of our workforce should be resident across the 14 London Boroughs impacted by our works. Our current performance is at 21%.

Further work is being undertaken to ensure we continue to improve on these metrics and attain the desired result.

Performance Review
Continued

We have developed an effective apprenticeship programme, which in the last 12 months has extended beyond engineering to include corporate functions such as business administration and project management. We are working with several organisations to support individuals who are ex-offenders or currently not in work, by providing training, work experience placements or permanent roles. Our HR staff have been trained by Nacro, the ex-offender charity, on fair recruitment processes and we are launching an upskilling programme across the Alliance and part-funded by the Construction Industry Training Board (CITB), to enable progression of staff into better paid, higher quality roles.

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

Providing Opportunities

Tideway's commitments to providing employment opportunities for under-represented and disadvantaged groups have continued to improve over 2017/18. Our first pre-employment plus programme, which was reaching its climax at the start of the financial year, supported 30 local people into training, 18 into work experience and 12 into full time work with our Main Works Contractors.

In partnership with the Construction Industry Training Board, we have also developed a unique funding model to upskill the existing workforce into higher quality roles and provide training for local residents, to fill vacant entry level positions. The funding model will launch in this coming financial year. We have also launched a new programme with the Construction Youth Trust, targeting young people at risk of becoming Neet (not in education, employment or training).

> Toward the end of 2017, Tideway began a partnership with Single Homeless Project, a London-based charity that works to prevent homelessness and to help vulnerable and socially-excluded people to transform.

case study

PROVIDING OPPORTUNITIES PETER CHEASMAN

Peter Cheasman thought he had lost everything. After spending three months living on the streets, hope was in short supply. But thanks to Thames Reach, one of Tideway's staff charity partners, the former tyre-fitter was able to get back on his feet and into full-time work.

The 55-year-old, from Catford, south-east London, was forced to live on the streets after being released from a six-month spell in prison. He was referred to Thames Reach, a charity which helps homeless and vulnerable people get back into work, before being put forward for Tideway's pre-employment programme.

The programme provides interview preparation, health and safety training, work experience and the opportunity to apply for full-time work on the project. Peter's success in the course means that he is now working full-time for Tideway as a General Operative in Chambers Wharf in Bermondsey.

Since joining the project, Peter has successfully completed courses in first aid, PASMA light aluminium tower training, vehicle and plant marshalling, risk perception, and fire marshalling and has become an integral part of the team.

"I went from having a full-time job to losing everything. Everyone has been so supportive – they can't do enough for me."

Peter Cheasman

"Peter repeatedly says how grateful he is for the support he has been given by Tideway and Thames Reach. We offered him the opportunities, but the hard work and determination to get his life back on track came from him – we are all so proud of what he has achieved."

Virginia Croft,
Skill Programme Developer, Thames Reach

case study

PROVIDING OPPORTUNITIES
JOSEPH O'DWYER

Through a combination of poor health and lack of self-esteem, Joe O'Dwyer had spent 15 years out of work before joining Tideway, a transition he now describes as "the best thing I've ever done".

The 53-year-old shared his story with 20 people who were homeless, formerly homeless or at risk of becoming so as part of Work Ready Week. "I could barely feed myself," he admitted. "My relationship had broken down, my family didn't want to know me. So for the first time in my life, I picked myself up and said, 'I'm sick of this'."

After a trip to his local Job Centre, Joe put himself forward for exams in maths and English as part of a back-to-work initiative, before earning a variety of qualifications at college.

At the end of the course, Joe spent time on a work experience placement before he was offered a full-time role working on the central section of the Tideway project. He said: "I've been here over nine months. I'm debt-free and I'm paying council tax for the first time in a long time.

"The people I'm working with are very nice, and I'm a happy bunny sitting here today. Since I've been on this project, I've got employee of the month three times. I'm going for the fourth one now – they reckon I'm fixing it."

"It's all through this project that I have this shirt on me today. I've got a nice watch on my hand. It's nice to sit here with a few bob in my pocket and look a bit clean and respectable."

Joe O'Dwyer

Ethics and Human Rights

Ethical behaviour and human rights are core to Tideway's ethos and operations. We participate in APRES (Action Programme for Responsible and Ethical Sourcing) and adhere to the International Labour Organisation's Ethical Trading Initiative Code, giving a clear framework for our employees, contractors and stakeholders. We ensure that:

- staff engage in policies, procedures and awareness events covering the complexities of human rights and ethics in the supply chain, including our Modern Slavery Statement, Anti Bribery and Anti-Corruption procedures;
- staff undertake mandatory training throughout the year;
- our contractors have similar policies and training programmes in place;
- our MWCs follow the Ethical Trading Initiative Base Code;
- all new suppliers meet Tideway standards in ethics and human rights, via the Tideway new supplier process; and
- staff have a confidential 24-hour whistleblowing helpline, allowing them to ask questions, raise concerns or report violations of our ethical and human rights stance.

Tideway was an early signatory to the Responsible and Ethical Sourcing Handbook, providing funding and participating in the initial working groups.

Performance Review
Continued

FINANCING

Figures from 2017/18	

Maintain strong credit rating*

Target	Actual
Baa1/BBB+	Baa1/BBB+

(Moody's/Fitch)

Maintain strong liquidity position

Funds available immediately

Target	Actual
18 months	4 years

Continue de-risking of financing plan by issuing inflation-linked and nominal debt

Amount of inflation and nominal debt issued

Target	Actual
Issue £400m of inflation linked debt	Issued £500m of inflation linked debt
Issue £300m of nominal debt	Issued £550m of nominal debt

** The Group has been assigned a corporate family credit rating of Baa1 by Moody's and the Company's Revolving Credit Facility (RCF) has been rated BBB+ by Fitch.*

Treasury policy

Tideway's treasury policy incorporates the corporate objective of financing the Company while minimising risk. Our target is to maintain a robust investment grade credit rating at all times.

Financing activity

As at 31 March 2018, we had received £1,274.0m from shareholders, which was the full commitment at Licence Award, in line with our equity-first approach to financing. This was in the form of £509.7m of equity and £764.5m of shareholder loans. Part of the shareholder loans has since been repaid and the balance at 31 March 2018 was £714.4m. The revolving credit facility remained undrawn during the period and the commitment at the year end stood at £750m, after the cancellation of £250m in March 2018.

We continued to make timely progress with implementing our financing plan and the £1.05bn of long-term financing closed during the year helped secure the financing for our investment programme and further locked in our financing costs. These transactions also confirmed the downward trajectory of Tideway's credit margin, in line with the growing confidence in and maturity of the execution of our financing and delivery plans.

Our multi-format debt platform supports the raising of long-term debt via structural enhancements that include a bankruptcy-remote structure and a package of covenants and restrictions protecting cash flows. The debt platform includes a multi-currency bond programme, which is listed on the regulated market of the London Stock Exchange. Tideway's prospectus for the listing was updated in June 2017.

In April 2017, we entered £100m of long-term inflation linked financing with an institutional investor. This was our first index-linked issuance in loan format with an investor, demonstrating the benefits of our flexible platform which enables us to issue seamlessly in different markets and with different instruments.

In June 2017, we priced a £300 million US private placement (USPP) with a group of US investors, diversifying our investor base and adding resilience to the execution of the financing plan. This transaction funded in September, has a nominal interest rate and achieved a competitive rate, paving the way for the nominal public green bond issued later in the year.

During the year, we issued four bonds under the multi-currency bond platform, the first of which was in July 2017, when we priced a £125m deferred draw bond. Our deferred draw down issuance enables us to de-risk our financing plan and secure the best possible borrowing terms by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding.

This was followed by three bonds issued on a cash basis. Two of these, which we issued in August and November, were indexed to the consumer price index (CPI), a first for Tideway. We also issued our debut public bond in November as a green bond (see opposite).

Representatives from Tideway formally opening the London Stock Exchange following Tideway's issuance of Green Bonds

Green Bonds

Green bonds are debt instruments whose proceeds fund projects with environmental benefits, such as the Thames Tideway Tunnel. Tideway has become the largest corporate issuer of green bonds in sterling with £775 million of issuance, £325m of which was post year-end.

Over two consecutive days in November 2017 Tideway issued a £250 million debut green public bond, with a nominal interest rate, followed by a £200 million green CPI-linked private placement, both issued under Tideway's multicurrency bond programme. This last transaction won an mtn-i Deal of the Year award, as it was both an index-linked bond with an inflation floor and ceiling and a green bond.

As part of the execution of our green bond strategy, we published our Green Bond Framework aligned with the four core components of the International Capital Markets Association Green Bond Principles. This is a set of voluntary process guidelines that recommend transparency, disclosure and reporting. The framework included a description of Tideway and the sustainable legacy programme, as well as undertakings about the use of proceeds and reporting.

Tideway's green bonds were covered by the specialist press and were mentioned in the government's "A Green Future: Our 25 Year Plan to Improve the Environment" published in January.

These issuances have several innovative features:

- The public bond was the first debut public bond issued as a green bond in the UK. We went to market on the day of the Autumn Budget 2017 and the day before the US Thanksgiving holiday, and were the only corporate issuer in Europe on the day. The transaction was well received by investors and was more than three times oversubscribed.
- The private placement was the first UK private placement issued as a green bond and the first combination of index-linked issuance with green bond, making us also the largest CPI-linked issuer in the UK.
- In the Green Bond Framework, we aligned our sustainability commitments to the UN Sustainable Development Goals (SDGs). Tideway will make a direct contribution to seven of the SDGs.

We retained S&P Global Ratings to provide a Green Evaluation for the bond programme and for bond series issued under the programme. A green evaluation produces a relative green impact score for debt instruments financing environmental beneficial projects and is a second opinion aligned with the Green Bond Principles. This was S&P's first public Green Evaluation in the UK and it achieved the highest S&P mitigation score to date and the joint-highest overall score of E1 – 95/100.

The Green Bond Framework and the Green Evaluation have been published on our website.

Performance Review
Continued

Hedging

We hedged £70m of the USPP £300m transaction by entering into two hedging transactions to lock-in the cost until maturity on an RPI basis.

We will continue to manage interest rates on our debt programme, balancing the objective of securing long-term rates with the likely changes arising after the end of the current regulatory period in 2030.

Distributions

At Licence Award our shareholders committed a total amount of £1,274m in the form of equity and shareholder loans. This has been fully injected in Tideway and future investment will be debt financed. As a result, our gearing increases to our target capital structure as Tideway delivers its investment programme, risks are retired, and debt is used to fund the investment.

We capitalise our construction costs and do not expect to record distributable profits until after System Acceptance, which means we do not expect to pay dividends during the construction period. Distributions to shareholders prior to System Acceptance are through the payment of interest and repayment of the principal of our shareholders loans. This mechanism was put in place during the Infrastructure Provider (IP) equity procurement process run by Thames Water and overseen by Ofwat and the UK Government and was key to achieving the low cost of capital bid by our shareholders. Ultimately Thames Water's wastewater customers benefit from the low cost of capital achieved through the procurement through a lower charge in their bills. In 2017/18 we made distributions totalling £75.5m through payment of interest and repayment of principal on our shareholder loans.

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

Liquidity

At 31 March 2018, we had total liquidity of £3bn, comprising £904m of cash, the £750m undrawn RCF, the £700m EIB loan, £575m of bonds and a £100m loan. This, combined with expected revenue collection, provides liquidity significantly in excess of our 18-month target, including all debt requirements to System Acceptance.

Ratings

Moody's and Fitch assigned investment grade credit ratings of Baa1 and BBB+ respectively to our bond issuances, consistent with the initial ratings received at Licence Award and affirmed during the year. Moody's also assigned a rating of Baa1 to the USPP transaction.

Investment Management

The disbursement profile of shareholders' funds and the £825m of new debt issued and drawn during the year led to us benefiting from substantial cash balances during the year, averaging £631m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield. During the year, we held cash in three types of instrument: bank accounts with our main bankers, Lloyds Bank; money market deposits with a fixed maturity date, held with our relationship banks; and money market funds with immediate cash availability, held with selected institutions.

In 2017/18, we generated a total return of around £2.3m on our cash balances, at an average yield of 0.37% per annum for the year. The return averaged 3 basis points below the base rate, driven by the Bank of England interest rate increase to 0.5% per annum in November 2017 and the large influx of cash after our successful debt issuance.

Post year end issuance

In April 2018, we issued another £150m long-term inflation linked green bond and in May we had three bond issuances totalling £175m, also linked to inflation and in green bond format. These issuances further lock-in our financing costs and continue the innovative strategy of pricing bonds with long deferral periods to match our investment profile. These new bonds take Tideway's green bond issuance to £775m.

We continue to review our capital raising strategy and the markets in which we do so, as well as the potential for additional pre-funding to take advantage of market conditions and further de-risk the financing plan.

Reporting

We regularly update our main stakeholders on our progress with our delivery and financing plans to, through the quarterly meetings of the Liaison Committee attended by Thames Water, Defra, Ofwat and the Environment Agency. We also report regularly to our lender investors, in compliance with the terms of our financing documents and the GSP.

Financial Performance Review

Accounting basis

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

Non-GAAP measures

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

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

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

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

Income Statement

During the year ended 31 March 2018, Tideway reported a profit of £9.5m (2016/17: £34.2m loss), with no dividends paid or proposed (2016/17: £nil). We did not recognise any taxable profits in the period (2016/17: £nil) and therefore have no corporation tax charges (2016/17: £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 financial instruments. These are long-term swaps which we entered into with commercial banks to economically hedge the interest costs of the Company's debt. The swaps fix finance costs for the Company's regulatory period and ensure that we benefit from low-cost financing.

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

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

Financial Performance Review
Continued

Statement of Financial Position

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

	2017/18			2016/17		
Analysis of Costs and Cash Outflows (£m)	**Costs**	**Timing Differences**	**Cash Outflows**	**Costs**	**Timing Differences**	**Cash Outflows**
Allowable	542.7	(24.5)	518.2	348.0	(7.5)	340.5
Excluded	66.3	45.4	111.7	36.7	53.1	89.8
Total	**609.0**	**20.9**	**629.9**	**384.7**	**45.6**	**430.3**
Brought Forward	**545.9**			**161.2**		
Capitalised Costs*	**1,154.9**			**545.9**		

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

For the year ended 31 March 2018, our Allowable Project Spend is lower than the Allowable costs, as our Allowable costs include the timing of accruals and unwinding of prepayments of items, including insurance contracts and the GSP. The Excluded cash outflows are significantly higher than the Excluded costs. This is mainly due to the £23.8m (2017: £24.1m) repayment of shareholder loans and £9.8m (2017: £12.1m) timing of VAT payments, which are not included within Excluded costs.

At 31 March 2018, costs of £1,154.9m were capitalised within the asset under construction in the Statement of Financial Position. This represents £609.0m costs during the year and £545.9m for the prior periods to 31 March 2017.

The table below analyses Allowable costs:

Allowable Costs (£m)	2017/18	2016/17
Direct Costs	**443.2**	**262.6**
Resource Costs	68.4	60.3
Other Indirect Costs	31.1	25.1
Indirect Costs	**99.5**	**85.4**
Total	**542.7**	**348.0**

Direct costs

Direct costs are primarily the MWC (Main Work Contractors) costs. They also include the System Integrator Contract and in 2016/17 the contract with Volkerstevin to provide services and works for the removal and replacement of piers and the relocation of marine vessels.

The direct costs incurred in the year have increased significantly compared with 2016/17, reflecting the increase level of construction as we further mobilise on our sites in preparation for tunnelling.

Indirect costs

The largest indirect cost is resource costs of £68.4m. This represents the cost to employ the c479 average FTEs (2016/17: c450 average FTEs) either employed or contracted by the Company. The other indirect costs include information systems, insurance, GSP, office and other running costs.

Indirect costs have increased compared with 2016/17, reflecting the growth in FTEs to support the increased level of construction.

Excluded Costs

The Excluded costs (on an accruals basis) for the year ended 31 March 2018 were £66.3m. These comprise £61.5m of interest payable (including shareholder loans), £7.1m of costs which mainly relate to financing, partly offset by £2.3m interest receivable.

Net Cash & Financing

The net cash at 31 March 2018 was £14.6m, which was £301.3m lower than the £315.9m net cash at 31 March 2017. The table below shows the movements in net cash:

Net Cash/(Debt) (£m)	2017/18	2016/17
Cash*	838.3	315.9
Borrowings**	(823.7)	-
Net Cash/(Debt)	**14.6**	**315.9**

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

At 31 March 2018, the Company's borrowings were £1,538.1m being £714.4m shareholder loans and £823.7m of other borrowings. These were in the form of £1,015.9m of fixed rate loans and £522.2m of fixed rate and index linked bonds.

In addition, the Company has secured deferred loans of £800.0m and deferred bond issuances of £575.0m which will be reflected in the financial statements when they are drawn down in the future. The Revolving Credit facility remained undrawn during the period and the commitment at the year end stood at £750.0m.

Cash

The cash at 31 March 2018 was £838.3m, which was £522.4m higher than the £315.9m cash at 31 March 2017. The tables below show the movements in cash.

Cash (£m)	2017/18	2016/17	Ref.[1]
Opening Balance	**315.9**	**112.9**	
Proceeds from shareholder loans	208.9	348.3	d
Proceeds from Equity	139.3	232.1	d
Proceeds from Borrowings	822.1	0.0	d
Deferred revenue	32.1	32.1	a
Transfer (to)/from Short Term Deposits	(57.5)	17.5	c
Other	7.4	3.3	a
Cash Inflows	**1,152.3**	**633.3**	
Construction of the infrastructure asset	(607.4)	(384.7)	b
Working capital inflows/(outflows)	1.3	(21.5)	a
Repayment of shareholder loans	(23.8)	(24.1)	d
Cash Outflows	**(629.9)**	**(430.3)**	
Closing Balance	**838.3**	**315.9**	

[1] *See cross ref.*

Reconciliation to the Group Cash Flow Statement (£m)	2017/18	2016/17	Ref.[1]
Net cash used in operations	40.8	13.9	a
Net cash used in investing activities – Infrastructure asset	(607.4)	(384.7)	b
Net cash used in investing activities – Short term deposits	(57.5)	17.5	c
Net cash from financing activities	1,146.5	556.3	d
Net increase in cash and cash equivalents	**522.4**	**203.0**	
Cash and cash equivalents at the start of the period	315.9	112.9	
Cash and cash equivalents at the end of the period	**838.3**	**315.9**	

Financial Performance Review
Continued

The cash inflows of £1,152.3m include £822.1m proceeds from borrowings, £208.9m from shareholder loans, £139.3m from Shareholder equity, £39.5m of working capital inflows less £57.5m of transfers to short term deposits. The working capital inflows include £32.1m of regulated revenue received from Thames Water and £7.4m of other inflows, including interest and payment for other services provided to Thames Water.

The cash outflows of £629.9m include £607.4m of investment in the construction of the TTT, £23.8m of shareholder loan repayments and working capital inflows of £1.3m.

Regulatory Financial Reporting

For regulatory financial reporting, interest is expensed through the Regulatory Income Statement and this shows a net loss of £49.7m. This represents £61.5m of loan interest expense, partly offset by £9.5m fair value movement on financial instruments and £2.3m of interest income.

At 31 March 2018, the RCV was £1043.4m (in March 2018 prices). The RCV is the sum of Allowable Project Spend that has been incurred, verified by the Independent Technical Assessor and adjusted for inflation. This is consistent with Table 5B in the Regulatory Report section.

Revenue

Within the financial statements, all revenue is recorded as deferred income in the Statement of Financial Position, in line with our revenue recognition accounting policy. Revenue of £32.1m is reported for the year, which is based on the latest estimate.

During the year, we received cash inflows of £26.8m from revenue (£32.1m including VAT), which includes some revenue from 2016/17.

Tax strategy

The Directors are responsible for ensuring that we comply with tax laws in the UK, which is the only territory we undertake our business activities in.

Our business activities mean that we fall under corporation, employment and other taxes. In addition, we collect and pay employee taxes, as well as indirect taxes such as VAT. The taxes we collect and pay make an economic contribution to the UK.

Tideway is part of the Bazalgette Equity Limited Group, of which all members are domiciled in the UK. We consider the interaction with Company members when we implement our tax policy.

During the construction phase, all attributable expenditure required to construct the TTT is considered to be capital in nature and is capitalised. Revenue we receive from Thames Water is deferred onto the Statement of Financial Position. The calculation of taxable profit follows the accounting treatment in the Income Statement and as a result, we do not expect to recognise taxable profits during the construction phase. This is in line with expectations at the time Tideway was procured and customers benefit in full from lower bills.

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

During the year we carried out a review of the new tax legislation changes including the new Corporate Interest Restriction rules. This involved establishing the likely interest deductibility position for Tideway and the options available to utilise these. As a result of the review, presently we have decided not to elect for the Public Benefit Infrastructure Exemption.

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

This strategy is based on the following principles:

a) **Tax planning:** We will engage in tax planning that supports our business and reflects commercial and economic activity. We will not engage in artificial tax arrangements and will adhere to relevant tax laws and seek to minimise the risk of uncertainty or dispute.
b) **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 the tax law change is relevant to Tideway's business activities.
c) **Transparency:** We support measures that build greater transparency, increase understanding of tax systems and build public trust.
d) **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.
e) **Governance:** The Chief Financial Officer (CFO) is responsible for and implements our approach to tax, which is reviewed and approved by the Audit Committee. The CFO is also responsible for ensuring that appropriate policies and procedures are in place and maintained and that the financial control team, with specialist external support as necessary, has the appropriate skills and experience to implement the approach effectively.

The Strategic Report was approved by the Board on 21 June 2018 and was signed on its behalf by

Andy Mitchell

Andy Mitchell CBE,
Chief Executive Officer


Tideway

Governance

Kibreya Hossain, Ray Cantwell, Raza Tariq from Tideway West

Site worker from Tideway East in front of the electric hydrofraise at Chambers Wharf

Chairman's Introduction

SIR NEVILLE SIMMS
INDEPENDENT NON-EXECUTIVE CHAIRMAN

This has been a year of continued development and progress for the Board, as well as for the wider business.

In July 2017 I was delighted to announce the appointment of John Holland-Kaye to the Board, as an Independent Non-Executive Director. As Chief Executive Officer of Heathrow Airport, John operates at the forefront of UK infrastructure and brings with him a wealth of experience in the construction and infrastructure sectors.

In March 2018, I was pleased to welcome Andrew Cox to the Board as the Non-Executive Shareholder Director representing Allianz. Andrew replaced his colleague Jaroslava Korpanec, who had been on the Tideway Board since Licence Award in 2015. I would like to extend my special thanks to Jaroslava for her input to the project, and to formally welcome Andrew, who brings extensive knowledge of regulated infrastructure projects and has a good understanding of Tideway, having been an Observer on the Board since April 2017.

Some further change is anticipated in 2018, with the Nominations Committee currently involved in the search for a new Chief Financial Officer, following Mark Corben's decision to step down in 2018, and the recruitment of a new Independent Director to strengthen the Non-Executive construction experience on the Board as we move into the next phase of the works.

Tideway remains committed to achieving the highest standards of corporate governance and I am pleased to say that we continue to comply fully with Ofwat's principles for Board leadership, transparency and governance.

To aid transparency, our holding companies also comply with Ofwat's holding company principles, and as Tideway is owned by private investors, we continue to take account of the relevant sections of the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) for portfolio companies.

We also continue to apply the principles contained in the UK Corporate Governance Code (the Code) and are compliant, except in respect of the requirement that at least half the Board, excluding the Chairman, should comprise Independent Non-Executive Directors. The appointment of John Holland-Kaye increased the number of Independent Non-Executive Directors on the Board from five to six, enhancing the position of the Independent Non-Executive Directors as the single largest group on the Board. We continue to keep the Board's composition under review, to ensure we stay abreast of the best corporate governance practices.

Since Tideway's inception, we have annually monitored Board performance and reviewed and amended our procedures following those reviews. This year, in compliance with the Code and following a competitive tender process, we have appointed external facilitators from Optimus Group, to evaluate the performance of the Board, its committees and individual directors. I am pleased to report that the evaluation concluded that Tideway has a high standard of corporate governance. However, I am also conscious there is no room for complacency and we remain committed to achieving the highest standards of corporate governance both to protect the business, and the interests of all our stakeholders.

Sir Neville Simms
Chairman

Board Leadership, Transparency and Governance

The Board

NON-EXECUTIVE DIRECTORS

Sir Neville Simms FREng

Non-Executive Chairman, Chair of Nomination Committee

Appointed August 2015

Sir Neville is a Chartered Civil Engineer. He was previously Chairman of International Power plc and, until May 2005, of Carillion plc, following its demerger from Tarmac plc, where he was Group CEO. He was joint Chairman of TML, the Channel Tunnel contractors' consortium, for the final three years of the Channel Tunnel project.

Sir Neville chaired a number of construction industry bodies and the regional leadership teams for Business in the Community in the West Midlands and the Solent Regions. He was a founder member of the government's Private Finance Panel, Chairman of the government's Sustainable Procurement Task Force, Deputy Chairman of Ashridge Management College and Chairman of the Building Research Establishment Trust. He was also a member of the President's Committee of the CBI for 12 years and served for seven years on the Court of the Bank of England.

Sir Neville met the independence criteria set out in the Code when he was appointed as Chairman.

Richard Morse

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

Appointed August 2015

Richard is an investment banker with more than 30 years' experience of infrastructure and energy transactions, having been head of energy and infrastructure corporate advisory teams at Dresdner Kleinwort Wasserstein, Goldman Sachs International and Greenhill International (1990-2001). He was also Deputy Director of Ofgem (1999-2001). Richard joined the board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013, to assist in the set-up of Tideway. He chairs Tideway's Audit Committee and is also a partner at Opus Corporate Finance, Chairman of John Laing Environmental Assets Group, Chairman of Woodard Corporation and a Non-Executive Director of Heathrow Southern Rail Limited.

Anne Baldock

Independent Non-Executive Director and Chair of the Remuneration Committee

Appointed August 2015

Anne is a lawyer by background, having been a partner at international law firm Allen & Overy LLP for 25 years, where she was the head of the global projects, energy and infrastructure group and helped to structure many innovative infrastructure and energy deals. Anne joined the Board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013 to assist in the set-up of Tideway. She chairs Tideway's Remuneration Committee. Anne is also a Non-Executive Director of the Low Carbon Contracts Company and the Electricity Settlements Company Limited.

Mark Fairbairn OBE

Independent Non-Executive Director and Chair of the Risk and HSSE Committees

Appointed August 2015

Mark has significant experience running regulated gas and electricity utilities, both in the UK and USA. He joined the board in 2015, having sat on the board of subsidiary Thames Tideway Tunnel Limited since 2013 to assist in the set-up of Tideway. He chairs Tideway's HSSE and Risk Committees and has also served as a Non-Executive Director of the Office of Rail and Road.

John Holland-Kaye

Independent Non-Executive Director

Appointed July 2017

John is the newest Independent Non-Executive Director, having been appointed to the Board in July 2017. He is Chief Executive Officer of Heathrow Airport, a role which he has held since July 2014. Prior to his appointment as CEO John held positions as Commercial Director and Development Director at Heathrow and before that he had senior executive roles at Taylor Wimpey plc and Bass Brewers.

Michael Queen

Independent Non-Executive Director and Chair of the Treasury Committee

Appointed August 2015

Michael is a chartered accountant and has spent 30 years in the alternative finance sector, having previously been CEO of 3i Group plc. He chairs Tideway's Treasury Committee. Michael joined the Board in 2015. He is currently a Non-Executive Director of Coller Capital, a member of the Advisory Board of CKGSB (a Beijing-based business school) and a Member of the Council at the University of Surrey. He has also served as a Non-Executive Director and Chairman of the Audit Committee of PA Consulting Group and was a member of the Prime Minister's Business Advisory Group.

Board Leadership, Transparency and Governance

The Board

NON-EXECUTIVE SHAREHOLDER DIRECTORS

Gavin Tait

Amber Infrastructure

Appointed May 2015

Gavin has 20 years' experience of developing and investing in global infrastructure and utility assets. He joined the Tideway Board in August 2015, representing Amber Infrastructure as a Shareholder Director. He is one of founding members of Amber Infrastructure, where he sits on the executive and investment committees. He has considerable infrastructure experience built-up over the last 20 years, including leading the Amber team investing in Cadent Gas Distribution (2017) and building a portfolio of six UK transmission assets (2011-2016). He joined Amber from Babcock & Brown and prior to that worked at ABN AMRO.

Andrew Cox

Allianz

Appointed March 2018

Andrew joined Allianz Capital Partners in 2016 and is responsible for all asset management activities for the direct infrastructure investment portfolio. Prior to joining Allianz, Andrew was a Senior Principal Investor and Asset Manager for 3i in its infrastructure team for nearly ten years, where he worked on a variety of infrastructure transactions, including 3i's investments in Anglian Water, Elenia Heat, Cross London Trains and Wireless Infrastructure Group. Previously he worked at Ambac and Schroders. Andrew has an MA in History from Gonville and Caius College, Cambridge.

Angela Roshier

DIF

Appointed September 2016

Angela is Partner and Head of Asset Management at DIF, which she joined in 2010. She oversees the asset management of DIF's portfolio of 140 mainly PPP and renewable energy assets. Prior to DIF, Angela was a member of the infrastructure teams at 3i Plc and Actis. Over the past 20 years, she has contributed to the origination and asset management of a wide variety of infrastructure assets in the public private partnership, water, oil tanking and railway sectors, both in Europe and emerging markets. She holds an MBA from London Business School and an MA from the University of Cambridge.

Alistair Ray

Dalmore Capital

Appointed May 2015

Alistair has worked in the infrastructure investment business for 19 years, including at Edison Capital, Noble Group, Merrill Lynch and 3i Infrastructure plc, where he was one of the founding members of the infrastructure team and involved in a number of transactions, including the acquisition of Anglian Water and purchase of stakes in Oiltanking GMBH.

Alistair joined the Board in August 2015. He is currently the Chief Investment Officer of Dalmore Capital, holds a Non-Executive Director role with CAF Bank and is a Director of Cadent Gas.

COMPANY SECRETARY

Valmai Barclay

Company Secretary

Appointed January 2018

Valmai was appointed Company Secretary and Legal Counsel of Tideway in January 2018. Prior to joining Tideway, Valmai worked both in-house and in private practice as a solicitor specialising in construction and engineering and she has been involved in a range of UK infrastructure and development projects. Valmai has an MA in Politics and an LLB, both from the University of Edinburgh.

Board Leadership, Transparency and Governance

The Board

EXECUTIVE DIRECTORS (ALSO PART OF EXECUTIVE COMMITTEE)

Andy Mitchell CBE, FREng
Chief Executive Officer
Appointed August 2015

Andy was appointed CEO after leaving Crossrail in 2014, where he was Programme Director and a member of the Board. Andy has managed a number of high-profile projects in the UK and overseas. After 12 years working in the United Arab Emirates, France and South Africa, and on major developments such as Hong Kong Airport and the Hong Kong West Rail, he joined Network Rail in 2001.He was Project Director for Network Rail's Southern Power Upgrade project and the Senior Programme Director of the Thameslink Programme. Andy is a Fellow of both the Royal Academy of Engineering and the Institute of Civil Engineers and until recently chaired the Infrastructure Client Group and the Infrastructure Industry Innovation Platform (i3P). He holds a degree in Civil Engineering from Imperial and an MBA in Project Management from Henley.

Mark Corben
Chief Financial Officer
Appointed August 2015

Mark joined Tideway in February 2014 and was appointed Chief Financial Officer (CFO) in July 2014. Mark has 17 years' investment banking experience in corporate finance, mergers and acquisitions and capital raising. Prior to joining Tideway, he advised Thames Water on the development of the delivery model for Tideway. He qualified as a chartered accountant with Price Waterhouse in 1996.

Mark has announced his intention to step down in 2018.

Mark Sneesby
Chief Operating Officer
Appointed August 2015

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

EXECUTIVE MANAGEMENT TEAM

Operating under the direction of the CEO, the Executive management team is responsible for overseeing the day-to-day management of Tideway, recommending business development strategies to the Board and implementing the Board's strategy.

The Executive management team has been assigned responsibility for each of the KPIs outlined in the Strategic Report on pages 36 to 58.

In addition to the Executive Directors, the Executive management team comprises the following individuals:

Andy Alder

Programme Delivery Director

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

Roger Bailey

Chief Technical Officer

Roger joined Tideway in 2012. He is a Fellow of the Institution of Civil Engineers with more than 30 years' experience in the planning, design and construction of complex infrastructure projects in the UK and internationally.

Julie Thornton

Human Resources Director

Julie joined the project in October 2013. Her corporate career started over 25 years ago with IBM, where she was Head of HR for Global Services in the UK, before moving to Citibank Private Bank, where she was VP for HR in EMEA in Geneva and London. Before joining Tideway she held a number of senior interim roles across sectors including Business Services, Oil & Gas and Construction.

Lucy Webster

External Affairs Director

Lucy has held a number of senior communications roles in the transport, housing and regeneration sectors. She spent six years at Transport for London and also worked on the preparation phases for the London 2012 Olympic Games, including planning and land assembly. Lucy joined Tideway in September 2016 from Metropolitan, a large housing provider.

Celia Carlisle

General Counsel

Celia joined the project in September 2013, having previously held the role of General Counsel at the Olympic Delivery Authority. She has over 20 years' experience advising on major infrastructure projects and their financing. Celia is a council member of the London Board of the CBI.

Steve Hails

Health, Safety and Wellbeing Director

Steve joined Tideway in June 2016 after gaining over 20 years' experience working in the construction, engineering and manufacturing sectors, including his previous appointment as Director of Health and Safety on Crossrail. Steve is Chair of the Board of Trustees of Mates in Mind, a Chartered Member of the Institute of Occupational Health & Safety, a Practitioner Associate Member of the Institute of Environmental Management & Assessment, and as of April 2018, the first Honorary Fellow of the British Occupational Hygiene Society.

Board Leadership, Transparency and Governance

The Role and Responsibilities of the Board

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. The Board is collectively responsible for Tideway's long-term success and for delivering sustainable value to Shareholders, customers and other stakeholders. It sets Tideway's strategy and risk appetite in all significant areas of Tideway's operations and approves and monitors management's plans for achieving Tideway's strategic objectives and targets, including risk mitigation.

Important aspects of Tideway's business are subject to scrutiny by the Board committees, namely the Audit, Treasury, HSSE, Nomination, Remuneration and Risk committees. Descriptions of the committees' terms of reference and activities are set out on pages 84 to 103 of this report.

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

Certain decisions are reserved to the Shareholders for ultimate approval and these are set out on page 107 of this report. Nevertheless, the Board considers all such issues and advises the Shareholders as appropriate. The Board retains responsibility for Tideway's overall direction, supervision and management.

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

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

During the year, the Board has focused on operational delivery, succession planning, risk management and financing. The Board's key activities for 2017/18 are set out in the table below. Cross references refer to the Strategic Report.

Board activity in 2017/18

Leadership and employees

- Reviewed and discussed the health, safety and wellbeing of employees
- Reviewed the composition of the Board and its committees and considered succession planning
- Approved the appointments of John Holland-Kaye and Andrew Cox to the Board
- Reviewed and discussed executive succession plans
- Discussed employee engagement, reward and pensions

Cross Reference: Company and People. See pages 52 to 56

Strategy and performance

- Reviewed and approved Tideway's vision and values
- Reviewed and approved the Annual Business Plan and Budget
- Discussed strategic priorities, including the target programme
- Reviewed and discussed management's monthly operational performance reports

Cross Reference: Vision and Strategy. See pages 22 to 25

Governance

- Reviewed and debated the Board's risk appetite and, in particular, the principal risks
- Reviewed and discussed the effectiveness of the risk management and internal control systems
- Reviewed and approved the schedule of delegated authorities
- Reviewed the terms of reference for the Audit, Nominations, Risk, Treasury and HSSE Committees
- Received post-meeting reports from the Chairs of each committee, summarising discussions and actions
- Reviewed updates on changes and developments in corporate governance and the implementation of any changes required
- Reviewed and approved the 2018/19 Assurance Plan and its integration with the Compliance, Assurance and Review Group
- Reviewed and discussed the evaluation of the Board, its committees and individual directors, including approving the appointment of Optimus Group to undertake an external evaluation
- Reviewed and discussed conflicts of interest

Regulation

- Reviewed and discussed regulatory developments, strategy and consultation responses
- Reviewed and approved the Regulatory Report and Accounts and the Revenue Statement, prior to submission to Ofwat
- Reviewed and discussed Licence compliance

Cross Reference: Regulatory Reporting. See pages 137 to 164

Financing

- Reviewed and approved the Financing Plan
- Reviewed and approved the update of Tideway's multi-currency programme for bond issuance and new Green Bond Framework
- Reviewed and approved the issue of £650m of bonds under the programme, including a £250m debut public issuance and £450m of green bonds
- Reviewed and approved the issue of £300m of US private placement loan notes and associated hedging
- Reviewed and approved the Treasury Policy
- Reviewed and approved the Cash Management Policy

Cross Reference: Financing. See pages 56 to 59

Financial reporting and taxation

- Reviewed and approved the Annual Budget
- Reviewed and approved the half and full-year financial statements
- Reviewed the monthly management accounts

Cross Reference: Financial Statements. See pages 111 to 135

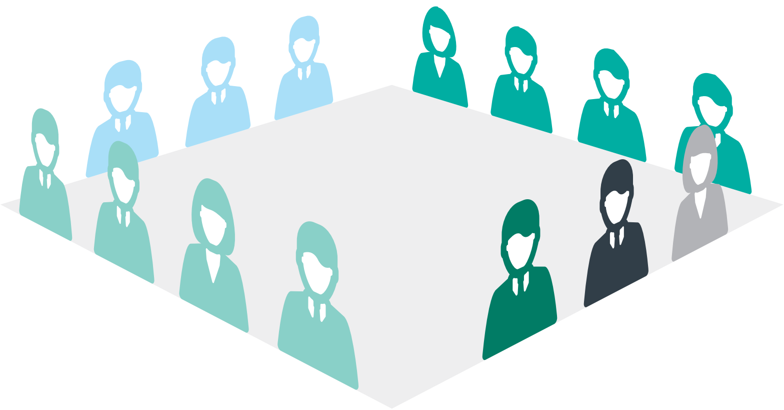
Board Leadership, Transparency and Governance

Board Composition

THE BOARDROOM TABLE

An additional Independent Non-Executive Director, John Holland-Kaye, was appointed to the Board in 2017. The Board now comprises 13 Directors, ten of whom are Non-Executive. Six of the Non-Executives are independent, including the Chairman of the Board, Sir Neville Simms.

John Holland-Kaye's appointment has enhanced the balance of skills, experience, independence and knowledge at Board level, and strengthens further Tideway's compliance with Ofwat's requirement that the Independent Directors (including an independent Chair) be the largest single group on the Board.



Chairman x1
Deputy Chairman x1
Independent NEDs x4
Shareholder Directors x4
Executive Directors x3
Company Secretary x1

BOARD COMPOSITION

Male
79%

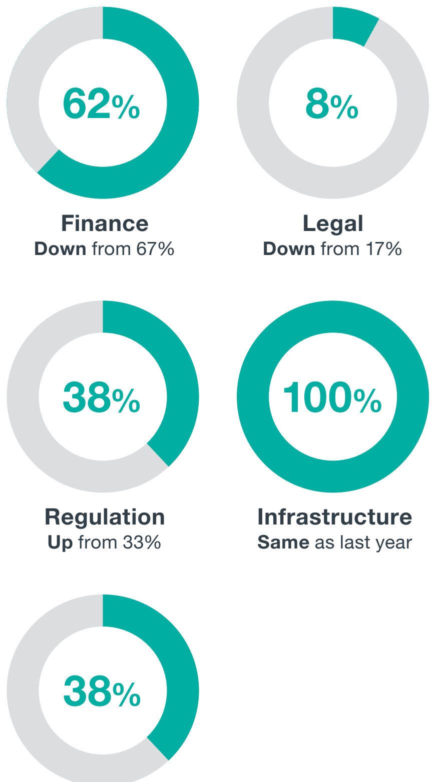
Female
21%

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

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

SECTOR EXPERIENCE

The Board as a whole has a wide range of substantial experience, including financial, legal, operating and regulatory experience in the construction, banking and infrastructure sectors. We will continue to keep the range of skills and experience represented on the Board under review and will look, from time to time, at refreshing the Board to ensure the sector experience represented there appropriately reflects the current phase of the project and its related operational needs.



Changes to the board

There were two appointments and one resignation during 2017/18, as set out below.
The experience of all the Directors in place at the year end can be found on pages 68 to 72.

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

The Nominations Committee considers the desired experience and competencies of new Non-Executive Directors and reports these criteria to the Board, before a decision is taken. During the year, the Board appointed two Non-Executive Directors: Andrew Cox replaced Jaroslava Korpanec as the Allianz Shareholder Director and John Holland-Kaye was appointed as an additional Independent Non-Executive Director, increasing the number of Independent Non-Executive Directors (excluding the Chairman) from four to five.

All of the Independent Non-Executive Directors have letters of appointment and they have one to three-year terms. Each has confirmed that they are able to allocate sufficient time to Tideway to discharge their responsibilities effectively. The Board reviews each Independent Non-Executive Director's performance before the term of their appointment expires, and agrees reappointment provided they are performing well. The Independent Non-Executive Directors' terms and conditions of appointment are available for inspection upon request to the Company Secretary.

The Executive management team has three women from a total of ten members, representing 30 per cent of the total. The Board (including the Company Secretary) has three women from a total of 14. We note that over the course of the year the proportion of women at Board level has decreased from 31 percent in 2016/17, to 21 percent in 2017/18. Tideway's diversity policy, objectives and progress to date are set out in the Performance Review section of this Annual Report. We remain committed to working toward gender parity at all levels of the organisation, including at Board level.

Board Leadership, Transparency and Governance
Board Composition

DIVISION OF RESPONSIBILITIES WITHIN THE BOARD

The roles of Chairman and CEO are separate and clearly defined. The Chairman's primary role is to provide independent oversight and governance as leader of the Board, while the CEO is responsible for all of Tideway's operations, as leader of the Executive team. The Non-Executive Directors and Executive Directors also have clearly defined roles, as described below.

The Role of the Chairman

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

The Chairman's key functions are to:

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

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

The Role of the Chief Executive Officer

The CEO is responsible for Tideway's leadership and operational management, within the Annual Business Plan approved by the Board. He is supported by the CFO, COO and six other direct reports on the Executive team. The CEO's key functions are to:

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

The role of Non-Executive Directors

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

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

The role of the Senior Independent Non-Executive Director

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

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

The role of the Executive Directors

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

The COO is responsible for delivering the project through the Main Works Contractors and the Alliance, working closely with the CEO and CFO.

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

BOARD DEVELOPMENT, CONFLICTS AND EVALUATION

Development

On appointment to the Board and committees, all Directors receive an induction tailored to their requirements. The induction, which is designed and arranged by the Head of Human Resources in consultation with the Chairman, includes meetings with Directors, senior management and key external advisors, to help Directors build a detailed understanding of how Tideway works and the key issues it faces. Directors are also encouraged to visit construction/work sites to see Tideway's operations first hand.

The Chairman periodically reviews and agrees training and development needs with each Director. All Board members participate in company-wide HSSE training.

During the year, the Board received regular detailed presentations and updates from both staff and external advisors on topics including health and safety, main works contracts, external affairs, project and programme manager activities, key construction sites and industry and supply chain updates. These sessions ensure that Non-Executive Directors know and understand the business and the external legal and regulatory environment relevant to Tideway, so they can contribute effectively at Board meetings. The Board carried out its most recent site visit to Kirtling Street, one of the main drive sites located in the Central section of the project, in early 2018.

Information and Support

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

The Company Secretary advises the Chairman on all corporate governance matters.

Conflicts of Interest

The Shareholders' Agreement and Tideway's Articles of Association set out a process for identifying and managing actual or perceived conflicts of interest. The Company Secretary requests that all Directors complete a Declaration of Interest Form every six months and Directors are expected to raise any potential, actual or perceived conflicts as soon as they arise, so the Board can consider them at the next available opportunity. The Company Secretary holds a register of all declared interests and conflicts.

Board Leadership, Transparency and Governance
Board Composition

Board Evaluation

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

As noted above, in compliance with the Code, for the last two years we have conducted annual reviews of the performance of the Board and its committees, carried out internally, led by the Chairman, Deputy Chairman and Company Secretary. This year, in keeping with the guidance provided under the UK Corporate Governance Code, an independent external facilitator, Optimus Group Limited, was appointed to carry out a performance evaluation of the Board, its committees and individual Directors. Its review included attendance and observation at Board and Committee meetings in March, and access to supporting materials to assist the evaluator's understanding of how the Board and its Committees operate. In addition, tailored interviews were conducted with each Director based on their individual responses to a detailed questionnaire and further interviews carried out with the Company Secretary and Legal Counsel. Finally, a mapping exercise was undertaken to analyse the Board's performance against the Code, the Ofwat principles for board leadership, transparency and governance, and the Walker Guidelines for Disclosure and Transparency in Private Equity.

Optimus Group Limited provides no other services to Tideway.

The overall conclusion from this year's evaluation was that the Board has a high standard of corporate governance and there were no significant points to raise. All areas of the review show that Tideway has complied with the corporate governance codes (as listed above) that it adopts, and in the limited areas where the Board has decided not to fully adopt the codes, there are clear explanations as to why not.

As last year, the Board does not have a majority of Independent Non-Executive Directors (excluding the Chair), in contravention of the recommendations of the Corporate Governance Code. The Independent Non-Executive Directors form the largest sub-group of the Board (as recommended by Ofwat for privately owned water companies) and, taken with the Chair and the Executive Directors, can out-vote the Shareholder Directors on Board reserved matters. It is considered to be in the interests of the Company for the senior executives and each Shareholder to be represented on the Board, and the numbers associated with ensuring a majority of Independent Non-Executive Directors in those circumstances would make the Board unwieldy and unduly costly.

Levels of participation and openness in Board and Board Committee meetings were observed as being good and also that care was taken to ensure all Board members have an opportunity to contribute to discussions. The Directors reported professional and candid boardroom behaviours and commented favourably on the openness of the Company and comprehensive Board and Committee papers.

A number of recommendations have been made to enhance compliance with the codes. These include:

- more regular reviews of policies and responsibilities;
- putting in place a succession road map, particularly for the Chairman and Independent Non-Executive Directors, that reflects the skills and expertise likely to be required for the remaining phases of the project and the Company's future;
- having periodic informal meetings of the Directors to encourage discussion outside formal Board and Committee meetings;
- regular reviews and updates of induction and training for Board members;
- declaration of Directors' interests as part of the standing Board agenda; and
- improved summaries of the topics that are tabled at meetings.

At the time of writing, the final evaluation report and recommendations have yet to be reviewed by Board members, but the Board will be given an opportunity to discuss the findings of the evaluation in detail at our next Board Meeting, in June 2018. Progress against the recommendations made in this year's evaluation will be reported in full in our Annual Report for the financial year 2018/19.

Board Leadership, Transparency and Governance

Board Committees

Board Committee Structure
With each Board Committee chaired by an Independent Non-Executive Director.

The Board has established six Board committees, which are described in more detail in this section. The committees meet regularly during the year, in accordance with an agreed schedule. All Non-Executive Directors are permitted to attend committee meetings, in addition to the committee members. While the Executive Directors are not members of the Board committees, they are invited to attend the majority of meetings.

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

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

Directors' attendance at the scheduled Board and committee meetings for the year is summarised in the table overleaf. A number of other Board meetings and telephone conferences were also held during the year as required, including dinners to informally share views and consider issues affecting Tideway.

This aerial shot features Tideway's sites at Albert Embankment, Heathwall Pumping Station and Kirtling Street

Board Leadership, Transparency and Governance

Board Committees

	Board	Audit Committee	HSSE Committee	Nomination Committee	Remuneration Committee	Risk Committee	Treasury Committee
Total meetings held in period:	**8**	**3**	**2**	**1**	**4**	**3**	**8**
Sir Neville Simms	8	-	1	1	4	3	4
Richard Morse	8	3	-	1	3	3	7
Anne Baldock	8	2	-	1	4	1	7
Mark Fairbairn	8	1	2	1	4	3	6
Michael Queen	8	3	-	1	1	3	8
Alistair Ray	8	-	1	1	4	2	7
Angela Roshier	8	-	2	1	3	3	7
Gavin Tait	6	2	2	1	1	2	8
Andy Mitchell	8	3	2	1	2	3	7
Mark Corben	8	3	1	-	-	3	8
Mark Sneesby	8	2	2	-	-	3	-
Attendance by Director appointed during the period:							
John Holland-Kaye	3	-	1	1	1	1	-
Andrew Cox	1	-	-	-	1	1	-
Attendance by Director who resigned during the period:							
Jaroslava Korpanec	6	1	-	-	2	1	6

Board Leadership, Transparency and Governance

Board Committees

RISK COMMITTEE

Introduction by Mark Fairbairn OBE, Risk Committee Chairman

The Risk Committee is currently made up of three Independent Non-Executive Directors and two Shareholder Directors. I have chaired the Committee since Tideway was established. Together, the Committee members have an appropriate balance of risk management experience and a deep understanding of Tideway's business and the infrastructure sector, including my own experience running regulated gas and electricity utilities, both in the UK and USA.

All members of the Board are entitled to attend our meetings and we invite the Head of Internal Audit to attend our scheduled meetings. In a full financial year, the Risk Committee is expected to meet at least three times or otherwise as required.

In 2017/18, the Committee scheduled three meetings to 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. The scheduled meetings are aligned to Tideway's risk reporting schedule and allow sufficient time for full discussion of key topics, enabling early identification and resolution of risks and issues that could arise.

Membership of the Risk Committee 2017/18
Mark Fairbairn (Chair)
Andrew Cox (appointed March 2018)
John Holland-Kaye (appointed July 2017)
Jaroslava Korpanec (resigned March 2018)
Richard Morse
Michael Queen
Alistair Ray

Role of the Risk Committee

The Risk Committee reviews and reports to the Board on risk management (including mitigation) and internal control. This includes determining the nature and extent of the principal risks Tideway faces. Details of our principal risks can be found in the Risk Management section of the Strategic Report. Tideway also has an executive-level risk committee (the Executive Risk Committee), chaired during the year by the CFO, which considers risk management matters in detail each month.

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

Main activities of the Risk Committee during the year

The Committee's work followed an agreed annual plan, reflecting the mobilisation of works on site and subsequent preparation for tunnelling activity. The CFO and Company Secretary assisted the Committee Chairman in planning the Committee's work and ensured that the Committee received information and papers in a timely manner.

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

- **Risk appetite monitoring**
  The Committee received regular detailed reports on key risk exposures, emerging and potential risks, and the drivers of risk throughout Tideway. It assessed and challenged the appropriateness of Tideway's overall risk appetite and approved the principal risks described on page 26 to 31 of this Annual Report.
- **Risk management and governance**
  The Committee received a series of reports from the Executive Risk Committee, covering the risk environment and the issues arising in the three main construction areas. The Committee also received quarterly risk reports presented by Tideway's Head of Risk Management. These included the principal and corporate risks, the potential impact on cost and schedule and the mitigations in place. In addition, the Committee considered the risk retirement profile presented by management.
- **Internal controls**
  Working with the Audit Committee, the Committee monitored the adequacy of the risk management framework, including internal controls.
- **Risk Reviews**
  The Committee made extensive use of "deep dives" into key areas of the business, to ensure that the risk management process was embedded in the business and to allow the Committee to review the detailed risks being identified and managed. These deep dives covered the key programme areas (East, West and Central) and System Commissioning, and were presented by the relevant Delivery Managers, allowing the Committee to challenge and discuss key risk and mitigation strategies.
- **Long-Term Viability Statement**
  The Committee considered management's approach and recommendations relating to the Long-Term Viability Statement, for adoption by the Board and inclusion in the Annual Report and Accounts.

Review of the Risk Committee's effectiveness

Previous internal Board evaluation exercises confirmed that the Risk Committee was working effectively. This year's externally led Board evaluation included an observation of the Risk Committee. The Board will review the evaluator's findings at our next Board Meeting, in June 2018, and progress against the recommendations made in this year's evaluation will be reported in our next Annual Report.

Board Leadership, Transparency and Governance
Board Committees

NOMINATION COMMITTEE

Introduction by Sir Neville Simms FREng, Chair of Nomination Committee
The Nomination Committee is currently made up of four Independent Non-Executive Directors and three Shareholder Directors. A majority of members are therefore Independent Non-Executive Directors. I have been the Committee Chairman since Tideway was established. I have chaired a number of construction industry bodies and along 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.

In a full financial year, the Nomination Committee would be expected to meet at least once or otherwise as required. In 2017/18, the Committee scheduled two meetings, to assist the Board by:

- reviewing Company succession planning and talent management;
- understanding the current bench strength of the executive management team; and
- conducting a rigorous and transparent process when recommending or renewing the appointment of Directors to the Board.

Membership of the Nomination Committee 2017/18
Sir Neville Simms (Chair)
Anne Baldock
Andrew Cox (appointed March 2018)
Jaroslava Korpanec (resigned March 2018)
Richard Morse
Michael Queen
Alistair Ray
Angela Roshier

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

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

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

Main activities of the Nomination Committee during the year
During 2017/18, the Committee was principally focused on Board succession, renewing the Independent Non-Executive Director appointments and recruiting a new Non-Executive Director, as part of the continual cycle of refreshing the Board. These matters are discussed below.

- Board succession and the retention and development of staff;
- renewing Independent Non-Executive Director appointments;
- Non-Executive Director appointment;
- diversity; and
- other activities.

Following the decision by Tideway's CFO, Mark Corben, to step down, the Committee commissioned a search and expect to announce a replacement who will join in autumn 2018.

Review of the Nomination Committee's effectiveness
Previous internal Board evaluation exercises confirmed that the Nomination Committee was working effectively. This year the performance of the Nomination Committee has been reviewed as part of the externally-led Board and committee evaluation process. Its recommendations will be discussed with Board members at our next Board Meeting, in June 2018, and subsequent actions arising from the evaluation will be reported in our next Annual Report.

TREASURY COMMITTEE

Introduction by Michael Queen, Chair of the Treasury Committee
The Treasury Committee is currently made up of four Independent Non-Executive Directors and four Shareholder Directors. I have been the Committee Chairman since Tideway was established. The Committee members have an appropriate balance of financing and treasury experience, with a deep understanding of Tideway's business and the infrastructure sector. This includes my own experience as a chartered accountant, with 30 years in the alternative finance sector.

All members of the Board are entitled to attend our meetings and we invite the members of the Treasury function to attend our scheduled meetings.

In a full calendar year, the Treasury Committee is expected to meet at least three times, with additional ad hoc meetings as required. In 2017/18, the Committee held four planned meetings and several ad hoc meetings. The ad hoc meetings related to the significant financing activities undertaken by the business throughout the year.

Membership of the Treasury Committee 2017/18
Michael Queen (Chair)
Anne Baldock
Mark Fairbairn
Richard Morse
Andrew Cox (appointed March 2018)
Jaroslava Korpanec (resigned March 2018)
Alistair Ray
Angela Roshier
Gavin Tait

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

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

Main activities of the Treasury Committee during the year
The Treasury Committee meetings held in 2017/18 considered the following key areas:

- issue of private placement loan notes to US investors;
- update of Tideway's multi-currency programme for the issuance of bonds;
- review of the Green Bond Framework;
- consideration of distribution payments to Shareholders;
- investor relations and reporting;
- a regular review of financing market conditions;
- counterparty exposure limits; and
- future cash flow and liquidity requirements.

Review of the effectiveness of the Treasury Committee
Previous internal Board evaluation exercises confirmed that the Treasury Committee was working effectively. The performance of the Treasury Committee has been reviewed this year as part of the externally-led Board and committee evaluation process. Its recommendations will be discussed at our next Board Meeting, in June 2018, and subsequent actions arising from the evaluation will be reported in our next Annual Report.

Board Leadership, Transparency and Governance

Board Committees

HEALTH, SAFETY, SECURITY AND ENVIRONMENT COMMITTEE

Introduction by Mark Fairbairn OBE, HSSE Committee Chairman

The HSSE Committee is currently made up of two Independent Non-Executive Directors and three Shareholder Directors. I have chaired the Committee since Tideway was established and have significant experience running safety critical regulated gas and electricity utilities, both in the UK and USA. Taken together, the Committee's members have an appropriate balance of health, safety, security and environmental experience, along with a deep understanding of Tideway's business.

All members of the Board are entitled to attend our meetings and we invite the Chief Technical Officer and Health, Safety and Wellbeing Director to attend our scheduled meetings.

In a full financial year, the HSSE Committee is expected to meet at least twice or otherwise as required. In 2017/18, the Committee had two scheduled meetings to assist the Board in its oversight, by reviewing the HSSE performance of Tideway and its key subcontractors.

All Committee members, as well as other members of the Board, are encouraged to visit sites individually and build their familiarity with progress and people on site. Committee members undertook various visits during the year, with HSSE matters always at the forefront of discussions.

Role of the HSSE Committee

Tideway has adopted a transformational health, safety and wellbeing programme and is committed to achieving the highest HSSE standards, using best practice and continual improvement. The Board acknowledges that effective HSSE performance starts from the top and that members of the Board have both collective and individual responsibility for HSSE. As such, the HSSE Committee has a key role in regularly reviewing, developing and overseeing consistent policy, standards and procedures for managing HSSE risks.

The HSSE Committee is responsible for reviewing Tideway's:

- HSSE strategy and objectives;
- significant actions relating to HSSE; and
- incident investigation reports and the close out of resulting actions for all incidents involving fatalities, and any other serious incidents as the Committee sees fit.

The CEO chairs Monthly Management Reviews, which include in-depth review of health, safety, wellbeing and environmental matters, which feed into the HSSE Committee.

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

Membership of the HSSE Committee 2017/18
Mark Fairbairn (Chair)
Andrew Cox (appointed March 2018)
John Holland-Kaye (appointed July 2017)
Jaroslava Korpanec (resigned March 2018)
Angela Roshier
Sir Neville Simms
Gavin Tait

Main activities of the HSSE Committee during the year

The Committee considered the following key areas:

- the Committee reviewed and approved its terms of reference;
- the Committee reviewed the HSW Strategy and recommended that the Board approve it;
- the Committee reviewed the corporate governance for HSW;
- the Committee reviewed the indicators which contribute to the evaluation of the MWCs' HSW performance;
- the Committee reviewed the HSW performance of the MWCs and Tideway during 2017/18; and
- the Committee reviewed the environmental performance of the MWCs and Tideway during the first six months of 2017/18.

Review of the HSSE Committee's effectiveness

Previous internal Board evaluation exercises confirmed that the HSSE Committee was working effectively. This year the performance of the HSSE Committee has been reviewed as part of the externally-led Board and committee evaluation process, the results of which will be discussed in detail at our next board Meeting, in June 2018, and progress against any recommendations will be reported in our next Annual Report.

Audit Committee Report

AUDIT COMMITTEE REPORT

Introduction by Richard Morse, Audit Committee Chairman

The Audit Committee is currently made up of three Independent Non-Executive Directors and two Shareholder Directors, which means that the majority of the Committee's members are independent. I have chaired the Committee since Tideway was established. The Committee members combine an appropriate balance of financial and accounting experience with a deep understanding of Tideway's business and the infrastructure sector, including my own 30 years' experience of infrastructure and energy transactions as an investment banker. Michael Queen and I are the Independent Non-Executive Director members of the Audit Committee with recent and relevant financial experience. Details of the Committee members' experience can be found in their biographies on pages 68 to 72.

All members of the Board are entitled to attend our meetings and we invite the Head of Internal Audit to attend our meetings.

In 2017/18, the Committee scheduled three meetings and held several informal meetings. The informal meetings related to the annual budget and business planning process and also to consider the harmonisation of wording on issues addressed both as part of the annual report and also the Company's Prospectus, associated with the raising of capital. The scheduled meetings are aligned to the financial reporting timetable and allow sufficient time for full discussion of key topics, enabling early identification and resolution of risks and issues that could arise. The external auditor, KPMG, attended parts of meetings, to present the approach to the annual audit and the overall audit findings, as well as to be available in person to answer any questions raised by members of the Committee.

Role of the Audit Committee

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

The Committee's main responsibilities are to:

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

The Committee's terms of reference are reviewed at least annually and referred to the Board for approval. The terms of reference include all matters covered by the Code. A copy is available on Tideway's website.

Membership of the Audit Committee 2017/18
Richard Morse (Chair)
Anne Baldock
Andrew Cox (appointed March 2018)
Jaroslava Korpanec (resigned March 2018)
Michael Queen
Gavin Tait

Main activities of the Audit Committee during the year

The Committee met formally three times in the year to 31 March 2018 and reported all of its activities, decisions and recommendations to the Board.

During the year, the Audit Committee considered:

- its own Terms of Reference;
- the plan, activities and effectiveness of the Internal Audit function;
- the appropriateness of the accounting policies;
- significant issues in respect of the 2017/18 financial statements;
- issues arising from the statutory and regulatory audits;
- the Company's approach to compliance and assurance
- the Company's approach to annual reporting; and
- the reappointment of the external auditor.

Significant matters considered by the Committee in respect of the 2017/18 financial statements

The Audit Committee considered a range of significant issues in relation to the financial statements. These issues tended to relate to judgements and accounting estimates that management made in preparing the financial statements and regulatory accounts. In addition, the Committee reconsidered the appropriateness of the accounting policies adopted for the year to 31 March 2018, including changes from the prior period. For the year ended 31 March 2018, the Committee reviewed the following key areas:

- analysis of accounting and tax considerations in relation to Tideway's evolving status, as it moves into construction;
- fraud risks related to management controls;
- 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.

Audit Committee Report
Continued

Internal control, risk and compliance

Tideway has an independent Internal Audit function that reviews the effectiveness of Tideway's risk management and internal control system throughout the year, to ensure its adequacy. The Committee ensures that Tideway achieves this through internal review and challenge and by considering the following:

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

Confidential reporting procedures and whistleblowing

Tideway continues to promote a culture of transparency and has a confidential whistleblowing policy and procedure for all staff, which has been widely advertised throughout Tideway. It covers a wide range of areas where malpractice could occur, such as health and safety, fraud, bribery, money laundering and other human resource related matters. Staff are encouraged to deal with any matters of concern with line management first. Where this is not appropriate, Tideway has a confidential whistleblowing reporting process with Crimestoppers.

The Head of Internal Audit acts as the Whistleblowing Officer, to monitor, investigate and report to the Committee on any concerns raised and the resulting outcome.

Internal Audit

Tideway employs an independent Internal Audit team to carry out risk-based reviews, giving the Committee assurance on the adequacy of the internal controls. The team's remit covers all risks and controls across the whole company. The Head of Internal Audit is considered independent of management and during the year 2017/18 reported functionally to the CFO and directly to the Chairman of the Audit Committee. With effect from 1 April 2018, the Head of Internal Audit reports functionally to the CEO. To help preserve the independence of the function, the Head of Internal Audit regularly meets the Chairman of the Audit Committee without executive management being present.

To ensure Internal Audit's independence and effectiveness, the Committee reviewed, challenged and approved:

- the Internal Audit function's policy and strategy;
- the planned programme of work;
- the adequacy of the team's resources and skills;
- the reports received from the Head of Internal Audit outlining areas of weakness, including the adequacy of management's responses and the actions undertaken; and
- progress against the approved programme of work.

Through this monitoring and an internal management assessment of the function, the Committee considers that Internal Audit is independent and effective.

In line with good practice, the Audit Committee has commissioned an independent effectiveness review covering the Internal Audit process, to be carried out in 2018/19.

Auditor appointment, independence and objectivity

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

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

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

- KPMG's planned approach to the audit of the financial statements, including planning materiality;
- KPMG's execution of the audit approach, including its assessment of key accounting issues, audit judgements and audit adjustments required; and
- the arrangements for the day-to-day management of the audit relationship.

This year, having reviewed the performance of the audit with the Executive team, the Committee concluded that it was satisfied with the overall quality of the audit process.

The Committee has also considered KPMG's independence to satisfy itself that the auditor is not compromised as a consequence of the non-audit services provided by the firm. During the period the Committee considered KPMG's objectiveness and independence, taking note of:

- KPMG's arrangements to identify, manage and report its own conflicts of interest; and
- the extent of, approval for and quality of the current and future non-audit services carried out by KPMG.

In this context the Committee noted that Ofwat required the auditor to perform services relating to the regulatory accounts; that a significant proportion of the non-audit fees related to auditor's opinions in support of bond issuance, which is customarily performed by the auditor; and that Tideway has stopped using KPMG for tax-related advice.

For the year ended 31 March 2018 the fees paid to KPMG were classified as follows:

	2018 £000	2017 £000
Non-audit services		
Review of interim financial information	8	8
Tax advisory services	0	68
Other regulatory assurance services	61	42
Total	**69**	**118**

In light of these considerations, and having noted the new EU Audit Regulations relating to non-audit services, the Committee considered KPMG to be sufficiently objective and independent to conduct the audit and duly approved the fees and activities for non-audit services performed by KPMG.

Accordingly, the Committee agreed to recommend KPMG's appointment as auditors for the 2017/18 financial year.

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

Review of the Audit Committee's effectiveness

Previous internal Board evaluation exercises confirmed that the Audit Committee was working effectively. This year performance of the Audit Committee has been reviewed as part of the externally-led Board and committee evaluation process. The results of the evaluation process will be discussed at our next Board Meeting, in June 2018, and subsequent actions arising from the evaluation will be reported in our next Annual Report.

This report was approved by the Board of Directors on 21 June 2018.

Richard Morse
Chairman of the Audit Committee

Remuneration Committee Report

STATEMENT BY THE CHAIR OF THE REMUNERATION COMMITTEE

Bazalgette Tunnel Limited aims to be a world-class employer, offering fair pay and terms to its employees and using its remuneration and employment policies to attract the best talent to work on each stage of the Tideway project. BTL is very conscious that it is expected to deliver the project to the highest quality standards but within the timeline set out in its Licence and also within budget, thus aligning the interests of customers (who are ultimately paying for the project through their water bills) with investors (who are funding the project).

A remuneration policy was established in 2015 with the aim of promoting individual and collective motivation to realise the company's objectives, over the short and medium term, with particular emphasis on achieving construction of the project, within budget but maintaining the required quality of delivery, particularly the health and safety of all those working on the project.

It is in the nature of a dynamic real-time multi-year construction project, requiring over its life a progression of skills and expertise that has to be sought from a competitive employment market, that the translation of Tideway's remuneration policy into individual remuneration and incentive packages for staff and senior management should be constantly reviewed and updated. This has been the case during the period under review, with the aim of retaining and incentivising the whole workforce, including the senior Executive team.

Each year, the Committee reviews the overall compensation and benefits for all employees and compares these to various market benchmarks. Comparators are provided to us by external consultants, Willis Towers Watson. This year, construction resources continue to be in demand across the country and particularly in London. Adjustments to base salaries have therefore been made to reflect external market changes and underlying increases in inflation. I would like to thank our Shareholders for their views and constructive input into this adjustment process.

During 2017/18, the Committee also undertook a thorough review of the Executive remuneration. The review was carried out by Willis Towers Watson who looked at comparable board level remuneration packages across the water sector and comparative size companies in general industry. As part of this review, the Committee is seeking to put in place a third tranche of the LTIP to encourage Handover and Acceptance of the Tunnel by Thames Water within the time frame anticipated at Licence Award. It is expected that the terms of this tranche will be finalised in the coming year and will compliment the LTIPs which were put in place in 2016 and which currently focus on the completion of the Tunnel by achieving key milestones, the first two of which are starting and completing tunnelling. Whilst speed of construction is still an important component of our incentivisation and reward strategy it does not override either health and safety or the quality of the finished tunnel which must be fit for purpose.

The Remuneration Committee's terms of reference were reviewed and approved in the year and can be found on the Company's website. Previous Board evaluation exercises confirmed that the Remuneration Committee was performing well. This year, the Remuneration Committee's performance has been reviewed as part of the externally-facilitated Board and committee evaluation process. Recommendations proposed by the evaluators will be reviewed by the Board at the next Board Meeting, in June 2018, and subsequent actions will be reported in our next Annual Report.

The Remuneration Committee comprises:

Membership	Responsibilities
Anne Baldock (chair) **Sir Neville Simms** **Richard Morse** **Jaroslava Korpanec** (resigned March 2018) **Alistair Ray** **Mark Fairbairn** **Angela Roshier** **Andrew Cox** (appointed March 2018) **John Holland-Kaye** (appointed January 2018)	These include: • setting the remuneration policy for all Executive Directors and the Company's Chairman, including pension rights and any compensation payments; • recommending and monitoring the level and structure of remuneration for senior management; • setting and reviewing the ongoing appropriateness and relevance of the remuneration policy; • commissioning external benchmarking to obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity; • recommending the design of, and determine targets for, any performance-related pay schemes operated by the Company and recommend the total annual payments made under such schemes; • recommending the policy for, and scope of, pension arrangements for each Executive Director and other designated senior executives; • ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and • overseeing any major changes in employee benefits structures throughout the Company.
Attendees	**Terms of reference**
The CEO attends the meetings for all business other than that relating to his own remuneration. Independent advisors attend meetings by invitation. The HR Director or nominated deputy acts as Secretary to the Committee. Other Non-Executive Directors have the right to attend if they so wish.	The Committee's full terms of reference have been approved by the Board and can be found on the Company's website.

REMUNERATION POLICY REPORT

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

In 2018 the terms of the phase 1 LTIP were slightly adjusted to ensure a more granular approach to the commencement of tunnelling and to more closely align it with the Company's objectives.

Willis Towers Watson has been appointed to provide independent salary and benefits benchmarking and consultancy to the Company to ensure that salaries and bonuses remain in line with market norms.

Remuneration Committee Report
Continued

PAY AND CONDITIONS FOR EMPLOYEES

Tideway continues to maintain its current position regarding pay and conditions, recognising that whilst the Company 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 ensure that the Company attracts and retains appropriate skills, experience and talent to achieve our aims. In certain areas there is a very competitive labour market and it is important for the project's success that we offer an attractive overall compensation package.

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

- Remuneration packages reflect the complexity and significance of one of Europe's largest infrastructure projects.
- Reward is based on total compensation, meaning base pay, bonus and benefits.
- Future increases in base pay are merit based by reference to market comparators. There is no right to annual increases – although an annual review will take place.
- Pensions are contributory into a defined contribution scheme, with contributions in line with market practice.
- All employees have a base level benefits package (covering holidays, pension, life insurance and private medical cover). Additional benefits are provided based on job level (such as car allowances and enhanced pension) 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. Save as set out below, maximum bonus opportunities for our staff range from 10-50% of salary dependent upon seniority and role.
- An additional bonus was implemented for executive managers in 2017, the structure of which mirrors LTIP 1 with a maximum award of 100% of base salary payable 50/50 over a period of at least two years.

Tideway has no collective agreements in place and salary increases are determined based on an individual's performance and internal and external relativities. We carry out external benchmarking each year, to review market changes in remuneration. The overall salary increase pot was 3 per cent in 2017/18. Future individual annual increase reviews will take place in April each year. The Remuneration Committee considers the same criteria for the annual pay award for employees as those used when considering any increase to base pay for Executive Directors.

Gender pay reporting for companies with over 250 employees has been introduced this year. Tideway, as at year end, employed 181 people and we are not, therefore, required to externally report on this issue. The Remuneration Committee has, however, reviewed the Company position and will continue to monitor this issue closely. Gender parity in terms of equal opportunities and equal pay for equal jobs remains a key policy for the company and we have set ourselves the target of having equal numbers of men and women employed on the project over time. We run Returner programmes to support individuals back into the workforce after a career break and support a range of activities within schools to encourage women in particular to take STEM subjects at school and university to try to redress the known gender imbalance in the engineering sector over time. The Company has and will continue to give all of these issues an increased focus in the coming years to try to ensure diversity of representation across all levels of the Company.

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 2018, are shown in the tables below.

Executive Director Base Salary arrangements	
Purpose and strategy	The overall remuneration package is set at a level designed to attract and retain Directors of the appropriate calibre, to reflect the organisation's size, complexity and external market competition.
Operation	The base salary of the Executive Directors is reviewed by the Remuneration Committee annually and is normally fixed for 12 months. There is no right to an annual increase. Increases are set by reference to: • individual performance; • internal and external comparators; and • market conditions.
Opportunity	Base salary increases are reviewed at the same time as those across the Company and will usually be in line with market increases. The Remuneration Committee will consider differences to this for the following reasons: • increase in scope or responsibility, including a promotion; • external market data showing that the salary is not competitive; and/or • the Remuneration Committee considering there to be a risk of not attracting or retaining executives.
Performance metrics	The individual's performance, external market and internal relativities will determine the salary level. Salary levels for the Executive Directors for 2017/18 are set out on page 102 of this report.

Remuneration Committee Report
Continued

Executive Director Annual Bonus Arrangements	
Purpose and strategy	Incentivises and rewards performance against annual targets, which support the Company's strategic direction and personal development.
Operation	Annual targets included Health, Safety and Wellbeing, project milestones, public perception, employee engagement, Shareholder return and Company credit rating, as well as individual personal targets. Targets are set annually by the Remuneration Committee and notified to the Board. The Remuneration Committee approves the assessment of achievement. All bonuses are discretionary and can be removed or adjusted at the Committee's discretion.
Opportunity	Maximum bonus opportunities are: CEO – 80% CFO – 60% COO – 60% Awards for 2017/18 were: CEO – 60% CFO – 48% COO – 48%
Performance metrics	See table below

	Requirement	2017/18 minimum	2017/18 stretch
Health Safety and Wellbeing	Delivery of transformational HSW	Safety record better than other recent major projects	Good/outstanding compared to other major projects
	HSPI	1.5	2.00
Schedule cost and quality	Maintain Programme	Hold December 2016 Schedule	Regain some slippage
	Maintain STB Reserve	£25m	£50m
Vision Legacy and Reputation	Public perception	Positive/balanced	Significant majority positive/balanced
Company and People	Employee engagement	63% positive	Higher percentage
	Employee Enablement	67%	Higher percentage
Financing	Shareholder return	In line with financing plan	N/A
	Company credit rating	Baa1/BBB+	N/A
	Cost Verification	99%	100%
Personal objectives	Achievement of personal objectives	As per individual plan	As per individual plan

These targets are shared with all staff

The Remuneration Committee has discretion to weight each of the above requirements as they see fit. The Committee has assessed that the Company achieved overall 75 per cent of its goals.

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

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

EXPLANATION OF PERFORMANCE METRICS CHOSEN

This was the year when the Company had identified the need to commence significant construction on 19 sites. This included mobilisation, the building of coffer dams, the sinking of shafts and other activities, to ensure the commencement of tunnelling in line with agreed project milestones. The metrics chosen were designed to ensure that all staff members remain engaged on the key drivers for the project for the year to remain on budget and on time whilst underpinning the Company's core values of transformational health and safety, stakeholder engagement and building a solid financial base from which to move forward.

Company targets for Executive Directors are 50 per cent of the bonus opportunity, with individual targets making up the other 50 per cent, whilst for other employees the split is 25 per cent Company targets and 75 per cent personalised targets. Individual targets focus on all areas of the Company, project delivery and personal development.

The Committee reviewed the annual bonuses for the Executive Directors in the year and based on external benchmarking data, have increased the bonus opportunity for the CEO from 80% to 100%, and for the COO from 60% to 80%. These will be effective from April 2018.

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

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

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

Executive Director Termination Policy	
Base salary + benefits	Payment made up to termination date.
Annual bonus	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.

Remuneration Committee Report
Continued

Executive Director LTIP Arrangements	
Purpose and strategy	To reward performance and delivery and retain Directors over the life of the project and right through to final commissioning and handover of the tunnel at completion.
Operation	The LTIP is split into three Tranches. Each Tranche is designed to try to encourage completion of the project as swiftly as possible, within budget and without compromising health and safety, or quality.
Opportunity	The LTIP is split into three Tranches. **Tranche 1** is awarded on the tunnelling start date 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 base salary in each of the following two years. **Tranche 2** is awarded on the tunnelling completion date (broadly defined as the date upon which all secondary lining is installed in the main tunnel and no further significant remedial works are required) and is payable over a two-year period. The maximum amount that may be paid under Tranche 2 of the LTIP is 150 per cent of base salary pertaining at the tunneling start date on the first available payroll occurring after award and 150 per cent (subject as set out below) of such base salary in the next following year. **Tranche 3** is yet to be determined but will be designed to reward good management of the completion and handover of the tunnel.
Performance metrics	The manner in which the award for the Tranche 1 LTIP is to be calculated has been adjusted slightly in recent months to reflect the changing needs of the project. As before, 100 per cent of the Tranche 1 LTIP will be awarded if the Remuneration Committee is satisfied that commencement of tunneling has started at all of the three main drive sites and a certain distance of tunneling has occurred before a specified date (the Pre LAD) occurring ahead of the date scheduled when the Company's Licence was awarded. The award will still reduce to nil if no tunneling has occurred by the date (the LAD) scheduled when the Company's License was awarded. It has recently been agreed that the calculation of the reduction between 100 per cent and 0 will now be calculated on a site by site basis. The award will reduce by 20 per cent for each site that has not started tunneling by LAD or such lesser percentage (calculated on a straight-line basis) per tunnel if tunneling commencement occurs between 'LAD and Pre LAD'.[1] The remuneration Committee have discretion to reduce the award by up to a further 20 per cent dependent upon the length of tunnel bored by the LAD. 100 per cent of the Tranche 2 LTIP will be awarded if the Remuneration Committee is satisfied that the tunnelling completion date has occurred on or before a specified dated falling ahead of the date scheduled when the Company's Licence was awarded. The award will reduce to nil if the tunnelling completion date has not occurred by the date scheduled as at Licence Award date and will reduce on a straight-line basis if the tunnelling completion date occurs between those two dates. The second tranche payment of the Tranche 2 award will be doubled to 300 per cent of the base salary pertaining at the tunnelling start date if a specified percentage of IRR is determined to be payable at project completion. The Remuneration Committee has discretion to reduce all or any tranche of the LTIP to zero for, inter alia, health and safety or regulatory breaches or malus.

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

POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

The chart below sets out the potential remuneration for Executive Directors in various bonus award scenarios. As no LTIP payment will be awarded in the next financial year, this has been excluded from the table.

	Fixed pay	Annual bonus
Minimum performance	Fixed elements of remuneration are base salary, benefits and pensions.	30 per cent 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 per cent of potential annual bonus achieved.
Maximum performance		120 per cent of potential annual bonus achieved.

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

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

Remuneration Committee Report

Continued

DIRECTOR'S CONTRACTS

The Executive Directors have employment contracts with six months' notice on either side. The Directors who held office during the period are listed on page 77 of the Governance Report.

The Independent Non-Executive Directors have service contracts with three months' notice on either side. Details of their appointment to the Board can be found on page 77 of the Governance Report.

REMUNERATION

The tables below show the total remuneration earned by each Director in 2017/18 and 2016/17.

Year ended 31 March 2018	Base salary & fees £'000	Taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Andy Mitchell (CEO)	435	14	261	10	720
Mark Corben (CFO)	300	11	149	10	470
Mark Sneesby (COO)	300	11	149	10	470
Sir Neville Simms	275				275
Richard Morse	90				90
Anne Baldock	54				54
Mark Fairbairn	54				54
Michael Queen	54				54
John Holland-Kaye	39				39

The CEO's base salary for the year ended 31 March 2018 included an annual increase pay award of 2.40 per cent. There was no change to the CEO's taxable benefits.

Year ended 31 March 2017	Base salary & fees £'000	Taxable benefits £'000	Annual bonus £'000	Pension contribution £'000[2]	Total £'000
Andy Mitchell (CEO)	425	13	281	10	729
Mark Corben (CFO)	293	11	170	10	484
Mark Sneesby (COO)	293	11	145	10	459
Sir Neville Simms	275				275
Richard Morse	90				90
Anne Baldock	54				54
Mark Fairbairn	54				54
Michael Queen	54				54

Fees for the Independent Non-Executive Directors have been set in line with the policy described, and were last reviewed in March 2017. It was agreed that no changes were required in the next financial year.

ARRANGEMENTS WITH THE CFO 2018/19

In November 2017 we announced that Mark Corben CFO would leave during 2018. The actual leave date will be determined by the Board once a successor has been appointed and an orderly handover has been affected. It was recognised that the current LTIPs which were granted to each Executive Director and which focus on the delivery of the actual Tunnel were not perhaps as directly appropriate for the CFO as they could be. Accordingly, a special performance bonus has been put in place for the CFO in 2017 to replace the previous LTIPs awarded. The purpose of the new bonus arrangements is to recognise the importance of the CFO at this stage of the Company's development in placing the Company on a secure financial footing and to incentivise and reward specific business objectives that pertain more closely to that role within the Company.

The performance criteria are:	
1	Delivering a plan to change the gearing from 65% to 68% whilst maintaining a credit rating of BBB+
2	Raising an additional £500m - £700m debt financing in line with the strategy
3	Successful management and handover of the finance function

The Remuneration Committee will determine the quantum of the bonus in its discretion; acting reasonably by reference to the stated criteria. It has discretion to reduce the bonus to zero if there is a significant health and safety or regulatory breach.

The maximum award that may be granted is £1,500,000. 75 per cent of the award is to be paid on leaving and 25 per cent is to be paid after that date, subject to agreed criteria being met.

Mark Corben has been instrumental in delivering the Company's financing strategy and as such leaves the project in a secure financial position to the end of construction. This has been a major achievement and I would like to thank Mark for his significant contribution.

The Board has undertaken a search for our new CFO and we expect to be able to announce an appointment shortly.

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 21 June 2018.

Anne Baldock
Chair of the Remuneration Committee

Board Leadership, Transparency and Governance

Relationship with Shareholders

OUR OWNERS

Tideway is owned by a consortium of investors. Further information on our equity investors and their equity interests as at June 2018 is shown in the table below.

Shareholder and Shareholding	Description
Allianz Infrastructure Luxembourg I S.a.r.l. 34.26%	The Allianz Group is a leading global financial services group, active in insurance and asset management. It has assets under management in excess of €1.8 trillion and a market capitalisation of over €80bn. The investment in Tideway is funded from the balance sheets of various Allianz Group insurance companies, with over 60 per cent coming from the German life insurance business.
Dalmore Capital 14 GP Limited 33.76%	Dalmore is an independent fund manager based in London, with over £3bn of investors' funds under management and a sole focus on the infrastructure sector. For its investment in Tideway, Dalmore established a single purpose fund which has secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors.
IPP (Bazalgette) Limited 15.99% Bazalgette (Investments) Limited 5.33% (Both Amber related entities)	Amber is a developer, financial adviser and manager of infrastructure projects. It looks after funds for more than 2,000 public and private sector investors and has assets under management of c. £8bn. It manages four infrastructure funds, including International Public Partnerships Limited (IPP), which is listed on the London Stock Exchange and has a market capitalisation of over £2bn. Amber manages the IPP and Swiss Life Holding AG (Swiss Life) investments in Tideway, which are respectively held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited. Swiss Life is the largest life insurance company in Switzerland, with a market capitalisation in excess of CHF 11bn.
DIF Bid Co Limited 10.66%	DIF is an independent fund management company with c. €5.5bn of funds raised. Through seven investment funds, DIF invests in high-quality infrastructure assets that generate long-term, stable cash flows, including public private partnership projects (PPP/PFI/P3), renewable energy projects and other core infrastructure projects in the telecoms, transport and energy sectors in Europe, North America and Australia. DIF Management Holding BV directly or indirectly owns and/or manages all of the DIF entities in the corporate structure above Bazalgette Equity Limited. DIF Management UK Limited is the topmost UK company in the DIF corporate structure. The source of DIF's share of equity funding for the project comprises long-term pension fund, insurance and fund of funds investors.

The Shareholders' Agreement entered into on Licence Award contains legally binding commitments to maintain an independent Board and ensure Tideway can make strategic and risk management decisions. Tideway's Board includes six Independent Non-Executive Directors (including the Chairman), which means that independent Directors are the largest single group on the Board. These appointments, together with the reserved matters requiring Board approval (see page 107), help ensure that the Board is independent, in control of the business and able to operate sustainably. The Shareholder Directors are the primary conduit by which the Board interacts with the Shareholders and understands their views, both individually and collectively.

TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is 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 is shown in Figure 1 and the role of each company is described in the table on the next page.

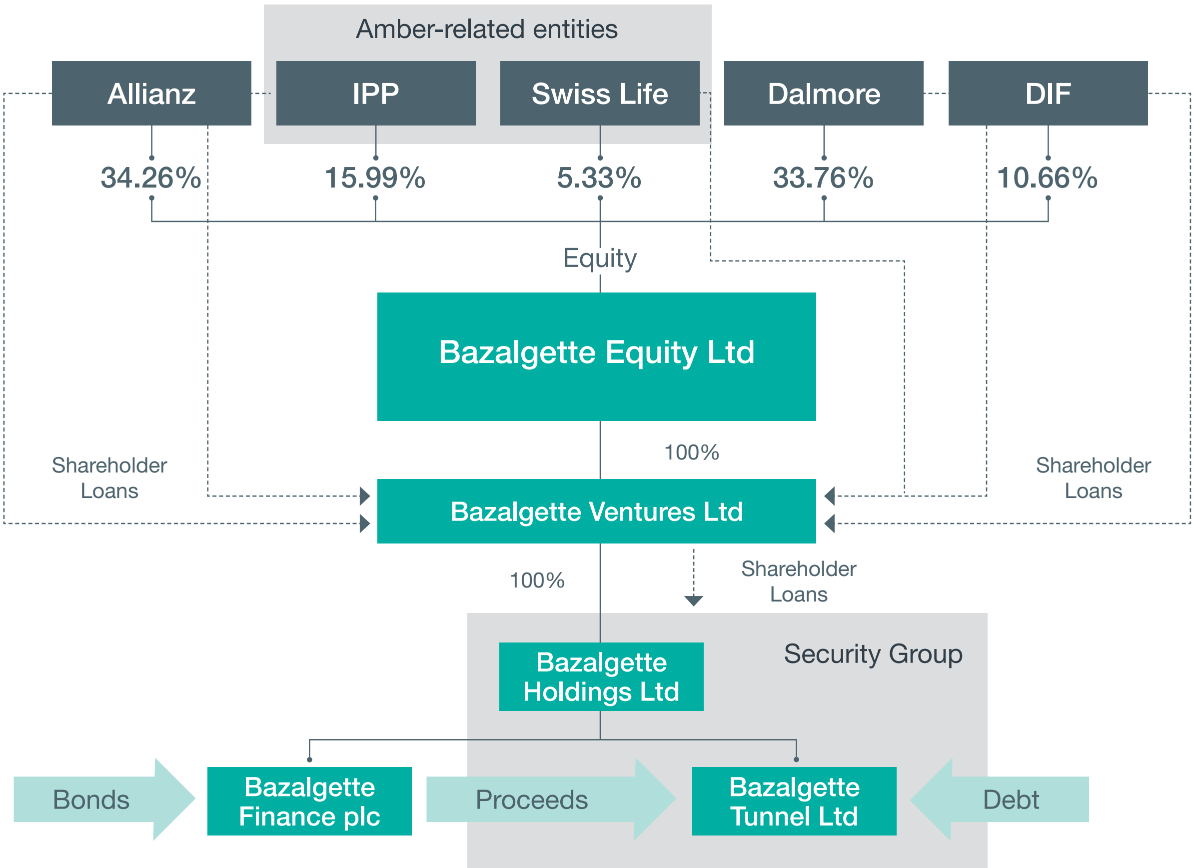


Figure 1:
Structure of the Tideway group of companies

Board Leadership, Transparency and Governance

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	09698014	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 will on-lend the proceeds of any bond issuance to Bazalgette Tunnel Limited.

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

RELATIONSHIP WITH SHAREHOLDERS

Each shareholder controlling 10 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 Chairman of the Board, but are not entitled to vote.

SHAREHOLDER RESERVED MATTERS

There are a limited number of matters reserved by the Board for approval by Shareholders. As set out in the tables below, these matters require the approval of Shareholders holding either 75 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. Although these matters are reserved to the Shareholders, the Board would expect to express a view to the Shareholders before any decisions were taken.

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

Directors' Report

The Directors present their report and the audited Company financial statements of Bazalgette Tunnel Limited (the Company) for the year ended 31 March 2018.

The registered company number is 09553573.

Ownership and relationship with associated Companies

Bazalgette Tunnel Limited is owned by a consortium of investors. These investors are Dalmore Capital 14 GP Limited, Allianz Infrastructure Luxembourg I S.a.r.l IPP (Bazalgette) Limited, Bazalgette (Investments) Limited and DIF Bid Co Limited (UK). Further information on our equity investors and their equity interests are set out on page 104 of the Corporate Governance Report. During the year, the process of voluntarily dissolving the Company's subsidiary Thames Tideway Tunnel Limited was started and was completed in April 2018.Thames Tideway Tunnel Limited's last day of trading was 31 March 2018.

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 on pages 9 to 15 of the Strategic Report.

Corporate governance

Full disclosure on the Company's corporate governance activities is set out on pages 67 to 107 of the Governance Report and is incorporated by reference into this Directors' Report.
This report can also be found online at www.tideway.london.

Financial results and dividends

Following the Company's accounting policies, all costs that meet the capitalisation criteria are capitalised and all revenue received is currently recognised as deferred revenue.
This accounting treatment is expected to continue throughout the construction phase of the project. The accounting policies are set out on pages 120 to 123 of the financial statements.

The Company recorded a £9.5m profit for the year ended 31 March 2018 (31 March 2017, here after referred to as "2017": £34.2m loss). This is due to fair value movements on the Company's derivative financial instruments.

The detailed financial results of the Company are set out in the Financial Performance Review within the Strategic Report on pages 59 to 63.

The Company did not pay any dividends in the year (2017: £nil).

During the year, £51.6m (2017: £29.3m) of shareholder loan interest was accrued on the shareholder loan notes.
At 31 March 2018, £51.6m (2017: £29.3m) of the accrued shareholder loan interest had been paid and £nil (2017: £nil) rolled up within the shareholder loans.
The shareholder loan notes bear an interest rate of 8 per cent, with maturity on 30 September 2064. 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 on pages 130 to 133 of the financial statements.

Directors

The Directors who held office during the year, and thereafter, are listed on page 77 of the Governance Report.

Directors' Indemnities

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

Employees

The average number of people employed by the Company (including Directors) during the year was 176 (2017: 148).

Details relating to the Company's employment policies and values are set out on pages 52 to 55 of 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 on page 48.

Charitable and political donations

The Company made charitable donations totaling £40,062 during the year (2017: £51,356). Details of the Company's charitable partnerships are set out on page 49 of the Strategic Report.

The Company did not make any political donations or incur any political expenditure during the year (2017: £nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Company's policy is to pay in accordance with these terms.
Other creditors are paid in accordance with invoice terms. The Company, along with its MWCs, supports the principals of the Construction Supply Chain Payment Charter. The Charter applies to all construction contracts with the aim of helping to create a more collaborative culture and ensure a strong, resilient and sustainable supply chain.

The creditor days for the year ended 31 March 2018 were approximately 21 days (2017: 17 days).

Events occurring after the reporting period

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

Disclosure of information to the auditor

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

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 58.

Auditor

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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

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

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

On behalf of the Board

Andy Mitchell
Director

Cottons Centre
London Bridge
London
SE1 2QG

21 June 2018

Annual Report and Financial Statements

For the year ended 31 March 2018
Registered number 09553573

Tideway's Chelsea Embankment Foreshore site can be seen in front of the Royal Hospital Chelsea

Financial Statements
Independent Auditor's Report

to the members of Bazalgette Tunnel Limited only

1. Our opinion on the financial statements is unmodified

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

In our opinion, the financial statements:

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

2. Basis for opinion

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

Overview		
Materiality: financial statements as a whole	£5.2m (2017: £3.0m) 0.98% (2017: 0.78%) of gross expenditure	
Coverage	100% (2017:100%) of company profit before tax	
Risks of material misstatement	**vs 2017**	
Recurring risks	Completeness and existence of capitalised costs and capital creditors	▲

3. Our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Fixed assets & capital creditors **Capitalised costs:** (£609.0 million; 2017: £384.6 million) **Capital creditors** Refer to pages: **90** Audit Committee Report **120** Accounting policy **126** Financial disclosures	**2017/2018 costs** The Company incurs significant annual expenditure in relation to the construction of the wastewater infrastructure asset. We do not consider the completeness and existence of capitalized costs and capital creditors to be at a high risk of significant misstatement. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which has the greatest effects on our overall audit strategy and allocation of resources in planning and completing our audit.	**Our procedures included:** **Control design:** • Testing controls over the payment/ cost verification process which includes observing that for a sample of payments they were agreed to certificates, the amounts matched the invoices received and payments by the company were authorised. **Test of detail:** • Inspecting a sample of invoices received before and subsequent to the year end to consider the timing of work performed and therefore whether costs and creditors have been recorded in the correct year. • For a sample of amounts capitalised in the year, inspecting the related invoices to assess that the amount had been incurred. • Comparing a sample of the claims from the independent project manager's assessment to the claims recorded by the company to assess completeness.

We continue to perform procedures over current and deferred tax charges. However, following clearance from HMRC we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the financial statements as a whole was set at £5.2m (2017: £3.0m), determined with reference to a benchmark of gross expenditure in the year, of which it represents 0.98% (2017: 0.78%).

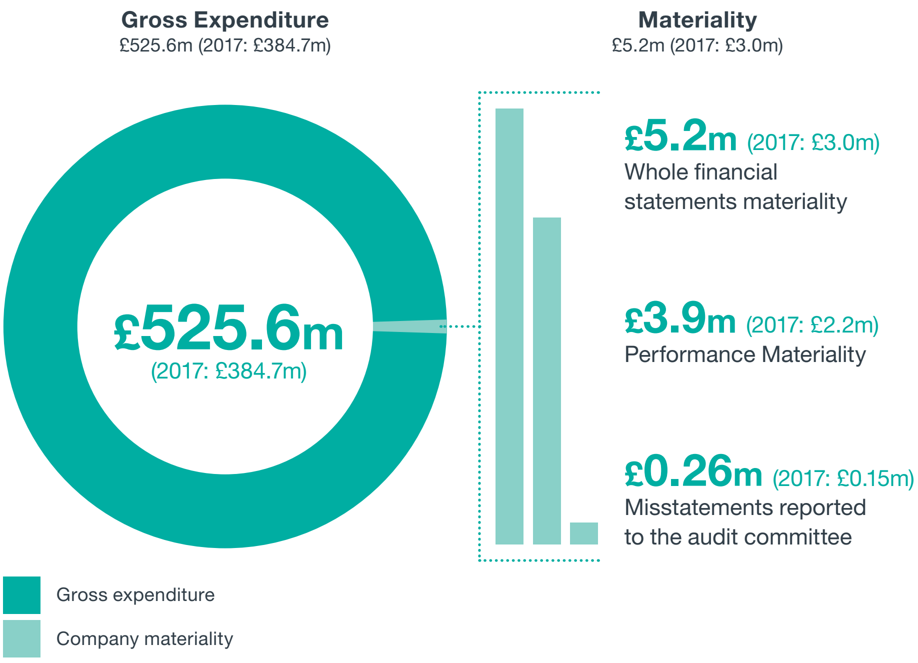
We consider gross expenditure to be the most appropriate benchmark as the company's main activity is the construction of the wastewater infrastructure asset, and as a result the focus of the company is on managing the level of gross expenditure in the project. We consider gross expenditure to be the PPE movement between 2017 and 2018.

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

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

5. We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.



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

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the long-term viability statement page 32 that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

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

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 109, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

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

Financial Statements

COMPANY INCOME STATEMENT

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Net operating costs	*2,3*	-	-
Operating result		-	-
Net finance income/(costs)	*4*	9.5	(34.2)
Profit/(loss) before tax		**9.5**	**(34.2)**
Taxation	*5*	-	-
Profit/(loss) for the year		**9.5**	**(34.2)**

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Profit/(loss) for the year		9.5	(34.2)
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to owners of the parent		**9.5**	**(34.2)**

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	*6*	1,154.9	545.9
Trade and other receivables	*7*	54.5	54.8
		1,209.4	600.7
Current assets			
Trade and other receivables	*7*	41.0	29.8
Cash and cash equivalents	*8*	838.3	315.9
Short-term deposits	*8*	57.5	-
		936.8	345.7
Total assets		**2,146.2**	**946.4**
Current liabilities			
Trade and other payables	*9*	(39.1)	(20.0)
		(39.1)	(20.0)
Non-current liabilities			
Advance payment liability	*9*	(53.5)	(26.7)
Borrowings	*10*	(1,538.1)	(529.3)
Derivative financial instruments	*11*	(24.7)	(34.2)
Other payables	*9*	(5.8)	-
		(1,622.1)	(590.2)
Total liabilities		**(1,661.2)**	**(610.2)**
Net assets		**485.0**	**336.2**
Equity			
Share capital	*12*	509.7	370.4
Retained earnings	*12*	(24.7)	(34.2)
Total equity		**485.0**	**336.2**

Notes 1 to 17 form an integral part of these financial statements. These financial statements were approved by the Board of Directors on 21 June 2018 and were signed on its behalf by:

Mark Corben
Director
Company registered number: 09553573

Financial Statements
Continued

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2016	138.3	-	138.3
Loss for the year	-	(34.2)	(34.2)
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**(34.2)**	**(34.2)**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	232.1	-	232.1
Total contributions by and distributions to owners	**232.1**	**-**	**232.1**
Balance at 31 March 2017	**370.4**	**(34.2)**	**336.2**
Balance at 1 April 2017	370.4	(34.2)	336.2
Profit for the year	-	9.5	9.5
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**9.5**	**9.5**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	139.3	-	139.3
Total contributions by and distributions to owners	**139.3**	**-**	**139.3**
Balance at 31 March 2018	**509.7**	**(24.7)**	**485.0**

COMPANY CASH FLOW STATEMENT

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities before working capital movements		-	-
Increase in trade and other receivables	*7*	(10.9)	(4.4)
Increase/(decrease) in trade and other payables	*9*	24.9	(8.4)
Increase in advance payment liability	*9*	26.8	26.7
Cash flows from operations		**40.8**	**13.9**
Net cash flows from operating activities		**40.8**	**13.9**
Cash flows used in investing activities			
Construction of infrastructure asset	*6*	(607.4)	(384.7)
Short-term deposits	*8*	(57.5)	17.5
Net cash flows from investing activities		**(664.9)**	**(367.2)**
Cash flows used in financing activities			
Proceeds from the issue of share capital	*12*	139.3	232.1
Proceeds from shareholder loans		208.9	348.3
Proceeds from new borrowings		822.1	-
Repayment of shareholder loan principal		(23.8)	(24.1)
Net cash flows from financing activities		**1,146.5**	**556.3**
Net increase in cash and cash equivalents during the year		**522.4**	**203.0**
Cash and cash equivalents at the start of the year	*8*	315.9	112.9
Cash and cash equivalents at the end of the year	*8*	**838.3**	**315.9**

Financial Statements
Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Bazalgette Tunnel Limited (the Company) is domiciled in the United Kingdom. The Company's registered address is Cottons Centre, Cottons Lane, London, SE1 2QG. The accounting policies set out below have been applied consistently to all periods presented in these company financial statements.

As at the 31 March 2018, the Bazalgette Tunnel group comprised the Company and Thames Tideway Tunnel Limited (TTT Ltd).

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements, as the Company and its subsidiary are included in the consolidated financial statements of Bazalgette Holdings Limited (the Group). These financial statements therefore present information about the Company as an individual undertaking and not about its group.

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The financial statements are prepared in accordance with the historical cost accounting convention except where adopted IFRS require an alternative treatment. Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Company's financial position.

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. The directors consider the significant judgements, estimates and assumptions made in the application of these accounting policies that have significant effect on the financial statements with a risk of material adjustment to the carrying amounts in the next year are as follows:

Impairment - In assessing the recoverable value of the Thames Tideway Tunnel asset, the directors are required to make judgements around the assumptions and estimates used to calculate the recoverable amount of the asset which is deemed to be the Company's Regulatory Capital Value (RCV). This is because the asset carrying value includes all attributable costs that are capitalised whereas the RCV, which is the driver of economic return for the Company, does not include financing costs such as capitalised borrowing costs.

The significant judgements that the directors are required to make include the reasonableness of the capital expenditure profile through to System Acceptance presented in the Company's business plans as well as assumptions included for RCV development through to System Acceptance. The indexation of RCV via RPI change is a key estimate and this calculation is based on an average of independent forecasts provided via HM Treasury.

Derivative financial instruments - A net present value model is used to estimate the fair value of the Company's derivative financial instruments which are all index-linked swaps. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Company's credit risk. This estimate of the Company's credit risk is considered to be an unobservable input and sensitivities with regards to the impact of this adjustment are disclosed in note 11.

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

Subsidiaries

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

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the long-term viability statement included in the Strategic report on page 34.

Property, plant and equipment

Recognition and measurement

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

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

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

The directors consider all expenditure in the year ended 31 March 2018 to have met the capitalisation criteria.

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

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

Depreciation

Assets under construction are not depreciated.

Borrowing costs

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

Impairment

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

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

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

Any impairment losses are recognised in the Income Statement

Revenue and bad debt risk

The Company's revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Company's RCV. The Company's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Company. Through the construction period, revenue is deferred as the services associated with this revenue will not be delivered 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.

In determining the accrued revenue earned in the period, the directors consider the value of revenues that will not be recovered through bad debt risk and subsequently the accrued revenue in the Statement of Financial Position is adjusted to reflect this.

Invoiced revenues reflect the actual cash collected by Thames Water from its customers and as such the bad debt risk is considered to be very low.

Employee benefits

Defined contribution pension plans

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

Other employee benefits

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

Provisions

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

Operating leases

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

Financial instruments

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

The Company determines the classification of financial instruments at initial recognition and re-evaluates this designation at each financial year end.

The initial and subsequent measurement of financial instruments depends on their classification as follows:

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

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

Borrowings

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

Derivative financial instruments

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

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

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

Further details of the derivative financial instruments fair values, valuation technique and fair value hierarchy level are disclosed in note 11.

Taxation

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

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

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

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

Recently issued accounting standards not yet applied by the Company

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

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

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

The Company has completed an impact assessment of the adoption of IFRS 9 and has concluded that on adoption of the new standard, impairment losses against financial assets under the simplified expected credit loss model would be immaterial and therefore the impact of adoption of the new standard is not likely to be significant.

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

The Company has assessed the impact of applying the five-step model under IFRS 15 and concluded that it will have no impact on the current treatment of revenue which is deferred during the construction phase of the project. Based on the completed assessment, the Company does not expect the application of IFRS 15 to have a significant impact on the Company's financial statements when it is adopted.

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

The Company has completed its initial assessment of the impact of applying the single recognition model for lessees and concluded that current operating property leases would fall under the scope of IFRS 16 at the date of transition. This would result in the Company recognising new right-to-use assets and lease liabilities on the Statement of Financial Position which are likely to increase assets and liabilities by approximately £10.3m.

The Company has assessed the three transition alternatives allowed under IFRS 16 and concluded that there would not be any material transition differences between each method in relation to the Company's potential IFRS 16 leases. The Company will continue to assess the impact of this standard as it approaches the adoption date.

Financial Statements
Notes continued

2 AUDITOR'S REMUNERATION

	2018 £'000	2017 £'000
Audit services		
Statutory audit - Company	67	81
Statutory audit - Subsidiary	-	2
Audit related assurance services		
Regulatory audit services provided by the statutory auditor	9	9
Other non-audit services		
Review of interim financial information	8	8
Tax advisory	-	68
Other regulatory assurance services	61	42
	145	**210**

All of these fees have been capitalised.

3 EMPLOYEE COSTS

The average number of persons employed by the Company (including directors) during the year was 176 (2017: 148). The aggregate payroll costs of these persons were as follows:

	2018 £m	2017 £m
Wages and salaries	18.9	12.9
Social security costs	2.4	1.5
Contributions to defined contribution pension plans	0.7	0.6
Capitalised into asset under construction	22.0	(15.0)
	–	**–**

Director's remuneration is disclosed within the Remuneration report section of this Annual Report.
The Company operates a single defined contribution pension plan which is open to all employees of the Company.

4 FINANCE INCOME AND COSTS

	2018 £m	2017 £m
Finance income		
Interest income	(2.3)	(1.0)
Finance costs		
Interest expense on borrowings	61.5	29.3
Financing fees	5.2	4.4
Financial instruments at fair value through profit or loss:		
– Index-linked swaps	(9.5)	34.2
Capitalised finance interest and expense into asset under construction	(64.4)	(32.7)
Net finance (income)/costs	**(9.5)**	**34.2**

5 TAXATION

	2018 £m	2017 £m
Total current tax	–	–
Total Income Statement tax expense	**–**	**–**

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit/(loss) before tax	9.5	(34.2)
Expected tax (charge)/credit using UK corporation tax rate of 19% (2017: 20%)	(1.8)	6.8
Items not taxable[1]	1.8	(6.8)
Total Income Statement tax expense	**–**	**–**

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

Unrecognised deferred tax assets

As at the Statement of Financial Position date, unrecognised deferred tax assets of £20.4m (2017: £12.0m) have been calculated with regards to the Company's tax losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

Financial Statements
Notes continued

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following at 31 March 2018:

	Asset under construction £m	Total £m
Cost		
At 1 April 2017	545.9	545.9
Additions	609.0	609.0
Balance at 31 March 2018	1,154.9	1,154.9
Accumulated depreciation		
At 1 April 2017	-	-
Depreciation charge	-	-
Balance at 31 March 2018	-	-
Net book value at 31 March 2018	**1,154.9**	**1,154.9**
Net book value at 31 March 2017	**545.9**	**545.9**

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the year ended 31 March 2018. The amount of net borrowing costs capitalised during the year was £59.2m (2017: £28.3m) with a capitalisation rate of 100%.

7 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Trade receivables	1.9	2.2
Intra-group loans receivable (see note 15)	8.1	0.1
Accrued income	3.3	-
Other receivables	18.9	17.7
Prepayments	63.3	64.6
	95.5	**84.6**
Non-current assets	**54.5**	**54.8**
Current assets	**41.0**	**29.8**

Accrued income of £3.3m (2017: £nil) 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 £31.4m (2017: £34.9m) in relation to the Government Support Package and £11.6m (2017: £13.1m) in relation to insurance contracts.

8 CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash and bank balances	76.8	84.1
Cash equivalents	761.5	231.8
Cash and cash equivalents per cash flow statement	**838.3**	**315.9**

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 £57.5m (2017: £nil).

Restricted Cash:

The Company holds a Debt Service Reserve Account to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in the Debt Service Reserve Account was £12.3m at 31 March 2018 (2017: £3.7m).

9 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade payables	1.9	2.0
Accrued expenses	33.5	16.2
Accrued intra-group expenses (see note 15)	4.8	-
Deferred income	4.7	1.8
Advance payment liability	53.5	26.7
	98.4	**46.7**
Non-current liabilities	**59.3**	**26.7**
Current liabilities	**39.1**	**20.0**

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 £4.7m (2017: £1.8m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

10 BORROWINGS

The Group raises finance under a multi-currency financing platform in both loan and bond format. 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 back to back loans which have substantively the same economic terms and effectively pass the financing arrangements of the external debt held by Bazalgette Finance plc to the Company.

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

Where Bazalgette Finance plc issues bonds with deferred draw dates, the proceeds from these bonds are only passed to the Company when the proceeds are received from the bond purchaser on the future settlement dates.

This note provides information about the Company's borrowings, which are measured at amortised cost. Issue costs for all intra-group borrowings have been borne by the Company.

Intra-group borrowings	2018 £m	2017 £m
£250m 2.375% fixed-rate bond 2027 [a]	247.2	-
£75m 0.828% index-linked bond 2047 [a, d, e]	75.0	-
£200m 0.740% index-linked bond 2042 [a, d, f]	200.0	-
Shareholder loan notes 8.000 % fixed-rate 2064 [b]	714.4	529.3
Third party borrowings		
£300m 2.860% fixed rate loan 2032 [c]	301.5	-
Total borrowings	**1,538.1**	**529.3**
Current liabilities	**-**	**-**
Non-current liabilities	**1,538.1**	**529.3**

a) Borrowing from Bazalgette Finance plc
b) Borrowing from Bazalgette Holdings Limited
c) The Company has entered into swap agreements that convert £70.0m of this debt into index-linked debt
d) The value of the capital and interest elements of these index-linked bonds are linked to movements in the Consumer Price Index (CPI)
e) This debt amortises from 2038
f) This debt amortises from 2033 and contains a collar mechanism that limits total accretion repayment within a predetermined range

Deferred loans

The Company raised £100m of loans during the year with a deferred draw date (2017: £700m).

Deferred purchase bonds

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

11 FINANCIAL INSTRUMENTS

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

Financial Assets

	2018 £m	2017 £m
Financial assets:		
Trade and other receivables	32.2	20.0
Cash and cash equivalents	838.3	315.9
Short-term deposits	57.5	-
Total	**928.0**	**335.9**

Trade and other receivables above exclude prepayments.

Financial Liabilities

	2018 £m	2017 £m
Liabilities at fair value through profit and loss:		
Derivative financial instruments	24.7	34.2
Other financial liabilities:		
Trade and other payables	98.4	46.7
Borrowings	1,538.1	529.3
Total	**1,661.2**	**610.2**

Fair value measurements

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

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

	31 March 2018 Book value £m	31 March 2018 Fair value £m	31 March 2017 Book value £m	31 March 2017 Fair value £m
Financial liabilities at amortised cost: Non-current				
Borrowings - fixed-rate loans	1,015.9	1065.4	529.3	565.5
Borrowings - fixed-rate bond	247.2	246.1	-	-
Borrowings - index-linked bonds	275.0	294.5	-	-
Financial liabilities at fair value through profit and loss: Non-current				
Derivatives - index-linked swaps	24.7	24.7	34.2	34.2
Total	**1,562.8**	**1630.7**	**563.5**	**599.7**

Financial liabilities at amortised cost

Borrowings include index-linked and fixed-rate bonds, fixed-rate loans and intra-group 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 Statements
Notes continued

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

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

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

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

The Company considers all its derivative financial instruments to fall within level 3 of the fair value hierarchy as the calculation of the estimated fair value is based on assumptions which include an unobservable input with regards to the Company's credit risk. The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2018:

	2018 Level 3 £m	2017 Level 3 £m
Financial instruments at fair value		
Derivative financial liabilities:		
– Index-linked swaps	24.7	34.2
	24.7	**34.2**

The carrying value of the derivative financial instruments is equal to the fair value.
The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values.

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2017	34.2
(Profit)/loss recognised in finance costs	
– Net change in fair value (unrealised)	(9.5)
Balance at 31 March 2018	**24.7**

The fair value estimate of the credit risk of the Company is calculated using several data points, including analysis of market data for similar corporate entities, which is publicly available and based on a large portfolio of liquid, tradeable instruments, as well as an assessment of the credit spread on the Company's recent bond issuances. Having considered all available information, the directors believe that the risk adjustment applied in the fair value estimate reflects the Company's current credit risk.

Level 3 fair values sensitivity

For the fair value of the index-linked swaps, reasonably possible changes to the unobservable input, holding other inputs constant, would have the following effects.

	31 March 2018	
	Impact on profit for the year	
	Increase £m	(Decrease) £m
Risk-adjusted discount rate (+/- 100bps movement)	11.0	(13.6)

Capital risk management

The Company's principal objectives in managing capital are:

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

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

During the year the Company has secured a further £400m of loans in addition to the £700m European Investment Bank loan it secured in the prior year. The Company maintains access to a £750m revolving credit facility (RCF), following the cancellation of £250m in March 2018. This RCF facility remained undrawn at the Statement of Financial position date (2017: £nil draw down).

The Company's sister company Bazalgette Finance plc issued a further £650m of bonds via multiple counterparties, taking the total bond issuance to £1.1bn. The bond issuance includes deferred purchase bonds where bond proceeds will be received over the next 4 years.

Management of financial risk

The Treasury team, which reports directly to the CFO, substantially manages the Company's financing, including debt, cash management and interest costs for the Company on a day to day basis. The Treasury Committee, which is chaired by a non-executive director (see Corporate Governance report) reviews and reports to the Board on the Company's treasury policy, treasury strategies and financial strategy. The Company also has an executive level Funding and Financing Committee, chaired by the CFO, which considers treasury and regulatory matters in detail on a monthly basis.

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

Financial Statements

Notes continued

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 2018, the Company had total liquidity in excess of £3bn, comprising £896m of cash and short-term deposits, the £750m undrawn RCF, the £700m undrawn EIB loan, £575m of deferred purchase bonds (via back to back loans with Bazalgette Finance plc) and £100m of other undrawn loans. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target, including all debt requirements to System Acceptance.

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

The Secretary of State for Environment, Food and Rural Affairs, through the Government Support Package, has committed to provide certain contingent financial support during the construction period. Such support is available in exceptional circumstances and includes the Market Disruption Facility providing the Company with a debt facility of up to £500m, for use where it is unable to issue debt in the debt capital markets as a result of market disruption.

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

	2018 £m	2017 £m
Borrowings		
Within one year	(73.6)	(42.3)
Between one and two years	(73.7)	(42.3)
Between two and five years	(221.4)	(127.0)
After more than 5 years	(4,182.1)	(2,307.7)
Total	**(4,550.8)**	**(2,519.3)**
Derivative financial instruments		
Within one year	3.4	-
Between one and two years	7.8	1.1
Between two and five years	51.0	34.7
After more than 5 years	(98.1)	(67.9)
Total	**(35.9)**	**(32.1)**

Credit risk

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

Credit risk for the Company principally arises from trading (the supply of services) and treasury activities (the depositing of cash). The Company's exposure to trading risk is predominantly with Thames Water which is the Company's only significant trading counterparty and who constitute the full outstanding balance of trade receivables at the Statement of Financial Position date. As part of its 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 so the risk of default is considered low.

Placements of cash on deposit expose the Company to credit risk against the counterparties concerned. A treasury policy on Investment Strategy Management provides clear instrument limits for money market funds, liquidity funds and money market deposits. The policy sets counterparty concentration and tenor limits through minimum credit rating requirements (as measured by reputable credit agencies).

At the Statement of Financial Position date there were no significant concentrations of credit risk.

The Company's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2018 was £928.0m (2017: £335.9m). 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 2018 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.

Market risk - Inflation rate risk

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.

In the year, Bazalgette Finance plc issued long dated CPI bonds, which the Company receives the proceeds on, recognising Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. There is a risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens.

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

The table below summarises the sensitivity at 31 March 2018 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 increase or decrease in RPI as shown in the table below. This analysis assumes all other variables remain constant.

	2018		2017	
	£m +1%	£m -1%	£m +1%	£m -1%
(Loss)/profit	(69.1)	62.9	(57.2)	55.3
Equity	(69.1)	62.9	(57.2)	55.3

12 CAPITAL AND RESERVES

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2018 No.	Ordinary shares 2017 No.
At the beginning of the year	370,407,648	138,258,754
Issued for cash	139,264,953	232,148,894
At the end of the year	**509,672,601**	**370,407,648**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of the Company in line with the details of the Shareholders agreement. Further information on the role of the shareholders is outlined in the Holding Company Principles statement which is available at www.tideway.london

Retained earnings

	2018 £m	2017 £m
At the beginning of the year	(34.2)	-
Profit/(loss) for the year	9.5	(34.2)
At the end of the year	**(24.7)**	**(34.2)**

13 OPERATING LEASES

The Company has entered into non-cancellable operating leases in respect of office buildings. The future minimum rentals payable under non-cancellable operating lease rentals are payable as follows:

	2018 £m	2017 £m
Less than one year	2.1	6.7
Between one and five years	7.9	2.0
More than five years	1.4	-
Total	**11.4**	**8.7**

14 CONTINGENT LIABILITIES

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

15 RELATED PARTIES

Amounts outstanding on borrowings from Bazalgette Holdings Limited are £714.4m (2017: £529.2m).

Amounts outstanding on loans from Bazalgette Finance plc are £522.2m (2017: £nil) and interest outstanding on these loans totals £4.8m (2017: £nil).

During the year ended 31 March 2018, the Company paid £0.3m (2017: £nil) to Bazalgette Finance plc with regards to interest payments under its back to back loan terms.

Amounts outstanding on intra-group loans with Bazalgette Holdings Limited are £51k (2017: £50k) and Bazalgette Finance plc £8.1m (2017: £nil). Interest receivable on the loan with Bazalgette Finance plc totalled £41k (2017: £nil) at 31 March 2018.

Key management personnel

Key management personnel comprise the directors of the Company. The remuneration of the directors is provided in the audited part of the Director's Remuneration Report on page 102.

16 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited. The Company's ultimate controlling parent is Bazalgette Equity Limited which is also the largest group in which the Company is consolidated.

Copies of the consolidated accounts for both the Bazalgette Holdings Group and the Bazalgette Equity Group are available from the Company Secretary at Tideway, Cottons Centre, Cottons Lane, London, SE1 2QG.

Investments in subsidiaries

	Country of incorporation	Class of shares held	Ownership 2018	Ownership 2017
Company				
Thames Tideway Tunnel Limited	UK	Ordinary	100%	100%

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company.

17 SUBSEQUENT EVENTS OCCURRING AFTER THE REPORTING DATE

The Company's direct subsidiary Thames Tideway Tunnel Limited has been voluntarily dissolved in April 2018. Its last trading date was 31 March 2017.

Regulatory Reporting

Archaeologists from MOLA (Museum of London Archaeology) working in the shaft at Kirtling Street following the discovery of a 190-year-old dry dock

Regulatory Reporting
Introduction

INTRODUCTION

Tideway's ambition to be a regulated company that acts in the public interest, balancing the needs of all its stakeholders, is reflected in the range of refinements to governance, resilience and reporting it has implemented during 2017/18. These refinements reflect lessons learned from the Company's first two years of operation and in many cases have been driven by stakeholder engagement.

Enhancements to **governance and assurance** include:

- appointing an additional Independent Non-Executive Director to Tideway's Board (strengthening the position of the Independent Non-Executive Directors, as the largest single group on the Board);
- enhancing the role of Tideway's Compliance and Assurance Review Group, led by the CEO, which oversees our project-wide integrated assurance framework (see the data assurance summary on pages 158-160 for more detail); and
- introducing a broader remit for Tideway's Internal Audit function.

Improvements in **reporting** have included:

- enhanced engagement with the Independent Technical Assessor, including monthly meetings, ad hoc briefings and improved processes, to support reporting to the Liaison Committee;
- greater transparency on scenarios modelled in producing the long-term viability statement, and an extension of the time frame over which viability is considered to 2030; and
- a review of external reporting, to consider alignment to stakeholder needs and highlight areas of best practice.

Financial, corporate and operational **resilience** have been strengthened through the above measures and additional steps such as:

- clarifying the Client and Programme Manager responsibilities by implementing our Tideway Operating Model;
- issuing additional debt, including instruments with delayed draw down, to enhance financial resilience. Sufficient financing is now in place to cover expected expenditure requirements to System Acceptance;
- increasing alignment of crisis management/emergency response with national best practice and being the first private company to exercise with London Resilience;
- further reviewing Tideway's supply chain risk, following events at Carillion;
- working with Thames Water to agree arrangements up to and beyond Handover. This has included engaging with the System Operating Authority that Thames Water has now established to support long term system-based planning. We have also held discussions on how to incentivise Thames Water in relation to Thames Tideway Tunnel activity during the 2020-25 regulatory period; and
- making other improvements to our ways of working, including new IT collaboration systems and tools, as described in the Company and People section on pages 52-55.

Alongside these steps, which are intended to align our operations with the interests of our stakeholders, we must meet a range of specific annual reporting requirements. These are put in place by Ofwat to aid comparability between companies and to help the regulator monitor the sector's performance and financial resilience. Specific requirements are set out in Ofwat's Information Notice 18/07, 'Expectations for monopoly company annual performance reporting 2017-18',[1] the Regulatory Accounting Guidelines (RAGs), additional Ofwat guidance including on long-term viability statements and Board leadership, transparency and governance principles, and Tideway's Licence. As shown in the table on pages 140-141, some of these required disclosures are included in the most relevant section of this Annual Report, while the remainder can be found in this section.

Tideway is a wholesale-only company, with specific regulatory arrangements. This means that in some areas, the standard reporting requirements are not relevant. We have worked closely with Ofwat to agree a scope for our regulatory reporting that will enable Ofwat and stakeholders to understand our performance. The table on pages 140-141 sets out Tideway's regulatory reporting requirements and shows where in this document they can be found.

[1] *www.ofwat.gov.uk/wp-content/uploads/2018/04/IN-1807-Expectations-for-monopoly-company-annual-performance-reporting-2017-18.pdf*

Millicent, one of two tunnel boring machines to be launched from Kirtling Street in Battersea

Regulatory Reporting
Introduction

Required disclosure	Source of requirement	Location in report	Notes
Annual performance report	Regulatory Accounting Guideline (RAG) 3.10 (section 2) and Tideway's Licence, Condition F	This section, pages 142-153	Also referred to as regulatory accounts. Companies must provide certain information on their performance, as specified by Ofwat
Statement on transfer pricing	RAG 3.10 (section 6)	This section, pages 154-155	
Risk and compliance statement	Ofwat Information Notice 18/07	This section, pages 156-157	This statement is the main means by which companies annually certify compliance with their licences and relevant legislation
Data assurance summary	Information Notice 18/07	This section, pages 158-160	
Description of the link between Directors' pay and standards of performance	Section 35A of the Water Industry Act 1991	Remuneration Committee report, pages 94-103	
Statement on disclosure of information to the auditor	RAG 3.10 (section 3.3)	This section, page 153	
Statement on dividend policy for the appointed business (value and basis of dividend/ distribution)	RAG 3.10 (section 3.4)	Directors' report, page 108; Strategic report, page 58	Tideway did not pay any dividends in 2017/18, although distributions were made under shareholder loan arrangements, in line with Tideway's distribution policy. Information on the distributions made is provided in the Directors' Report and the Financing section of the Strategic Report
Accounting policy note for price control units; accounting methodology statement	RAG 3.10 (section 3.5)	N/A	As Tideway operates only within the sewerage segment, this requirement does not apply
Note on revenue recognition	RAG 3.10 (section 3.6)	N/A	This requirement does not apply to Tideway, as none of the items contained within it are relevant. Tideway has not reported any income statement revenue in 2017/18, either in the statutory accounts or the regulatory annual performance report, and does not bill customers directly
Note on capitalisation policy	RAG 3.10 (section 3.7)	Financial statements: contained within note 1 under "Property, plant and equipment: Recognition and measurement", (pages 120-121)	Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A, in this section)
Note on bad debt policy	RAG 3.10 (section 3.8)	Financial statements: contained within note 1 under "Revenue and bad debt risk" (page 121)	Tideway collects its revenue via Thames Water and does not bill customers directly, so its bad debt policies are different to those of water and sewerage companies with retail businesses. Note 1 to the financial statements contains more information on the arrangements in place
Statement on Condition K compliance	Tideway's Licence, condition M5.1 and RAG 3.10 (section 3.9)	This section, page 157	Tideway is required to confirm that (as far as reasonably practicable) it has sufficient non-financial rights and resources to enable a special administrator to carry out its licensed activities
Statement on sufficiency of financial resources ('Condition K certificate')	Tideway's Licence, condition M5.2-M5.6 and RAG 3.10 (section 3.10)	This section, page 157	Tideway is required to confirm that it has sufficient rights and resources (financial and non-financial) to enable it to carry out its licensed activities for at least the next year, and make a statement of the main factors that the Board has taken into account in endorsing the certificate

Required disclosure	Source of requirement	Location in report	Notes
Statement explaining company direction and performance	Information notice 18/07	Strategic report, page 23 ('Our Strategy' section)	
A demonstration, through its annual reporting, of how the company is meeting Ofwat's board leadership and governance principles	Information notice 18/07 and Ofwat's Board leadership, transparency and governance principles	Governance report, pages 67-107	Ofwat has issued additional guidance on Board leadership, transparency and governance principles for holding companies. Tideway produces a separate document annually setting out how it complies with these principles, which can be found on our website
Tax strategy	RAG 3.10 (section 3.11)	Strategic report, pages 62-63	
Statement on differences between statutory and RAG definitions	RAG 3.10 (section 3.12)	This section; see notes to table 1A (page 143)	The only difference relates to capitalisation of interest
Long-term viability statement	RAG 3.10 (section 3.13) and additional Ofwat guidance in Information Notice 18/04	Strategic report, page 32-33	The Company believes that this statement is appropriate for both its statutory and regulatory accounts
Statement explaining out/under performance of the return on regulated equity (RORE)	RAG 3.10 (section 3.14)	N/A	The Company was not part of the PR14 process and does not have a base RORE set at Final Determination, so the concept of out/under performance is not relevant
Statement on financial flows (shadow reporting)	Information notice 18/07	N/A	Ofwat has confirmed that these requirements are not relevant to Tideway. The Company was not part of the PR14 process and does not have a base RORE set at Final Determination, so it is not possible for Tideway to report out/under performance against this measure or to compare actual financial flows against a figure based on notional gearing and RORE
Narrative disclosures on performance	Regulatory Accounting Guideline 3.10 (section 4)	N/A	Ofwat has confirmed that these requirements are not relevant to Tideway. Outcome performance and totex (total expenditure, a concept combining capital expenditure and operating expenditure) are not part of the bespoke regulatory regime applying to Tideway. Tideway does not operate in the retail sector, so does not report retail performance figures. Tideway was not subject to the 2014 price review and does not complete table 2I, so does not report a wholesale revenue control reconciliation or provide any other information on PR14 reconciliation. A current tax reconciliation is not relevant as Tideway did not pay any corporation tax in 2017/18. Tideway operates only in the sewerage sector and does not participate in the bioresources market
Information on PR14 reconciliation	Information notice 18/07	N/A	
Bioresources market information	Information notice 18/07	N/A	
Audit reports	Report on regulatory accounts and condition K certificate required by Tideway's Licence, condition F4.1	This section, pages 160-164	

Regulatory Annual Performance Report

REGULATORY ANNUAL PERFORMANCE REPORT

This section contains information on Tideway's financial position and performance in 2017/18 that is relevant from a regulatory perspective.

Tideway has agreed with Ofwat that it will publish a set of tables, including some standard tables (1A-1E, 2D, 4H and 4I) and some that are unique to the Company (5A-5C). For ease of reference, the standard tables are given the same numbering in this report as in the relevant RAG.[2]

As well as the difference in the suite of tables, the numbers within this Regulatory Annual Performance Report look different in many ways from those reported by other water companies, due to the unique nature of Tideway.

Features of the data reported below include the following:

- Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value losses on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A). Allowed Revenue is reported in Table 5A.
- For the first time in 2017/18, Tideway had drawn down third-party debt in addition to its shareholder loans. In line with the RAGs, the shareholder loans are reported as debt within the net debt metric in tables 1E and 4H. Tideway has a separate net debt definition in its Licence, which is used in calculating its revenue (see 'Financing cost adjustment' section below) and excludes shareholder loans.
- Tideway's regulatory capital value, which is calculated on a cash basis, was zero at Licence Award. On 31 March 2018, it was £1,043.4m (expressed in March 2018 prices).

[2] *www.ofwat.gov.uk/wp-content/uploads/2017/11/RAG-3.10-Guideline-for-the-format-and-disclosures-for-the-annual-performance-report-1.pdf*

REGULATORY ACCOUNTS

1A – Income Statement

For the 12 months ended 31 March 2018

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Revenue	£m	0.000	0.000	0.000	0.000	0.000
2	Operating costs	£m	0.000	0.000	0.000	0.000	0.000
3	Other operating income	£m	0.000	0.000	0.000	0.000	0.000
4	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
5	Other income	£m	0.000	0.000	0.000	0.000	0.000
6	Interest income	£m	0.000	2.312	0.000	2.312	2.312
7	Interest expense	£m	0.000	-61.490	0.000	-61.490	-61.490
8	Other interest expense	£m	0.000	0.000	0.000	0.000	0.000
9	Profit before tax and fair value movements	£m	0.000	-59.178	0.000	-59.178	-59.178
10	Fair value gains/(losses) on financial instruments	£m	9.476	0.000	0.000	0.000	9.476
11	Profit before tax	£m	9.476	-59.178	0.000	-59.178	-49.702
12	UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
13	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
14	Profit for the year	£m	9.476	-59.178	0.000	-59.178	-49.702
15	Dividends	£m	0.000	0.000	0.000	0.000	0.000
A	**Tax analysis**						
16	Current year	£m	0.000	0.000	0.000	0.000	0.000
17	Adjustments in respect of prior years	£m	0.000	0.000	0.000	0.000	0.000
18	UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
B	**Analysis of non-appointed revenue**						
19	Imported sludge	£m			0.000		
20	Tankered waste	£m			0.000		
21	Other non-appointed revenue	£m			0.000		
22	Revenue	£m			0.000		

Notes to line items

1 Revenue that the Company receives from Thames Water (see Table 5A for analysis) is deferred onto the Statement of Financial Position as the associated services will not be delivered until System Acceptance. This is consistent with the accounting policies that are disclosed in note 1 to the statutory financial statements.

6&7 Differences between statutory and RAG definitions relate to interest capitalised under IAS 23 'Borrowing Costs' in the statutory financial statements. These are required to be shown in the Income Statement for regulatory reporting.

14 The difference between the statutory accounts profit and the regulatory accounts profit relates to the net interest expense of £-59.178m.

Regulatory Annual Performance Report
Continued

1B – Statement of comprehensive income
For the 12 months ended 31 March 2018

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Profit for the year	£m	9.476	-59.178	0.000	-59.178	-49.702
2	Actuarial gains/(losses) on post employment plans	£m	0.000	0.000	0.000	0.000	0.000
3	Other comprehensive income	£m	0.000	0.000	0.000	0.000	0.000
4	Total comprehensive income for the year	£m	9.476	-59.178	0.000	-59.178	-49.702

For details on the adjustment between statutory and RAG definitions see notes to Table 1A

1C – Statement of financial position
For the 12 months ended 31 March 2018

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	A Non-current assets						
1	Fixed assets	£m	1154.900	-95.358	0.000	-95.358	1059.542
2	Intangible assets	£m	0.000	0.000	0.000	0.000	0.000
3	Investments - loans to group companies	£m	8.139	0.000	0.000	0.000	8.139
4	Investments - other	£m	0.000	0.000	0.000	0.000	0.000
5	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
6	Retirement benefit assets	£m	0.000	0.000	0.000	0.000	0.000
7	Total non-current assets	£m	1163.039	-95.358	0.000	-95.358	1067.681
	B Current assets						
8	Inventories	£m	0.000	0.000	0.000	0.000	0.000
9	Trade & other receivables	£m	144.839	0.000	0.000	0.000	144.839
10	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
11	Cash & cash equivalents	£m	838.293	0.000	0.000	0.000	838.293
12	Total current assets	£m	983.132	0.000	0.000	0.000	983.132

1C – Statement of financial position

For the 12 months ended 31 March 2018

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
C Current liabilities							
13	Trade & other payables	£m	0.000	0.000	0.000	0.000	0.000
14	Capex creditor	£m	-39.129	0.000	0.000	0.000	-39.129
15	Borrowings	£m	0.000	0.000	0.000	0.000	0.000
16	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
17	Current tax liabilities	£m	0.000	0.000	0.000	0.000	0.000
18	Provisions	£m	0.000	0.000	0.000	0.000	0.000
19	Total current liabilities	£m	-39.129	0.000	0.000	0.000	-39.129
20	Net current assets / (liabilities)	£m	944.003	0.000	0.000	0.000	944.003
D Non-Current liabilities							
21	Trade & other payables	£m	-59.304	0.000	0.000	0.000	-59.304
22	Borrowings	£m	-1538.065	0.000	0.000	0.000	-1538.065
23	Financial instruments	£m	-24.682	0.000	0.000	0.000	-24.682
24	Retirement benefit obligations	£m	0.000	0.000	0.000	0.000	0.000
25	Provisions	£m	0.000	0.000	0.000	0.000	0.000
26	Deferred income - G&C's	£m	0.000	0.000	0.000	0.000	0.000
27	Deferred income - adopted assets	£m	0.000	0.000	0.000	0.000	0.000
28	Preference share capital	£m	0.000	0.000	0.000	0.000	0.000
29	Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
30	Total non-current liabilities	£m	-1622.051	0.000	0.000	0.000	-1622.051
31	Net assets	£m	484.991	-95.358	0.000	-95.358	389.633
E Equity							
32	Called up share capital	£m	509.672	0.000	0.000	0.000	509.672
33	Retained earnings & other reserves	£m	-24.681	-95.358	0.000	-95.358	-120.039
34	Total Equity	£m	484.991	-95.358	0.000	-95.358	389.633

1C Notes to line items

1 All costs included within fixed assets are on an accruals basis. This differs from the Annual Actual Project Spend in Table 5B, which is on a cash basis.

9 The £144.8m of 'Trade & other receivables' consists of £87.4m of trade and other receivables (excluding £8.1m loans receivable with group companies reported separately in table 1C) and £57.5m of short-term deposits. This trade and other receivables included current and non-current trade debtors, prepayments and other receivables. Under IFRS, the Statement of Financial Position splits these between £54.5m non-current and £41.0m current.

21 Trade & other payables represent the cash amounts received from Thames Water in relation to the Company's revenue, which is deferred onto the Statement of Financial Position until System Acceptance. The revenue is deferred as the associated services will not be delivered until System Acceptance.

Regulatory Annual Performance Report
Continued

1D – Statement of cash flows

For the 12 months ended 31 March 2018

				Adjustments			
	Line description	Units	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
A Statement of cashflows							
1	Operating profit	£m	0.000	0.000	0.000	0.000	0.000
2	Other income	£m	0.000	0.000	0.000	0.000	0.000
3	Depreciation	£m	0.000	0.000	0.000	0.000	0.000
4	Amortisation - G&C's	£m	0.000	0.000	0.000	0.000	0.000
5	Changes in working capital	£m	40.882	0.000	0.000	0.000	40.882
6	Pension contributions	£m	0.000	0.000	0.000	0.000	0.000
7	Movement in provisions	£m	0.000	0.000	0.000	0.000	0.000
8	Profit on sale of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
9	Cash generated from operations	£m	40.882	0.000	0.000	0.000	40.882
B							
10	Net interest paid	£m	0.000	-53.253	0.000	-53.253	-53.253
11	Tax paid	£m	0.000	0.000	0.000	0.000	0.000
12	Net cash generated from operating activities	£m	40.882	-53.253	0.000	-53.253	-12.371
C Investing activities							
13	Capital expenditure	£m	-607.437	53.253	0.000	53.253	-554.184
14	Grants & Contributions	£m	0.000	0.000	0.000	0.000	0.000
15	Disposal of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
16	Other	£m	-57.500	0.000	0.000	0.000	-57.500
17	Net cash used in investing activities	£m	-664.937	53.253	0.000	53.253	-611.684
18	Net cash generated before financing activities	£m	-624.055	0.000	0.000	0.000	-624.055
D Cashflows from financing activities							
19	Equity dividends paid	£m	0.000	0.000	0.000	0.000	0.000
20	Net loans received	£m	1007.164	0.000	0.000	0.000	1007.164
21	Cash inflow from equity financing	£m	139.265	0.000	0.000	0.000	139.265
22	Net cash generated from financing activities	£m	1146.429	0.000	0.000	0.000	1146.429
23	Increase (decrease) in net cash	£m	522.374	0.000	0.000	0.000	522.374

1D Notes to line items

10 The net interest paid includes £56.218m of interest paid, partly offset by £2.965m of interest received. Net interest includes interest paid on external borrowings, interest received/paid on net settled derivatives and interest received on cash deposits at 31 March 2018.

13 The £607.437m of capital expenditure represents cash outflows for the asset under construction.

1E – Net debt analysis at 31 March 2018

For the 12 months ended 31 March 2018

	Line description	Units	Interest rate risk profile			
			Fixed rate	Floating rate	Index-linked	Total
1	Borrowings (excluding preference shares)	£m	1263.066	0.000	275.000	1538.066
2	Preference share capital	£m				0.000
3	Total borrowings	£m				1538.066
4	Cash	£m				-838.293
5	Short term deposits	£m				-57.500
6	Net Debt	£m				642.273
7	Gearing	%				61.55%
8	Adjusted gearing	%				0.00%
9	Full year equivalent nominal interest cost	£m	71.643	0.000	2.101	73.744
10	Full year equivalent cash interest payment	£m	71.643	0.000	2.101	73.744
	A Indicative interest rates					
11	Indicative weighted average nominal interest rate	%	5.67%	0.00%	0.76%	4.79%
12	Indicative weighted average cash interest rate	%	5.67%	0.00%	0.76%	4.79%
13	Weighted average years to maturity	nr	31.12	0.00	25.36	30.09

1E Notes to line items

3 The borrowings of £1,538.066m represents £714.363m shareholder loans, £522.193m intergroup loans and £301.510m third party borrowings.

7 As the Company was not part of the 2014 Periodic Review process, it does not have an RCV determined at the Final Determination. Therefore the gearing is based on the RCV at 31 March 2018 (as per table 5B). Tideway's shareholder loans are included within the debt figure used to calculate gearing.

8 Adjusted gearing, in relation to the Company's financial covenants, as per the terms of its financing documents, is the ratio of senior net indebtedness to adjusted RCV. The Company's cash and cash equivalents exceed its senior debt so in principle, the senior net indebtedness figure, and hence adjusted gearing, would be negative. However, the Company is not required to start reporting gearing to its lenders until it passes a specified positive threshold, and so for the purposes of this table the Company reports gearing of zero.

2D – Historic cost analysis of fixed assets – wholesale & retail

For the 12 months ended 31 March 2018

	Line description	Units	Wholesale				Retail		
			Water Resources	Water Network+	Wastewater Network+	Sludge	Household	Non-Household	Total
A Cost									
1	At 1 April 2017	£m	0.000	0.000	509.684	0.000	0.000	0.000	509.684
2	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3	Additions	£m	0.000	0.000	549.858	0.000	0.000	0.000	549.858
4	Adjustments	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	Assets adopted at nil cost	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
6	At 31 March 2018	£m	0.000	0.000	1059.542	0.000	0.000	0.000	1059.542
B Depreciation									
7	At 1 April 2017	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
8	Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	Adjustments	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
10	Charge for the year	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
11	At 31 March 2018	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
C									
12	Net book amount at 31 March 2018	£m	0.000	0.000	1059.542	0.000	0.000	0.000	1059.542
13	Net book amount at 1 April 2017	£m	0.000	0.000	509.684	0.000	0.000	0.000	509.684
D Depreciation charge for year									
14	Principal services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
15	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000

2D Notes to line items

All For the purposes of completing table 2D, Tideway has classified all of its activities as falling within the wholesale wastewater segment. This approach reflects that Tideway is constructing a single asset, the Thames Tideway Tunnel, which will be used solely for sewage collection activities. The Company has no direct relationship with customers and carries out no activities that could be classified as retail. The approach to this table therefore aligns both to the general principles set out in Regulatory Accounting Guideline 2.07, including those of transparency and causality, and with the definitions of wholesale activities set out in Regulatory Accounting Guideline 4.07.

3 All additions in the year were to assets under construction.

4H – Financial metrics

For the 12 months ended 31 March 2018

	Line description	Units	Metric
A Financial indicators			
1	Net debt	£m	642.273
2	Regulated equity	£m	401.153
3	Regulated gearing	%	61.55%
4	Post tax return on regulated equity	%	-17.16%
5	RORE (return on regulated equity)	%	n/a
6	Dividend yield	%	n/a
7	Retail profit margin - Household	%	0.00%
8	Retail profit margin - Non household	%	0.00%
9	Credit rating	Text	Baa1
10	Return on RCV	%	0.00%
11	Dividend cover	dec	n/a
12	Funds from operations (FFO)	£m	-53.253
13	Interest cover (cash)	dec	0.13
14	Adjusted interest cover (cash)	dec	0.13
15	FFO/Debt	dec	-0.08
16	Effective tax rate	%	0.00%
17	RCF	£m	-53.253
18	RCF/capex	dec	-0.10
B Revenue and earnings			
19	Revenue (actual)	£m	0.000
20	EBITDA (actual)	£m	0.000
C Borrowings			
21	Proportion of borrowings which are fixed rate	%	82.12%
22	Proportion of borrowings which are floating rate	%	0.00%
23	Proportion of borrowings which are index linked	%	17.88%
24	Proportion of borrowings due within 1 year or less	%	0.00%
25	Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%
26	Proportion of borrowings due in more than 2 years but but no more than 5 years	%	0.00%
27	Proportion of borrowings due in more than 5 years but no more than 20 years	%	35.67%
28	Proportion of borrowings due in more than 20 years	%	64.33%

4H	Notes to line items
1&3	As shown in table 1E, Tideway's borrowings, which includes shareholder loans, intra-group loans and third party loans, exceed its cash and cash equivalents and hence it has a net debt position. Applying the line definitions specified by Ofwat results in positive figures for the net debt on line 1 (which is directly taken from table 1E) and consequently regulated gearing in line 3.
2,3&4	As the Company was not part of the 2014 Periodic Review (PR14) process, it does not have an RCV determined at Final Determination. Therefore the regulated equity, regulated gearing and post-tax return on regulated gearing are calculated based on the RCV at 31 March 2018 (in table 5B)
5	The calculation of RORE is not applicable as the Company was not part of the PR14 process and does not have a base RORE set at Final Determination.
6&11	As explained in the Financial Performance Review, there were no dividends paid or proposed during the period. Therefore all the dividend-based financial metrics are reported as not applicable.
7&8	The retail profit margins are not applicable as Tideway has no retail business
9	The Company has been assigned a corporate credit rating of Baa1 by Moody's.
12-15 & 17-18	The ratios presented in this table are calculated in line with the RAG methodology. As Tideway has £nil operating profit (Table 1A, line 4) due to its accounting policies, this creates some distortion in the ratios linked to funds from operations (FFO) as required by the RAG methodology. These ratios are not considered to reflect business performance.
16	The effective tax rate of 0.00% is a result of the Company having no taxable profits in the year.
19	The revenue the Company receives from Thames Water is recognised as deferred in the Statement of Financial Position until System Acceptance. This is consistent with Table 1A line 1.

Regulatory Annual Performance Report
Continued

4I – Financial derivatives
For the 12 months ended 31 March 2018

	Line description	Units	Nominal value by maturity (net): 1 to 2 years	Nominal value by maturity (net): 2 to 5 years	Nominal value by maturity (net): Over 5 years	Total value at 31 March 2018: Nominal value (net)	Total value at 31 March 2018: Mark to Market	Total accretion at 31 March 2018	Units	Interest rate (weighted average for 12 months to 31 March 2018): Payable	Interest rate (weighted average for 12 months to 31 March 2018): Receivable
	A Interest rate swap (sterling)										
1	Floating to fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
2	Floating from fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
3	Floating to index linked	£m	0.000	0.000	620.000	620.000	-24.980	0.000	%	RPI -0.838%	3-month Libor +0.36%
4	Floating from index linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
5	Fixed to index linked	£m	0.000	0.000	70.000	70.000	0.298	-1.510	%	RPI -0.454%	Fixed 2.86%
6	Fixed from index linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
7	Total	£m	0.000	0.000	690.000	690.000	-24.682	-1.510			
	B Foreign Exchange										
8	Cross currency swap USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
9	Cross currency swap EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
10	Cross currency swap YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
11	Cross currency swap Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
12	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	C Currency interest rate										
13	Currency interest rate swaps USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
14	Currency interest rate swaps EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
15	Currency interest rate swaps YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
16	Currency interest rate swaps Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
17	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	D Forward currency contracts										
18	Forward currency contracts USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
19	Forward currency contracts EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
20	Forward currency contracts YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
21	Forward currency contracts Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%

4I – Financial derivatives

For the 12 months ended 31 March 2018

	Line description	Units	Nominal value by maturity (net): 1 to 2 years	2 to 5 years	Over 5 years	Total value at 31 March 2018: Nominal value (net)	Mark to Market	Total accretion at 31 March 2018	Units	Interest rate (weighted average for 12 months to 31 March 2018): Payable	Receivable
22	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000			
	E Other financial derivatives										
23	Other financial derivatives	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00%	0.00%
	F Total										
24	Total financial derivatives	£m	0.000	0.000	690.000	690.000	-24.682	-1.510			

5A – Revenue analysis

	Year	Allowed revenue (£m)	Payment from Thames Water received in period 2017/18: Apr-Sep	2017/18: Oct-Mar	Payment from Thames Water received in period 2016/17: Apr-Sep	2016/17: Oct-Mar
1	2015/16	11.164	13.538	13.253	12.121	14.626
2	2016/17	22.439				
3	2017/18	28.559			n/a	n/a

5A Notes to line items

1&3 Tideway's allowed revenue is calculated in respect of each charging year (equal to the financial year in 2016/17 and beyond) using the methodology set out in its Licence. The allowed revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and as it is collected passes it through to Tideway, which may be during or after the relevant charging year. This table records the cash amounts received from Thames Water during the periods shown.

1-2 Tideway's allowed revenue was first billed by Thames Water for the 2016/17 charging year, as this could only be calculated following the award of Tideway's Licence in August 2015. Tideway did not receive any payments from Thames Water in 2015/16. As both 2015/16 and 2016/17 allowed revenue were billed together in 2016/17, these amounts are collected together and are not recorded separately in the table above.

1-3 At 31 March 2018, total payments of £31.9m had been received by Tideway in respect of 2015/16 and 2016/17 allowed revenue: £26.7m during 2016/17 and £5.1m during 2017/18, less than the total of £33.6m allowed revenue for these years. A total of £21.7m was received in respect of 2017/18 allowed revenue, less than the allowed revenue of £28.6m for 2017/18.

Year	Payment from Thames Water received in period, £m: 2017/18	2016/17	Total
2015/16	5.109	26.747	31.856
2016/17			
2017/18	21.683	n/a	21.683

1-3 As explained in the notes to Table 1A, the Company will recognise all revenue as deferred income during the construction phase.

Regulatory Annual Performance Report
Continued

5B – Expenditure analysis

		£m, 2014/15 prices				£m, outturn prices		
		2017/18	2016/17	2015/16	Total since Licence Award	2017/18	2016/17	2015/16
1	Annual Base Case Forecast	512.260	385.288	234.640	1132.188	548.667	397.785	237.169
2	Total expenditure	588.064	416.771	212.974	1217.810	629.859	430.289	215.270
3	Excluded Project Spend	100.935	84.863	63.707	249.505	108.109	87.616	64.395
4	Non-regulated expenditure	3.346	2.116	0.525	5.987	3.584	2.184	0.530
5	Annual Actual Project Spend	483.783	329.792	148.742	962.317	518.166	340.489	150.345
6	Variance from Base Case (£m)	-28.477	-55.496	-85.898	-169.872	-30.501	-57.296	-86.824
7	Variance (%)	-5.6%	-14.4%	-36.6%	-15.0%	-5.6%	-14.4%	-36.6%
	As at 31 March							
8	RCV	962.316	478.534	148.742		1043.426	502.087	151.311

5B Notes to line items

1 Tideway's Annual Base Case Forecast, its annually profiled regulatory baseline, is included in its Licence. The figure reported for each financial year is subject to defined inflationary adjustments, as set out in Appendix 1 of Tideway's Licence. For the purpose of this report, the adjustments for 2016/17 and 2017/18 have been applied using the inflation data at 30 April 2018. For this reason, the figures reported above differ from the £389.8m and £518.9m set out in the Licence. The 2016/17 figure also differs slightly from that in the last annual report, as certain construction indices which were provisional at the time of calculation have now been finalised.

2 Excluded Project Spend is defined in Tideway's Licence and includes certain specified categories of spending that are not included in Tideway's RCV. In 2017/18, Excluded Project Spend related primarily to VAT and financing costs.

3 Non-regulated expenditure relates to activity that is neither Allowable nor Excluded Project Spend. For example, this includes office facilities and software for Thames Water staff working on the interface between the two organisations and work within Thames Water's scope carried out by Tideway under separate contractual agreements. To avoid customers paying twice for the same expenditure, it is not included in Tideway's Regulatory Capital Value but is recorded as non-regulated expenditure at the point the money is recovered from Thames Water, and Annual Actual Project Spend for the year is correspondingly lower.

4 Annual Actual Project Spend, defined in Tideway's Licence, is the total of Allowable Project Spend incurred by Tideway and verified by the Independent Technical Assessor (ITA) during the reporting period. This amount becomes part of Tideway's RCV, which drives its revenues.

5&7 In 2017/18, Annual Actual Project Spend was below the Annual Base Case Forecast due to timing differences both in respect of re-profiling of the risk contingency from a proportional distribution at Licence Award to a more back-ended profile in line with the Company's updated risk modelling, and also deferral of some expected spending. The Financial Performance Review sets out the 2017/18 expenditure (on an accruals basis) in more detail

1-7 Expenditure is in both outturn and 2014/15 prices. The figures in outturn prices are deflated to 2014/15 prices using the financial year average RPI, consistent with Tideway's Licence.

8 RCV is in both outturn and 2014/15 prices. The figures in 2014/15 prices are the cumulative Annual Actual Project Spend deflated using the financial year average RPI, consistent with Tideway's Licence. The RCV for each year is inflated at the year-end price and therefore differs from the sum of outturn Annual Actual Project Spend (line 5).

5C – Alliance Agreement payments

		£m, 2014/15 prices				£m, outturn prices		
		2017/18	2016/17	2015/16	Total since Licence Award	2017/18	2016/17	2015/16
1	Alliance Agreement payments received	0.000	0.000	0.000	0.000	0.000	0.000	0.000
2	Alliance Agreement payments made	2.758	9.382	0.000	12.140	2.954	9.686	0.000

5C Notes to line items

1 Expenditure funded by Alliance Agreement payments received will be Excluded Project Spend and therefore excluded from the RCV.

2 This figure includes all Alliance Agreement payments verified by the Independent Technical Assessor.

Financing cost adjustment

The financing cost adjustment is a mechanism in Tideway's Licence that shares the impacts of movements in the market cost of debt above certain thresholds between Tideway and Thames Water's customers. To ensure transparency in relation to this adjustment, Tideway is required by Part A of Appendix 1 of its Licence to report on:

- Net debt (as defined by the Licence). In 2017/18 this was -£72.1m. This figure was calculated by taking Tideway's net debt figure of £642.3m and removing the £714.4m of shareholder loans, leaving a net cash figure. Shareholder loans are included in Tideway's net debt using the definitions in the Regulatory Accounting Guidelines but are not included in the net debt figure calculated in accordance with Tideway's licence.
- The basis of the calculation of the Financing Cost Adjustment and its component parts: this is included in Tideway's annual Revenue Statement. *See https://www.tideway.london/media/3815/tideway-2017-updated-revised-revenue-statementsubmission-12-12-2017-final.pdf*

Disclosure of information to the auditor[3]

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

[3] *This information is included in the Directors' Report for statutory purposes and is repeated here in line with Ofwat's requirement that companies make this statement within their annual performance reports*

Transfer Pricing Information

TRANSFER PRICING INFORMATION

To demonstrate that it is operating at arm's length from other companies in the same group and that no cross-subsidies exist, Tideway is required by Regulatory Accounting Guideline 3.10 to disclose details of transactions with associated companies. The Tideway group structure is shown on page 105.

Service received by regulated business	Company	Turnover of associate	Terms of supply	Value
Shareholder loans	Bazalgette Holdings Ltd	–	The shareholder loans were included in the financing plan that was part of the bid Tideway's owners made for the company. Bids were evaluated as part of the procurement process for the Infrastructure Provider, against criteria that included the rate of return required by bidders and the financial resilience of the proposed financing structure. The shareholder loans have a matu rity date of 2064.	£714.4m outstanding
Intra-group loans	Bazalgette Finance Plc	–	Tideway has £522.2m of loans payable with its sister company Bazalgette Finance plc, which operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licenced activities. The proceeds from bonds issued under this platform are on-lent to Tideway through a series of back-to-back loans which have substantively the same economic terms and effectively pass the financing arrangements of the external debt held by Bazalgette Finance plc to Tideway. These intra-group loans have maturity dates ranging from 2027 to 2049 (further detail in note 10 to the statutory accounts).	£522.2m outstanding

Service provided by regulated business	Company	Turnover of associate	Terms of supply	Value
Intra-group loans	Bazalgette Holdings Ltd	-	Tideway has a £51k loan receivable with its immediate parent Bazalgette Holdings Limited, lent for the purposes of Bazalgette Holdings Limited's capitalisation of Bazalgette Finance plc during 2016/17. The loan is on arm's length commercial terms, bearing an annual interest rate of three-month Libor+85bp.	£0.05m outstanding
Intra-group loans	Bazalgette Finance Plc	-	Tideway has an £8.1m loan receivable with its sister company Bazalgette Finance plc, lent for the purposes of funding Bazalgette Finance plc's debt reserve service account. The loan is on arm's length commercial terms, bearing an annual interest rate of three-month Libor+85bp.	£8.1m outstanding

Tideway's shareholder loans are made by an associated company, Bazalgette Holdings Limited, in line with arrangements agreed with Government and Ofwat before Licence award, and are therefore a relevant transaction. The loan arrangement meets all regulatory requirements for transactions with associated companies. The information in the form required by Ofwat is shown above.

Tideway's subsidiary, Thames Tideway Tunnel Ltd (TTTCo), was created to allow staff and other necessary resources to be transferred from Thames Water to Tideway at Licence award. To support this transfer an administrative arrangement between Tideway and TTTCo, approved by Ofwat, was put in place. On 31 March 2017 this arrangement was terminated with Ofwat consent, and all resources were transferred from TTTCo to Tideway. There are therefore no transactions to be reported in relation to TTTCo in 2017/18.

RAG 3.10 requires companies to report:

- corporation tax group relief received or surrendered by the regulated business; and
- the basis of the recharge made by the appointed business, where appointed business assets have been used to carry out non-appointed activities.

Tideway had no such transactions to report in 2017/18.

Risk and Compliance Statement

RISK AND COMPLIANCE STATEMENT

This section relates to Tideway's compliance with its statutory, licence and regulatory obligations. For the purpose of the statements set out in this section, Tideway has identified four sources of obligations, capturing the major regulatory and legal obligations applicable to Tideway that are specific to the Thames Tideway Tunnel or to the water industry. These are:

- the project Licence;
- a modified version of the Water Industry Act 1991, as amended;
- the "SIP Regulations";[4] and
- the Project Specification Notice.

The risk and compliance statement complements a number of other Tideway reporting practices, such as detailed quarterly reporting of project information to the Liaison Committee attended by representatives from Ofwat and Defra, and regular information sharing with the ITA, Environment Agency and other sources of scrutiny. These practices help to ensure transparency and accountability regarding Tideway's compliance with its statutory, Licence and regulatory obligations. During 2017/18 Tideway carried out a company-wide review of external reporting, which confirmed that the reporting in place was adequate given the obligations in place, highlighted areas of good practice and identified some potential areas for improvement.

With regard to the above obligations, Tideway's Board confirms that:[5]

- The Company has a full understanding of, and is meeting, its obligations.

  The Board considers that Tideway had no material instances of non-compliance with the above listed statutory, Licence and regulatory obligations throughout 2017/18.

  Under the umbrella of its assurance policy, strategy and plan, Tideway has a range of processes for ensuring compliance. These processes are captured in the integrated assurance framework overseen by the Compliance and Assurance Review Group, led by the CEO; details of this group are provided in the data assurance summary.

  In relation to Tideway's Licence obligations, each obligation is allocated to the owner within Tideway with the most relevant expertise. These owners are responsible for ensuring compliance and putting in place appropriate processes and first line assurance (see the data assurance summary). The assurances given in this statement are underpinned by the Regulation team's risk-based reviews of compliance, in which the frequency and degree of scrutiny applied and the level of evidence requested in relation to each obligation reflects the likelihood and potential severity of breach, as assessed using a common set of standards. This approach is supplemented by quarterly management reviews. Tideway's internal audit function carried out a review of Licence compliance in relation to 2017/18 and concluded that the controls in place were effective. The results of these assurance processes are reported to Tideway's Audit Committee.

  Tideway is discussing a number of potential licence modifications with Ofwat, as part of the regulator's forthcoming review of the TTT project. These modifications reflect experience since the award of Tideway's Licence in 2015, particularly in respect of its bespoke conditions, and areas where licence simplifications that Ofwat is proposing to apply to other water and sewerage companies may also be relevant to Tideway.

  Tideway's legal team manages compliance with our legal obligations. The team monitors and supports compliance on an ongoing basis, undertakes periodic audits, and identifies and prepares for legislative changes that may impact Tideway. To support compliance, the team promotes awareness of key legislative requirements across the business. Training is provided on specific topics such as fraud awareness and the General Data Protection Regulation. The legal team also scrutinises procurements to ensure compliance with the procurement regime applicable to Tideway.

- The Company has satisfied itself that it has sufficient processes and internal systems of control (summarised in the previous bullet) to fully meet its obligations. Tideway is committed to continual improvement and as such we will continue to refine our processes to support ongoing compliance.

[4] The Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) Regulations 2013 (as amended by the Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) (Amendment) Regulations 2015) (the "SIP Regulations")

[5] Statements in relation to customers and outputs required by Ofwat's risk and compliance statement guidance are not included here as they are not relevant to Tideway

Condition K Reporting

- The Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks. The steps being taken to manage or mitigate material identified risks are covered in the Risk Management section of the Strategic Report. At the Board Risk Committee meeting in March, the Committee reviewed Tideway's approach to corporate risk management, covering all business areas. Committee members were given an opportunity to discuss the principal and corporate risks facing the business, reflecting the current stage of the project and relevant external influences. The Committee also reviewed Tideway's risk appetite and endorsed relevant changes to ensure it remains appropriate and reflective of the current business environment.

CONDITION K STATEMENT

Condition M 5.1 of Tideway's Licence requires it to make an annual statement regarding the sufficiency of its non-financial resources, in case of special administration. The Board confirms that as at 31 March 2018, as far as reasonably practicable, Tideway had available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage Tideway's affairs, business and property in accordance with the purposes of the special administration order.

INFORMATION ON THE CONDITION K CERTIFICATE

Tideway has submitted a Condition K Certificate to Ofwat stating that in the opinion of its Board:

- Tideway will have available to it sufficient financial resources and facilities to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- Tideway will have available to it sufficient management resources and systems of planning and internal control to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- All contracts entered into between Tideway and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to Tideway, to ensure that it is able to carry on the Licensed Activities.

Tideway has a range of processes that enable its Board to make the above statements. These include:

- Tideway's Financing Plan, Annual Budget, Annual Business Plan and resource planners;
- Board oversight of these processes, in particular via Tideway's Audit Committee, which oversees systems of planning and internal control and overall regulatory compliance and is provided with all audit reports including on Licence compliance. The Board reviews financial resources and facilities and management resources on a quarterly basis. As part of this, a quarterly financing update is provided to the Board and Treasury Committee, reporting on key parameters such as liquidity;
- scrutiny by Tideway's external auditor, KPMG, which is required to confirm that Tideway is a going concern and which reviews the Condition K Certificate;
- reviews by Tideway's legal team of all significant new or modified contracts, with reference to regulatory obligations and the need to ensure appropriate standards of service; and
- a strong data assurance policy, strategy and plan based around the concept of 'three lines of defence' (see data assurance summary on pages 158-160). Executive-level support for appropriate assurance is provided via the Compliance and Assurance Review Group and associated Integrated Assurance Framework.

The outputs of the process underlying the long-term viability statement (see pages 32-33) support the above statements, by giving comfort in relation to Tideway's financial viability up to 2030.

Board endorsement

All disclosures in this regulatory report, including the Risk and Compliance Statement, were approved by the Board on 21 June 2018 and the report was signed on its behalf by:

Andy Mitchell
Chief Executive Officer

Sir Neville Simms,
Chairman

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

Data Assurance Summary

DATA ASSURANCE SUMMARY

Introduction

Tideway recognises the importance of providing accurate information to its stakeholders and explaining how the information has been assured, in order for stakeholders to trust it. One of the important ways in which companies provide information is in their annual reports. To ensure this information is reliable, Tideway has developed this data assurance methodology for its 2017/18 Annual Report, consistent with its assurance policy, strategy and plan. The approach is heavily based on that followed for the 2016/17 Annual Report, and has been further developed with the intention of following best practice in the water industry following a review of Ofwat's 2017 assessment of companies under the Company Monitoring Framework. It is also consistent with Ofwat's vision for trust and confidence in the water sector.

Overview of assurance approach

Tideway's Board, supported by the Audit Committee, places a high level of importance on the assurance of Company information. The Audit Committee and Board have overseen and endorsed the development of the Company's assurance policy and strategy, which has embedded the approach of the 'three lines of defence'. The first line of defence relates to business operations; the second line to oversight functions; and the third to independent audit.

Tideway has an integrated assurance framework, which maps the first, second and third lines of defence across the whole of its business. The mapping of the first and second line assurance informs the development of Tideway's internal audit plan. The data assurance carried out for the 2017/18 Annual Report was underpinned by Tideway's ongoing assurance activities and controls, as reflected in the integrated assurance framework.

Tideway has a Compliance and Assurance Review Group (CARG) to oversee its compliance and assurance practices, which shares its findings with the Audit Committee and the Board. The CARG covers assurance Company-wide, including but not limited to regulation, financing documentation, tax, insurance, planning and corporate and commercial requirements.

As well as the internal assurance activities overseen by the CARG, there are a number of sources of independent (third line) assurance during the year. Our internal audit function audits processes across the business, including key financial processes. Our external auditor carries out a series of agreed checks (known as "agreed upon procedures") on our Revenue Statement submissions to Ofwat. The Independent Technical Assessor (ITA) reviews a wide variety of information on the progress of the project, verifies Tideway's regulatory expenditure and produces quarterly reports on Tideway's reporting to Government. The ITA is co-located with Tideway and is given full access to information throughout the year.

Assurance of 2017/18 Annual Report

Introduction

The approach to assurance for the 2017/18 Annual Report was based on the approach in the 2016/17 Annual Report. The 2016/17 approach was developed within the context of Tideway's overall approach to assurance as described above. The methodology was reviewed by Internal Audit, which provided a written opinion on the approach.

The following sections set out the approach in more detail.

First and second line assurance

The first two lines of defence were provided internally. The first line of defence was provided within the functional areas responsible for different sections of the report. It consisted of the following activities:

- each section owner provided the source of all data items in the section and described the relevant assurance activities through the reporting year;
- a peer review of each section by a colleague within the business function, with any comments fed back to the section owner and addressed; and
- the section owner, their head of department and the appropriate member of the executive management team certified the accuracy, reliability and completeness of the section.

Oversight provided by the wider business formed the second line of defence. One of the most significant second line activities was a verification of the report by an independent central team, comprising representatives from a range of Tideway functions. The objectives of this review were to test the robustness of the first line of defence, and provide an overarching consistency check between sections of the report.

The central team checked the accuracy of the data presented in the report using the source and assurance information provided by the section owner. These checks were carried out on a risk basis, based on the likelihood of error and the likely impact, with data items assessed by the central team at the start of the review, and were informed by any internal stakeholder views obtained on areas requiring additional assurance. This initial assessment determined the depth and breadth of assurance, with all high-risk items checked back to an assured source. Lower-risk items were subject to spot checks.[6] The team provided a consistency check between sections.

Other activities in the second line of defence included:

- executive management review of each section;
- review of relevant sections of the governance report by Board Committee Chairs;
- review of the risk management framework, principal risks, long-term viability statement and going concern statement by the Board's Risk Committee;
- review of the Annual Report by the Board as a whole, in a workshop held in advance of finalising the report; and
- review of the Annual Report by the Audit Committee.

Any comments or concerns identified as part of the second line of defence were fed back to section owners and addressed.

Third line assurance

The third line of defence consisted of independent assurance provided by KPMG and internal audit. KPMG audited the Statutory Accounts and provided assurance over various other sections of the report, by carrying out an audit and/or other checks (known as agreed upon procedures), as set out in the table below. Internal audit reviewed this methodology and checked that it had been followed.

Internal audit also audited the year-end Licence compliance process, which underpins the risk and compliance statement.

KPMG assurance

Section/table	KPMG assurance
Strategic report	Consistency with the accounts
Corporate governance	Within scope of statutory audit opinion where the Corporate Governance Code has been adopted and the element forms one of the 11 provisions of the Code.
Directors' report	Statutory audit opinion covers preparation in accordance with the requirements of the Companies Act 2006.
Regulatory reporting – tables in sections 1 and 2	Regulatory audit (in line with Ofwat guidance)
Regulatory reporting – tables in sections 4 and 5	A set of specific tests on the calculations to verify their accuracy (known as agreed upon procedures)
Condition K certificate	Review in line with Licence requirement
Regulatory reporting – narrative	Consistency with the accounts
Financial statements	Companies Act/statutory audit

KPMG's opinions in the Annual Report and Accounts cover the results of its statutory and regulatory audits.

[6] *Checks were initially carried out on around 80 per cent of data items*

Data Assurance Summary

Continued

Board oversight

The Board and its Committees have overseen the Annual Report and the assurance activities carried out to ensure the Report's accuracy.

The outcome of the assurance activities described in this methodology have been shared with the Audit Committee. This has enabled the Audit Committee to assure the Board, in line with the UK Corporate Governance Code requirements, that the 'Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy'.

On the basis of this assurance, the Audit Committee has recommended the Annual Report to the Board for its approval and sign off.

Board endorsement

This data assurance summary was approved by the Board on 21 June 2018 and the report was signed on its behalf by:

R. M.

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

INDEPENDENT AUDITOR'S REPORT (REGULATORY ANNUAL PERFORMANCE REPORT – SECTION 1 AND 2 TABLES)

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Bazalgette Tunnel Limited.

Opinion

We have audited the sections of/tables within Bazalgette Tunnel Limited's Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2018 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the historical cost analysis of fixed assets for wholesale and retail (table 2D) and the related notes. In line with the Ofwat guidance issued on 16 May 2018, other section 2 tables have neither been presented nor audited.

We have not audited the additional regulatory information in tables 4H and 4I or the bespoke information in tables 5A to 5C.

In our opinion, Bazalgette Tunnel Limited's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.10, RAG 4.07 and RAG 5.07) and the accounting policies set out on pages 120-123.

Auditor’s Report

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors’ responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF ‘Reporting to Regulators on Regulatory Accounts’ issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA’s purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union (“IFRSs”). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 143 to 148 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company’s statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors’ use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

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

Auditor’s Report
Continued

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors’ Responsibilities set out in the Regulatory Report (see table on pages 140-141) and in the Directors’ Report, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company’s accounting policies.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the company’s Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in

the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Project Licence granted by the WSRA to the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")". ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we reported on 21 June 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit report") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2018

Auditor's Report
Continued

INDEPENDENT AUDITOR'S REPORT (CONDITION K CERTIFICATE)

Report of KPMG LLP to Bazalgette Tunnel Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition F4.1

In accordance with the terms of our engagement letter dated 07 June 2018, we have examined the Company directors' certificate – Condition K dated 21 June 2018 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2018.

Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition F in accordance with Condition M5 of the Licence. The Certificate is presented as set out in the Project Licence by the WSRA of the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations")".

As specified in our engagement letter dated 07 June 2018, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2018 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition M5. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 21 June 2018, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2018.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

This report has been released to the Company and to the WSRA on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Company's or the WSRA's own internal purposes) or in part, without our prior written consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA for our work, for this report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract.

Basis of our review

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2018 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2018.

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2018

Glossary

Term	Definition
Assurance Plan	A plan to ensure that the product ultimately delivered is of high quality.
BEIS	UK Government Department for Business, Energy and Industrial Strategy.
BMB	Joint venture between Bam Nuttall Ltd, Morgan Sindall Plc and Balfour Beatty Group Ltd, which manages the West component of the project.
Building Research Establishment (BRE)	A multi-disciplinary building science centre, which aims to improve buildings and infrastructure, through research and knowledge generation.
Carbon Action Plan	Plan to reduce emissions of carbon.
Combined Sewer Overflow (CSO)	Pipes designed to release excess sewage during storms.
Community Liaison Working Groups	Stakeholder groups that Tideway has set up near the active construction sites, to engage and share information with local residents.
Consents	The permissions required from third parties (e.g. local authorities) for Tideway to deliver the project.
Consumer Price Index (CPI)	An index of consumer prices, compiled and issued by the Office for National Statistics.
Corporate Governance Code (the Code)	Rules which set standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders for UK companies.
Corporate Resilience	Ability of a company to respond quickly and effectively to shocks.
Current Regulatory Baseline (CRB)	A schedule agreed with contractors to deliver the project by the Licence date.
CVB	Joint venture between Costain Ltd, Vinci Construction Grands Projets and Bachy Soletanche Ltd which manages the East component of the project.
Defra	Department for the Environment, Food and Rural Affairs.
Employee Project Induction Centre	Tideway's compulsory Health, Safety and Wellbeing training programme for every person working on the project.
Encompass Diversity Programme	The Project's diversity forum, open to all working on Tideway.
FLO	Joint venture between Ferrovial Agroman UK Ltd and Laing O'Rourke Construction Ltd which will deliver the Central component of the project.
Government Support Package (GSP)	An agreement with the UK Government under which it will provide financial support for the project in certain unlikely circumstances.
Green Bonds	Debt instruments whose proceeds fund projects with environmental benefits, such as the Thames Tideway Tunnel.
Handover	The point at which the tunnel is integrated into the wider sewer network, commissioning tests have been successfully completed and Thames Water has issued a handover certificate.
Health, Safety, Security and Environment (HSSE) Committee	Committee to protect Tideway's people and the environment.

Glossary
Continued

Term	Definition
Health and Safety Performance Index (HSPI)	Index to measure Tideway's performance on health and safety issues.
High impact, low probability (HILP) events	Unlikely events which could have a significant impact on the cost or schedule of the project, on employee health and safety or on Tideway's reputation.
Independent Technical Assessor (ITA)	Reviews a wide variety of information on the progress of the project, and verifies Tideway's regulatory expenditure.
International Financial Reporting Standards (IFRS)	Standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs, so that company accounts are understandable and comparable across international boundaries.
Joint Emergency Services Interoperability Principles (JESIP)	Programme to enable the UK's emergency services to work together as smoothly as possible in the event of a major, multi-agency incident.
KPMG	A global network of professional firms providing audit, tax and advisory services. Tideway's auditor.
Licence	The licence granted to Tideway by Ofwat on 24 August 2015.
London Tideway Tunnels (LTT)	The TTT and the Lee Tunnel.
Long Term Incentive Plan (LTIP)	A plan for the remuneration and retention of Tideway's Directors.
Main Works Contractors (MWC)	Contractors with contracts directly with Tideway.
Main Works Contracts	The contracts between Tideway and the main works contractors to engineer, procure, construct and commission the three sections (West, Central and East) of the Thames Tideway Tunnel.
More by River	Tideway's strategy to enhance the use of the River Thames for logistics.
Programme Manager (PM)	A contractor to whom Tideway delegates the day-to-day coordination of the project.
Regulatory Accounting Guideline (RAG)	Guidelines which Ofwat sets for the production of regulatory accounts and financial statements.
Regulatory Baseline	The baseline cost of £3.1bn in 2014/15 prices, of delivering the elements of the tunnel within Tideway's scope, as set out in Tideway's Licence.
Regulatory Capital Value (RCV)	The value of Tideway's capital base. Tideway's RCV is calculated on a cash basis using a methodology set out in the Company's Licence. It comprises project-related expenditure that does not fall into specified excluded categories, and that has been verified by the Independent Technical Assessor.
Retail Price Index (RPI)	An index of retail prices, compiled and issued by the Office for National Statistics.
Revenue Agreement	The agreement under which Thames Water collects revenue from its wastewater customers on Tideway's behalf.
RightStart	This is about getting the Health, Safety and Wellbeing basics right from the very start to help us avoid incident spikes often seen at the start of major projects.
RightWay	Tideway's approach to introducing transformational Health, Safety and Wellbeing.

Term	Definition
Schedule of Designated Authority (SoDA)	Schedule which defines the levels of authorisation required for key decisions in relation to funding and investment, contractual commitment and change, invoicing and payments, procurement, recruitment, treasury, the discharge of consents and claim settlement.
STEM	Science, Technology, Engineering and Mathematics.
STEM Ambassador	STEM Ambassadors are volunteers from a wide range of science, technology, engineering and mathematics (STEM) related jobs and disciplines across the UK. They offer their time to help bring STEM subjects to life and demonstrate their value in life and careers.
Sustainable Development Goals (SDGs)	Seventeen goals set by the United Nations to promote global welfare in a number of areas, including health and sanitation.
System Acceptance	The point at which the entire Thames Tideway Tunnel system is accepted to serve as part of Thames Water's sewer network.
System Operator Authority (SOA)	Authority which will operate the Thames Tideway Tunnel after System Acceptance.
Thames Tideway Tunnel (TTT)	A 25 km (16 mi) tunnel running mostly under the tidal section of the River Thames through central London, which will provide capture, storage and conveyance of almost all the combined raw sewage and rainwater discharges that currently overflow into the river.
Thames Water Works	Thames Water's activities, including enabling and interface works, which are necessary for the development and connection of the Thames Tideway Tunnel to the sewer network.
The Alliance	The alliance between Tideway, Thames Water, the main works contractors and the system integrator, designed to incentivise collaborative working, realise synergies and share best practice.
Tideway Operating Model (TOM)	Model which governs and optimises the roles and responsibilities of Tideway and its Main Works Contractors.
Tunnel Boring Machine (TBM)	Machine used to excavate tunnels with a circular cross section through a variety of soil and rock strata.
Tunnelling Completion Date	The date by the end of which all secondary lining is installed in the main tunnel and no significant remedial works are required.
Tunnelling Start Date	The date of the commencement of tunnelling at each of the three main drive sites.
United States Private Placement (USPP)	A bond issue in a United States private bond market which is available to both US and non-US issuers.

Name & Registered Office:
Bazalgette Tunnel Limited,
Cottons Centre,
Cottons Lane,
London,
SE1 2QG

Company number: 09553573
Registered in England and Wales

Visit: **www.tideway.london**
Email: **helpdesk@tideway.london**

FSC www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C016486