Bazalgette Finance plc

Annual report and financial statements

For the year ended 31 March 2019

Registered number 09698014

Contents

Directors and advisors

Directors holding office

Andrew Cox

Alistair Ray

Angela Roshier

Gavin Tait

Company Secretary

Valmai Barclay

Registered office

Cottons Centre

Cottons Lane

London

SE1 2QG

Independent auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Strategic report

The Directors present their Strategic report for Bazalgette Finance plc for the year ended 31 March 2019.

Business review

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

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited. As at the 31 March 2019, the Bazalgette Holdings Group ("the Group") comprised the Company, Bazalgette Tunnel Limited and Bazalgette Holdings Limited.

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

Some of the bonds issued by the Company are in a deferred format which means that the proceeds from the bond are not received from the bond purchaser until a future settlement date so as to align when funds are raised with the construction expenditure profile of the TTT project. The deferred purchase bonds have remaining deferral periods of up to four years and maturities from 2032 to 2054.

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

In the year ended 31 March 2019, the Company issued £325m index-linked bonds, all of which were deferred purchase bonds. The current year issuance is in addition to the £1.1bn of bonds issued by the Company in prior years and takes the overall total of bonds issued by the Company to £1.4bn. As at the 31 March 2019, a total of £725m of bond proceeds had been settled by bond purchasers (2018: £525m).

The £325m of bonds issued in the year were done under the Company's 'Green Bond Framework' and takes the total issuance of green bonds to £775m. All six green bonds issued to date are listed in the London Stock Exchange Green segment. Green bonds are debt instruments whose proceeds are used to fund projects with environmental benefits, such as the Thames Tideway Tunnel. The Green Bond Framework which is aligned with the four core components of the International Capital Markets Association (ICMA) Green Bond Principles was published in 2017/18 and is available to view at www.tideway.london. We have aligned our legacy commitments to the UN Sustainable Development Goals (SDG). Fees and costs associated with the issue of the bonds were borne by Bazalgette Tunnel Limited.

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

Results and performance

The Company has recorded a £0.1m loss for the year ended 31 March 2019 (2018: £nil). The Company's net liabilities were £0.1m (2018: £nil). The loss in the year is due to interest expense on intra-group borrowings.

Principal risks and uncertainties

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

Strategic report (continued)

Credit risk

Credit risk exists in relation to the Company's financing activities. The Company has entered into a number of agreements with Deferred Bond Purchasers, under which there are long deferral periods for the purchase dates. The Company is therefore exposed to the credit risk of such counterparties on whom it relies to provide funds on the pre-agreed dates. The Company evaluates counterparty risk prior to entering into such transactions and manages concentration risk in respect of deferred funding commitments. As part of its risk management, the Company has agreed information requirements and covenants with the Deferred Bond Purchasers, and the Company monitors on an ongoing basis the Deferred Bond Purchasers' ability to honour their obligations, allowing it to assess any potential liquidity exposure in advance of settlement dates, and to make alternative funding arrangements if necessary.

Liquidity risk

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

The Company has limited capitalisation and is therefore reliant on the support of the Group to meet any liabilities as they fall due. The risk is partially mitigated by the Company's requirement to hold sufficient liquidity to cover its financial obligations for a 12-month period into a designated debt service reserve account.

Inflation risk

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

The Company has recognized Ofwat's proposals to transition from RPI to CPIH as the underlying measure of inflation for price control periods. It also understands the risk that CPI could diverge from RPI in a way that the correlation between RCV and nominal debt weakens. As a result, in the year, the Company issued long dated index-linked bonds in both formats.

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

Brexit risk

Details on Brexit risk can be found in the Bazalgette Holdings Group Annual report within the principal risks section of the Strategic Report.

Future outlook

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

This Strategic report was approved by the board of Directors on 20 June 2019 and signed by order of the Board by:

Valmai Barclay
Company Secretary

Directors' report

The Directors present their report and the audited financial statements for year ended 31 March 2019. The registered company number is 09698014.

Results and dividend

During the year ended 31 March 2019 the Company reported a £0.1m loss (2018: £nil). The Company did not pay any dividends in the year (2018: £nil).

Directors

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

Andrew Cox
Alistair Ray
Angela Roshier
Gavin Tait

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors, the Company Secretary and the General Counsel and these remain in force at the date of this report. The Bazalgette Holdings Group of which the Company is a subsidiary operates a directors and officers insurance.

Employees

The Company has no employees (2018: none). Employees of Bazalgette Tunnel Limited carry out all the activities of the Company and there is no specific recharge to the Company.

Financial risk management

Credit risk, Liquidity risk and Inflation risk are considered to be the principal financial risks the Company is exposed to. Details and management of these risks can be found in the Strategic Report in the 'Principal risks and uncertainties' section.

Charitable and political contributions

The Company made no charitable donations during the year (2018: £nil).
The Company made no political donations nor incurred any political expenditure during the year (2018: £nil).

Events occurring after the reporting period

There are no events that have occurred after the reporting period that would require disclosure in these financial statements.

Disclosure of information to auditor

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

Auditor

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

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement has been approved and is signed by order of the Board by:

Valmai Barclay
Company Secretary

20 June 2019

Independent auditor's report

to the members of Bazalgette Finance plc

1. Our opinion is unmodified

We have audited the financial statements of Bazalgette Finance Plc ("the Company") for the year ended 31 March 2019 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by shareholders on 19 August 2015. The period of total uninterrupted engagement is for the four financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality financial statements as a whole	£6.7m (2018:£5.2m) 0.9% (2018: 0.9%) of Total Assets	
Key audit matters		**vs 2018**
Recurring risks	Recoverability of intra-group receivables balance	◄►
New risk	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going Concern Assessment	◄►

2. Key audit matters: including our assessment of risks of material misstatement

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 4 (strategic report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements, see below. All of these depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge** We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. **Sensitivity analysis** When addressing the recoverability of intra-group receivables and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency** As well as assessing individual disclosures as part of our procedures on recoverability of intra-group receivables we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the recoverability of intra-group receivables, we found the resulting estimates and related disclosures of intra-group receivables and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Going concern assessment *Refer to page 3 (strategic report) and page 17 (basis of preparation).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Company's available financial resources over this period were: • Significant cost overruns on the Thames Tideway Tunnel project; • The impact of Brexit on the supply chain of Bazalgette Tunnel Limited and its impact on the recovery of intragroup receivables which in turn impacts the ability of the Company to meet its external debt obligations. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Funding assessment** We obtained lending agreements for committed financing, including undrawn amounts to ensure the Company had adequate funding available or to call upon to meet its obligations in the going concern period. Our assessment also included recalculating covenant compliance. **Sensitivity analysis** We considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; including the possible impact of Brexit, such as increasing supply chain costs and delays, to identify whether reasonably possible adverse scenarios could have an impact on liquidity. We have also considered the adequacy of funding available to Bazalgette Tunnel Limited including its ability to generate liquid funds to honour its commitments under its lending agreements. **Assessing transparency** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by ensuring the disclosures are consistent with our understanding of the Company's circumstances and other outcomes of the procedures described above. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.

2. Key audit matters: our assessment of risks of material misstatement (continued)

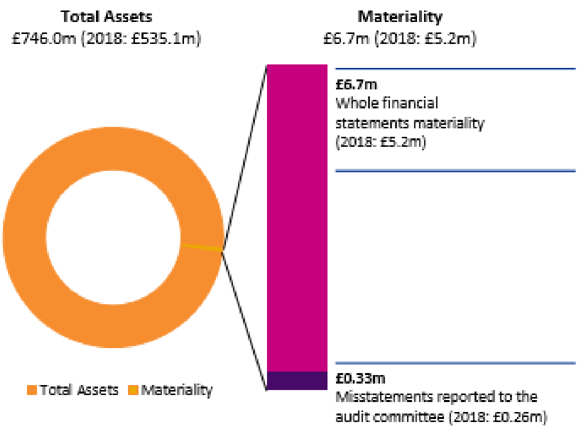
	The risk	Our response
Recoverability of intra-group receivables balance from Bazalgette Tunnel Limited (£736.3 million; 2017: £527 million) *Refer to page 18 (accounting policy) and page 21 (financial disclosures).*	**Low risk, high value** The carrying amount of the intra-group debtor balance represents 98% of the Company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Company's financial statements, this is considered to be the area that had the greatest effect on our overall company audit.	Our procedures included: **Tests of detail** Assessing 100% of intra-group debtors to identify, with reference to the relevant debtor's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed. **Assessing Bazalgette Tunnel Limited's ability to repay the receivable** Assessing the ability of Bazalgette Tunnel Limited to obtain liquid funds and therefore the ability to fund the repayment of the receivable through reviewing the licence agreement and considering sensitivity analysis on cost overruns on the regulatory capital value (RCV). **Our results** We consider the Company's assessment of the recoverability of intra-group receivables balance in the Company's balance sheet to be acceptable.

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

Materiality for the financial statements as a whole was set at £6.7m (2018: £5.2m), determined with reference to a benchmark of total assets, of which it represents 0.9% (2018: 0.9%). The benchmark has not changed from prior year.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.33m (2018: £0.26m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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



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4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;

- in our opinion the information given in the strategic report and the directors' report 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.

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

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

— adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6 , the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), 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, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Bazalgette Tunnel Limited's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

John Luke

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

20 June 2019

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Income Statement
For the year ended 31 March 2019

	Note	**2019 £m**	**2018 £m**
Net operating costs	*2,3*	**-**	**-**
Operating result		**-**	**-**
Interest income	*4*	17.7	5.2
Interest expense	*4*	(17.8)	(5.2)
Loss before tax		**(0.1)**	**-**
Taxation	*5*	-	-
Loss for the year		**(0.1)**	**-**

Statement of Other Comprehensive Income
For the year ended 31 March 2019

	2019 £m	**2018 £m**
Loss for the year	(0.1)	-
Other comprehensive income for the year	**-**	**-**
Total comprehensive income for the year	**(0.1)**	**-**

The notes 1 to 13 form an integral part of these financial statements.

Statement of Financial Position
As at 31 March 2019

	Note	**2019 £m**	**2018 £m**
Non-current assets			
Loans to Intra-Group Company	*6*	733.4	524.4
		733.4	**524.4**
Current assets			
Trade and other receivables	*6*	2.9	2.6
Cash and cash equivalents	*7*	9.7	8.1
		12.6	**10.7**
Total assets		**746.0**	**535.1**
Current liabilities			
Trade and other payables	*8*	(2.9)	(2.6)
		(2.9)	**(2.6)**
Non-current liabilities			
Borrowings	*9*	(743.2)	(532.5)
Total liabilities		**(746.1)**	**(535.1)**
Net liabilities		**(0.1)**	**-**
Total equity			
Share capital	*11*	-	-
Retained earnings		(0.1)	-
		(0.1)	**-**

These financial statements were approved by the board of Directors on 20 June 2019 and were signed on its behalf by:

Alistair Ray
Director
Company registered number: 09698014

The notes 1 to 13 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2017	-	-	-
Result for the year	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Total contributions by and distributions to owners	**-**	**-**	**-**
Balance at 31 March 2018	**-**	**-**	**-**
Balance at 1 April 2018	**-**	**-**	**-**
Loss for the year	-	(0.1)	(0.1)
Total comprehensive income for the year	**-**	**(0.1)**	**(0.1)**
Total contributions by and distributions to owners	**-**	**-**	**-**
Balance at 31 March 2019	**-**	**(0.1)**	**(0.1)**

The notes 1 to 13 form an integral part of these financial statements.

Cash Flow Statement
For the year ended 31 March 2019

	Note	**2019** **£m**	**2018** **£m**
Loss before income tax		(0.1)	-
Adjustments for:			
Other non-cash movements – finance costs		-	2.3
Changes in working capital			
Increase in trade and other receivables		(0.3)	(4.9)
Increase in trade and other payables		0.3	2.6
Net cash used in operating activities		**(0.1)**	-
Cash flows used in investing activities			
Loans to intra-group company		(200.0)	(522.1)
Interest received		8.5	0.3
Net cash used in investing activities		**(191.5)**	**(521.8)**
Cash flows from financing activities			
Proceeds from new borrowings		200.0	522.1
Proceeds from intra-group loans	*9*	1.7	8.1
Interest paid		(8.5)	(0.3)
Net cash from financing activities		**193.2**	**529.9**
Net increase in cash and cash equivalents during the year		**1.6**	**8.1**
Cash and cash equivalents at the beginning of the year		8.1	-
Cash and cash equivalents at the end of the year	*7*	**9.7**	**8.1**

The notes 1 to 13 form an integral part of these financial statements.

Notes to the financial statements

1 Significant accounting policies

Basis of preparation

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

These financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Company's financial position.

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

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

Measurement convention

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

Going concern

Notwithstanding net current liabilities of 0.1m as at 31 March 2019 and a loss for the year then ended of £0.1m, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's fellow subsidiary company, Bazalgette Tunnel Limited not seeking repayment of the amounts currently due, which at 31 March 2019 amounted to £9.8m, including interest payable. Bazalgette Tunnel Limited has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. Further the directors note that there is no reason to believe that Bazalgette Tunnel Limited cannot honour its commitments to Bazalgette Finance plc under its lending agreements. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

New accounting standards

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

The Company has completed an impact assessment of the adoption of IFRS 9 and has concluded that on adoption of the new standard, impairment losses against financial assets under the twelve-month

1 Significant accounting policies (continued)

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

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

In addition, with effect from 1 April 2018, the Company adopted IFRS 15. IFRS 15 replaces previous revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under this standard the Company will apply a five-step revenue recognition model to revenue recognition. Under IFRS 15, revenue is recognised when a customer obtains control of the goods and services. There is no significant impact on the Company from the adoption of IFRS 15.

Financial instruments

The Company determines the classification of financial instruments at initial recognition and re-evaluates this designation at each financial year end. The initial and subsequent measurement of financial instruments depends on their classification as follows:

Trade and other receivables:

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

Trade and other payables:

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

Cash and cash equivalents:

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

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

Borrowings:

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

Deferred purchase bonds:

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

Impairment

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

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

Any impairment losses are recognised in the Income Statement.

1 Significant accounting policies (continued)

Taxation

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

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

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

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

Recently issued accounting standards

At the date of authorisation of these financial statements, the Company has not applied the following new or revised IFRS's that have been issued but are not yet effective for the Company as at 31 March 2019 and in some cases are subject still to endorsement by the EU.

- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures
- Improvements to IFRSs (2015–2017)
- IAS 19 Plan Amendment, Curtailments or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS Practice Statement 2 Making Materiality Judgements
- Conceptual Framework for Financial Reporting

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

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

2 Auditor's remuneration

The auditor's remuneration for the audit of these financial statements was £5,200 (2018: £5,000) and was borne wholly by Bazalgette Tunnel Limited.

3 Remuneration of Directors

The Directors of Bazalgette Finance plc did not receive any payments for their services during the year as they have not performed any qualifying services (2018: £nil).

4 Net finance costs

	2019	2018
	£m	£m
Interest expense		
Interest on external borrowings	(8.7)	(2.9)
Intra-group interest	(0.2)	-
Other financial liabilities measured at amortised cost	(9.0)	(2.3)
Interest income		
Bank interest	0.1	-
Intra-group interest	17.7	5.2
Net finance costs	**(0.1)**	**-**

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

5 Taxation

	2019 £m	2018 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

Reconciliation of effective tax rate

	2019 £m	2018 £m
Loss before tax	(0.1)	-
Expected tax credit using UK corporation tax rate of 19% (2018: 19%)	-	-
Total Income Statement tax expense	-	-

6 Trade and other receivables

	2019 £m	2018 £m
Non-current assets		
Intra-group loans (see note 12)	722.5	522.2
Interest receivable from intra-group companies (see note 12)	13.8	4.8
	736.3	**527.0**
Non-current assets	**733.4**	**524.4**
Current assets	**2.9**	**2.6**

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

Interest receivable from intra-group companies represents the coupon interest on these loans payable by Bazalgette Tunnel Limited. Interest receivable also includes amounts equivalent to the accretion in value of the index-linked borrowings. The coupon interest terms are identical to the interest terms on the Company's external borrowings.

7 Cash and cash equivalents

	2019 £m	2018 £m
Cash and bank balances	9.7	8.1
Cash and cash equivalents per cash flow statement	**9.7**	**8.1**

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 £9.7m at 31 March 2019 (2018: £8.1m).

8 Trade and other payables

	2019 £m	2018 £m
Accrued expenses	2.8	2.6
Intra-group accrued expenses (see note 12)	0.1	-
	2.9	**2.6**
Non-current liabilities	**-**	**-**
Current liabilities	**2.9**	**2.6**

Accrued expenses represent interest payable on outstanding borrowings.

9 Borrowings

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

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

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

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

	2019 £m	2018 £m
Third party borrowings		
£250m 2.375% fixed rate bond 2027	247.5	247.2
£75m 0.828% index-linked bond 2047 [a, b]	77.9	76.1
£200m 0.740% index-linked bond 2042 [a, c]	205.4	201.1
£100m 0.688% index-linked bond 2050 [a]	102.2	-
£100m 0.249% index-linked bond 2040 [a, d]	100.4	-
	733.4	524.4
Intra-group borrowings		
Floating rate loan from Bazalgette Tunnel Limited (see note 12)	9.8	8.1
Total borrowings	**743.2**	**532.5**
Current liabilities	**-**	**-**
Non-current liabilities	**743.2**	**532.5**

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

b) This debt amortises from 2038.

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

d) This debt amortises from 2036

Deferred purchase bonds

The Company placed £325m of deferred purchase bonds during the year ended 31 March 2019 (2018: £125m). In total, the Company has issued £900m (2018: £575m) of deferred bonds to a range of investors. Bond proceeds of £700m will be received over the next four years as £200m was received during the period and the maturities of these deferred purchase bonds range from 2032 to 2054.

10 Financial Instruments

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

Financial assets

	2019 £m	2018 £m
Trade and other receivables	736.3	527.0
Cash and cash equivalents	9.7	8.1
	746.0	**535.1**

Trade and other receivables above exclude prepayments. Trade and other receivables are classified and measured as amortised costs under IFRS 9. Impairment of these assets as assessed under the 12-months expected credit loss model was immaterial and therefore not recognised within the period.

Financial liabilities

	2019 £m	2018 £m
Trade and other payables	2.9	2.6
Borrowings	743.2	532.5
	746.1	**535.1**

Fair value measurements

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

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

	31 March 2019 Book value £m	31 March 2019 Fair value £m	31 March 2018 Book value £m	31 March 2018 Fair value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings - bonds	733.4	833.7	524.4	540.7
Borrowings - loans	9.8	9.5	8.1	7.9
Total	**743.2**	**843.2**	**532.5**	**548.6**

Financial liabilities at amortised cost

The fair value of borrowings is determined using observable quoted market prices where this is available or by discounting the expected future cashflows using appropriate available market data and a credit risk adjustment representative of the Company.

10 Financial Instruments (continued)

Capital risk management

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

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

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

Management of financial risk

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

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

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

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

Liquidity risk

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

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

	2019 **£m**	**2018** **£m**
Within one year	(9.0)	(8.1)
Between one and two years	(9.2)	(8.1)
Between two and five years	(27.7)	(24.6)
After more than 5 years	(1,227.5)	(755.5)
Total	**(1,273.4)**	**(796.3)**

Credit risk

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

The Company's maximum exposure to credit risk is the carrying amount of financial assets and therefore the maximum exposure at 31 March 2019 was £746.0m (2018: £535.1m). Analysis of this amount can be found in the financial assets section of this note.

10 Financial Instruments (continued)

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

Market risk - Inflation risk

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

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

11 Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	**Ordinary shares 2019 No.**	**Ordinary shares 2018 No.**
At the beginning of the year	50,000	50,000
Issued for cash	-	-
At the end of the year	**50,000**	**50,000**

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

12 Related party transactions

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

Amounts outstanding on loans made to Bazalgette Tunnel Limited are £722.5m (2018: £522.2m) and interest outstanding of £13.8m (2018: £4.8m).

During the year ended 31 March 2019, the Company accrued £17.7m (2018: £5.2m) of interest income and received £8.5m (2018: £0.3m) from Bazalgette Tunnel Limited with regards to interest payments under the back to back loans.

Amounts outstanding on borrowings with Bazalgette Tunnel Limited are £9.8m (2018: £8.1m). The loan carries a floating charge based on Libor plus 85bp and a maturity of 2024.

Key management personnel

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

13 Immediate and ultimate parent company of a larger group

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

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

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