

TIDEWAY – HOLDCO GROUP INVESTOR REPORT H1 2020/21

December 2020



Tideway



Notice

IMPORTANT NOTICE

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

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

BASIS OF PREPARATION

Investor Reports relate to the performance of the Holdco Group which includes Bazalgette Holdings Limited (“BHL” or “Holdco”), Bazalgette Finance plc (“Finco”) and BTL. This Investor Report comments on the historical financial performance of the Holdco Group for the period to 30 September 2020.

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

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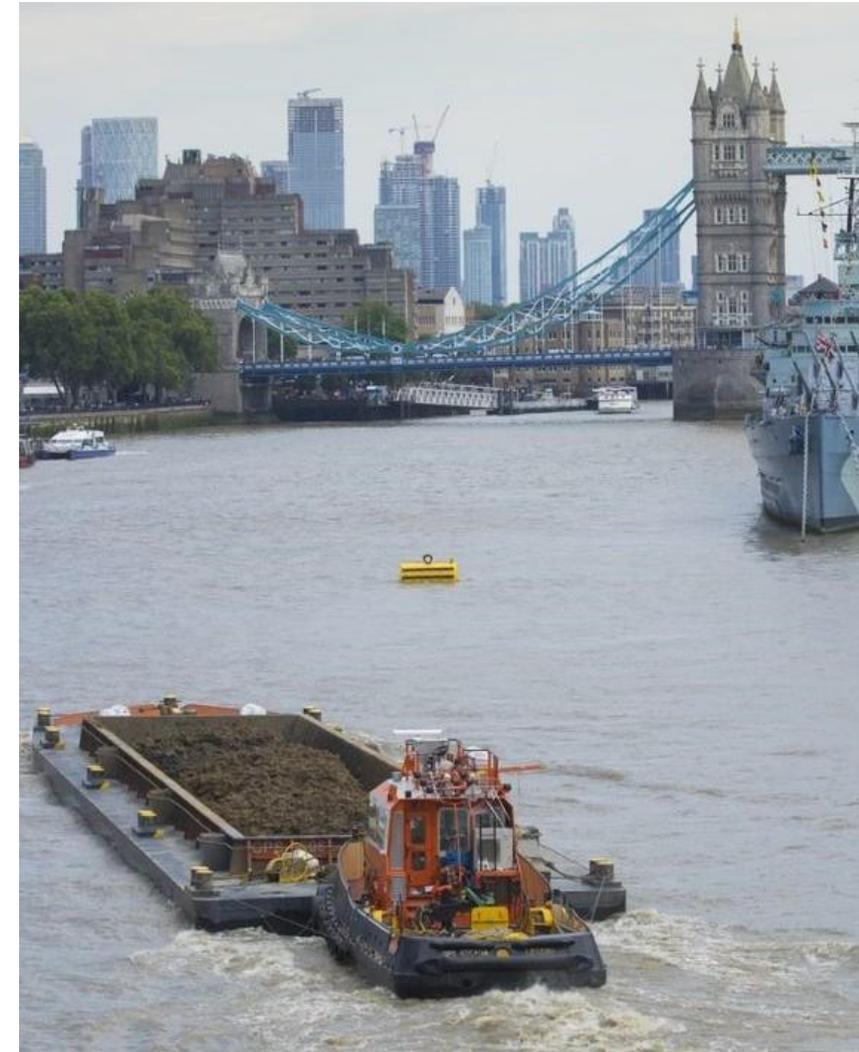


Overview

This Investor Report provides an update of the Holdco Group's activities for the period to 30 September 2020. It covers business, regulatory and financing developments. This Investor Report should be read in conjunction with the Semi-annual Report and Financial Statements for the year ended 30 September 2020.

H1 2020/21 Highlights:

- Tideway has continued to make good progress and construction activity on the project is now over 60% complete although this is behind our original expectations for the period due to COVID-19.
- Our tunnel boring machines (TBMs) made good progress on their journeys. We completed 19.2km of cumulative tunnelling as of September 2020. The last of the total six TBMs is forecast to commence tunnelling in the second half of this year. Shaft excavation is nearing completion with just 2 of the 21 shafts yet to be completed.
- Our preparedness has allowed us to continue our work successfully as the anticipated “second wave” materialised in the autumn.
- We published an operational update on the impact of COVID-19 on cost and schedule disclosing a £233m cost increase to £4.133bn. The Start of Commissioning is now forecast to commence in September 2023 and Handover in March 2025 and represent a circa nine month delay.
- The cost and schedule revision made in the period has not impacted the £20-25 annual cost range for Thames Water bill-payers.
- Discussions with Ofwat on potential regulatory mechanisms to mitigate the impact of COVID-19 on cost, financial resilience and the risk of schedule penalties are ongoing.
- During the first lockdown, Tideway put a small number of staff on furlough under the Coronavirus Job Retention Scheme and stopped using the scheme at the end of October 2020. Post period-end, Tideway returned the £148,539.51 furlough payments received under the job retention scheme.



Overview (continued)

- With over 60% of the project complete and in preparation for system commissioning Tideway has commenced a detailed planning review with key stakeholders to confirm the schedule to completion (expected in line with our previous forecast), which we expect to finalise by mid next year.
- We are exceeding our 75% target for live Legacy commitments – including jobs, skills and environment – with 88% on track.
- Total project costs for the six-month period were £316.8m, taking the total capitalised costs relating to the tunnel, the Regulatory Capital Value, at 30 September 2020 to £2,910.7m.
- The Company has secured total committed debt funding of £2,843m and reached a point of strong financial resilience, where sufficient liquidity has been secured to cover anticipated construction costs until Handover in March 2025.
- The Board approved the deferral of the June, September and December distributions.
- Fitch affirmed the credit rating at BBB+ with stable outlook. Moody's maintained the Baa1 rating but changed the outlook from stable to negative following the COVID-19 operational announcement on the impact of COVID-19 on cost and schedule published in August. The negative outlook could lead to the Company being put on negative watch, which could in turn lead to a consequent rating downgrade. It should be noted that the Company's rating is presently two notches above the requirements of the covenants in its financing documents and licence. S&P published an ESG evaluation of Tideway with a score of 74/100 with our culture deemed excellent.



Business Update – Health, Safety, and Wellbeing

- Accident frequency rates (AFR, measuring lost-time injuries over a rolling 12-month window) improved during the period, with the health, safety and wellbeing of everyone on the project remaining a top priority and there have been no major injuries or significant incidents relating to construction or marine operations to date and HSW performance across the programme remains strong compared to all industry benchmarks.
- The programme's AFR-1 reduced by 11% (0.19 down to 0.17), AFR-3 by 9% (0.11 down to 0.10) and AFR-7 by 30% (0.10 down to 0.07). There were five lost time injuries during the 2.5 million hours worked, two of which resulted in over seven days lost time.
- Following a temporary pause of activities across all sites due to the COVID-19 pandemic all sites returned to work applying the requirements of the Construction Leadership Council (CLC) Standard Operating Procedure (SOP) to ensure sites were COVID-secure.
- A rise in incidents (non-lost-time injuries and near misses) between June to September across the programme raised concerns over the control of traditional construction risks. Main Works Contractors (MWCs) recognised this trend and developed and implemented plans to address this. Tideway and the Programme Manager have supported this with information for re-energising the site teams and ensuring that focus is not detracted due to COVID-19 controls. This has subsequently seen positive improvements in performance.
- Mental health of the workforce continues to be a major drive for the project and has been supported with the Mates in Mind programme.
- The HSW Strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) and worksite testing and commissioning has not yet commenced. It will be a focus for the second half of the year for end-of-year completion.
- Our strategy to use the river to transport as much material as possible continues to deliver the predicted results. At the end of August 2020 our supply chain had moved 4 million tonnes of material by river which has avoided 250,000 HGV loads. The latest data shows that 99% of all the excavated material has been moved by river to date.

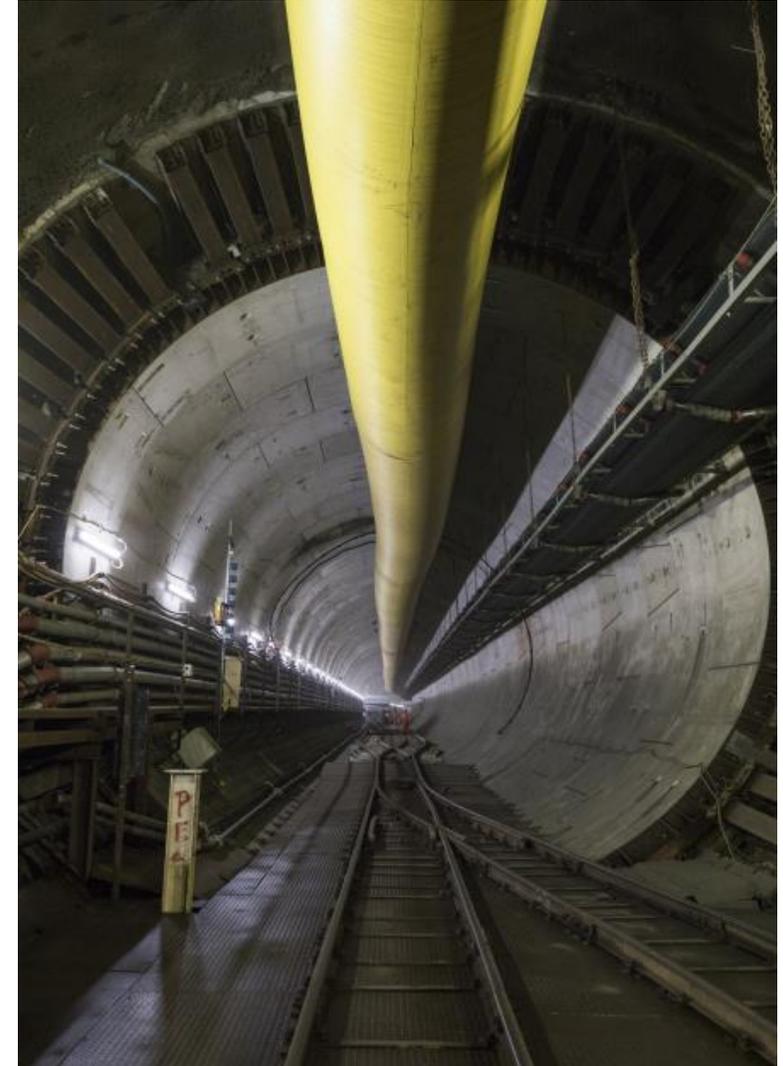
Business Update – Vision, Legacy, and Reputation

- Tideway continues to deliver a proactive engagement and communications strategy through a range of channels, to inform all stakeholders of progress and the ultimate benefits of the project.
- Some activities have changed during the period of the pandemic – for example local community forums and key stakeholder briefings have moved online.
- Despite the challenges in the first half of the year 88% of live legacy commitments remained on track (decreased from 91% at March 2020 but still ahead of the 75% target).
- Earlier in the year ‘Jump’ were appointed as social value consultants over two years to assess the social value creation of Tideway’s Legacy programme and provide third party verification of the achievements of the Legacy programme.
- Tideway maintained its verification to the BRE Ethical Labour Sourcing Standard for the third year. For the first time we surpassed a 25% target to recruit locally from the 24 London boroughs we work within, achieving 26%.
- Tideway was named Company of the Year at the Global Good Awards in September, in recognition of its approach to sustainability and social impact. The judges said that “sustainability had been designed in [to the project] from the beginning” and commended the “real sense of purpose, innovation and management support.”



Regulatory Update

- Throughout the COVID-19 pandemic, Tideway has regularly updated Ofwat and Government on its response. The company has held a series of discussions with Ofwat on a package of measures that could appropriately address the related costs of COVID-19, the impact on the company's financial resilience and risk of schedule penalties. We anticipate that an appropriately balanced settlement on COVID-19 will support the delivery capability and resilience of Tideway and its supply chain, while maintaining investor confidence in the project and sector.
- Potential solutions are being assessed against a common set of high level principles, including appropriate allocation of COVID-19 impacts between parties, incentivising Tideway and the contractors to work efficiently, supporting the best environment for long term delivery of the project and supporting the potential for continued private sector participation in infrastructure delivery. Discussions to date have been constructive and we are confident of reaching agreement on the shape of the measures to be applied. We are involving Defra and other key stakeholders as needed to ensure that the package of measures adopted has widespread support. It is anticipated that consultation on Licence changes will commence in early 2021.



Interface with Thames Water

- Thames Water continues to facilitate access to the Sewer Network to enable Tideway to construct the connections to the TTT.
- Tideway and Thames Water are implementing detailed asset protection arrangements for the Sewer Network during the carrying out of the Company's Works.
- Thames Water and Tideway continue to deliver the joint approach with the development of the requirements and working relationships for the second half of the TTT project including those relating to land hand-back and commissioning.
- The joint workstream that is reviewing the feasibility of leaving some of the temporary works in place (to deliver costs efficiencies) is circa 90% complete.
- Thames Water and Tideway are jointly preparing a Rehearsal of Concept (RoC) exercise for the system commissioning phase.



Investment Programme – Overview

- Progress stands at overall 60% complete as of September 2020 (61% as of November 2020), although this is behind our original expectations for the period due to COVID-19.
- As announced in August 2020, the handover date has been pushed back by 9 months from June 2024 to March 2025. The System Acceptance date remains the same as the regulatory baseline at February 2027.
- The Estimate at Completion (EAC) has been revised from £3.9bn to £4.133bn which is an increase of £233m.
- Completed 19.2km of cumulative tunneling as of September 2020
 - 5 TBMs launched (4 completed their journeys as of December 2020)
 - 1 TBM to be launched this year.
- The main tunnel primary lining built is 18.1km as of September 2020
 - Drive A=6.7km (completed)
 - Drive B=4.9km (completed)
 - Drive C=6.4km (currently 7.6km, completed at the end of November 2020)
- The Frogmore Connection Tunnel drive of 1.1km was completed on 1st July.
- The TBM for the Greenwich Connection Tunnel (Annie) commenced tunnelling at the beginning of December 2020 and TBM D (Selina) is forecast to start tunnelling in the second half of this year.
- Shaft excavation is nearing completion with just 2 of the 21 shafts yet to be completed.
- The core system factory acceptance testing by the System Integrator has commenced.
- With the project now progressed beyond 60% complete, in preparation for system commissioning and as always intended at this advanced stage, Tideway has commenced a detailed planning review with key stakeholders to confirm the schedule to completion (expected in line with our previous forecast), which we expect to finalise by mid next year.



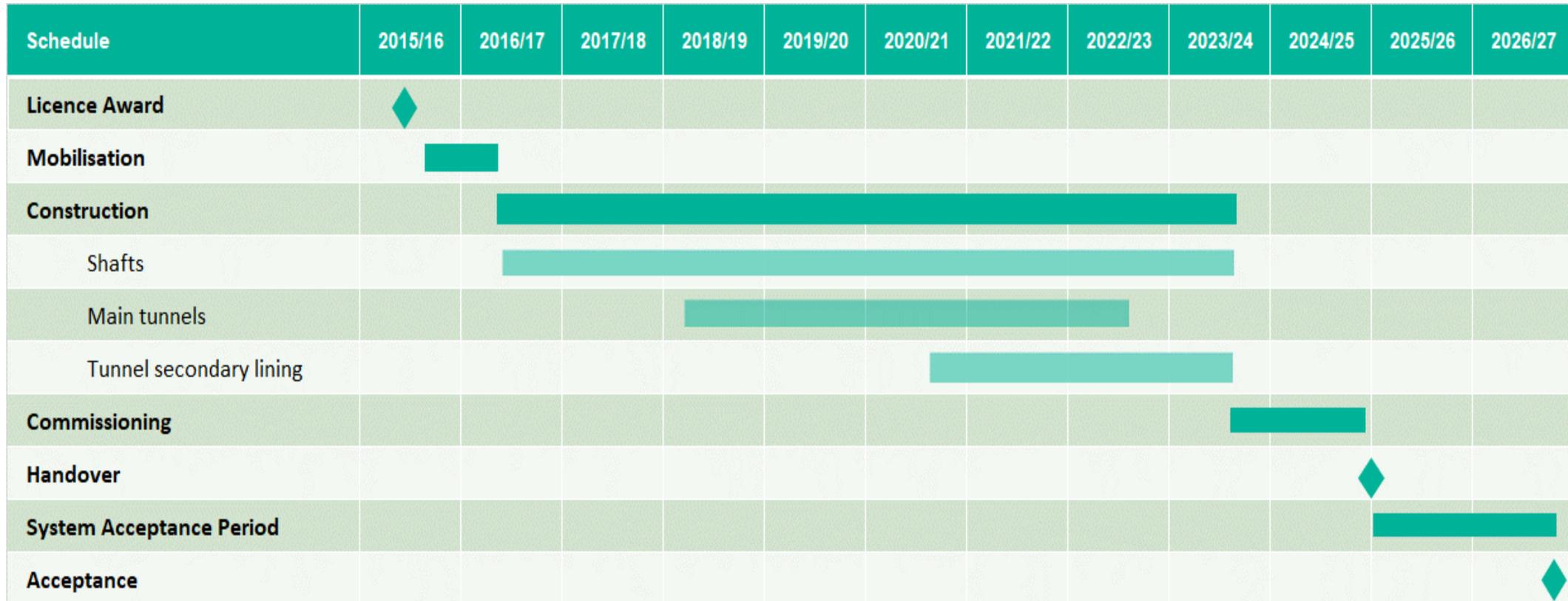
Investment Programme – Cost and Contingency

- As announced in August 2020, we have updated our cost estimate by £233m from £3.9bn to £4.133bn (versus £3.4bn regulatory baseline) to cater for the forecast impact of COVID-19 on the delivery of the works. The performance in Q2 has underpinned this forecast and it has therefore remained unchanged in the second quarter.
- This cost increase is predominantly linked to the impact of the pandemic in terms of the cost involved in protecting the health and wellbeing of the workforce and the delivery capability of the supply chain, the reduced productivity and the associated impact from the delay, as well as the efforts to prepare for a “second wave” and maintain an adequate level of operational agility on the project.
- All sites have continued to reinforce COVID-19 control measures, and the project continues to track government guidance and adjust project policy as required. Our preparedness has allowed us to continue our work successfully as the anticipated “second wave” materialised in the autumn. Construction activity continued with the second lockdown from November 5th. Although works are not expected to be interrupted by the second lockdown or Tier 3 status, a decline in productivity is likely; this is included in our updated schedule.
- The Start of Commissioning is now forecast to commence in September 2023 and Handover in March 2025 and represent a circa nine month delay against that reported in the 2020 Business Plan. The delay is due to a slowdown in productivity due to the essential Covid-safe measures (including social distancing) in place on sites. The dates are based on an assumption that these measures continue to have an impact until May 2021.
- Whilst the MWCs have been collaborative in their discussions as regards implementation of payment measures for the period between March and July 2020, they continue to reserve their commercial and contractual positions under their respective contracts in relation to COVID-19. At this stage, we believe that any potential claim will not have a material impact on the project.
- Total project costs for the six-month period to September 2020 were £316.8m, taking the total capitalised costs relating to the tunnel at 30 September 2020 to £2,910.7m.
- The cost efficiencies programme continues with £136m of the £145m 2019 target being realised and a further £29m of efficiencies have been identified.

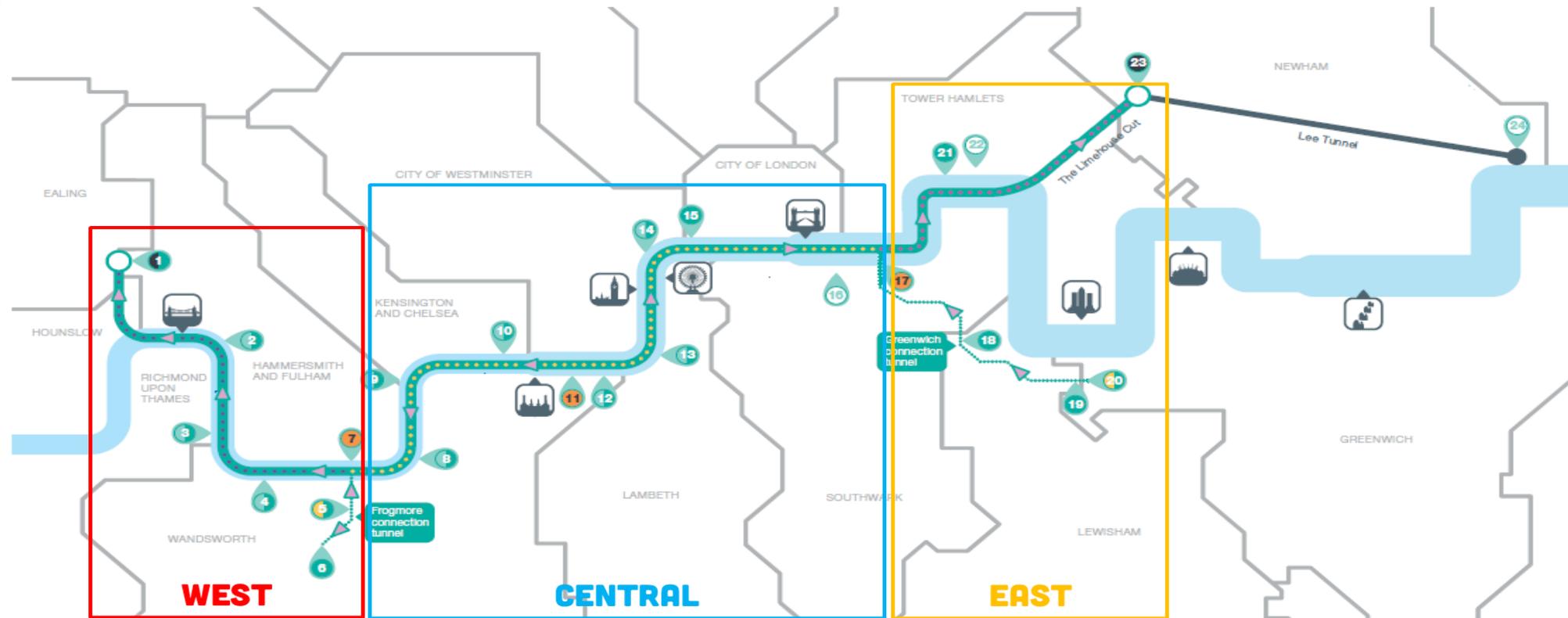
Investment Programme – Project Schedule Update

The schedule below illustrates the updated project schedule reflecting the recently announced delay caused primarily by COVID-19.

As we continue to deliver the project we will make further changes to specific site schedules.



Investment Programme – Route and Sites



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
- ⋯ Long connection tunnel
- ▬ Lee Tunnel (under construction)
- ◀ Proposed drive direction
- ◆◆◆ West works site
- ◆◆◆ Central works sites
- ◆◆◆ East works site

- 1 Acton Storm Tanks
- 2 Hammersmith Pumping Station
- 3 Bam Elms
- 4 Putney Embankment Foreshore
- 5 Dormay Street
- 6 King George's Park
- 7 Camrath 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 Bokesbourne Street
- 23 Abbey Mills Pumping Station
- 24 Beckton Sewage Treatment Works

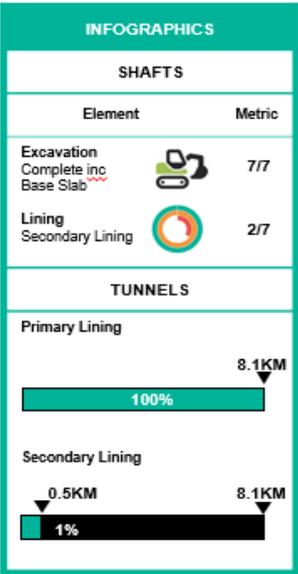
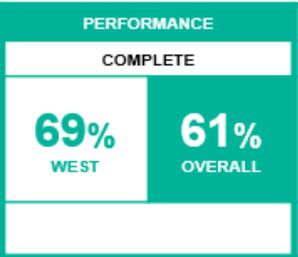
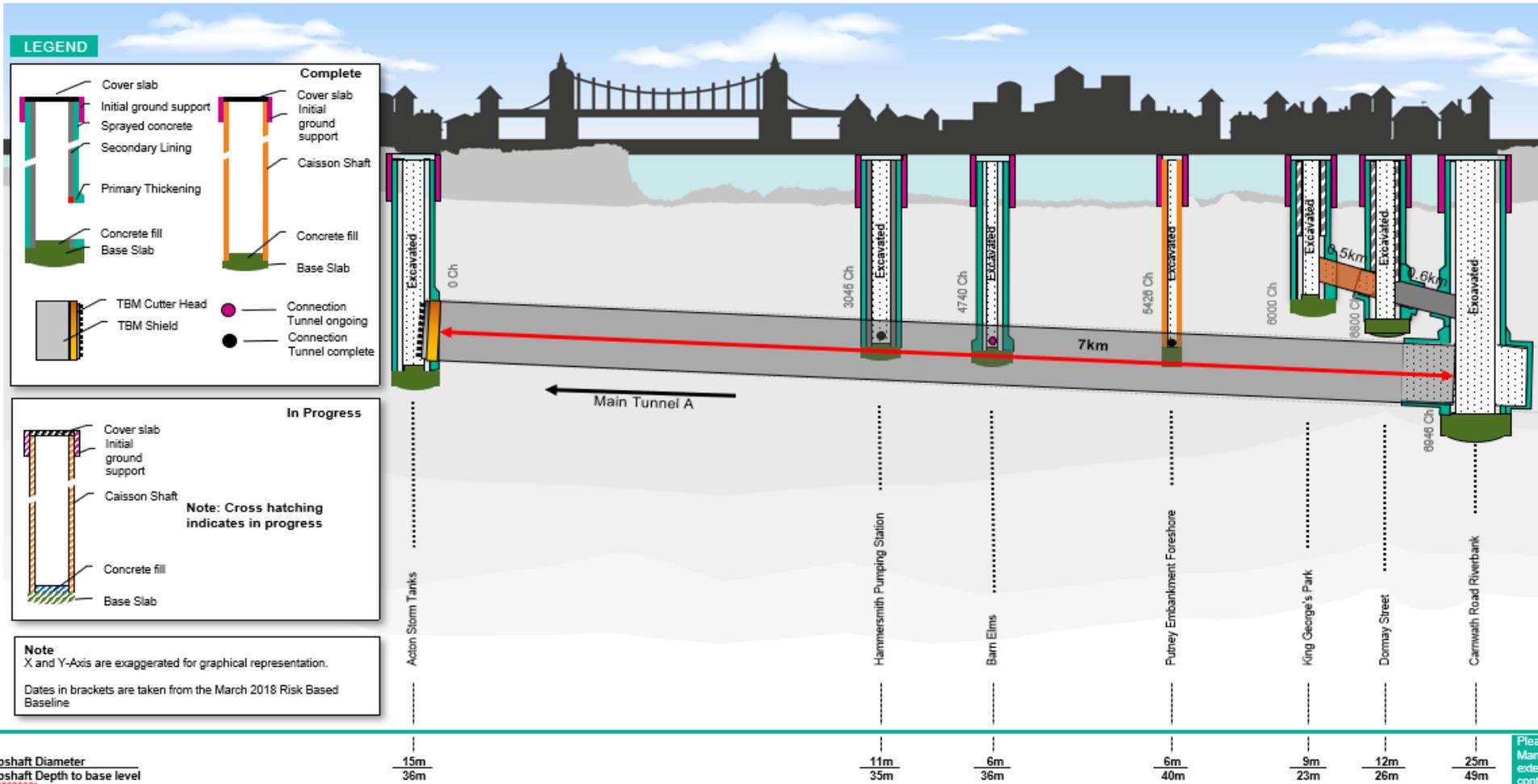
Investment Programme – West

Tideway Schedule – West Delivery Area The Slice Report

13 Nov 2020

Programme Assurance Office

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



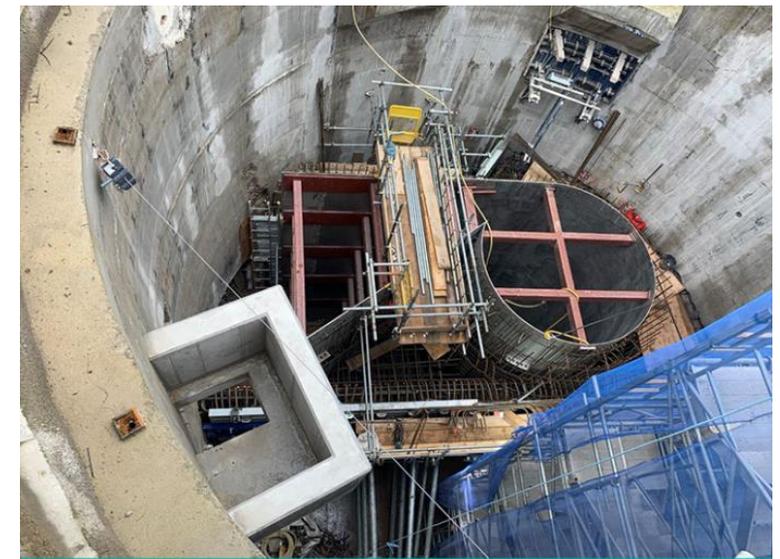
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Investment Programme – West (continued)

- Overall works were 67% complete as of September 2020, 69% as of November 2020.
- All seven shafts have been excavated.
- The tunnelling works have progressed to 8.1km concluding all primary tunnelling in West.
- TBM A Rachel has constructed the main western part of the main tunnel – it completed its journey of 6.7km and arrived at Acton in September 2020. The TBM tunnelling demobilisation at Acton concluded in December 2020.
- TBM Charlotte finished constructing the Frogmore Connection Tunnel in early July 2020 and has been successfully removed from the shaft. The 1.1km connection tunnel, created at a depth of around 30 meters, will take sewage overflows from King George's Park into the main 25km tunnel at Carnwath Road.
- The secondary lining of Frogmore Connection Tunnel from Dormay Street to King George's Park which recommenced in June following a pause due to COVID-19 restrictions was successfully completed.

Further milestones include:

- The pipe jacking of new pipes at Barn Elms connection tunnel was completed in September 2020. This is the last one of three connection tunnels (after Putney and Hammersmith) to be completed in the area. The team there has now completed the tunnel secondary lining setup and completed the first pour at the beginning of December 2020.
- At Putney the benching pours in the penstock chamber and most of the pours around the vortex in the drop shaft have been completed.
- Shaft secondary lining is continuing, with reinforcement installation ongoing at Dormay Street and King George's Park. At King George's Park the slipform ring has been delivered to site and is being installed in the shaft.
- The barrel shutter has been lowered into the Carnwath Road portal.



Investment Programme – Central

Tideway Schedule – Central Delivery Area

The Slice Report

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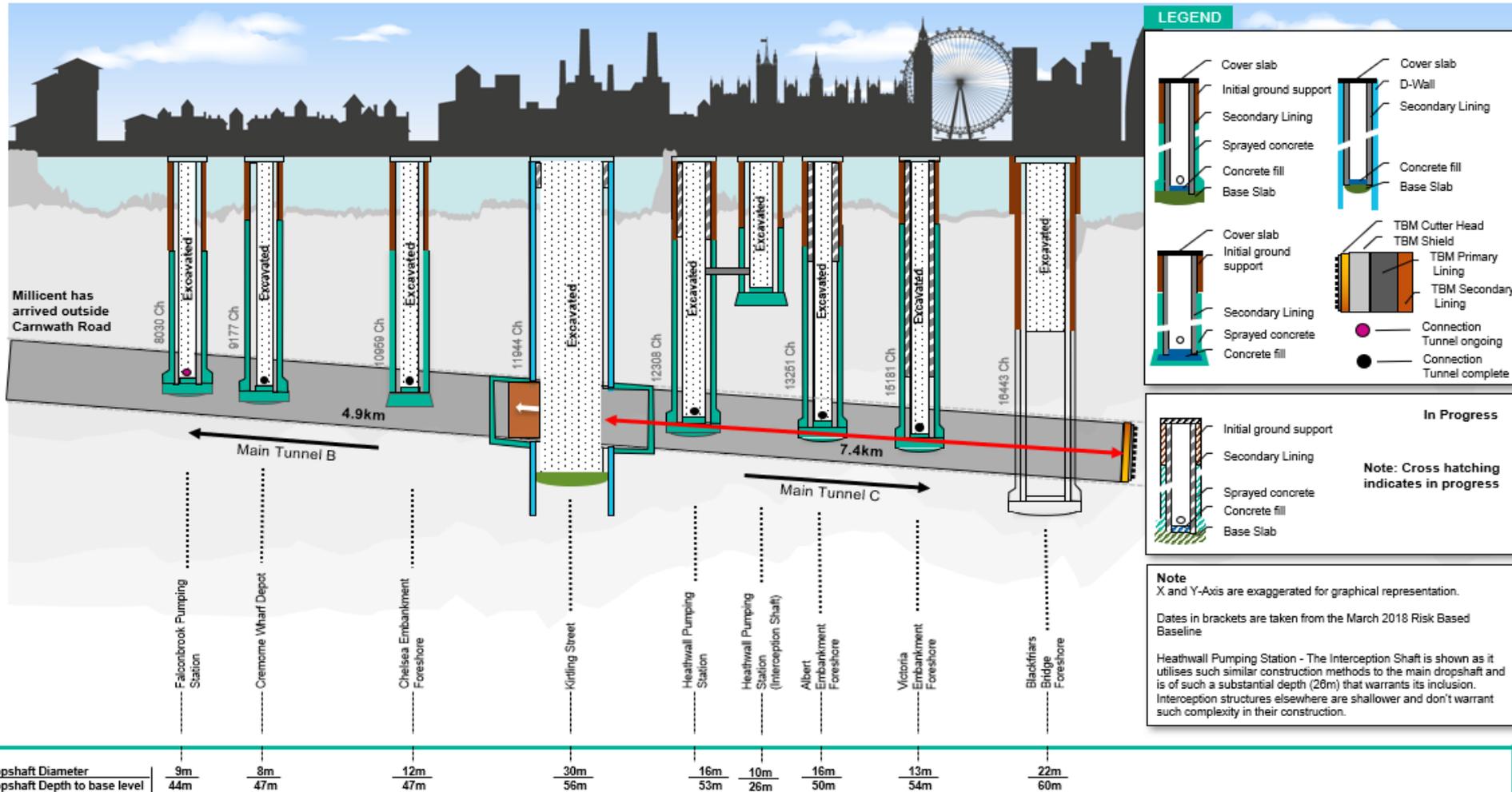
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Programme Assurance Office

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



PERFORMANCE

COMPLETE

65%
CENTRAL

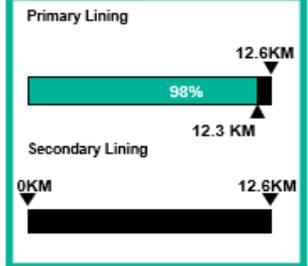
61%
OVERALL

INFOGRAPHICS

SHAFTS

Element	Metric
Excavation Complete inc Base Slab	8/9
Lining Secondary Lining	0/9

TUNNELS



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

Investment Programme – Central (continued)

- Overall works are 62% complete as of September 2020, 65% as of November 2020.
- There remains one shaft in the Central contract (Blackfriars) that is circa 50% complete.
- TBM B Millicent, the westbound 4.9km long tunnel drive from Kirtling Street to Carnwath Road was safely completed in November 2019.
- TBM C Ursula, launched in March 2019 from Kirtling Street completed its journey of 7.6km under 12 bridges and 6 different London Underground lines and broke into Chambers Wharf site at the end of November, concluding all primary tunnelling in Central.
- The secondary lining works on the Central have commenced; these are key activities that support the critical path to commissioning.
- The construction of the short connection tunnels commenced at Falconbrook and Cremorne. Excavation of the 145m long Cremorne Wharf connection tunnel was completed at the end of Oct. These were the remaining two out of six connection tunnels in the area to be completed.

Further milestones include:

- The works on the floated culvert at Blackfriars have been completed. The team is progressing with the in situ culvert construction in the eastern cofferdam, with the first base slab poured.
- The short connection tunnels at Chelsea and Heathwall Pumping Station have been completed including the secondary lining of Heathwall Pumping Station connection tunnel at the end of October.
- The shaft sinking works at Cremorne have been completed. Excavation of the interception chamber continues, and in the connection tunnel trials for the first section of secondary lining are nearing completion with the first pour expected mid December 2020.
- The shaft secondary linings are progressing at Albert, Heathwall Pumping Station Shaft and Victoria.
- At Heathwall the team completed the Pumping Station Shaft secondary lining up to the point where it needs to install the first vortex section. The falsework is being reconfigured and the vortex (the first in Central) has been delivered.



Investment Programme – East

Tideway Schedule – East Delivery Area

The Slice Report

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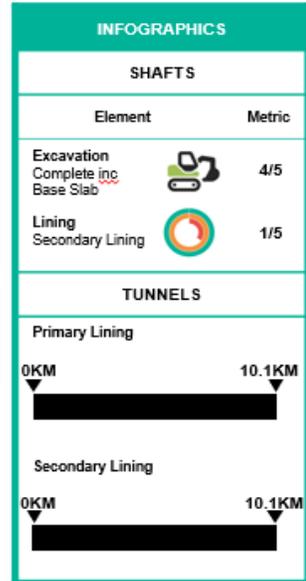
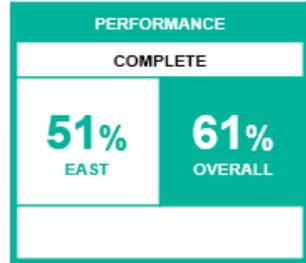
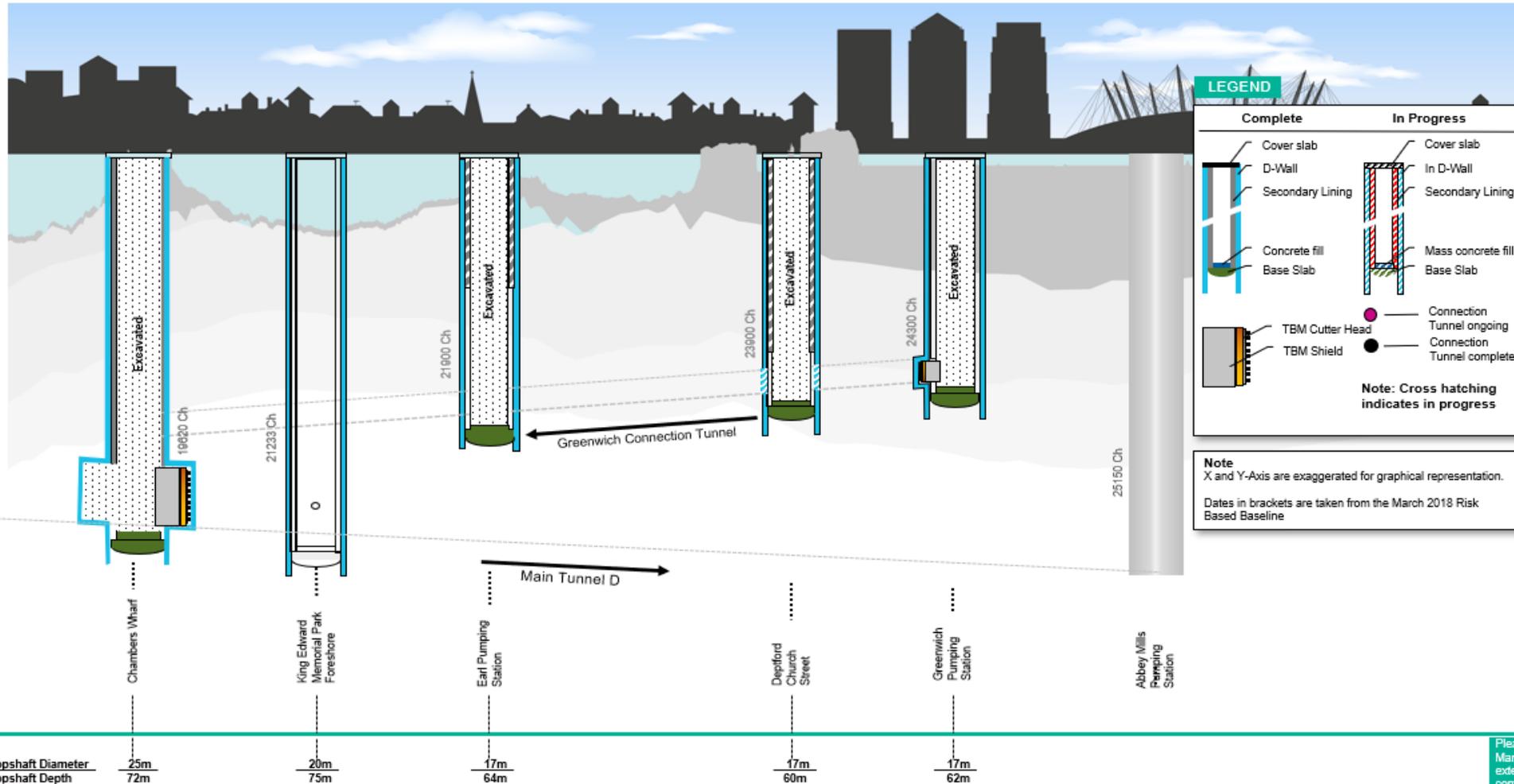
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2020



Programme Assurance Office

ACTUAL PROGRESS FROM PRODUCTION DATA TABLES



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

Investment Programme – East (continued)

- Overall works are 50% complete as of September 2020, 51% as of November 2020.
- The East team continue working on five of the six construction sites. Works in the remaining site at Abbey Mills will start later in 2021.
- King Edward Memorial Park is the last shaft in the area yet to commence shaft excavation; however, the shaft diaphragm wall construction was completed and shaft excavation is now forecast to commence by the end of 2020.
- The secondary lining of the shaft at Deptford is planned to recommence next quarter following installation of the first two sections of vortex tube.
- TBM D (Selina) was delivered to site in July 2020 and has been lowered into the shaft at Chambers Wharf. Tunnelling at Main Tunnel D is now forecast to commence in the second half of the year.
- The commissioning of Greenwich Connection Tunnel TBM (Annie) was completed successfully in readiness for tunnelling and TBM Annie was launched at the beginning of December 2020. Annie is set to create the 4.5km connection tunnel between Greenwich Pumping Station and Chambers Wharf.
- The planning around the removal of TBM C (Ursula) and the tunnelling interface at Chambers Wharf is ongoing.

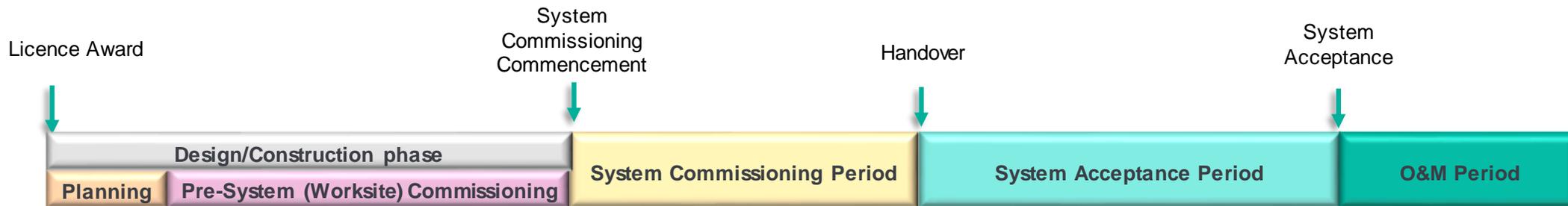
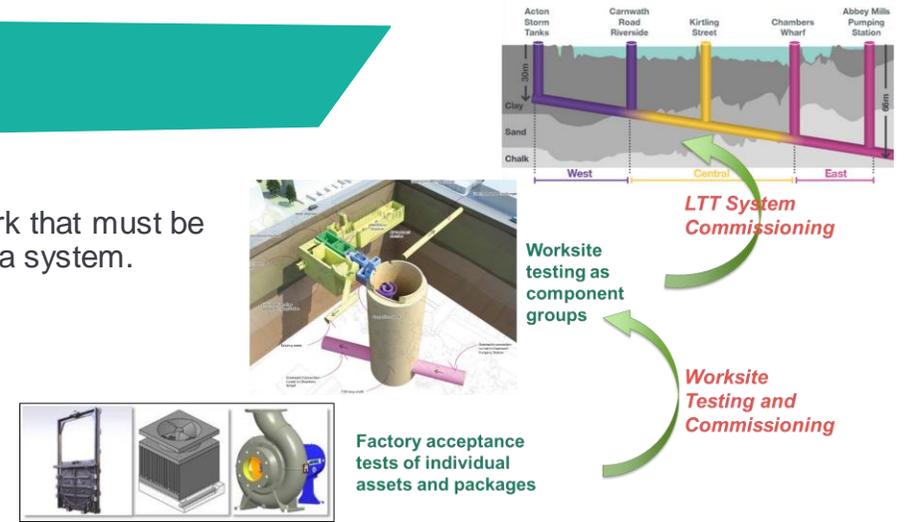
Further milestones include:

- Following completion of the diaphragm walling at King Edward Memorial Park, the demobilisation of the equipment is ongoing.
- The shaft portal structure at Earl Pumping Station was completed at the end of September 2020. The pouring of the lower level of mass concrete slab has commenced.



System Integration and System Commissioning

- In addition to the major civil construction works, there are several mechanical and controls elements of work that must be undertaken to enable the tunnel to be integrated with the existing sewer network and therefore operate as a system.
- The area MWCs are responsible for providing the assets and packages that make up an individual worksite and the associated testing. They are making good progress with their alignment of factory acceptance testing (FAT). The first FATs of components have taken place successfully, witnessed by the PM team. The use of technology to allow the completion and remote witnessing of factory acceptance tests has been a big positive and a good example of the work to maintain progress on the project through the COVID-19 challenges. This has continued with testing and inspecting air treatment devices, flap valves, covers and penstocks in the period.
- The System Integrator (Amey) covers system-wide control integration including telemetry, IT systems, control room interfaces and software. Their work is 55% complete overall and initial software development is nearing completion. Formal factory acceptance testing (FAT) of the core software has commenced and development of a “reference system” (which will provide a replica of the final built system in advance of its installation) is well advanced.
- Following completion of the worksite and controls testing, a period of system commissioning will take place in order to ensure that the TTT is integrated into the wider sewer network. In the commissioning period, the physical separation between the TTT and the Lee Tunnel will be removed, flows will be progressively allowed into the TTT and the Company will, with Thames Water's assistance, conduct a number of system commissioning tests. When the tests have been completed and the handover criteria met, Thames Water will issue a Handover certificate.
- Following Handover, system acceptance tests will be conducted by Thames Water with the support of the Company to optimise operation and maintenance activities (in particular in relation to storm events that were not able to be observed during the commissioning period). When the system has been monitored over a range of climatic and operational scenarios and certain system acceptance criteria have been met, Thames Water will issue a system acceptance certificate.
- Plans for system commissioning have continued to be developed and refined including identifying the detailed activities and assets that will be constraints to the commissioning process. This will help us improve the maturity of the commissioning schedule and build resilience.



Financing Activity

- Since Licence Award, Tideway has made significant progress in the implementation of its financing strategy, raising £2.7bn of long-term debt of which £1,858 million has been drawn and is outstanding.

Debt facilities

Debt £M	RCF	EIB	RPI loan	RPI bonds	CPI bonds	Nominal	Total
Drawn		400	100	533	275	550	1,858
Undrawn	160	300		375	75	75	985
Total	160	700	100	908	350	625	2,843

- This represents 100% of long-term funding needs to cover anticipated construction costs to Handover (March 2025) taking into account the undrawn £160 million Revolving Credit Facility.
- During the period we received £50m from Series 7 and £80m from Tranche 5 of the EIB loan.
- At 30 September 2020, we had total liquidity of £1.4bn, comprising £463m of cash and £985m of undrawn debt facilities. This, combined with expected revenue collections, provides liquidity significantly in excess of our 18-month target.
- There were no new derivative transactions in the period – our derivative portfolio continues to include the swaps hedging the first eight tranches of our £700m EIB loan and £70m of our £300m USPP 2017 notes.
- As at 30 September, we had received £1,274m from our shareholders in the form of equity and shareholder loans, which was the full commitment at Licence Award. Part of the shareholder loans have been repaid and the balance at 30 September was £720.4m. The Board approved the deferral of the June, September and December distributions.
- Moody's changed the outlook to negative following the operational update to investors on the impact of COVID-19 on cost and schedule published in August. The negative outlook could lead to the Company being put on negative watch, which could in turn lead to a consequent rating downgrade. It should be noted that the Company's rating is presently two notches above the requirements of the covenants in its financing documents and licence. Fitch affirmed Tideway's credit rating of BBB+ and the outlook remains stable.

Financing Activity

£2.7bn long term debt

£160m RCF

100% needs to Handover as of Sep 2020

Refinancing from 2025 (EIB) and 2027 (bond)

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

Index Linked debt as % of RCV

Sep 2020
53.55%

Index Linked debt as % of total debt

Sep 2020
74.71%

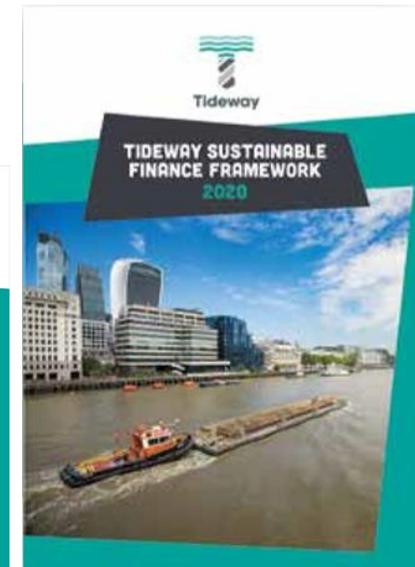
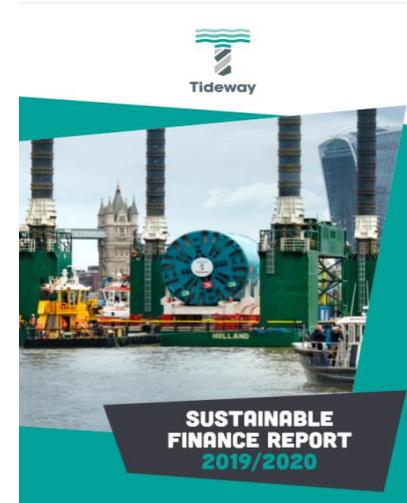
Gearing remains low in line with our equity-first approach. This will grow in the coming years as we progress through construction and draw on the deferred committed debt. The interest coverage ratio remains well above the covenant level.

Sep 2020
Net debt/
RCV
54.86%

Sep 2020
ICR
4.09x

Financing Activity – Sustainable Finance

- Tideway has 17 green bonds totalling £1.5bn, a £75m green USPP and a £160m Sustainability Linked RCF.
- The agreed KPI in the Sustainability Linked RCF is the meeting of at least 85% of the live Legacy Commitments and as at 31 March 2020 we exceeded the target by meeting 91% of the live commitments. The Sustainability Linked RCF certificate confirming this KPI was published in June 2020.
- S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway during the period which was published in April 2020. Tideway achieved a 74/100 score with our culture rated as 'excellent'. Our environmental and social (which includes safety, workforce and diversity, and community relations considerations) scores are above the industry average and our governance score is in line with the industry.
- The Sustainable Finance Report for 2019/20, a condition of our sustainable debt issuance, was published in August. This report provides information of the allocation of proceeds and impact of the project, including mapping of our Legacy commitments against the UN Sustainable Development Goals at target level where we expect to make a significant contribution during and/or after construction.



S&P Global
Ratings

Historical Financial Performance

The HoldCo Group (“the Group”) recorded a £23.8m loss for the six-month period ended 30 September 2020 (30 September 2019, here after referred to as “2019”: £58.6m loss). This is a result of fair value movements on the Group’s derivative financial instruments. The tunnel asset under construction totalled £2,910.7m at 30 September 2020 (2019: £2,218.6m).

Allowable Costs

Our Allowable Costs of £273.9m (2019: £341.0m) includes £241.5m Direct costs and £32.4m of Indirect costs.

Direct Costs

Direct costs are primarily the Main Works Contractor costs and the System Integrator contract so reflect costs directly related to the tunnelling programme and other related construction activities such as shaft and cofferdam construction.

Indirect Costs

The largest indirect costs are resource costs of £26.2m. This represents the cost to employ an average of 370 Full Time Equivalents (FTEs) across the six-month period. These FTEs are either employed directly by the Group or contracted by the Group via our programme manager Jacobs. Other indirect costs include non-resource costs such as information systems, office, insurance, Government Support Package and other running costs. Indirect costs have reduced compared with 2019, largely reflecting cost savings from lower FTEs and other running costs.

Excluded Costs

Excluded costs for the six-month period to 30 September 2020 were £42.9m (2019: £48.8m). These comprise £41.2m of net interest expense (including shareholder loan interest of £28.9m) and £2.3m of costs which mainly related to financing activities, partly offset by £0.6m of interest income.

Analysis of Project Costs and the equivalent Net Cash Outflows (£m)	Six months ended September 2020			Six months ended September 2019		
	Costs	Timing Differences	Cash Outflow	Costs	Timing Differences	Cash Outflow
Direct Costs	241.5	10.5	252.0	301.3	(58.5)	242.8
Indirect Costs	32.4	3.1	35.5	39.7	(0.3)	39.4
Total Allowable	273.9	13.6	287.5	341.0	(58.8)	282.2
Excluded Costs	42.9	(31.1)	11.8	48.8	(16.6)	32.2
Total	316.8	(17.5)	299.3	389.8	(75.4)	314.4

Analysis of Capitalised Costs (£m)	Six months ended 30 September 2020	Six months ended 30 September 2019
Direct Costs	241.5	301.3
Indirect Costs	32.4	39.7
Total Allowable	273.9	341.0
Excluded costs	42.9	48.8
Total Capitalised Costs	316.8	389.8

Historical Financial Performance (continued)

Cash Flow and Cash

Net cash flows from operating activities of £45.6m (2019: £102.6m) represent movements in working capital and are chiefly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water which are deferred on the Statement of Financial Position during the construction phase of the project.

Net cash flows used in investing activities of £173.6m (2019: £345.0m) show the gross cash outflows used in constructing the TTT as well as movements to and from short-term deposits which represent money market funds where cash is held on deposit for a period longer than three months.

The net cash inflows from financing activities of £179.0m (2019: £411.6m) are largely the result of new borrowings drawn in the period which included £100.0m of index linked bonds and £80.0m of floating rate loans. These financing inflows were partly offset by £1.0m lease payments in relation to the Group's IFRS 16 leases.

External Debt

Net debt at 30 September 2020 was £1,459.2m, which has increased by £560.9m from the £898.3m net debt at 30 September 2019.

At 30 September 2020, the Group's net debt included borrowings of £1,895.7m with third parties. These were in the form of £713.4m loans and £1,182.3m bonds. A further £720.4m of Shareholder loans, which are not included in net debt, takes the total Statement of Financial Position borrowings to £2,616.1m.

In addition, the Group had the following undrawn debt facilities: £160.0m Revolving Credit Facility (RCF), £300.0m loan with the European Investment Bank, £450.0m of deferred bonds and £75.0m of other loans

A list of Tideway's external debt facilities can be found on page 27.

Cash Flow (£m)	Six months ended 30 September 2020	Six months ended 30 September 2019
Cash generated from operations before changes in working capital	-	-
(Increase)/Decrease in trade and other receivables	(8.3)	13.0
Increase in trade and other payables	27.8	58.1
Increase in advance payment liability	26.1	31.5
Net cash from operating activities	45.6	102.6
Construction of infrastructure asset	(311.1)	(374.0)
Transfers from/(to) short-term deposits	137.5	29.0
Net cash used in investing activities	(173.6)	(345.0)
Proceeds from new borrowings	180.0	413.1
Interest received	-	-
Repayment of lease liabilities	(1.0)	(1.5)
Net cash from financing activities	179.0	411.6
Net increase/(decrease) in cash and cash equivalents during the period	51.0	169.2
Cash and cash equivalents at the start of the period	391.5	564.5
Cash and cash equivalents at the end of the period	442.5	733.7

Historical Financial Performance (continued)

Fair value measurements and valuation

Tideway has entered into long-term swaps with commercial banks to hedge the interest rate for tranches one to eight of the £700m EIB loan secured in May 2016 and £70m of the £300m US Private Placement notes secured in September 2017.

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

During the last six months, there was a negative movement of £23.8m in the fair market value of the index-linked swaps. This was primarily driven by a significant decrease in the implied forward Libor rates which is impacting the receive leg of the swaps.

Tax

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

We did not recognise any taxable profits in the period (2019: £nil) and the estimated current tax charge for the period is £nil (2019 £nil).

Further information on the financial performance of the Group can be found in the interim accounts on our website.

Debt Portfolio – September 2020

Debt Portfolio

Facility	Drawn amount	Type	Drawdown date	Maturity (CY)
Drawn				
£75m CPI +0.828%	75	Green Bond	Aug-17	2047
£300m 2.86%	300	USPP Loan Note	Sep-17	2032
£250m 2.375%	250	Green Bond	Nov-17	2027
£200m CPI+0.74%	200	Green Bond	Nov-17	2042
£100m RPI +0.688%	100	Green Bond	Jun-18	2050
£80m Tranche 1	80	EIB	Jul-18	2051
£100m RPI +0.249%	100	Green Bond	Dec-18	2040
£80m Tranche 2	80	EIB	Jan-19	2051
£100m RPI +0.755%	100	Green Bond	Jun-19	2051
£80m Tranche 3	80	EIB	Jul-19	2051
£125m RPI +0.192%	133	Green Bond	Jul-19	2049
£100m RPI +0.01%	100	Loan	Sep-19	2049
£80m Tranche 4	80	EIB	Jan-20	2051
£25m RPI +1.035%	25	Green Bond	Jun-20	2048
£50m RPI +0.787%	50	Green Bond	Jun-20	2052
£25m RPI +0.951%	25	Green Bond	Jun-20	2054
£80m Tranche 3	80	EIB	Jul-19	2051
Subtotal	1,858			

Facility	Nominal amount	Type	Drawdown date	Maturity (CY)
Committed and undrawn				
RCF	160	Revolver	N/A	2025
EIB	300	Loan	Various 2020-2022	2051
£25m RPI +1.042%	25	Green Bond	Jun-21	2048
£25m RPI +0.954%	25	Green Bond	Jun-21	2054
£75m RPI +0.01%*	75	Green Bond	Aug-21	2036
£75m 2.418%	75	Green USPP Loan Note	Sep-21	2041
£150m RPI +0.01%**	150	Green Bond	Apr-22	2032
£75m CPI +0.949%	75	Green Bond	May-22	2052
£50m RPI +0.074%	50	Green Bond	May-22	2049
£50m RPI +0.174%	50	Green Bond	May-23	2049
Subtotal	985			

Financial Ratios

We confirm that in respect of this Investor Report as of 30 September 2020, by reference to the most recent Financial Statements that we are obliged to deliver in accordance with paragraph 1 (Financial Statements) of Part A (Information Covenants) of Schedule 3 (Holdco Group Covenants) of the CTA:

- a) the Senior RAR⁽¹⁾ in respect of the relevant Test Period is equal to 54.86%
- b) The FFO ICR⁽²⁾ in respect of the relevant Test Period is equal to 4.09
- c) The average FFO ICR in respect of the relevant Test Period is equal to 5.15

(together ***the Ratios***)

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

Other Reportable Matters

Significant management and board changes H1 2020/21

There have been no significant management and board changes in the period.

Acquisitions and disposals H1 2020/21

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

Current Hedging Position

The current swap portfolio can be found on slide 32 in the appendix.

Confirmation

We confirm that:

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



Mathew Duncan,

Chief Financial Officer

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

APPENDICES

Swap Portfolio – September 2020

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

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

Reference to the CTA

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

Requirement	Reference
General overview	Page 4-5, Overview
Regulatory and Business update	Page 6-9, Regulatory and Business Update Page 10-20, Investment Programme
Capital Expenditure	Pages 24-26, Historical Financial Performance
Financing	Page 21-23, Financing Activity Appendix
Acquisitions or Disposals	Page 29, Other Reportable Matters
Current Hedging Position	Page 29, Other Reportable Matters Appendix
Ratios	Page 28, Ratios



Tideway

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