

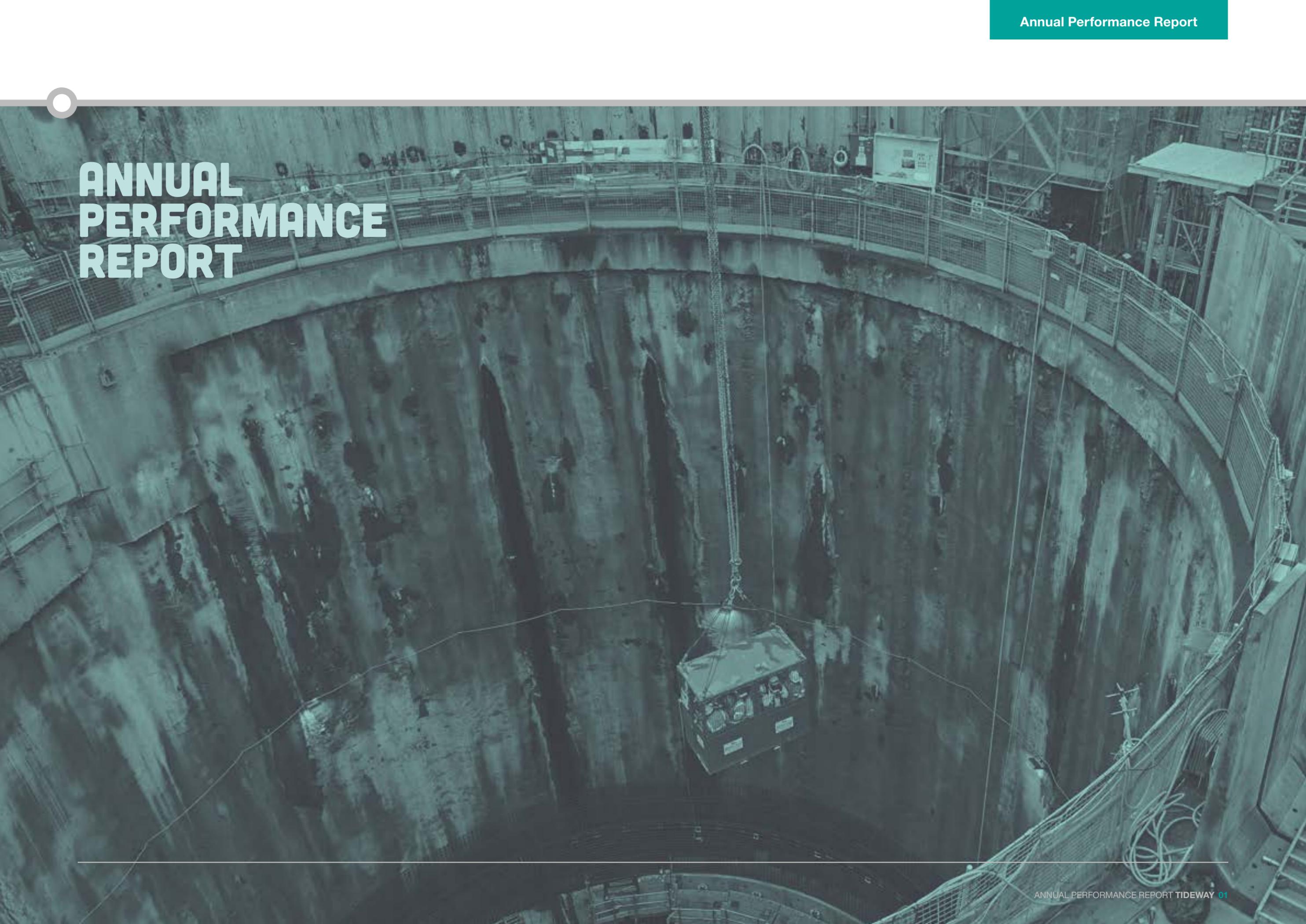


Tideway

**RECONNECTING
LONDON
WITH THE
RIVER
THAMES**

**ANNUAL
PERFORMANCE
REPORT 2021/22**





ANNUAL PERFORMANCE REPORT

Annual Performance Report *Introduction*

Tideway is building the Thames Tideway Tunnel under the River Thames – creating a healthier environment for London by cleaning up the city’s greatest natural asset, now and for the foreseeable future. In our 2021/22 annual report and accounts¹ we are reporting positive progress on the project, with the project having completed tunnelling in April 2022, and our impact on Thames Water’s customers’ bills remains well within the £20-£25 range (in 2014/15 prices) forecast at the start of the project.

We are an independent regulated water company, licensed by Ofwat to design, build, commission, finance and maintain the Thames Tideway Tunnel and to receive a revenue stream from Thames Water’s customers to fund this work. We recognise that our regulated status is a privilege that comes with responsibilities beyond minimum Ofwat requirements. By pursuing our purpose and working in line with our values of safety, legacy, collaboration, innovation and respect, we aim to deliver the project in a way that serves the public interest and maximises value in its broadest sense. Since Tideway came into existence in 2015, our activities have been focused not only on delivering a high quality asset but also on creating wider, long term benefits to society and the environment in line with Ofwat’s Public Value Principles. Our progress in delivering these benefits during 2021/22 is set out in the strategic report within our annual report and accounts and in our Sustainability Report².

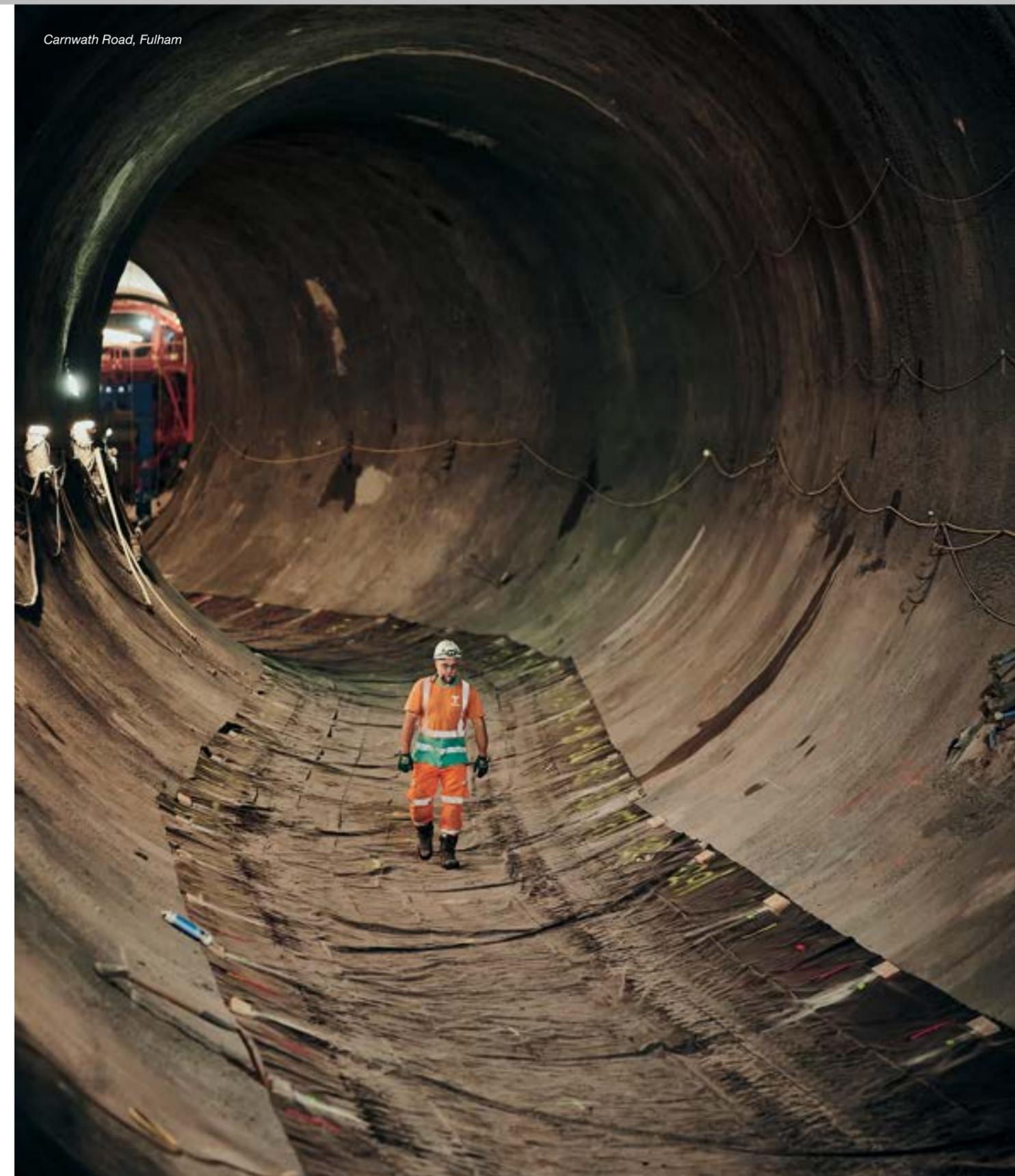
To maintain the respect and confidence of our stakeholders, we meet all relevant requirements put in place by Ofwat to aid comparability between companies and to help the regulator monitor the sector’s performance and financial resilience. Tideway is different from the rest of the sector being a wholesale-only wastewater company, with bespoke regulatory arrangements and different financing – specifically, our shareholders injected around £1.3bn including £764.5m of shareholder loans at the start of the project. Given these differences, many of the standard reporting requirements are not relevant to us. We have worked closely with Ofwat to agree the scope for our regulatory reporting.

In this document we set out the Ofwat requirements and expectations that are relevant to Tideway, how we have met them, and where the information can be found.

In March 2022, following public consultation, Ofwat modified Tideway’s licence to address the impact of increased spending connected with Covid-19 and to reform the Financing Cost Adjustment (FCA).³ We anticipate that the changes will support the delivery capability and resilience of Tideway and its supply chain, securing benefits for customers while maintaining investor confidence in the project and sector. A further licence change to address the impact of Covid-19 on Tideway’s risk of schedule penalties is expected to come into effect in the second half of 2022.

The following table lists the information that Tideway is required to report and where it can be found. Our scope of reporting mirrors that in 2020/21, though this year we have provided additional information on the FCA in light of the recent licence changes noted above. In some cases, the information can be found in our Annual Report and Accounts or Sustainability Report and we provide references.

Carnwath Road, Fulham



¹ Tideway Annual Report and Sustainability Report 2021/22 can be found [here](#).

³ Ofwat’s consultation can be found [here](#). The final licence modification notice is [here](#).

Annual Performance Report *Introduction*

Disclosure	Source of Requirement	Location	Notes
Regulatory accounting statements	Regulatory Accounting Guideline (RAG) 3.13 (section 2) and Tideway's Licence, Condition F.	This document. Table 4B published separately on Tideway's website.	Companies must provide certain information on their performance, as specified by Ofwat. Tideway has agreed with Ofwat that it will publish a subset of the standard tables plus three tables unique to us.
Financing cost adjustment (FCA)	Tideway's Licence, Part A of Appendix 1.	This document.	Tideway has a bespoke requirement to report on net debt (as defined by the Licence), and the basis of the calculation of the FCA and its component parts.
Transfer pricing information	RAG 3.13, section 5.	This document.	
Risk and compliance statement	Ofwat Information Notice 22/01.	This document.	This is the main means by which companies annually certify compliance with their licences and relevant legislation.
Board statement on accuracy and completeness of data and information	RAG 3.13 (4.41-4.44).	This document.	
Description of the link between Directors' pay and standards of performance	Section 35A of the Water Industry Act 1991 and RAG 3.13 (3.2-3.8).	Annual report and accounts, Remuneration Committee report.	
Statement as to disclosure of information to auditors	RAG 3.13 (3.9-3.10).	This document.	
Statement on dividend policy for the appointed business (value and basis of dividend/distribution)	RAG 3.13 (3.11-3.18).	Annual report and accounts, Financing section of the strategic report.	Prior to System Acceptance, Tideway will not generate distributable profits and as such it will not be able to pay dividends to its shareholders. As a result, during construction Tideway's shareholders receive a cash return on their investment through a combination of payments of interest on the loan and partial repayments of those loans. At 31 March 2022, shareholder loans were £799.5m (£720.4m March 2021). During the year £79.1m of shareholder loan interest was capitalised.
Note on capitalisation policy	RAG 3.13 (3.21).	Annual report and accounts, Financial statements: contained within note 1 under 'Property, plant and equipment'.	Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value movements on derivative financial instruments and an adjustment relating to interest as a result of differences between RAG and statutory treatments (see notes to Table 1A, in this document).
Note on bad debt policy	RAG 3.13 (3.22-3.25).	Annual report and accounts, Financial statements: contained within note 1 (accounting policies) under 'Revenue'. 'Notes' column of this table gives context.	Tideway collects its revenue via Thames Water and does not bill customers directly, so its bad debt policies are different from those of other water and sewerage companies. Tideway continues to assess trade receivables (revenue from Thames Water Utilities Ltd, TWUL) under the forward looking 'expected loss model' at each reporting date in accordance with IFRS 9 requirements. Note 1 to the statutory accounts ('Impairment' section) refers to the overall approach.

Disclosure	Source of Requirement	Location	Notes
Statement on sufficiency of non-financial resources	Tideway's Licence, condition K4.4A.	This document.	Tideway is required to confirm that (as far as reasonably practicable) it has sufficient non-financial rights and resources to enable a special administrator to carry out its licensed activities.
Statement on sufficiency of resources and facilities ('Condition K certificate')	Tideway's Licence, condition K10, RAG 3.13 (3.26-3.28) and additional Ofwat guidance in Information Notice 20/01, 'Requirements and expectations for ring-fencing certificates'.	This document.	Tideway is required to confirm that it has sufficient rights and resources (financial and non-financial) to enable it to carry out its licensed activities for at least the next year, and to make a statement of the main factors that the Board has taken into account in endorsing the certificate. For 2021/22, as in 2019/20 and 2020/21, we have taken account of Ofwat guidance in Information Notice 20/01. The 'ring fencing certificates' in this document are equivalent to Tideway's Condition K Certificate.
An effective, accessible and clear explanation of how Tideway is meeting the objectives on Board leadership, transparency and governance (BLTG) set out in its licence	Tideway's Licence, condition K2.2-K2.3.	Annual report and accounts, Governance section.	This annual report provides information on the BLTG principles in relation to all Tideway group companies.
Tax strategy	RAG 3.13 (3.30-3.31).	Annual report and accounts, Financial Performance Review.	'Tax' section of the Financial Performance Review explains why Tideway does not expect to pay any corporation tax during construction, while 'Tax Strategy' section sets out our overall strategy.
Statement on differences between statutory and RAG definitions	RAG 3.13 (3.32-3.33).	This document: see notes to tables 1A, 1C and 1D.	All differences relate to capitalised interest values (in period or cumulative).
Long-Term Viability Statement	RAG 3.13 (3.34-3.37) and additional Ofwat guidance in Information Notice 19/07.	Annual report and accounts, Strategic Report.	
Interest analysis	RAG 3.13 (4.19-4.20).	This document.	
Reporting on operational greenhouse gas emissions	Information Notice 22/01.		Tideway does not have operational greenhouse gas emissions during the construction period. We provide a breakdown of embedded emissions with commentary in Tideway's Sustainability Report.
Audit reports	Report on regulatory accounts required by RAG 3.13, 2.12-2.14. Report on condition K certificate not formally required by Tideway's licence but obtained in line with good practice and with Ofwat expectations set out in information notices 20/01 and 21/01.	This document.	

Ofwat has confirmed that other standard reporting requirements set out in RAG 3.13 and Information Notice 22/01 do not apply to Tideway, as they are not relevant to Tideway's business.

Regulatory Accounting Statements

TIDEWAY'S FINANCIAL POSITION AND PERFORMANCE

Tideway has agreed with Ofwat that it will publish a set of tables, including some standard tables (1A-1E, 2D, 4B, 4H and 4I) and some that are unique to the Company (TTTA-TTTC). The standard tables are given the same numbering in this report as in the relevant RAG.⁴

The numbers within these regulatory accounting statements may look different from those reported by other water companies, due to the unique nature of Tideway. Features of the data reported include:

- Tideway capitalises costs that meet the capitalisation criteria for assets under construction and reports revenue as deferred income during the construction phase. The only entries in the Income Statement are fair value movements on derivative financial instruments and an adjustment relating to interest, as a result of differences between RAG and statutory treatments (see notes to Table 1A). Allowed Revenue and revenue collected are reported in Table TTTA;
- In line with the RAGs, the shareholder loan, which is a subordinated facility, is included in debt metrics including gearing and interest cover ratios. The resulting metrics are not in line with those calculated under our financing agreements or Government Support Package, and also differ from rating agencies' methodology. We consider that the metrics reported to our Board and investors are a fairer reflection of Tideway's performance and financial resilience. Tideway has a separate net debt definition in its Licence, which is used in calculating its revenue (see 'Financing cost adjustment' section below) and excludes shareholder loans; and
- Tideway's regulatory capital value, which is calculated on a cash basis, was zero at Licence Award. On 31 March 2022, it was £3,699.8m (expressed in March 2022 prices).

REGULATORY ACCOUNTS

1A – Income Statement

For the 12 months ended 31 March 2022

Line Description	Units	Statutory	Adjustments			Total Appointed Activities
			Differences Between Statutory and RAG Definitions	Non-Appointed	Total Adjustments	
1 Revenue	£m	0.000	0.000	0.000	0.000	0.000
2 Operating costs	£m	0.000	0.000	0.000	0.000	0.000
3 Other operating income	£m	0.000	0.000	0.000	0.000	0.000
4 Operating profit	£m	0.000	0.000	0.000	0.000	0.000
5 Other income	£m	0.000	0.000	0.000	0.000	0.000
6 Interest income	£m	0.000	0.609	0.000	0.609	0.609
7 Interest expense	£m	0.000	-197.508	0.000	-197.508	-197.508
8 Other interest expense	£m	0.000	0.000	0.000	0.000	0.000
9 Profit before tax and fair value movements	£m	0.000	-196.899	0.000	-196.899	-196.899
10 Fair value gains/(losses) on financial instruments	£m	-10.856	0.000	0.000	0.000	-10.856
11 Profit before tax	£m	-10.856	-196.899	0.000	-196.899	-207.755
12 UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
13 Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
14 Profit for the year	£m	-10.856	-196.899	0.000	-196.899	-207.755
15 Dividends	£m	0.000	0.000	0.000	0.000	0.000
Tax Analysis						
16 Current year	£m	0.000	0.000	0.000	0.000	0.000
17 Adjustments in respect of prior years	£m	0.000	0.000	0.000	0.000	0.000
18 UK Corporation tax	£m	0.000	0.000	0.000	0.000	0.000
Analysis of Non-appointed Revenue						
19 Imported sludge	£m			0.000		
20 Tankered waste	£m			0.000		
21 Other non-appointed revenue	£m			0.000		
22 Revenue	£m			0.000		

1A Notes to line items

- 1 Revenue that the Company receives from Thames Water (see Table TTTA for analysis) is deferred onto the Statement of Financial Position as the associated services will not be delivered until System Acceptance. This is consistent with the accounting policies that are disclosed in note 1 to the statutory financial statements.
- 6&7 Differences between statutory and RAG definitions relate to interest capitalised under IAS 23 'Borrowing Costs' in the statutory financial statements. These are required to be shown in the Income Statement for regulatory reporting.
- 14 The difference between the statutory accounts profit and the regulatory accounts profit relates to the net interest expense of £-196.899m.

⁴ RAG 3.13 – Guidelines can be found [here](#).

Regulatory Accounting Statements

1B – Statement of Comprehensive Income

For the 12 months ended 31 March 2022

Line Description	Units	Statutory	Adjustments			Total Appointed Activities
			Differences Between Statutory and RAG Definitions	Non-Appointed	Total Adjustments	
1 Profit for the year	£m	-10.856	-196.899	0.000	-196.899	-207.755
2 Actuarial gains/(losses) on post employment plans	£m	0.000	0.000	0.000	0.000	0.000
3 Other comprehensive income	£m	0.000	0.000	0.000	0.000	0.000
4 Total Comprehensive income for the year	£m	-10.856	-196.899	0.000	-196.899	-207.755

For details on the adjustment between statutory and RAG definitions see notes to Table 1A.

1C – Statement of Financial Position

For the 12 months ended 31 March 2022

Line Description	Units	Statutory	Adjustments			Total Appointed Activities
			Differences Between Statutory and RAG Definitions	Non-Appointed	Total Adjustments	
Non-Current Assets						
1 Fixed assets	£m	4,020.115	-547.893	0.000	-547.893	3,472.222
2 Intangible assets	£m	0.000	0.000	0.000	0.000	0.000
3 Investments – loans to group companies	£m	21.170	0.000	0.000	0.000	21.170
4 Investments – other	£m	0.000	0.000	0.000	0.000	0.000
5 Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
6 Retirement benefit assets	£m	0.000	0.000	0.000	0.000	0.000
7 Total non-current assets	£m	4,041.285	-547.893	0.000	-547.893	3,493.392
Current Assets						
8 Inventories	£m	0.000	0.000	0.000	0.000	0.000
9 Trade & other receivables	£m	81.383	0.000	0.000	0.000	81.383
10 Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
11 Cash & cash equivalents	£m	478.693	0.000	0.000	0.000	478.693
12 Total current assets	£m	560.076	0.000	0.000	0.000	560.076

1C Notes to line items

- 1 All costs included within fixed assets are on an accruals basis. This differs from the Annual Actual Project Spend in Table TTTB, which is on a cash basis. The £-547.893m differences between the Company's Statutory fixed asset figure and RAG definitions relates to the cumulative value of capitalised interest since project commencement, which is excluded from the RAG definitions.
- 3, 9 The £81.383m of Trade & other receivables and £21.170m of intra-group loan receivables group are reported separately in table 1C. This trade and other receivables included current and non-current trade debtors, prepayments and other receivables. Under IFRS, the Statement of Financial Position splits these between £54.4m non-current and £48.2m current. Refer to note 7 to the financial statements.

1C – Statement of Financial Position

For the 12 months ended 31 March 2022

Line Description	Units	Statutory	Adjustments			Total Appointed Activities
			Differences Between Statutory and RAG Definitions	Non-Appointed	Total Adjustments	
Current Liabilities						
13 Trade & other payables	£m	0.000	0.000	0.000	0.000	0.000
14 Capex creditor	£m	-146.322	0.000	0.000	0.000	-146.322
15 Borrowings	£m	-2.090	0.000	0.000	0.000	-2.090
16 Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
17 Current tax liabilities	£m	0.000	0.000	0.000	0.000	0.000
18 Provisions	£m	0.000	0.000	0.000	0.000	0.000
19 Total current liabilities	£m	-148.412	0.000	0.000	0.000	-148.412
20 Net current assets/(liabilities)	£m	411.664	0.000	0.000	0.000	411.664
Non-Current Liabilities						
21 Trade & other payables	£m	-345.192	0.000	0.000	0.000	-345.192
22 Borrowings	£m	-3,598.083	0.000	0.000	0.000	-3,598.083
23 Financial instruments	£m	-93.899	0.000	0.000	0.000	-93.899
24 Retirement benefit obligations	£m	0.000	0.000	0.000	0.000	0.000
25 Provisions	£m	0.000	0.000	0.000	0.000	0.000
26 Deferred income – grants & contributions	£m	0.000	0.000	0.000	0.000	0.000
27 Deferred income – adopted assets	£m	0.000	0.000	0.000	0.000	0.000
28 Preference share capital	£m	0.000	0.000	0.000	0.000	0.000
29 Deferred tax	£m	0.000	0.000	0.000	0.000	0.000
30 Total non-current liabilities	£m	-4,037.174	0.000	0.000	0.000	-4,037.174
31 Net assets	£m	415.775	-547.893	0.000	-547.893	-132.118
Equity						
32 Called up share capital	£m	509.673	0.000	0.000	0.000	509.673
33 Retained earnings & other reserves	£m	-93.898	-547.893	0.000	-547.893	-641.791
34 Total Equity	£m	415.775	-547.893	0.000	-547.893	-132.118

1C Notes to line items (continued)

- 15 Current borrowings represent the current split of lease liabilities of £-2.090m outstanding at 31 March 2022 on IFRS 16 leases. The Company has presented lease liabilities as separate line items from borrowings in the Statement of Financial Position.
- 21 Trade & other payables includes £-291.3m of cash amounts received from Thames Water in relation to the Company's revenue, which is deferred onto the Statement of Financial Position until System Acceptance. The revenue is deferred as the associated services will not be delivered until System Acceptance.
- 22 Non-current borrowings comprises of borrowings totalling £-3,596.780m and the non-current split of lease liabilities of £-1.303m outstanding at 31 March 2022 on IFRS 16 property leases.

Regulatory Accounting Statements

1D – Statement of Cash Flows

For the 12 months ended 31 March 2022

Line Description	Units	Statutory	Adjustments			Total Appointed Activities
			Differences Between Statutory and RAG Definitions	Non-Appointed	Total Adjustments	
Operating Activities						
1 Operating profit	£m	0.000	0.000	0.000	0.000	0.000
2 Other income	£m	0.000	0.000	0.000	0.000	0.000
3 Depreciation	£m	0.000	0.000	0.000	0.000	0.000
4 Amortisation – grants & contributions	£m	0.000	0.000	0.000	0.000	0.000
5 Changes in working capital	£m	70.496	0.000	0.000	0.000	70.496
6 Pension contributions	£m	0.000	0.000	0.000	0.000	0.000
7 Movement in provisions	£m	0.000	0.000	0.000	0.000	0.000
8 Profit on sale of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
9 Cash generated from operations	£m	70.496	0.000	0.000	0.000	70.496
10 Net interest paid	£m	0.000	-45.391	0.000	-45.391	-45.391
11 Tax paid	£m	0.000	0.000	0.000	0.000	0.000
12 Net cash generated from operating activities	£m	70.496	-45.391	0.000	-45.391	25.105
Investing Activities						
13 Capital expenditure	£m	-583.656	45.391	0.000	45.391	-538.265
14 Grants & Contributions	£m	0.000	0.000	0.000	0.000	0.000
15 Disposal of fixed assets	£m	0.000	0.000	0.000	0.000	0.000
16 Other	£m	-90.000	0.000	0.000	0.000	-90.000
17 Net cash used in investing activities	£m	-673.656	45.391	0.000	45.391	-628.265
18 Net cash generated before financing	£m	-603.160	0.000	0.000	0.000	-603.160
Cashflows from Financing Activities						
19 Equity dividends paid	£m	0.000	0.000	0.000	0.000	0.000
20 Net loans received	£m	605.716	0.000	0.000	0.000	605.716
21 Cash inflow from equity financing	£m	0.000	0.000	0.000	0.000	0.000
22 Net cash generated from financing activities	£m	605.716	0.000	0.000	0.000	605.716
23 Increase (decrease) in net cash	£m	2.556	0.000	0.000	0.000	2.556

1D Notes to line items

- 10 The net interest paid includes £45.7m of interest paid, partly offset by £0.3m of interest received. Net interest includes interest paid on shareholder loans and external borrowings, interest received/paid on net settled derivatives and interest received on cash deposits at 31 March 2022.
- 13 The £-583.656m of capital expenditure represents cash outflows for the asset under construction.

1E – Net Debt Analysis

For the 12 months ended 31 March 2022

Line description	Units	Fixed rate	Floating rate	Index Linked		Total
				RPI	CPI/CPIH	
Interest Rate Risk Profile						
1 Borrowings (excluding preference shares)	£m	1,657.922	0.000	1,636.178	300.362	3,594.463
2 Preference share capital	£m					0.000
3 Total borrowings	£m					3,594.463
4 Cash	£m					-333.693
5 Short term deposits	£m					-145.000
6 Net Debt	£m					3,115.770
Gearing						
7 Gearing	%					84.215%
8 Adjusted gearing	%					62.740%
Interest						
9 Full year equivalent nominal interest cost	%	86.622	2.833	147.096	23.557	260.108
10 Full year equivalent cash interest payment	%	86.622	2.833	-2.381	2.304	89.379
Indicative Interest Rates						
11 Indicative weighted average nominal interest rate	%	5.225%	0.000%	8.844%	7.818%	7.180%
12 Indicative weighted average cash interest rate	%	5.225%	0.000%	-0.143%	0.765%	2.467%
Time to Maturity						
13 Weighted average years to maturity	nr	25.974	0.000	16.522	17.265	22.277

1E Notes to line items

- 3 The borrowings of £3,594.463m represents £799.527m shareholder loans, £1,575.472m intergroup loans (principal and accretion), £1,216.068m third party borrowings and £3.395m lease liabilities. The total figure is £5.710m smaller than the borrowings in table 1C (sum of lines 1C.15 and 1C.22) due to the treatment of the bond discount/premium; RAG 4.10 requires this to be excluded from the figure in table 1E.
- 6 The net debt figure differs from the Company's internal net debt amount of £2,467.0m presented in the strategic report. The company's internal net debt measure adjusts for the £799.5m shareholder loans, £-5.7m intercompany bond discount/premium, and £-145.0m short term deposits at 31 March 2022.
- 7 As the Company was not part of the 2019 Periodic Review process, it does not have an RCV determined at the Final Determinations. Therefore, the gearing is based on the RCV at 31 March 2022 (as per table TTTB). Tideway's shareholder loans are included within the debt figure used to calculate gearing.
- 8 Adjusted gearing, in relation to the Company's financial covenants, as per the terms of its financing documents, is the ratio of senior net indebtedness to adjusted RCV. Refer to ratios calculated in the Financial Performance Review.

Regulatory Accounting Statements

2D – Historic Cost Analysis of Fixed Assets – Wholesale & Retail

For the 12 months ended 31 March 2022

Line Description	Units	Residential Retail	Business Retail	Water Resources	Water Network+	Wastewater Network+	Bioresources	Additional Control	Total
Cost									
1 At 1 April 2021	£m	0.000	0.000	0.000	0.000	2,888.891	0.000	0.000	2,888.891
2 Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
3 Additions	£m	0.000	0.000	0.000	0.000	588.897	0.000	0.000	588.897
4 Adjustments	£m	0.000	0.000	0.000	0.000	0.338	0.000	0.000	0.338
5 Assets adopted at nil cost	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
6 At 31 March 2022	£m	0.000	0.000	0.000	0.000	3,478.126	0.000	0.000	3,478.126
Depreciation									
7 At 1 April 2021	£m	0.000	0.000	0.000	0.000	-3.927	0.000	0.000	-3.927
8 Disposals	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9 Adjustments	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
10 Charge for the year	£m	0.000	0.000	0.000	0.000	-1.977	0.000	0.000	-1.977
11 At 31 March 2022	£m	0.000	0.000	0.000	0.000	-5.904	0.000	0.000	-5.904
12 Net book amount at 31 March 2022	£m	0.000	0.000	0.000	0.000	3,472.222	0.000	0.000	3,472.222
13 Net book amount at 1 April 2021	£m	0.000	0.000	0.000	0.000	2,884.964	0.000	0.000	2,884.964
Depreciation Charge for Year									
14 Principal services	£m	0.000	0.000	0.000	0.000	-1.977	0.000	0.000	-1.977
15 Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16 Total	£m	0.000	0.000	0.000	0.000	-1.977	0.000	0.000	-1.977

2D Notes to line items

All For the purposes of completing table 2D, Tideway has classified all of its activities as falling within the wastewater network+ segment. This approach reflects that Tideway is constructing a single asset, the Thames Tideway Tunnel, which will be used solely for sewage collection activities. The Company has no direct relationship with customers and carries out no activities that could be classified as retail. The approach to this table therefore aligns both to the general principles set out in Regulatory Accounting Guideline 2.08/2.09, including those of transparency and causality, and with the definitions of wholesale activities set out in Regulatory Accounting Guideline 4.10.

1 The Opening balance at 1 April 2021 reflects both the tunnel asset and ROU assets (Company's property leases) under IFRS 16.

3 All additions in the year were to assets under construction.

10&14 The ROU assets are being depreciated over the remaining lease terms on the Company's existing property leases under IFRS 16. The depreciation presented here is accounting depreciation only, and regulatory depreciation remains zero.

2L Land Sales

Tideway has not completed this table, as the company does not own any land – Thames Water owns all relevant land for the project. We have not therefore received any proceeds from disposals in 2021/22.



The vortex tube at Blackfriars Bridge Foreshore

Regulatory Accounting Statements

4B Analysis of Debt

Due to the size of this table, we have published it in a separate spreadsheet alongside this report:

4H – Financial Metrics

For the 12 months ended 31 March 2022

Line Description	Units	Current Year	AMP to Date
Financial Indicators			
1 Net debt	£m	3115.770	
2 Regulated equity	£m	583.997	
3 Regulated gearing	%	84.22%	
4 Post tax return on regulated equity	%	-35.89%	
5 RORE (return on regulated equity)	%	n/a	n/a
6 Dividend yield	%	n/a	
7 Retail profit margin – Household	%	0.00%	
8 Retail profit margin – Non household	%	0.00%	
9 Credit rating – Fitch	Text	BBB+ (Stable)	
10 Credit rating – Moody's	Text	Baa1 (Stable)	
11 Credit rating – Standard and Poor's	Text	n/a	
12 Return on RCV	%	0.00%	
13 Dividend cover	dec	n/a	
14 Funds from operations (FFO)	£m	-45.391	
15 Interest cover (cash)	dec	0.01	
16 Adjusted interest cover (cash)	dec	0.01	
17 FFO/Net debt	dec	-0.01	
18 Effective tax rate	%	0.00%	
19 RCF	£m	-45.391	
20 RCF/Net debt	dec	-0.01	

4H – Financial Metrics

For the 12 months ended 31 March 2022

Line Description	Units	Current Year	AMP to Date
Borrowings			
21 Proportion of borrowings which are fixed rate	%	46.12%	
22 Proportion of borrowings which are floating rate	%	0.00%	
23 Proportion of borrowings which are index linked	%	53.88%	
24 Proportion of borrowings due within 1 year or less	%	0.00%	
25 Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.08%	
26 Proportion of borrowings due in more than 2 years but no more than 5 years	%	0.02%	
27 Proportion of borrowings due in more than 5 years but no more than 20 years	%	57.44%	
28 Proportion of borrowings due in more than 20 years	%	42.46%	

4H Notes to line items

- 1&3** As shown in table 1E, Tideway's borrowings, which includes shareholder loans, intra-group loans, 3rd party loans and lease liabilities, exceed its cash and cash equivalents and hence it has a net debt position. Applying the line definitions specified by Ofwat results in positive figures for the net debt on line 1 (which is directly taken from table 1E) and consequently regulated gearing in line 3.
- 2,3&4** As the Company was not part of the 2019 Periodic Review process (PR19), it does not have an RCV determined at Final Determinations. Therefore the regulated equity, regulated gearing and post-tax return on regulated equity are calculated based on the RCV at 31 March 2022 (in table TTTB).
- 5** The calculation of RORE is not applicable as the Company was not part of PR19 and does not have a base RORE set at Final Determinations.
- 6&13** As explained in the Financial Performance Review, there were no dividends paid or proposed during the period. Therefore all the dividend-based financial metrics are reported as not applicable.

- 7&8** The retail profit margins are not applicable as Tideway has no retail business.
- 9-10** The Company has been assigned a corporate credit rating of Baa1 by Moody's, with a stable outlook and BBB+ by Fitch, with a stable outlook.
- 14-17 & 19-20** The ratios presented in this table are calculated in line with the RAG methodology. As Tideway has £nil operating profit (Table 1A, line 4) due to its accounting policies, this creates some distortion in the ratios linked to funds from operations (FFO) as required by the RAG methodology. These ratios are not considered to reflect business performance.
- 18** The effective tax rate of 0.00% is a result of the Company having no taxable profits in the year.

Regulatory Accounting Statements

4I – Financial Derivatives

For the 12 months ended 31 March 2022

Line Description	Units	Nominal Value by Maturity (Net) at 31 March				Total Value at 31 March			Interest Rate (Weighted Average for 12 Months to 31 March 2022)			
		0 to 1 Years	1 to 2 Years	2 to 5 Years	Over 5 Years	Nominal Value (net)	Mark to Market	Total Accretion at 31 March	Units	Payable	Receivable	
Derivative Type												
Interest Rate Swap (sterling)												
1	Floating to fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.000%	0.000%	
2	Floating from fixed rate	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.000%	0.000%	
3	Floating to index linked	£m	0.000	0.000	0.000	620.000	620.000	83.565	70.871	%	-0.834%	0.858%
4	Floating from index linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.000%	0.000%	
5	Fixed to index-linked	£m	0.000	0.000	0.000	70.000	70.000	10.334	13.162	%	-0.455%	2.860%
6	Fixed from index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.000%	0.000%	
7	Index-linked to index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.000%	0.000%	
8	Total	£m	0.000	0.000	0.000	690.000	690.000	93.899	84.033			
Foreign Exchange												
9	Cross currency swap USD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
10	Cross currency swap EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000				
11	Cross currency swap YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000				
12	Cross currency swap Other	£m	0.000	0.000	0.000	0.000	0.000	0.000				
13	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000				
Currency Interest Rate												
14	Currency interest rate swaps USD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
15	Currency interest rate swaps EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000				
16	Currency interest rate swaps YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000				
17	Currency interest rate swaps Other	£m	0.000	0.000	0.000	0.000	0.000	0.000				
18	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000				
Forward Currency Contracts												
19	Forward currency contracts USD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
20	Forward currency contracts EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000				
21	Forward currency contracts YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000				
22	Forward currency contracts CAD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
23	Forward currency contracts AUD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
24	Forward currency contracts HKD	£m	0.000	0.000	0.000	0.000	0.000	0.000				
25	Forward currency contracts Other	£m	0.000	0.000	0.000	0.000	0.000	0.000				
26	Total	£m	0.000	0.000	0.000	0.000	0.000	0.000				
Other Financial Derivatives												
27	Other financial derivatives	£m	0.000	0.000	0.000	0.000	0.000	0.000				
Total												
28	Total financial derivatives	£m	0.000	0.000	0.000	690.000	690.000	93.899	84.033			

4I Notes to line items

All Out-of-the money (liability) positions are presented as positive, in-the-money (asset) positions are presented as negative.

3&5 The calculation of weighted average 12-month interest rates for these swaps considers interest rates applicable to drawn down debt at 31 March 2022.

TTTA – Revenue analysis

	Year	Allowed Revenue	£m						Total
			Payment From TWUL Received in Period						
			2021/22		2020/21		Previous Years		
		Apr-Sep	Oct-Mar	Apr-Sep	Oct-Mar	Apr-Sep	Oct-Mar		
1	2015/16	11.164							
2	2016/17	22.439	0.041	0.010	0.022	0.297	17.059	14.646	32.074
3	2017/18	28.559	0.082	0.008	-0.023	1.269	11.955	14.786	28.077
4	2018/19	49.236	0.009	0.077	-0.525	1.591	27.026	19.716	47.895
5	2019/20	63.431	0.470	0.138	11.179	4.507	20.080	24.270	60.643
6	2020/21	76.465	13.584	3.147	15.445	35.126	n/a	n/a	67.303
7	2021/22	87.029	24.698	30.622	n/a	n/a	n/a	n/a	55.319

TTTA Notes to line items

1-7 Tideway's allowed revenue is calculated in respect of each charging year (equal to the financial year in 2016/17 and beyond) using the methodology set out in its Licence. The allowed revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and as it is collected passes it through to Tideway, which may be during or after the relevant charging year. This table records the cash amounts received from Thames Water during the periods shown. Total payments received from Thames Water during the period 2021/22 were £72.9m.

1-2 Tideway's allowed revenue was first billed by Thames Water for the 2016/17 charging year, as this could only be calculated following the award of Tideway's Licence in August 2015. Tideway did not receive any payments from Thames Water in 2015/16. As both 2015/16 and 2016/17 allowed revenue were billed together in 2016/17, these amounts are collected together and are not recorded separately in the table above.

1-7 The 'Total' column outlines the total payments received from Thames Water as at 31 March 2022 in respect of each charging year, to show that payments received do not exceed the respective Allowed Revenue.

As explained in the notes to Table 1A, the Company will recognise all revenue as deferred income during the construction phase.

This table is prepared on a cash basis and therefore only revenue payments received in the year are included.

The negative payments received in respect of the 2017/18 and 2018/19 charging years reflects corrections made by Thames Water.

Regulatory Accounting Statements

TTTB – Expenditure Analysis

	£m, 2014/15 Prices				£m, Outturn Prices		
	2021/22	2020/21	Previous years	Total Since Licence Award	2021/22	2020/21	Previous Years
1 Annual Base Case Forecast	267.676	396.350	2140.438	2804.464	324.505	454.258	2310.388
2 Total expenditure	490.523	500.587	2422.680	3413.790	594.663	573.725	2622.425
3 Excluded Project Spend	52.180	26.906	381.345	460.431	63.258	30.837	407.332
4 Non-regulated expenditure	0.481	0.615	16.846	17.942	0.583	0.705	18.409
5 Annual Actual Project Spend	437.862	473.066	2024.487	2935.415	530.822	542.182	2196.684
6 Variance from Base Case (£m)	170.186	76.715	-115.950	130.951	206.317	87.924	-113.704
7 Variance (%)	63.6%	19.4%	-5.4%	4.7%	63.6%	19.4%	-4.9%
As at 31 March							
8 RCV	2935.415	2497.553	2024.487		3699.767	2889.053	2307.916

TTTB Notes to line items

- 1-8 The 'Previous Years' column consolidates 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 data. These are all consistent with definitions in Tideway's Licence.
- 1-8 This table is prepared on a cash basis and therefore only expenditure in the year is included.
- 1 Tideway's Annual Base Case Forecast, its annually profiled regulatory baseline, is included in its Licence. The figure reported for each financial year is subject to defined inflationary adjustments, as set out in Appendix 1 of Tideway's Licence. For this report, the adjustments for 2020/21 and 2021/22 have been applied using the inflation data as at late April 2022. For this reason, the figures reported above differ from the £407.1m and £266.3m set out in the Licence. The 2020/21 figure also differs slightly from that in the last annual report, as certain construction indices which were provisional at the time of calculation have now been finalised.
- 3 Excluded Project Spend is defined in Tideway's Licence and includes certain specified categories of spending that are not included in Tideway's RCV. In 2021/22, Excluded Project Spend related primarily to VAT and financing costs.
- 4 Non-regulated expenditure relates to activity that is neither Allowable nor Excluded Project Spend. For example, this includes office facilities and software for Thames Water staff working on the interface between the two organisations. To avoid customers paying twice for the same expenditure, it is not included in Tideway's Regulatory Capital Value but is recorded as non-regulated expenditure at the point the money is recovered from Thames Water, and Annual Actual Project Spend for the year is correspondingly lower.

- 3-4 The excluded costs of £63.8m presented in the "Costs and Net Cash Outflow Comparison" table in the Financial Performance Review within the Annual Report and Accounts includes £63.3m of excluded spend and £0.6m of non-regulated spend as shown in table TTTB.
- 5 Annual Actual Project Spend, defined in Tideway's Licence, is the total of Allowable Project Spend incurred by Tideway and verified by the Independent Technical Assessor (ITA) during the reporting period. This amount becomes part of Tideway's RCV, which drives its revenues.
- 6-7 Tideway's spending on the project has a different profile from that assumed in the Annual Base Case Forecast, with more actual spending incurred in later years. This drives the large percentage variance seen in 2021/22. The 'Total since Licence Award' column shows variance since the start of the project.
- 7 Percentage variance figures for previous years in 2014/15 and outturn prices do not exactly match due to impact of summing outturn figures in different price bases.
- 1-7 Expenditure is in both outturn and 2014/15 prices. The figures in outturn prices are deflated to 2014/15 prices using the financial year average RPI.
- 8 RCV is in both outturn and 2014/15 prices. The figures in 2014/15 prices are the cumulative Annual Actual Project Spend deflated using the financial year average RPI. The RCV for each year is inflated at the year-end price and therefore differs from the sum of outturn Annual Actual Project Spend (line 5). Previous Years' RCV is RCV at 31 March 2020.

TTTC – Alliance Agreement Payments

	£m, 2014/15 Prices				£m, Outturn Prices		
	2021/22	2020/21	Previous Years	Total Since Licence Award	2021/22	2020/21	Previous Years
1 Alliance Agreement payments received	0.000	0.000	0.000	0.000	0.000	0.000	0.000
2 Alliance Agreement payments made	0.000	0.654	13.089	13.742	0.000	0.749	13.692

TTTC Notes to line items

1&2 The 'Previous Years' column consolidates 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 data.

1 Expenditure funded by Alliance Agreement payments received will be Excluded Project Spend and therefore excluded from the RCV.

2 This figure includes all Alliance Agreement payments verified by the Independent Technical Assessor.

This table is prepared on a cash basis and therefore only payments received and made in the year are included.

Financing Cost Adjustment

The financing cost adjustment (FCA) is a mechanism in Tideway's Licence that shares the impacts of movements in the market cost of debt, above certain thresholds, between Tideway and Thames Water's customers. Changes to the relevant licence conditions that took effect in March 2022 have the effect of freezing the inputs to the FCA (and thus the FCA itself) at their March 2021 levels, meaning that changes to net debt after this date do not affect Tideway's revenue.

To ensure transparency in relation to the FCA, Tideway is required by Part A of Appendix 1 of its Licence to report on:

- Net debt (as defined by the Licence).
 - At 31 March 2022 Tideway's net debt was £2,316.2m. This figure was calculated by taking Tideway's net debt of £3,115.8m (as per table 1E) and removing the £799.5m of shareholder loans. Shareholder loans are included in Tideway's net debt using the definitions in the Regulatory Accounting Guidelines but are not included in the net debt figure calculated in accordance with Tideway's Licence.
 - At 31 March 2021 Tideway's net debt was £1689.5m, as set out in the FCA section of the *October 2021 document* updating its 2020/21 net debt reporting.
 - Prior to the recent licence modifications, the 31 March 2022 net debt figure would have formed an input to the FCA in the 2022 Revenue Statement, which determines 2023/24 allowed revenue. Following the licence changes, the 31 March 2021 figure will be used for the 2022 Revenue Statement and future years' statements.
- The basis of the calculation of the Financing Cost Adjustment and its component parts: this is included in *Tideway's annual Revenue Statement*.

Interest Analysis

RAG 3.13, section 4.19-4.20, requires analysis of the appointed interest expense reported in 1A.7 and the appointed other interest expense reported in 1A.8.

Interest Expense Reported in FY21/22	2022 £m
1A.7 Interest Expense	-197.508
Breakdown of Interest Expense Components	
External borrowings – Interest expense	-65.472
Intra-group borrowings – Interest expense	-131.925
Lease liabilities under IFRS 16 – Interest expense	-0.111
Total	-197.508

We have no appointed other interest expense, as reported in 1A.8

Transfer Pricing Information

TRANSFER PRICING INFORMATION

To demonstrate that it is operating at arm's length from other companies in the same group and that no cross-subsidies exist, Tideway is required by Regulatory Accounting Guideline 3.13 to disclose details of transactions with associated companies. The Tideway group structure is described in the Governance section of the Annual report and accounts.

Service Provided by Regulated Business	Company	Turnover of Associate	Terms of Supply	Value
Shareholder loans	Bazalgette Holdings Ltd	-	The shareholder loans were included in the financing plan that was part of the bid Tideway's owners made for the company. Bids were evaluated as part of the procurement process for the infrastructure provider, against criteria that included the rate of return required by bidders and the financial resilience of the proposed financing structure. The shareholder loans have a maturity date of 2064.	
Intra-group loans	Bazalgette Finance Plc	-	Tideway has £1,581.2m of loans payable to its sister company Bazalgette Finance plc, which operates with the sole purpose of raising finance through a multi-currency bond platform for the purposes of the Company's licenced activities. The proceeds from bonds issued under this platform are lent to Tideway through a series of back to back loans, which have substantively the same economic terms and effectively pass to Tideway the financing arrangements of the external debt held by Bazalgette Finance plc. These intra-group loans have maturity dates ranging from 2027 to 2054 (further detail in note 10 to the statutory accounts).	

Service Provided by Regulated Business	Company	Turnover of associate	Terms of supply	Value
Intra-group loans	Bazalgette Holdings Ltd	-	Tideway has a £53.6k loan receivable from its immediate parent Bazalgette Holdings Limited, lent for the purposes of Bazalgette Holdings Limited's capitalisation of Bazalgette Finance plc during 2016/17. The loan is on arm's length commercial terms, bearing an annual interest rate of 3-month Libor +50bp.	
Intra-group loans	Bazalgette Finance Plc	-	Tideway has an £21.1m loan receivable from its sister company Bazalgette Finance plc, lent for the purposes of funding Bazalgette Finance plc's debt service reserve account. The loan is on arm's length commercial terms, bearing an annual interest rate of 6-month Libor +50bp.	

Tideway's shareholder loans are made by an associated company, Bazalgette Holdings Limited, in line with arrangements agreed with Government and Ofwat before Licence Award, and are therefore a relevant transaction. The loan arrangement meets all regulatory requirements for transactions with associated companies. The information in the form required by Ofwat is shown above.

RAG 3.13 requires companies to report:

- corporation tax group relief received or surrendered by the regulated business; and
- the basis of the recharge made by the appointed business, where appointed business assets have been used to carry out non-appointed activities.

Tideway had no such transactions to report in 2021/22.

Risk and Compliance Statement

This section relates to Tideway's compliance with its statutory, licence and regulatory obligations.

Tideway has identified four sources of obligations, capturing the major regulatory and legal obligations applicable to Tideway that are specific to the Thames Tideway Tunnel or to the water industry. These are:

- the project Licence;
- a modified version of the Water Industry Act 1991, as amended;
- the "SIP Regulations";⁵ and
- the Project Specification Notice.

The listed instruments are considered to define the major obligations on Tideway. Any obligations not covered are considered to be at low risk of non-compliance.

This statement complements a number of other Tideway reporting practices, such as quarterly reporting of project information to the Liaison Committee, which is attended by representatives from Ofwat, Government, the Environment Agency and TWUL as well as the Independent Technical Assessor (ITA), and regular information sharing with the ITA and other sources of scrutiny. These practices help to ensure transparency and accountability regarding Tideway's compliance with its statutory, licence and regulatory obligations.

Tideway's Board confirms that:⁶

- The Board considers that Tideway has full understanding of, and has had no material breaches of, the above listed statutory, licence and regulatory obligations throughout 2021/22. The Company has identified one instance of non-compliance related to reporting during 2021/22 which was addressed, and which did not have a material impact on the interests of Thames Water's customers or other project stakeholders. This instance related to the reporting of net debt within Tideway's Annual Performance Report, where the methodology used by Tideway in relation to 2020/21, 2019/20 and 2018/19 reporting did not fully align with the Regulatory Accounting Guidelines. Following discussions with Ofwat, these issues were remedied via republication and resubmission of the affected tables in October 2021.

Under its assurance policy, strategy and plan, Tideway has a range of processes for ensuring compliance and these are captured in the integrated assurance framework overseen by the Compliance and Assurance Review Group, led by the CEO (see the Risk Management section of Tideway's Annual Report and Accounts).

Tideway allocates each Licence obligation to an owner within Tideway with the most relevant expertise. These owners are responsible for ensuring compliance and putting in place appropriate processes and first line of defence reviews (defined in the Board Statement on Accuracy and Completeness of Data and Information). The assurances given in this statement are underpinned by the Regulation team's risk-based reviews of compliance, in which the frequency and degree of scrutiny applied and the level of evidence requested in relation to each obligation reflects the likelihood and potential severity of breach, as assessed using a common set of standards. This approach is supplemented by quarterly management reviews. Tideway's internal audit function carried out a review of Licence compliance in relation to 2021/22 and concluded that the controls in place were effective.

Tideway's legal team manages compliance with our legal obligations. The team monitors and supports compliance on an ongoing basis, undertakes periodic audits, and identifies and prepares for legislative changes that may impact Tideway. To support compliance, the team promotes awareness of key legislative requirements across the business. Training is provided on specific topics such as fraud awareness and the General Data Protection Regulation. The legal team also scrutinises procurements, to ensure compliance with the procurement regime applicable to Tideway.

The results of the assurance processes underlying this Risk and Compliance Statement have been reported to Tideway's Audit and Finance Committee, which recommended to the Board that it make the statements in this section.

- The Company has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations. Tideway is committed to continuous improvement and as such we will continue to refine our processes, to support ongoing compliance.
- The Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

The steps taken to manage or mitigate material risks are covered in the Risk Management section of the annual report. At the Board Risk Committee meeting in March 2022, the Committee reviewed Tideway's approach to corporate risk management covering all business areas. Committee members discussed the principal and corporate risks facing the business, reflecting the current stage of the project and relevant external influences. The Committee also reviewed Tideway's risk appetite, to ensure it remains appropriate and reflects the current business environment. The Committee reviewed the risk section of the Annual Report, including the Principal Risks, at its June 2022 meeting.

⁵ The Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) Regulations 2013 (as amended by the Water Industry (Specified Infrastructure Projects) (English Statutory Undertakers) (Amendment) Regulations 2015) (the "SIP Regulations").

⁶ Statements in relation to customers and outputs that Ofwat expects companies to include within their risk and compliance statements are not included here as they are not relevant to Tideway.

Condition K Reporting

SUFFICIENCY OF NON-FINANCIAL RESOURCES

Condition K4.4A of Tideway's Licence requires it to make an annual statement regarding the sufficiency of its non-financial resources, in case of special administration. The Board confirms that as at 31 March 2022, as far as reasonably practicable, Tideway had available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage Tideway's affairs, business and property in accordance with the purposes of the special administration order.

SUFFICIENCY OF RESOURCES AND FACILITIES (CONDITION K CERTIFICATE)

Tideway has submitted a Condition K Certificate to Ofwat stating that in the Board's opinion:

- Tideway will have available to it sufficient financial resources and facilities to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- Tideway will have available to it sufficient management resources and systems of planning and internal control to enable it to carry on the Licensed Activities for at least the 12-month period following the date of submission.
- All contracts entered into between Tideway and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to Tideway, to ensure that it is able to carry on the Licensed Activities.

Tideway's Board endorsed the above statements at its June 2022 meeting. Before doing so, the Board:

- Reviewed and discussed a draft Condition K Certificate and supporting paper at a workshop in May 2022; and
- Reviewed the final form of the certificate at its June 2022 meeting.

KPMG's report is presented at the end of this document.

The Board's reviews were supported by papers in which for each area listed in the table below the most relevant Tideway Director or internal expert confirmed that Tideway has sufficient resources for at least the next 12 months and described the processes, systems and evidence that led them to this view. The confirmations and supporting material were also reviewed by the CFO and Director of Strategy & Regulation for consistency with other internal and external reporting. The Board considers that this combination of internal and external review means that checks have been carried out by parties with the most appropriate skills and knowledge.

The Board considers that Tideway has sufficient resources in all areas. In reaching this conclusion it paid particular attention to the following:

- Adequacy of processes such as Tideway's Financing Plan, Annual Budget, Annual Business Plan, Financing Reviews and resource planners that provide the Board with an overall view on sufficiency of resources;
- Resources considered critical to mitigating the Principal Risks identified in the Risk Management section of this report, or potentially vulnerable to their impacts.
- Progress and outcomes of work to ensure Tideway is suitably resourced (e.g. Tideway and PM staff; external expertise; stakeholder support) to deliver the later stages of the Tideway project;
- Governance, assurance and risk management processes that test the robustness of Tideway processes and conclusions on sufficiency of resources.

The table on the **following pages** summarises the processes, systems and evidence considered in confirming sufficiency of resources in each area.



The Hammersmith connection into the main tunnel

Condition K Reporting

Area	Factor	Summary of Information Considered
Financial resources and facilities	Financial details, e.g. cash position, financial headroom, refinancing undertaken/ planned	Forward looking liquidity; covenants in financing documents; Treasury policies, plans and assurance. Further detail in Financing section of Strategic Report. Board confirmation regarding going concern basis for financial statements.
	Performance against Final Determinations (FDs) set at the last price review	As Tideway was not part of the last Ofwat price review, the Board considered performance against Tideway's regulatory baseline and potential direct and indirect impacts of the forecast overspend.
	Credit related factors e.g. credit facilities, ratings, compliance with covenants etc.	Regular reviews with rating agencies; re-affirmation of ratings by Moody's and Fitch; credit metrics; Treasury policies; financing document compliance; investor reporting.
	Business plans, long-term viability statements, etc.	2022/23 business plan approved by Board in March 2022; scenarios modelled and results of Long Term Viability Statement.
	Any relevant reports – internal or third-party.	KPMG review of Condition K Certificate for consistency with audit findings. Internal reports considered under other factors wherever relevant.
Management resources	Management skills, experience and relevant qualifications	Human Resources (HR) processes in place to identify and meet skill, experience and qualification requirements. Review of all roles during 2021/22 with reference to current and anticipated company needs.
	Recruitment process, staff engagement	HR processes in place; results of staff engagement surveys. See also Company and People section of strategic report within the annual report.
	Succession planning for key management/staff	Annual reviews of senior roles; scrutiny by Nomination Committee. Risk from Covid-19 or other shocks mitigated by team business continuity plans.
	Quality of management/staff induction and other training and development	Results of staff engagement surveys; regular reviews of induction process by HR function.
	Process for ensuring diversity of perspectives	For staff and management: approach to recruitment; internal activities to promote inclusivity; results of staff engagement surveys. For the Board: current Board composition; succession planning review.
	Board or management activities, reports or statements	Board: see Governance section. Management: monthly performance reviews led by CEO; quarterly reporting to Liaison Committee; annual business planning process.
	Independence of Board	See Governance section of annual report.
Systems of planning and internal control	Governance procedures; risk management frameworks, oversight procedures	Governance: Board independence; internal control and delegated authority procedures; contract approval process. Risk management: see strategic report section of annual report. Oversight: Compliance and Assurance Review Group (CARG) and Tideway's Integrated Assurance Framework.
	Internal and/or external audit policies, processes, activities and/or reports	Internal audit policy, strategy, procedures and reporting; audit plan drives resources required. External audit summarised in Board Statement on Accuracy and Completeness of Data and Information .
	Systems for maintaining supply/business continuity, stated action plans	Emergency Preparedness and Resilience Framework, Incident/Crisis Management and Business Continuity Management Process; arrangements for review and integration of lessons learned.
	Policies to prevent fraud and other unethical behaviour; whistleblowing policy	Ethical behaviours and whistleblowing policies; mandatory training on antifraud, bribery and corruption.
	Risk, compliance other assurance statements	See Risk and Compliance Statement and Board Statement on Accuracy and Completeness of Data and Information .

Area	Factor	Summary of Information Considered
Rights and resources other than financial resources	Corporate missions and/or values	See 'Our vision, purpose and values' section of strategic report section of the annual report.
	Technology and other systems for ensuring checks and balances	IS department's work to ensure service excellence and support for all users, systems and applications on the project; alignment of all systems to latest security levels; updated cybersecurity arrangements. Examples of how these systems are being used to ensure checks and balances.
	Policies to encourage an integrated approach and 'systems thinking'	Arrangements for integrating our delivered tunnel with the Lee Tunnel and Beckton for operations. Broader context for delivery, including legacy commitments (see strategic report section of annual report). Integration across the Alliance.
	Planning systems.	Role of the Programme Manager in integration of planning and scheduling activities; planning resources available. Tideway's Programme Integrated Management System (single source of project delivery information) and Tideway assurance. CARG and Integrated Assurance Framework – as above. Resources available for construction certification. Arrangements being put in place for long term asset management.
	Assets maintenance/ insurance factors.	Insurances in place and renewal arrangements. Third party asset protection arrangements in place; many higher risk asset impact activities now complete. Status of plans for asset management post construction.
Contracting	Position/status of key contracts in place.	Most key contracts were in place at Licence Award; Legal team manages new contracts or variations to existing contracts. Contract approval form and other processes ensure compliance of contract terms with our licence, project documents and financing agreements.
	All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards	Assurance via the licence compliance process (see Risk and Compliance Statement).
	Note on transactions between the Appointee and any Associated Company	See ' Transfer Pricing Information ' section of this document.
	Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I)	Assurance via the licence compliance process (see Risk and Compliance Statement).
	No Guarantees or Cross-Default Obligations given without Ofwat's written consent	Assurance via the licence compliance process (see Risk and Compliance Statement).
Material issues or circumstances	Supply chain availability	Key risks and mitigations, including consideration of Covid-19 and other market impacts. See Risk Management section of strategic report within annual report.
	Stakeholder and community support	See 'Engaging with our stakeholders & partners' and 'Vision, Legacy and Reputation' sections of strategic report within annual report. Resource plans aligned to anticipated level of risk in this area.
	Schedule and commercial alignment	Progress in bringing all contractors into line with T-24 programme (see 'Our strategy' section of the strategic report within the annual report). Outstanding areas of discussion with MWCs are not expected to challenge sufficiency of resources in this area. Oversight is provided by Tideway's Commercial Strategy Forum, Executive and Board. Progress of discussions with Thames Water and other key stakeholders on strategic intent for end of project, intended among other things to ensure adequate resourcing for system commissioning.

Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR REGULATORY INFORMATION

The Directors are responsible under Condition F of Tideway's Licence for:

- ensuring that Tideway keeps appropriate accounting records which are consistent with guidelines published by Ofwat;
- preparing a set of regulatory accounting statements each financial year in accordance with the Regulatory Accounting Guidelines issued by Ofwat; and
- complying with all other requirements that are set out in the Regulatory Accounting Guidelines.

The directors of the company hereby confirm that the company has kept appropriate accounting records, which comply with the guidelines published by Ofwat, has prepared a set of regulatory accounting statements in accordance with the Regulatory Accounting Guidelines, and has complied with all other requirements set out in the guidelines, except where an alternative approach has been confirmed in writing by Ofwat.

Condition K 'Regulatory ring-fence' of Tideway's licence requires the company to submit a 'Condition K certificate' to Ofwat no later than the date on which the company is required to submit a set of regulatory accounting statements in accordance with Condition F. The Condition K Certificate must confirm that specified statements on sufficiency of resources and contracts with associated companies are true, in the opinion of Tideway's Board. The directors have issued a Condition K Certificate, which is reproduced above this statement.

The above responsibilities are additional to those already set out in Tideway's statutory financial statements.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

All disclosures in this annual performance report including the regulatory accounting statements, Risk and Compliance Statement and Condition K Certificate, were approved by the Board on at its June 2022 meeting and the report was signed on its behalf by:

Andy Mitchell
Chief Executive Officer

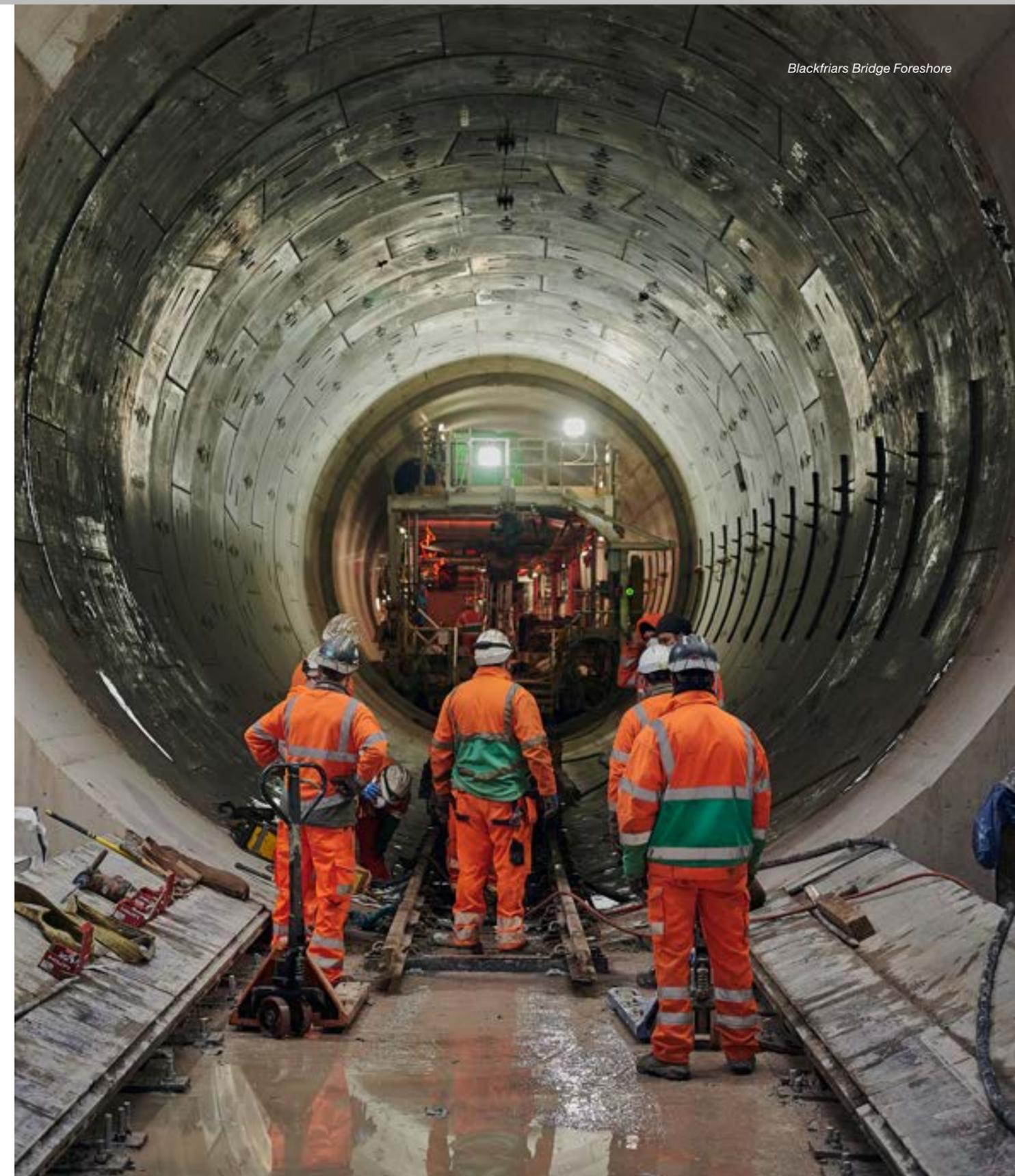
Sir Neville Simms
Chairman

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

DISCLOSURE OF INFORMATION TO THE AUDITOR⁷

The Directors who held office at the date of approval of the '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.

Blackfriars Bridge Foreshore



⁷ This information is included in the Directors' Report within the Annual report and accounts for statutory purposes. It is repeated here in line with Ofwat's requirement that companies make this statement within their annual performance reports.

Board Statement on Accuracy and Completeness of Data and Information

Background

Tideway recognises the importance of providing accurate and complete information throughout the reporting year and the importance of Board engagement, for our stakeholders to trust it. Tideway has adopted an 'Integrated Assurance Framework', where the Board's role includes satisfying itself as to the identification and addressing of any risks that impact the provision of accurate and complete data. We are required under Ofwat's "RAG 3.13 – Guideline for the format and disclosures for the annual performance report", to provide a statement, signed by, or on behalf of the Board, stating that the data and information, which the company has provided to Ofwat in the reporting year and/or has been published in our role as an infrastructure provider, is accurate and complete and setting out any exceptions to this. This statement is accompanied by a description of how the Board has:

- engaged and challenged on the assurance approaches, which have been taken;
- taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed;
- satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information; and
- utilised individual directors and committees in carrying out its activities in this area.

Integrated Assurance Framework

Tideway has adopted a Compliance and Assurance Policy. This provides assurance to the Board that our external obligations: legal, statutory, regulatory, contractual and other internal requirements are complied with for the delivery of the project. The policy is supported by the:

- Compliance and Assurance Strategy, which defines how we demonstrate compliance, by using a risk-based approach, based on the 'three lines of defence';
- The Integrated Assurance Plan, which maps our Assurance Framework in line with Tideway's Operating Model.

The accountability for compliance and assurance sits with the Executive Directors. The policy is endorsed by both the Board and the Audit and Finance Committee. The framework for all assurance activities is provided by Tideway's Programme Integrated Management System (PIMS) and implemented by the functions and disciplines within Tideway.

Our Risk-based Approach

We adopt the 'three lines of defence' approach to risk management, which are captured in the table:

Each of these 'lines' plays a distinct role in the organisation's wider governance framework, reporting to the Board. This ensures our Board is both aware and engaged throughout the reporting year in ensuring accurate, complete and reliable information is provided to Ofwat in Tideway's role as an infrastructure provider.

Three Lines of Defence Model



Scope of our Board Statement

Our Board Statement covers all data and information, which the company has provided to Ofwat in the reporting year and/or has been published in our role as an infrastructure provider. We provide details of the approach for: the 2021/22 Annual Report, Annual Performance Report, Annual Revenue Statement, Liaison Committee and Covid-19 information. We confirm that there were no material exceptions or weaknesses in our approach during the reporting year.

⁸ RAG 3.13 – Guidance for the format and disclosures for the annual performance report (Ofwat March 2022).

Board Statement on Accuracy and Completeness of Data and Information

2021/22 Annual Report

The 'three lines of defence' approach to our Annual Report is overseen by our Board and Audit and Finance Committee, including engagement at a Board workshop and Board sub-committees reviewing specific aspects of the report.

Tideway's Internal Audit function reviewed our assurance methodology and provided a written opinion on the approach described here.

First and Second Line of Defence

The functional areas responsible for different sections of the report undertook the first line of defence.

- Each section owner provided the source of all data items in the section and described the relevant assurance activities through the reporting year.
- There was a peer review of each section by a colleague within the business function, with any comments fed back to the section owner to be addressed.
- Section owners, their head of department and the appropriate member of the executive management team certified the accuracy, reliability and completeness of the section.

The second line of defence consisted of oversight by the wider business. An independent central team, with representatives from across Tideway tested the robustness of the first line of defence by verifying data items contained in the report, using the source information provided by the section owner, and by checking consistency within the report.

The team decided which data items to check based on the likelihood and potential impact of error, and any internal stakeholder views on areas requiring additional review. This determined the depth and breadth of review, with all high-risk items checked back to an assured source. Lower-risk items were subject to spot checks. Any comments arising were addressed by section owners.

Other second line of defence activities included:

- Executive management review of each section.
- Review of relevant sections of the governance report by Board Committee Chairs.
- The Board Risk Committee reviews our risk management framework and principal risks.
- The Audit and Finance Committee reviews our long-term viability statement.
- Review of the Annual Report by the Board in a workshop held in advance of finalising the report.
- Review of the Annual Report by the Audit and Finance Committee in advance of Board review and approval.

Third Line of Defence

The third line of defence consisted of the audits and Agreed Upon Procedures (AUPs) carried out by KPMG, our auditors for the Statutory Accounts and regulatory accounting statements. They also reviewed various other sections of the report, by carrying out an audit and/or other checks. Internal audit reviewed the methodology set out in this statement and checked that it had been followed. Internal audit also audited the year-end licence compliance process, which underpins the risk and compliance statement.

KPMG's opinions in the Annual Report and Accounts and the Annual Performance Report cover the results of its statutory and regulatory audits. Other independent third line of defence reviews included:

- Internal audit function covering financial and non-financial processes across the business.
- External auditor, audits our Statutory financial statements and certain tables in the Regulatory financial statements, and carries out a series of agreed checks (known as "agreed upon procedures") on certain other submissions to Ofwat as noted in the table below.
- Independent Technical Assessor (ITA) reviews information on the progress of the project, verifies Tideway's Allowable Project Spend and produces quarterly reports on Tideway's reporting to Government.

The ITA is co-located with Tideway and is given full access to information.

KPMG Review

Section	KPMG assurance
Strategic report	Consistency with the accounts.
Governance	Within scope of statutory audit opinion where the Corporate Governance Code has been adopted and the element forms one of the provisions of the Code that are subject to audit.
Directors' report	Statutory audit opinion covers preparation in accordance with the requirements of the Companies Act 2006.
Regulatory reporting – tables in sections 1 and 2	Regulatory audit (in line with Ofwat guidance) - scope as described in the opinion at the end of this document.
Regulatory reporting – tables in sections 4 and TTT	A set of specific tests on the calculations to verify their accuracy (known as agreed upon procedures).
Condition K certificate	Scope as described in the report at the end of this document.
Regulatory reporting – narrative	Consistency with the accounts.
Financial statements	Companies Act/statutory audit.

Revenue Regulation – Annual Revenue Statement

Tideway's revenue collection process is governed by the Revenue Agreement. The process is segmented into three activities: (i) derivation of the annual infrastructure provider charge estimate, (ii) the Annual Revenue Statement and (iii) the revenue, billing and collection process. Each stage is subject to an agreed process, which includes governance and assurance.

The Annual Revenue Statement sets out the charges for the next year and follows our 'three lines of defence' approach. The statement is first derived internally and subject to internal review, and external review (agreed upon procedures). It is also subject to executive level review, which provides further assurance and confidence to the Board that it can approve a complete and accurate revenue statement for Ofwat.

This process has been established since licence award and has been applied for each revenue statement published.

Liaison Committee Reporting

Tideway provides a quarterly performance report to key stakeholders. The report sets out the latest forecast cost Estimate at Completion (EAC) and schedule.

To ensure the completeness and accuracy of historical information and the strength of forecasts the report is subject to internal review and challenge, including teams led by Board Members. Only on completion of the review and challenge process is the report released to stakeholders. The ITA also provides a quarterly report for presentation to the Liaison Committee, as set out under the ITA Deed.

Board Oversight and Endorsement

The Audit and Finance Committee has shared the outcome of the assurance carried out with the Board. This has enabled the Audit and Finance Committee to assure the Board, that the Annual Report and Accounts and Annual Performance Report are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy' is in line with the UK Corporate Governance Code requirements.

On the basis of this assurance, the Audit and Finance Committee has recommended the Annual Report and Annual Performance Report to the Board for its approval. The Board has:

- adopted our three lines of defence approach to assurance;
- taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed;
- satisfied itself that the approach has appropriately identified and addressed any risks to the provision of accurate and complete data and information; and
- utilised individual directors and committees in carrying out its activities in this area.

The Board and its committees have overseen and approved the data and information, which the company has provided to Ofwat in the reporting year and/or has been published in our role as an infrastructure provider, for accuracy and completeness.

The report was signed on its behalf by:



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

Auditor's Report

INDEPENDENT AUDITOR'S REPORT (REGULATORY ANNUAL PERFORMANCE REPORT – SECTION 1 AND 2 TABLES)

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and Bazalgette Tunnel Limited ("the Company" or "BTL")

Opinion

We have audited the tables within Bazalgette Tunnel Limited's Annual Performance Report for the year ended 31 March 2022 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E) and the related notes; and
- the historic cost analysis of fixed assets for wholesale and retail (table 2D) and the related notes.

We have not audited the additional regulatory tables 4B, 4H or 4I or the bespoke information in tables TTTA to TTTC.

In our opinion, Bazalgette Tunnel Limited's Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F and the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies set out on pages 68-69 of the annual report and accounts.

Basis For Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Special Purpose Basis of Preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom-adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 4 to 10 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included on page 4.

Our opinion is not modified in respect of this matter.

Conclusions Relating to Going Concern

The directors have prepared the Regulatory Accounting Statements on the going concern basis as they do not intend to liquidate the Company or to cease its 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 Regulatory Accounting Statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and metrics relevant to debt covenants over this period were:

- Adequacy of funding available to the Company including its ability to generate liquid funds to honour its commitments under its lending agreements with reference to management's budgets/forecast; and
- Significant cost overruns to estimate to complete the project that reduces the returns generated from the asset.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Company's financial forecasts.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.
- we have not identified and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Other Information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Auditor's Report

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

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

Fraud and Breaches of Laws and Regulations – Ability to Detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment assumptions.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Accounting Statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the Company's procedures for complying with regulatory requirements.

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 Regulatory Accounting Statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Accounting Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Regulatory Accounting Statements 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 Regulatory Accounting Statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: compliance with Ofwat regulatory legislation, environmental legislation, health and safety, data protection laws, 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 and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the Ability of the Audit to Detect Fraud or Breaches of Law or Regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Regulatory Accounting 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 is from the events and transactions reflected in the Regulatory Accounting 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website [here](#). This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company.

Auditor's Report

Use of this Report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Project Licence granted by the WRSRA to the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specific Infrastructure Projects) (English undertakers) Regulations 2013) ("the SIP Regulations") ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 21 June 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Anna Jones

For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2022

INDEPENDENT AUDITOR'S REPORT (CONDITION K CERTIFICATE) Report of KPMG LLP to Bazalgette Tunnel Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition K

In accordance with the terms of our engagement letter dated 9 May 2022, we have examined the Company directors' certificate – Condition K dated 21 June 2022 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022.

Respective Duties of Directors and Auditors

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition K in accordance with Condition K of the Licence. The Certificate is presented as set out in the Project Licence granted by the WSRA to the Company as an infrastructure provider under section 17FA of the Water Industry Act 1991 (as has effect under paragraph 3(2) of Schedule 1 of the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013) ("the SIP Regulations").

As specified in our engagement letter dated 9 May 2022, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition K. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 21 June 2022, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Regulatory Accounts for the year ended 31 March 2022.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Basis of our Findings

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022.

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
21 June 2022