Bazalgette Equity Limited

Annual report and financial statements

For the year ended 31 March 2024

Registered number 09553394

Contents

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Strategic report

The Directors present their Strategic report for Bazalgette Equity Group (the Group) and Bazalgette Equity Limited (the Company) for the year ended 31 March 2024.

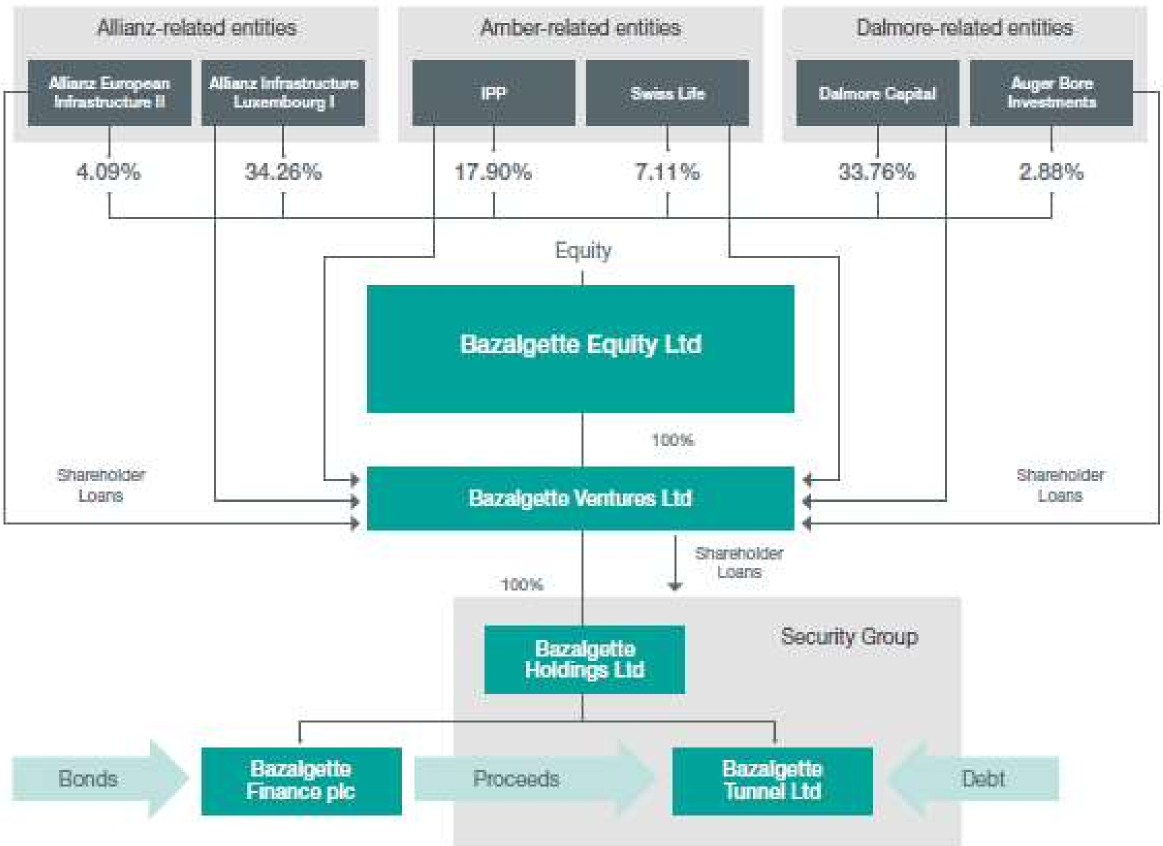
Introduction

Bazalgette Equity Limited is the ultimate controlling company of the Bazalgette Equity Limited group of companies.

As at the 31 March 2024, the Group comprised the Company, Bazalgette Ventures Limited (BVL), Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited (BTL) and Bazalgette Finance plc (BF). BTL, trading under Tideway, is an independent regulated company operating within the water sector since it was awarded a licence by Ofwat in August 2015. The emphasis given to BTL, which trades under the name 'Tideway', throughout this report reflects its importance to the overall performance of the Group.

The principal activity of the Company is to act as the ultimate holding company of the Group and to act as the vehicle for shareholder share capital financing. It does not carry out any activities beyond this role.

As at 31 March 2024, the Bazalgette Equity Limited Group's investors include Allianz Infrastructure Luxembourg I S.a.r.l, Allianz European Infrastructure II Acquisition Holdings S.a.r.l, Dalmore Capital 14 GP Limited, Auger Bore Investments Limited, IPP (Bazalgette) Limited and Bazalgette (Investments) Limited.. The Group structure is set out below:



Company governance

Each shareholder controlling 10 per cent or more of the ordinary shares of BEL and loan notes of BVL is entitled to appoint one director to the Boards of BEL, BVL and the Company. Each shareholder controlling 20% or more of the ordinary shares of BEL and loan notes of BVL is entitled to appoint an additional director to the Boards of BEL, BVL and the Company. The board of the Company is committed to best practice in corporate governance.

On a day to day basis the Chief Executive Officer, the Chief Financial Officer and the Chief Technical Officer of BTL also carry out duties on behalf of the Group with clear governance and controls in place to ensure that decisions that affect individual Group companies are taken in line with this governance framework.

Further information on our equity investors and their equity interests, as well as Board leadership, transparency and governance are disclosed in the Holding Company Principles statement which is available at www.tideway.london.

Business review

Our Purpose

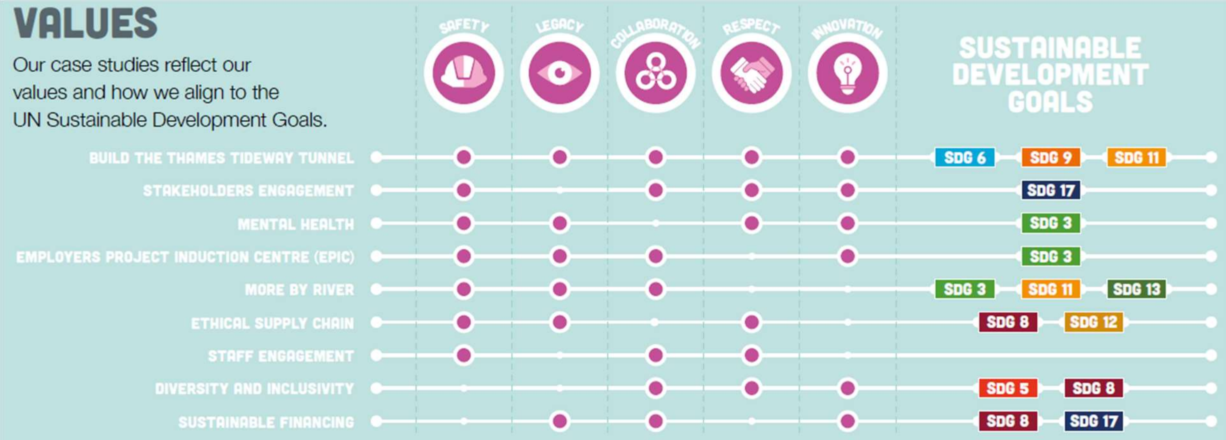
Tideway is building the Thames Tideway Tunnel under the River Thames – creating a healthier environment for London by cleaning up the city's greatest natural asset, now and for the foreseeable future.

Our Vision

Reconnecting London with the River Thames.

Delivering our Purpose and Vision

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



Our Commitment to Legacy & Sustainability

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

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

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

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

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

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

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

In 2020 we acknowledged that we negatively impacted some SDGs, in particular SDG 13 Climate Action because of our carbon footprint, however we have actively sought to minimise and mitigate this (refer to Carbon section of the Sustainability Report). We also temporarily impacted on SDG 15 Life on Land as we had to fell 156 trees to proceed with construction, but we have committed to planting 2 trees for every 1 tree removed (refer to Environment section of our Sustainability Report). Achieving our remaining 11 commitments will complete our contribution to our core goals SDG 11 (Sustainable Cities) and SDG 6 (Clean Water and Sanitation) along with SDG 17 (Partnerships for the Goals) and SDG 3 (Good Health and Wellbeing).

Who We Are & What We Do

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

Our Shareholders

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

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

Delivering With Our Partners

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

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

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

The Delivery Model

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

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

The Timeline

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

Mobilisation of the MWCs

This started off site, with mobilisation of people, the start of detailed design work, consenting applications and procurement of subcontractors and materials. Moving on site as these activities progressed, construction sequencing was finalised, and the Thames Water enabling works were completed.

Construction

Excavating deep shafts at the three drive sites and each CSO interception shaft, followed by tunnelling, tunnel secondary lining, installing mechanical and electronic equipment, and architectural and landscaping works.

System Commissioning

After testing of the mechanical and electrical equipment at the worksites by the MWCs the SIC completes the connection of these sites to the overall London Tideway Tunnels (LTT) control system. All the elements of this system then undergo extensive testing in the dry before any sewage flows are received. Once this is complete, the final physical isolation is removed between the existing Lee Tunnel and the new Thames Tideway Tunnel. The CSOs along the Tideway Tunnel starting with the Abbey Mills CSO are activated to the new LTT system. Once these are all activated a series of storm tests are carried out in a gradually incremental manner over several weeks culminating in a 30-day period of automated operation. After this final test the tunnel is inspected, and the operation of the system handed over to Thames Water. At this Handover the MWCs' activities will be complete, and the contractors will be demobilised.

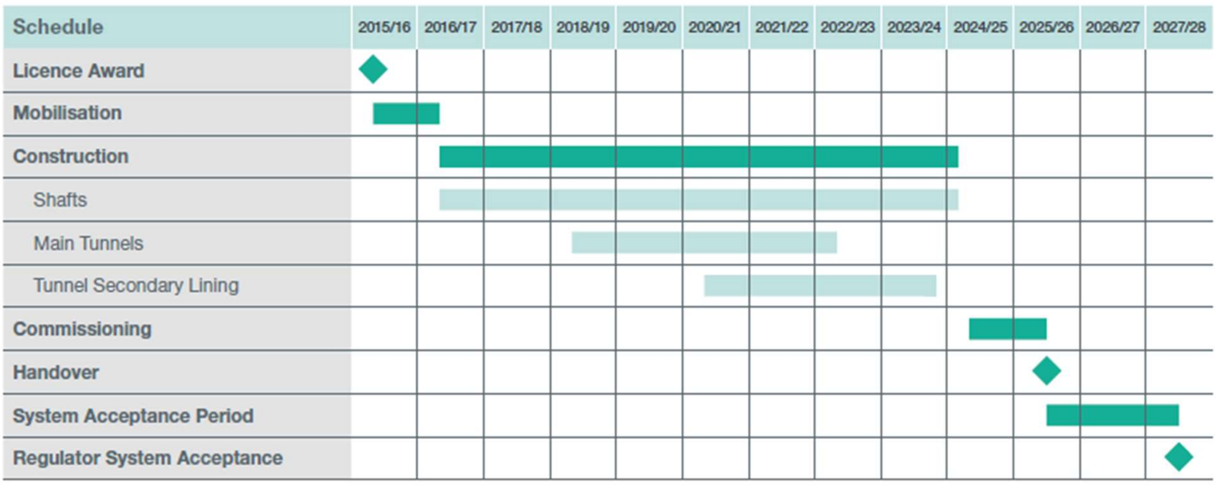
System Acceptance Period

This is a proving period of between 18 and 36 months in which the LTT will be operated across a variety of climatic conditions to demonstrate that it fulfils the project requirements. Once this is complete, Thames Water will become responsible for maintaining the near-ground structures and assets. Tideway will retain responsibility for the shafts and tunnel structures and ensure the TTT is available to allow flow to pass to the Lee Tunnel. This involves inspecting the deep tunnels and shafts, which we expect to do on a ten-yearly cycle, performing any maintenance as required.

Timeline

The outline schedule sets out our current view on the schedule. It reflects our latest view following significant engagement with our delivery partners. As we continue to deliver the project we will make further changes to specific site schedules.

OUTLINE SCHEDULE



Engaging with Our Stakeholders & Partners

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

We listen to our stakeholders' views directly and through their representatives such as MPs and Members of the London Assembly. We continue to ensure that the communities we are working in are kept up to date on the progress being made, potential impacts and how they are being mitigated. We issue regular communications on individual site progress to our neighbours and we hold regular forums to give updates to, and get feedback from, them. These methods, plus a 24-hour helpdesk, ensure that we are always accessible.

To support the project, we have established a range of independent parties and roles to ensure we engage fairly and effectively with each of our stakeholder groups and to support trust in the project.

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

The Tunnel Route

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

Our Business Model

PURPOSE WHAT WE DO

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

OUR VALUES HOW WE DO IT

SAFETY
Transform the health, safety and wellbeing of all

LEGACY
Create a healthier future for London

COLLABORATION
Work together as an effective team

RESPECT
For people, places and resources

INNOVATION
Strive for excellence in project delivery

ENABLERS

SAFE OPERATIONS/DELIVERY
We strive to create and maintain a culture of doing things safely or not at all
See Health, Safety & Wellbeing

COLLABORATIVE PROCESSES
Tideway and Thames Water collaborate closely, while we maintain an experienced, competitive supply chain
See Who We Are & What We Do – Delivering with our partners

EFFECTIVE GOVERNANCE, RESILIENCE AND OVERSIGHT
Our risk management systems and policy provide a clear framework for managing and reporting risks
See Risk Management section & Governance section

STAKEHOLDER FOCUS
We aim to build enduring relationships with government, local authorities, our neighbours, partners, suppliers and others we impact
See Engaging with our Stakeholders & Partners section

TALENTED AND PASSIONATE PEOPLE
We work to attract, motivate, develop and retain the best talent
See Company & People section

EFFICIENT FINANCING
We aim to finance the project as efficiently as possible to ensure that we minimise our impact on bill-payers
See Financing section

STAKEHOLDER VALUE

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

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

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

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

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

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

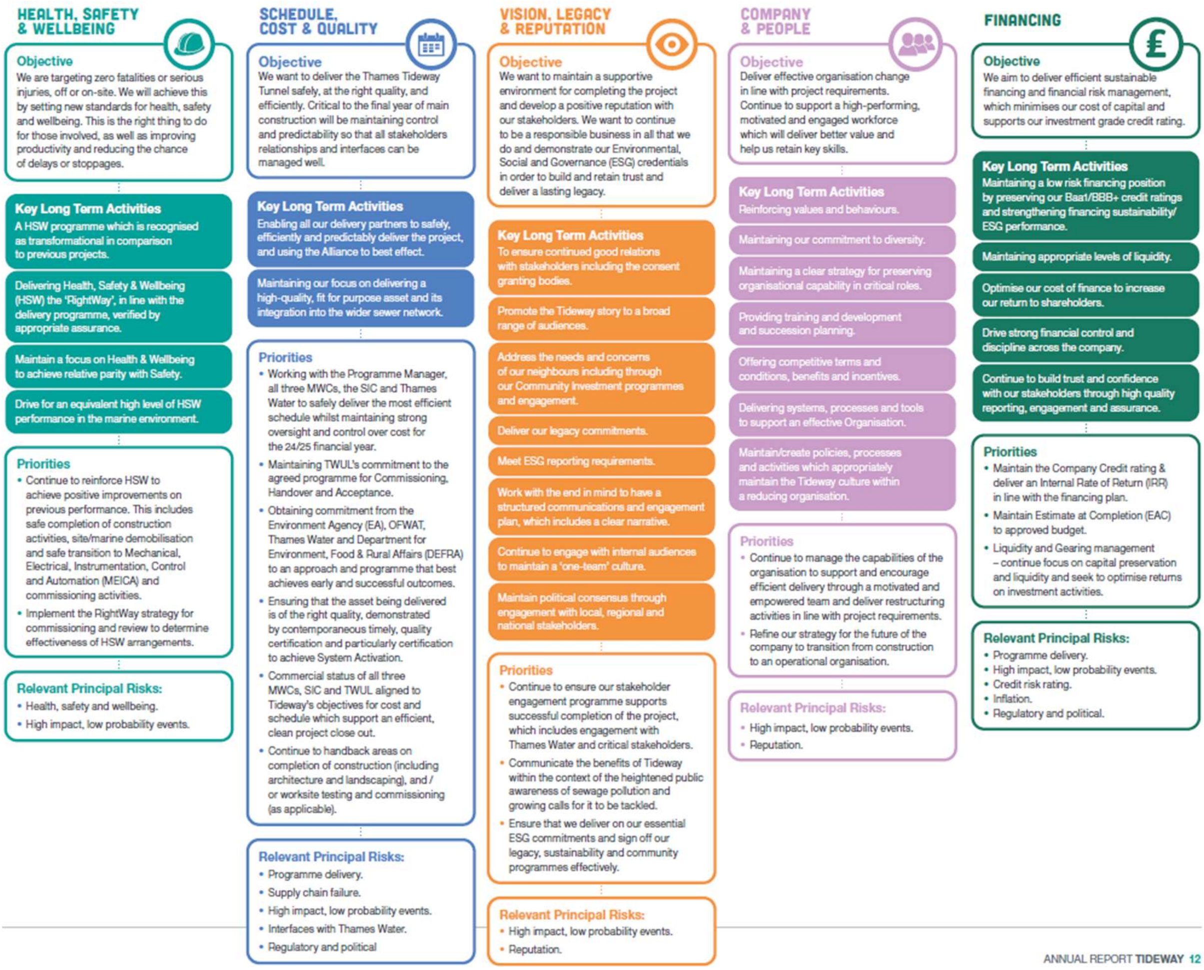
INVESTORS
- An appropriate return on investment

Our Strategy & Priorities for 2024/25

The Executive Team and the Board have reviewed and developed targets and aspirations for 2024/25. Reflecting on the year we have been able to evidence successful completion of many aspects of the project including the concrete cap at Abbey Mills signalling the end of main construction. We are confident that we will start cleaning up the river in 2024, with full operation in 2025.

For the coming financial year we will:

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



Health, Safety and Wellbeing

Objective	We are targeting zero fatalities or serious injuries, off or on-site. We will achieve this by setting new standards for health, safety and wellbeing. This is the right thing to do for those involved, as well as improving productivity and reducing the chance of delays or stoppages.
Priorities	Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas but specifically high-risk activities including marine, and secondary lining. Ensure Tideway transformational HSW behaviours and standards are realised in the forthcoming worksite testing and commissioning phases. Implement the HSW strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) installation and site commissioning risks and review to determine effectiveness.

Measure	Target	Actual
Maintain strong HSW Performance, including Marine	Safety record better than recent major projects Improved performance on 2022/23	On track
Number of major injuries	0	0
MEICA and Architecture and Landscaping Works	Zero significant incidents due to MEICA or A&L activities	0
*Accident Frequency Rate 3 (AFR-3)	0	0.18
*Accident Frequency Rate 7 (AFR-7)	0	0.13

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

Performance

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

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

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

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

RightWay

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

With the transition from Construction to Commissioning, the teams are reflecting on how we continue to recognise HSW performance. The annual RightWay awards received 70 nominations with a project-wide ceremony in September. We are proud of the achievements and good practice across our sites and participants value the recognition of the RightWay awards.

Health and Wellbeing

We continue with our aim to focus on Health and Wellbeing to achieve relative parity with our work on Safety. We seek to minimise and mitigate any health risks arising from our work, whilst supporting the wider Health and Wellbeing of our workforce.

Occupational Health Inspections (OHI)

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

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

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

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

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

Mental Health

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

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

River Safety Training

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

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

Strong River Safety Performance

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

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

Schedule, Cost & Quality

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

Measure	Target	Forecast
Delivery against the best value for money schedule – Schedule Handover	Handover by quarter two 2025/26	Fully operational in 2025 with the 'handover' date likely to be in the second half of that year.
Delivery against the regulatory baseline – cost*	£3.5bn	£4.5bn

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

Performance

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

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

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

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

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

Construction Quality

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

Construction quality is the responsibility of the System Integrator Contractor and Main Works Contractors who self-certify their works. This self-certification is overseen through regular weekly and periodic surveillance by the Programme Manager. In collaboration with Tideway and Thames Water, the Programme Manager developed an interim assurance process in 2024, utilising a site readiness for commissioning procedure and associated weekly readiness reviews, to provide confidence that all the required deliverable assurances for the Main Works Contractors and System Integrator Contractor works are in place to agree attainment of commissioning milestones. Further technical assurance is provided by inspections from Tideway's NEC Supervisor team with regular oversight by Tideway's Chief Technical Officer. Tideway's Quality Management System is subject to annual senior management review and internal audit. These levels of assurance provide the project with a robust framework to drive construction quality compliance and enable an integrated approach for dealing with quality related issues.

Commercial

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

System Commissioning

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

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

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

West area

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

Highlights included:

All worksites substantially completed in the year, with the exception of Carnwath Road riverside.

The completed riverside space at Putney became the first major part of Tideway's above-ground legacy when it was opened to the public at a community event in September. Our Barn Elms site also hosted a community event to mark its completion. Children from two local primary schools visited the 'bug hotel' which forms part of the site kiosk and was highly commended in November's Big Biodiversity Challenge Awards.

Public artworks were unveiled at four sites including at Hammersmith, where a bronze plaque by Sarah Staton features a quote from Queen Caroline of Brunswick, and at Dormay Street where a series of four sculptural elements fixed to the fenders protect the intertidal terraces within Bell Lane Creek, by artist Yemi Awosile.

The other sites moved towards completion, with shaft lids installed at Acton Storm Tanks and Carnwath Road Riverside and the acoustic enclosure being removed at Carnwath Road. The new park entranceway at King George's Park is due to open in the first quarter of 2024-25.

Central Area

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

Highlights included:

The team has substantially completed work at our Cremorne Wharf Depot site, the first Central site to achieve this milestone.

We have installed all shaft covers, effectively closing up the tunnel through central London. At Central's riverside sites the team have been removing cofferdams, the temporary working areas built out into the river to allow us to construct infrastructure below ground. When the Victoria site's 'twin wall' cofferdam was removed, the new river wall and floodable public realm were made fully visible.

Elsewhere, the new public spaces are continuing to take shape. Intertidal terraces at Albert Embankment have been planted to provide a biodiverse habitat when the terracing is submerged at high tide; tree avenues have been planted at Falconbrook and Victoria; and installation of artwork by artists Florian Roithmayr at Chelsea and Nathan Coley at Blackfriars is underway.

East Area

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

Highlights included:

The project's final major construction milestone involved lifting the 1,200-tonne concrete cover over the shaft at Abbey Mills Pumping Station in Stratford. This represented the heaviest lift on the project, surpassing those of Tideway's tunnel boring machines earlier in the programme.

At King Edward Memorial Park cofferdam removal is underway and at Greenwich and Chambers Wharf the acoustic enclosures, required during tunnelling and secondary lining works, have been removed.

Earl Pumping Station experienced ground collapse and inundation of the works during 2023. The site team worked well to successfully implement corrective measures allowing the progress of civils works to be delivered mitigating potential delays to SACD and SCCD.

System Integration

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

Highlights included:

System Integration (SI) is the part of the programme that ensures the readiness of the system for operation, maintenance and reporting at all sites across the Thames Tideway Tunnel system.

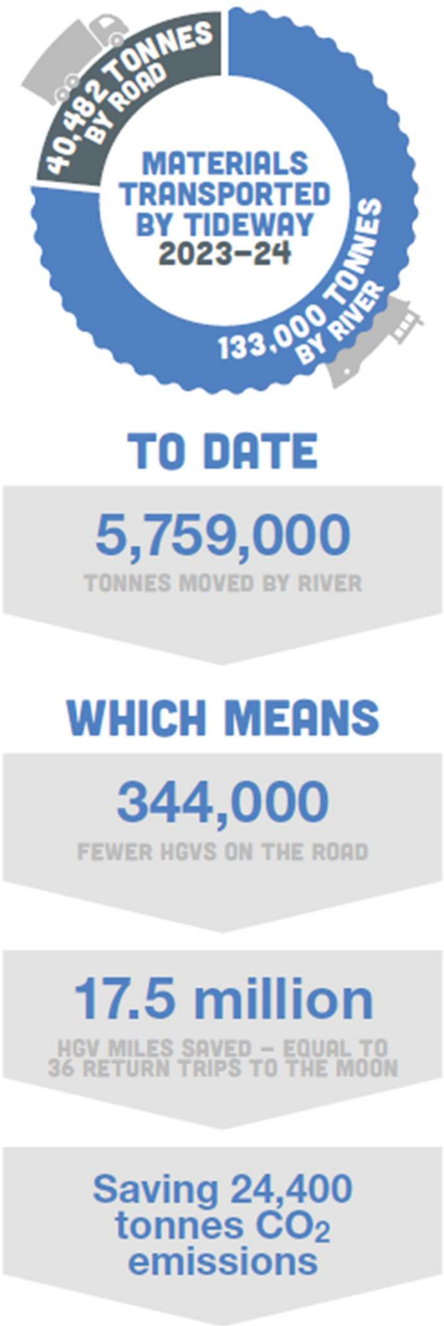
The team have progressively integrated Tideway sites into the supervisory control and data acquisition (SCADA) system at Beckton and this will monitor and control the whole tunnel. By the end of the year a total of 15 of the 21 sites to be linked to the system were successfully completed, with the remainder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

River Improvement

During the year we transported 133,000 tonnes of material by river compared with 40,482 tonnes by road. Our river movements consisted of completing secondary lining of Greenwich Connection Tunnel, the decommissioning of the temporary cofferdams within the central contract area at Victoria

Embankment, Albert Embankment, Chelsea Embankment and Blackfriars Bridge. East has also been decommissioning their temporary cofferdam at King Edward Memorial Park.

The total quantities transported by river to date is 5,752,000 tonnes. This consists of 4,890,000 tonnes of specified materials that are required to be transported by river under the River Transport Strategy and 862,000 tonnes of additional materials that were transported as part of the More by River Strategy. The benefits of this were to avoid around 344,000 HGVs or 688,000 HGV journeys on London's road network; saving over 17.5 million HGV miles; and avoiding in the region of 24,400 tonnes of CO2. These carbon savings have been subject to third party verification. With construction more than 90 per cent complete, we have closed our legacy commitment related to transporting material by river. Further details of our Legacy progress can be found in our Sustainability Report.



Vision, Legacy & Reputation

Objective	We want to maintain a supportive environment for delivering the project and develop a positive reputation with our stakeholders. We want to continue to be a responsible business in all that we do and demonstrate our ESG credentials in order to build and retain trust.
Priority	Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with Thames Water and critical stakeholders.
	Communicate the benefits of Tideway within the context of the heightened public awareness of sewage pollution and growing calls for it to be tackled.
	Ensure that we deliver on our essential ESG commitments and sign off our legacy, sustainability and community programmes effectively.

Measure	Target	Actual
Support from Stakeholders	No material schedule impact as a result of stakeholder intervention	None
Percent of live legacy commitments on track	85%	93%

Performance

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

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

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

Legacy

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

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

- Five of our key employment-related commitments, including at least 25 per cent of staff living in one of our 14 London boroughs and 10 per cent being previously unemployed.
- Ensuring all staff experience Tideway’s induction programme EPIC (Employer’s Project Induction Centre) – this is an immersive, interactive experience that has already been embraced by several projects in the UK and is seen as the future for delivering inductions. More than 22,300 people have attended the programme. EPIC is embedded and already delivering a legacy, so we have closed the commitment.
- Minimising our carbon footprint - with construction more than 90 per cent complete, we have achieved a 28% reduction on our anticipated carbon footprint of ~770,000 tCO_2e. Our verified scope 3 (embedded) carbon emissions to date is 553,625t CO_2e. We will continue to track carbon for annual reporting. Further details can be found in the TCFD section and in the Sustainability Report.

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

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

Engagement and communication

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

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

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

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

Charitable Giving

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

Case Study - New Public Realms

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

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

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

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

Company and People

Objective	Deliver effective organisation change in line with project requirements. Continue to support a high-performing, motivated and engaged workforce which will deliver better value and help us retain key skills.
Priority	Continue to manage the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team and deliver restructuring activities in line with project requirements. Refine our strategy for the future of the company to transition from construction to an operational organisation

Measure	Target	2023/24	2022/23	2021/22	2020/21	2019/20
Employee diversity* (percentage of women in Tideway at 31 March)	40%	36%	33%	36%	36%	36%
Preserving a values driven, skilled, diverse and engaged workforce	Subjective*	Green	Green	Green	Green	Green

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

Performance

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

Question	% 2023/24 Favourable	% 2022/23 Favourable	% 2021/22
Tideway is open and honest in its communications with employees	88	83	85
I am treated with respect as an individual	94	90	93
Tideway values and promotes diversity	93	89	89

As the Tideway project moves towards completion, our people have been looking back on their time on Tideway and talking about their experiences. Here are the reflections of two project staff from completed sites at Hammersmith and Barn Elms. Their accounts are in line with our staff survey results including the 83 per cent favourable score for ‘My job makes good use of my skills and abilities’. You can see the full interviews on the Tideway website https://www.tideway.london/our-people.

“Working with an active pumping station on site isn’t easy … we had to work really, really closely with Thames Water…we went in there, we managed the flows and more importantly we did it without any major safety incidents which was a huge achievement for the team.

On West we were the first to do penstock hydrostatic testing, the first to finish the connection tunnel, we were the first vortex lift. We felt really good when we did it, and we did it successfully, and saw other sites adopt what we did. We were very proud.

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

Anna Magrath, Section Manager, Hammersmith

“You don’t think you’re in central London at all because you’ve got a river next to a green field and hedges and you get people rowing up the River and enjoying the River. The engineering at Barn Elms is there to try and stop CSO flows into Beverley Brook and transfer those into the #supersewer.

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

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

Louis Robjant, Project Manager, Barn Elms

Diversity and Inclusivity

We improved our performance over last year increasing the percentage of women within Tideway from 33% to 36% (against a target of 40%). We continued to focus on supporting women and other underrepresented groups working on the project, with blind recruitment, mentoring, coaching, targeted development activities and in-house inclusivity champions to ensure no bias in internal development and career progression.

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

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

** Includes shareholder Directors

Financing

Objective	We aim to deliver efficient sustainable financing and financial risk management, which minimises our cost of capital and supports our investment grade credit rating.
Priorities	Maintain the Group Credit rating & deliver an Internal Rate of Return (IRR) and shareholder distributions in line with the financing plan. Liquidity and investment management – continue to focus on capital preservation and liquidity and seek to optimise return.

Measure	Target	Actual
Group credit rating	Baa1/ BBB+	Baa1/BBB+
Distribution	Achieve 2023/24 financing plan	In Line
Liquidity	12 months liquidity	33 Months Liquidity
Gearing	Maintain gearing below 70% RAR trigger	68.7%

Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Management
We maintained substantial cash balances throughout the period, averaging £385m per daily close. We managed these cash balances by adhering to the set limits and criteria of our approved investment management strategy, prioritising the preservation of principal, ensuring adequate liquidity and striving to optimise the yield.

Financial Performance Review

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

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

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

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

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

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

Income Statement

During the year the Group reported a profit of £15.3m (2022/23: £144.7m), with no dividends paid or proposed (2022/23: £nil). We did not recognise any taxable profits in the period (2022/23: £nil) and the resulting corporation tax charge for the period was £nil (2022/23: £nil).

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

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

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

Statement of Financial Position

At 31 March 2024, costs of £5,403.3m were capitalised within the asset under construction in the Statement of Financial Position. This represents £570.1m costs during the year and £4,833.2m for the prior periods to 31 March 2023.

Further details on how this expenditure is analysed into Allowable Project Spend and Excluded Project Spend can be found in the Bazalgette Tunnel Limited Annual Report available at www.tideway.london.

Net Debt and Financing

Net debt at 31 March 2024 was £4,351.8m, which was £422.6m higher than the £3,927.2m net debt at 31 March 2023.

Cash and cash equivalents at 31 March 2024 were £189.9m, which was £60.5m higher than the £129.4m cash and cash equivalents at 31 March 2023.

At 31 March 2024, the Group's total borrowings excluding shareholder loans were £3,618.2m (2023: £3,219.1m) and lease liabilities outstanding totalled £0.9m (2023:£1.4m). Shareholder loans outstanding at 31 March 2024 were £922.7m (2023:£836.1m).

Financial Key Performance Indicators (KPIs)

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

Revenue

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

Tax

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

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

During the construction phase of the project, we have not paid any Corporation tax. This is because the tunnel we are building is an asset that will not be ready for economic use until it is fully operational. The

System Acceptance date is when Thames Water will accept the tunnel for operational use. The significant amounts of expenditure we incur in construction go towards the development of that asset.

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

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

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

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

1. Tax planning and compliance: We will engage in tax planning that supports our business and reflects commercial and economic activity. We will not engage in artificial tax arrangements and will adhere to relevant tax laws and seek to minimise the risk of uncertainty or dispute. The Company is part of the Bazalgette Equity Limited Group, of which all members are domiciled in the UK. We consider the interaction with company members when we implement our tax policies.

2.Relationship with HM Revenue & Customs (HMRC):We will seek to build and maintain a constructive relationship with HMRC. We will work collaboratively wherever possible with HMRC to resolve disputes and to achieve agreement and certainty. We will engage with the government on the development of tax laws where we can and where the tax law change is relevant to Tideway’s business activities.

3.Transparency: We support measures that build greater transparency, increase understanding of tax systems and build public trust.

4.Tax risk management: We identify, assess and manage tax risks and account for them appropriately. Risk management measures are implemented including controls over compliance processes and monitoring of effectiveness.

5.Governance: The Groups Chief Financial Officer (CFO) is responsible for and implements our approach to tax, which is reviewed and approved by the Audit and Finance Committee. The CFO is also responsible for ensuring that appropriate policies and procedures are in place and maintained and that the financial control team, with specialist external support as necessary, has the appropriate skills and experience to implement the approach effectively.

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

Risk Management

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

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

Risk Management Framework

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

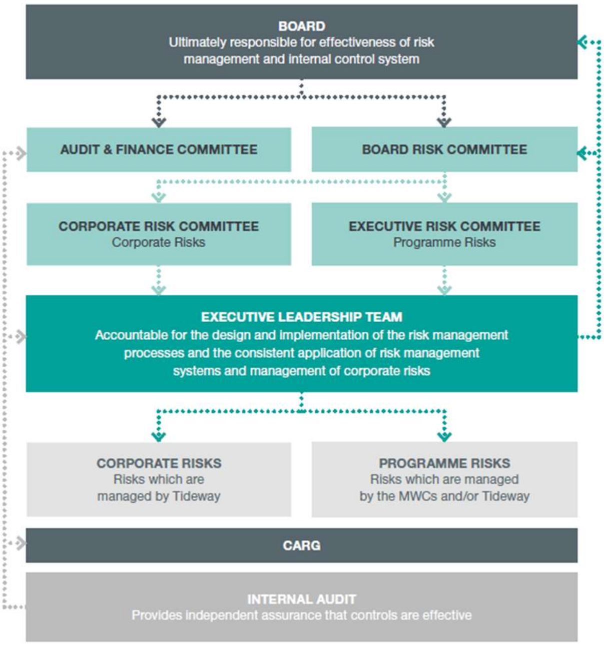
The Board Risk Committee reviews our principal risks and risk management processes and reports its findings to the Board. It considers:

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

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

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

Our Risk Management Framework



Principal Risks

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

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

Our Risk Appetite

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

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

Risk Management
Principal Risks

1 HEALTH, SAFETY & WELLBEING

OVERALL

Description

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

Effect

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

Mitigation

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

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

Relevant Objective
HEALTH, SAFETY & WELLBEING

Commentary*
NO CHANGE IN RISK LEVEL

MARINE

Description

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

Effect

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

Mitigation

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

Relevant Objective
HEALTH, SAFETY & WELLBEING

Commentary*
NO CHANGE IN RISK LEVEL

2 PROGRAMME DELIVERY

Description

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

Effect

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

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

Mitigation

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

This includes:

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

Relevant Objective
SCHEDULE, COST & QUALITY
FINANCING

Commentary*
NO CHANGE IN RISK LEVEL

* *Compared to previous year*

3 SUPPLY CHAIN FAILURE

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

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

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

Relevant Objective
SCHEDULE, COST & QUALITY

Commentary*
NO CHANGE IN RISK LEVEL

4 HILP – HIGH IMPACT, LOW PROBABILITY EVENTS

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

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

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

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

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

Commentary*
NO CHANGE IN RISK LEVEL

5 CREDIT RATING

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

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

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

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

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

Relevant Objective
FINANCING

Commentary*
NO CHANGE IN RISK LEVEL

6 INFLATION

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

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

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

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

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

Relevant Objective
FINANCING

Commentary*
INCREASED EXPOSURE

7 REPUTATION

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

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

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

Relevant Objective
COMPANY & PEOPLE
VISION, LEGACY & REPUTATION

Commentary*
NO CHANGE IN RISK LEVEL

8 THAMES WATER PERFORMANCE

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

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

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

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

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

Detailed planning of the works requiring access to the Thames Water network and System Commissioning is ongoing.

The Alliance Agreement and Thames's regulatory settlement supports its commercial alignment with Tideway's interests.

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

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

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

Relevant Objective
SCHEDULE, COST & QUALITY

Commentary*
INCREASED EXPOSURE

* Compared to previous year

9 REGULATORY AND POLITICAL

POLITICAL CLIMATE

Description

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

Effect

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

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

Mitigation

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

Relevant Objective

SCHEDULE, COST & QUALITY

FINANCING

Commentary*

NO CHANGE IN RISK LEVEL

REGULATION

Description

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

Effect

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

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

Mitigation

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

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

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

Relevant Objective

SCHEDULE, COST & QUALITY

FINANCING

Commentary*

NO CHANGE IN RISK LEVEL

Section 172(1) Statement

The Directors have assessed the financial position of the Company, its cash flows, liquidity position and borrowing. Section 172 of the Companies Act 2006 requires a Director of a company to act in the way they consider, in good faith, would be the most likely to promote the success of the company for the benefit of its members as a whole. In doing this Section 172, requires a Director to have regards among other matters to:

- the likely consequences of any decision in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly with members of the company.

As the ultimate holding company within the Group, and in line with the duty to promote the success of the Company for the benefit of its shareholder, the Company must also have regard to the overall strategy of the Group. The Directors give careful consideration to the factors set out above in discharging their duties under Section 172. As part of the Group stakeholder engagement is carried out on a group wide basis to help the directors to understand the views of stakeholders.

The board considers any decisions from the perspective of the Company ensuring that decisions are taken with regard to the interests of stakeholders as well as having regard to the long-term sustainable success of the Group as a whole. The stakeholders we consider in this regard are our employees, the Alliance members (Bazalgette Tunnel Limited, Thames Water, Jacobs, the Programme Manager for the Project, the Main Works Contractors (more particularly described in the Group's annual report) and Amey OWR Ltd, the System Integrator for the Project), the environment and our shareholders. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with the Group's long-term vision, purpose and values described in the Group annual report and operate the business in a sustainable way.

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

Celia Carlisle
Company Secretary

Blue Fin Building
110 Southwark Street
London
SE1 0SU

20 June 2024

Directors' report

The Directors present their report and the audited Group and Company financial statements of Bazalgette Equity Limited for the year ended 31 March 2024. The Company is incorporated and domiciled in the United Kingdom. The registered company number is 09553510 and the Company's registered address is 6th floor, Blue Fin Building, 110 Southwark Street, London, SE1 0SU.

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

Financial results and dividends

The Group recorded a profit of £15.3m for the year (2023: £144.7m) of which £14.5m (2023: £144.6m related to the fair value movements of the Group's derivative financial instruments and £0.8m (2023: £0.1m) of bank interest income. The Directors do not consider that the reported profit in the year reflects the business performance as the profit reflects the fair value movement of the Group's derivative financial instruments. These are long-term swaps which are entered into with commercial banks to economically hedge the interest costs of the Group debt. The swaps fix finance costs for the Group's regulatory period and ensure that it benefits from low-cost financing.

During the year, £nil (2023: £20.8m) shareholder loan interest has been received from its subsidiary Bazalgette Tunnel Limited and paid onto its immediate parent Bazalgette Ventures Limited. Furthermore, £86.6m (2023: £36.6m) of unpaid shareholder loan interest was capitalised as shareholder loan principal in the year. Further details of the shareholder loan notes are set out in note 11 of the financial statements.

The Company recorded £nil profit for the year ended 31 March 2024 (2023: £nil) and did not pay any dividends in the year (2023: £nil).

Financial risk management

Full disclosure on the Group's financial risk management is set out in note 12 of the financial statements.

Directors

The Directors who held office during the year, and thereafter, for the Company were as follows:

Andrew Cox

Sebastian Schwengber (resigned 17 May 2024)

Christopher Morgan

Alistair Ray

Daniel Pires

Amanda Woods

Directors' Indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006, the Company has made qualifying third-party indemnity provisions for the benefit of its Directors, the Company Secretary and the General Counsel and these remain in force at the date of this report.

The Group has had in place Directors and Officers Liability insurance for the period.

Going Concern

The Directors believe, after due and careful enquiry, that the Company and Group has sufficient resources to continue in operational existence for at least one year after the financial statements were authorised for issue. Therefore, it is considered to be appropriate to adopt the going concern basis in preparing the 31 March 2024 financial statements. For more information see the basis of preparation in Note 1 to the financial statements.

Directors' report (continued)

Employees

The average number of persons employed by the Group (including Directors) during the year was 97 (2023: 106), who were all employed by Bazalgette Tunnel Limited. At the Statement of Financial Position date, the Company did not employ any staff directly.

Details relating to the Group's employment policies and values and how it undertakes engagement with its employees are set out in the Strategic report.

Greenhouse gas emissions

The Group's approach to identifying and reducing its greenhouse gas emissions is set out in the Strategic Report.

Charitable and political donations

The Group made charitable donations totalling £16,143 during the year (2023: £19,186).

The Group did not make any political donations or incur any political expenditure during the year (2023: £nil).

Payment to suppliers

Settlement terms are agreed with suppliers as part of the contract terms and the Group's policy is to pay in accordance with these terms. The Group's Main Works Contractors originally signed up to the Fair Payment Charter which has since been superseded by the Prompt Payment Code, most of the Group's major suppliers are signatories to this. The creditor days for the year ended 31 March 2024 were approximately 5 days (2023: 3 days).

Events occurring after the reporting period

Details of any events occurring after the reporting date are included in note 18 of the financial statements.

Future Outlook

The future outlook of the Group is discussed in the Strategic Report. The Company is expected to continue to act as an intermediate holding company within the Group for the foreseeable future.

Disclosure of information to auditor

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

Other information

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

Celia Carlisle
Company Secretary

Blue Fin Building
110 Southwark Street
Reading
SE1 0SU

20 June 2024

Statement of Directors' responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards.

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

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

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

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

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

Directors' confirmations

The directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's position and performance, business model and strategy.

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

so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors responsibility statement was approved and signed by order of the Board by:

Celia Carlisle
Company Secretary

Blue Fin Building
110 Southwark Street
London
SE1 0SU

20 June 2024

Independent auditors' report to the members of Bazalgette Equity Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bazalgette Equity Limited's group financial statements and company financial statements (the "financial statements"):

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

have been prepared in accordance with the requirements of the Companies Act 2006.
We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Group and Company Statement of Financial Position as at 31 March 2024; the Group Income Statement, the Group Statement of Other Comprehensive Income, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements for the year then ended; the Material Accounting Policy Information; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group’s and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat regulations including licence conditions and Environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006, Tax legislation and Employment law.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of journal entries to manipulate the financial results in the year including journals to decrease the value of the asset under construction and journals that credit the profit and loss. Audit procedures performed by the engagement team included:

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.
- We have no exceptions to report arising from this responsibility.

Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
20 June 2024

Group Income Statement
For the year ended 31 March

	Notes	2024 £m	Restated* 2023 £m
Net operating costs	*2, 3*	-	-
Operating result		**-**	**-**
Finance income	*4*	0.8	0.1
Finance costs	*4*	-	-
Gains on financial instruments	*4*	14.5	144.6
Profit before tax		**15.3**	**144.7**
Taxation	*5*	-	-
Profit for the year		**15.3**	**144.7**

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

	2024 £m	2023 £m
Profit for the year	15.3	144.7
Other comprehensive income for the year	-	-
Total comprehensive income for the year attributable to owners of the parent	**15.3**	**144.7**

Notes 1 to 18 form an integral part of these financial statements.

* Refer to financial statement note 17 for details on prior year restatements.

Group Statement of Financial Position
As at 31 March

	Note	2024 £m	Restated* 2023 £m	Restated* 1 April 2022 £m
Non-current assets				
Property, plant and equipment	*6*	5,404.3	4,835.0	4020.7
Trade and other receivables	*8*	20.9	29.1	33.2
		5,425.2	4,864.1	4,053.9
Current assets				
Trade and other receivables	*8*	46.3	59.8	48.2
Cash and cash equivalents	*9*	189.9	129.4	354.5
Short-term cash deposits	*9*	230.0	220.0	145.0
		466.2	409.2	547.7
Total assets		**5,891.4**	**5,273.3**	**4.601.6**
Current liabilities				
Trade and other payables	*10*	(129.3)	(121.8)	(148.3)
Lease liabilities		(0.7)	(1.1)	(2.1)
Derivative financial Instruments	*12*	(1.5)		
		(131.5)	(122.9)	(150.4)
Non-current liabilities				
Other payables	*10*	(11.9)	(37.7)	(53.9)
Lease liabilities		(0.1)	(0.3)	(1.3)
Advance payment liability	*10*	(484.5)	(378.0)	(291.3)
Borrowings	*11*	(4,540.9)	(4,055.2)	(3,526.3)
Derivative financial instruments	*12*	(146.5)	(118.5)	(162.4)
		(5,183.9)	(4,589.7)	(4,035.2)
Total liabilities		**(5,315.4)**	**(4,712.6)**	**(4,185.6)**
Net assets		**576.0**	**560.7**	**416.0**
Equity				
Share capital	*13*	507.4	507.4	507.4
Share premium	*13*	2.3	2.3	2.3
Retained earnings	*13*	66.3	51.0	(93.7)
Total equity		**576.0**	**560.7**	**416.0**

Notes 1 to 18 form an integral part of these financial statements. These financial statements on pages 37 to 66 were approved by the Board of Directors on 20 June 2024 and were signed on its behalf by:

Chris Morgan
Director
Company registered number: 09553394

* Refer to financial statement note 17 for details on prior year restatements.

Company Statement of Financial Position
As at 31 March

	Notes	2024	2023
		£m	**£m**
Non-current assets			
Investment in subsidiary undertakings	*7*	509.7	509.7
Derivative financial instruments	*12*	-	-
		509.7	509.7
Total assets		**509.7**	**509.7**
Net assets		**509.7**	**509.7**
Equity			
Share capital	*13*	507.4	507.4
Share premium	*13*	2.3	2.3
Retained earnings	*13*	-	-
Total equity		**509.7**	**509.7**

Notes 1 to 18 form an integral part of these financial statements.

These financial statements on pages 37 to 66 were approved by the board of directors on 20 June 2024 and were signed on its behalf by:

Chris Morgan

Director
Company registered number: 09553394

Group and Company Statement of Changes in Equity

	Group				Company			
	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m	Share capital £m	Share Premium £m	Retained earnings £m	Total equity £m
Balance at 1 April 2022	507.4	2.3	(93.7)	416.0	507.4	2.3	-	509.7
Profit for the year	-	-	144.7	144.7	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**144.7**	**144.7**	**-**	**-**	**-**	**-**
Transactions with owners recorded directly in equity:								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2023	**507.4**	**2.3**	**51.0**	**560.7**	**507.4**	**2.3**	**-**	**509.7**
Balance at 1 April 2023	507.4	2.3	51.0	560.7	507.4	2.3	-	509.7
Profit for the year	-	-	15.3	15.3	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**15.3**	**15.3**	**-**	**-**	**-**	**-**
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2024	**507.4**	**2.3**	**66.3**	**576.0**	**507.4**	**2.3**	**-**	**509.7**

Notes 1 to 18 form an integral part of these financial statements.

Group and Company Cash Flow Statements

For the year ended 31 March

	Note	Group 2024 £m	Restated[1] Group 2023 £m	Company 2024 £m	Company 2023 £m
Cash flows from operating activities before working capital movements		**-**	**-**	**-**	**-**
Decrease/(increase) in trade and other receivables	*8*	29.9	(4.3)	-	-
Decrease in trade and other payables	*10*	(18.3)	(45.5)	-	-
Increase in advance payment liability	*10*	106.5	86.7	-	-
Cash flows from operations		**118.1**	**36.9**	**-**	**-**
Net cash flow from operating activities		**118.1**	**36.9**	**-**	**-**
Cash flows (used in)/from investing activities					
Construction of infrastructure asset	*6*	(361.8)	(508.2)	-	-
Funds placed in short-term deposits	*9*	(230.0)	(220.0)	-	-
Short term deposits matured	*9*	220.0	145.0	-	-
Net cash flows used in investing activities		**(371.8)**	**(583.2)**	-	-
Cash flows from financing activities					
Proceeds from loans		315.7	323.2	-	-
Lease liability payments		(1.5)	(2.0)	-	-
Net cash flows from financing activities		**314.2**	**321.2**	-	-
Net increase/(decrease) in cash and cash equivalents during the year		**60.5**	**(225.1)**	**-**	**-**
Cash and cash equivalents at the start of the year	*9*	**129.4**	**354.5**	**-**	**-**
Cash and cash equivalents at the end of the year	*9*	**189.9**	**129.4**	**-**	**-**

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

Notes 1 to 18 form an integral part of these financial statements.

[1] Funds placed in short term deposits/short term deposits matured have been restated to represent their gross values.

Notes to the financial statements

1 Material Accounting Policy Information

Basis of preparation

Bazalgette Equity Limited (the "Company") is a private company incorporated, domiciled and registered in England, UK. The registered number is 09553394 and the registered office address is the 6th floor, Blue Fin Building, 110 Southwark Street, London SE1 0SU.

The accounting policies set out below have been applied consistently to all periods presented in these group and parent company financial statements.

As at the 31 March 2024, the Bazalgette Equity Group comprised the Company, Bazalgette Venture Limited, Bazalgette Holdings Limited, Bazalgette Tunnel Limited and Bazalgette Finance plc. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The Company financial statements present information about the Company as a separate entity and not about its Group.

The Group and the Company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards ("UK-adopted IFRSs"). The financial statements are prepared in accordance with the historical cost accounting convention except where UK-Adopted IFRS requires an alternative treatment. Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Group and the Company's financial position.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss. The Company had £nil profit or loss for the financial year ending 31 March 2024 (2023: £nil).

The accounting policies set out below have been applied consistently to all periods presented in these group and company financial statements

The financial statements are presented in Pounds Sterling.

Basis of consolidation

Subsidiaries

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

Judgements and estimates

In the process of applying the Group's accounting policies, the directors are required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Judgements about how the Group has applied an accounting policy could have a significant effect on amounts recognised in the financial statements. Assumptions or other sources of estimation uncertainty (including judgements about estimations) have a significant risk of a material adjustment to carrying values in the next financial year.

The directors consider the significant judgements made in the application of these accounting policies to be as follows:

Accounting for the Thames Tideway Tunnel as a finance lease – The judgement to account for the Thames Tideway Tunnel as a finance lease means that during the construction period of the project, the

Notes to the financial statements (continued)

1 Material Accounting Policy Information (continued)

tunnel is accounted for as an asset under construction, with expenditure on the asset capitalised in the Statement of Financial Position. Following Systems Acceptance, which is when Thames Water accept

the tunnel asset, the asset under construction will be de-recognised and a finance lease receivable will be recognised by the Group. In determining the appropriate accounting treatment one of the key questions was establishing which party has control over the asset. The applicability of both IFRS 16 'determining whether an arrangement contains a lease' and IFRIC 12 'service concession arrangements' were considered. It was concluded that the tunnel arrangements were outside the scope of IFRIC 12 and as the Group controls the asset the arrangements fall within the scope of IFRS 16. Consequently, the accounting policies applied to these financial statements reflect this arrangement.

The directors consider the assumptions or other sources of uncertainty with a risk of material adjustment to the carrying amounts in the next year are as follows:

Capitalised costs/creditors - The Group has a substantial capital programme and therefore incurs significant annual expenditure in relation to the construction of the Thames Tideway Tunnel asset. All costs incurred are capitalised as assets under construction, this includes assessment of any pain/gain and/or compensation events accrued under the contract. Due to the significance of these costs and their materiality in the context of the financial statements, the directors need to ensure their completeness, existence and validity is appropriately monitored, controlled and recorded.

Capitalised Borrowing Costs- borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset form part of the cost of that asset. The borrowing costs that are capitalised into the asset under construction are those that would otherwise have been avoided if the expenditure on the Thames Tideway Tunnel has not been made. Included within our capitalised borrowing costs are accretion on the index linked swaps and payments and accruals of interest on these swaps. This is based on the principle that borrowing costs should include these costs that could have been avoided if expenditure on the Thames Tideway Tunnel had not been made. The methodology used to calculate the accrued accretion on the inflation linked swaps is consistent with our approach to calculating accretion on our contractually arranged index linked debt, i.e. it is calculated based on the forecast inflation figure as of the next interest payment date.

Going concern

After considering the current financial projections and facilities available, and through modelling plausible and severe sensitivities, the Directors of the Company are satisfied that the Company and Group has sufficient resources for its operational needs and will remain in compliance with relevant financing covenants for at least the next 12 months from the date of approving these financial statements.

Cash flow forecasts modelled included current, plausible downside and severe downside cost scenarios. The current scenario is consistent with our estimate at completion (EAC) of £4.5bn. For our plausible downside scenario, we modelled a 20% increase in the remaining costs to complete, taking the total to £4.6bn. We consider a severe downside case to be a 25% increase in the remaining costs to complete, which equates to a total cost of £4.6bn. Under the current, plausible and severe downside scenarios the group continues to have sufficient liquidity and is in compliance with covenants throughout the going concern period.

At 31 March 2024, the Group had total liquidity of £536.3m, comprising £376.3m of unrestricted cash and short-term deposits, and the £160m undrawn RCF. This, combined with expected revenue collections, provides liquidity significantly in excess of our 12-month target, including all liquidity required to the project handover.

The Company has no liabilities falling due in the going concern period.

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

Property, plant and equipment

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

Notes to the financial statements (continued)

1 Material Accounting Policy Information (continued)

Assets under Construction – Recognition and measurement

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

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

The directors consider all expenditure in the year ended 31 March 2024 to have met the capitalisation criteria.

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

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

Asset under Construction - Depreciation

Assets under construction are not depreciated.

Lease accounting – Lessee

Right-of-use assets and lease liability – Recognition and measurement

The Group assesses whether its leases are within scope of IFRS 16 using the single recognition model for lessees and applies practical expedients available under the standard. If the Group concludes that a lease is within scope and not excluded via practical expedients, the Group recognises a right-of-use (ROU) asset and a lease liability at lease commencement date.

The ROU asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the outstanding lease payments at commencement date, discounted using either the implicit interest rate in the lease or the Group's incremental borrowing rate if the interest rate cannot be easily determined from the lease.

The Group applies the following practical expedients under IFRS 16:

- The same discount rate to all property leases as they share similar characteristics;
- Excludes short-term leases with lease terms of less than 12 months;
- Excludes leases of identifiable low-value assets from consideration; and
- The Group separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

Right-of-use assets – Depreciation and interest costs on lease liability

The ROU asset, being the Group's property leases, are being depreciated over their lease terms.

The Group incurs interest costs calculated periodically on the outstanding lease liabilities on these property leases.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time that those assets are ready for their intended use. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A substantial period of time is interpreted as being greater than one year. The borrowing costs that are capitalised are those that would otherwise have been avoided if the expenditure on the Thames Tideway Tunnel had not been made. Borrowing costs that have been capitalised within Property, Plant and Equipment are included within "Asset under Construction" please see note 6 to the financial statements. Please refer to note 4 "Finance Income and Costs" for details of financing costs for the year.

Notes to the financial statements (continued)

1 Material Accounting Policy Information (continued)

Impairment

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

The carrying value of the Group's asset under construction is reviewed at each reporting date to determine whether there is objective evidence the asset is impaired by reference to its recoverable amount. The recoverable amount of the asset is deemed to be the Group's RCV and the regulated return that is generated from that.

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

Financial assets under IFRS 9 are assessed under the forward looking 'expected loss model' at each reporting date to determine whether there are impairment losses.

Any impairment losses are recognised in the Income Statement.

Revenue

The Group's billable revenue for each financial year is determined by arrangements set out in its licence granted by Ofwat. During the construction period of the Thames Tideway Tunnel the primary component of revenue is the regulated return on the Group's RCV. The Group's Allowed Revenue is notified to Thames Water, which bills and collects this revenue from its wastewater customers and passes this through to the Group. Through the construction period, billed revenue is deferred as the services associated with this revenue have not satisfied all the conditions of the five-step revenue recognition model under IFRS 15. Therefore, revenue will be recognised at the point that all conditions are satisfied which will not be until System Acceptance. Revenue is accrued in the period it has been earned, if it has not been invoiced by the Group to Thames Water. Revenues that have been invoiced and collected from Thames Water are treated as an advance payment liability.

Invoiced revenues reflect the actual cash collected by Thames Water from its customers.

Employee benefits

Defined contribution pension plans

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

Other employee benefits

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

Provisions

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

Notes to the financial statements (continued)

1 Material Accounting Policy Information (continued)

Financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

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

Borrowings

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

Derivative financial instruments

The Group has entered into index-linked swaps to manage its exposure to inflation linked rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the Statement of Financial Position date.

The resulting gain or loss is recognised immediately in the Income Statement unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Income Statement depends on the nature of the hedge relationship. The Group has not designated any derivatives within hedging relationships and therefore has not applied hedge accounting.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Where a portion of a derivative financial liability cannot be deferred for at least 12 months after the balance sheet date, that portion is presented as a current liability; with the balance being presented as a non-current liability. Where a portion of a derivative financial asset is expected to be realised within 12 months of the balance sheet date, that portion is presented as a current asset; with the balance of the financial asset being shown as a non-current asset.

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

Further details of the derivative financial instruments fair values, valuation technique and fair value hierarchy level are disclosed in note 12.

Taxation

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

Notes to the financial statements (continued)

1 Material Accounting Policy Information (continued)

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

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

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

New accounting standards and future changes

The Group has adopted the following new or amendments to accounting standards during the financial year:

- IFRS 17 Insurance Contracts;
- Amendments to IAS 12 – Deferred tax related to Assets and Liabilities arising from a single transaction;
- Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors: Definition; and
- Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 making materiality judgements.

The above new or amendments to accounting standards did not have any material effect on the Group at adoption.

At the date of authorisation of these financial statements, there were certain new or revised IFRS's that will be applicable in future years, but the Group does not expect any material impact on the Group's Financial Statements at future adoption. These new or revised IFRS's are noted below:

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current; and
- Amendments to IFRS 16 – Leases.

Notes to the financial statements (continued)

2 Auditors' remuneration

	2024 £000	2023 £000
Audit services		
Statutory audit – Company only	7	4
Statutory audit – Group Companies	327	280
Audit related assurance services		
Regulatory audit services provided by the statutory auditors	20	23
Other non-audit services		
Other non-audit services	33	22
	387	**329**

All of these fees have been capitalised in the Company's subsidiary Bazalgette Tunnel Limited in both financial years.

3 Employee costs

The average number of persons employed by the Group (including directors) during the year was 97 (2023: 106).

The aggregate employment costs of these persons were as follows:

	2024 £m	2023 £m
Wages and salaries	15.9	11.2
Termination benefits	0.4	0.7
Social security costs	2.8	2.0
Contributions to defined contribution pension plan	0.5	0.5
Capitalised into asset under construction	(19.6)	(14.4)
	-	-

The Group operates a single defined contribution pension plan which is open to all employees of the Group.

Directors remuneration

The Directors of the Company did not receive any payment for their services during the year ended 31 March 2024 (2023: £nil). Any qualifying services the directors perform in respect of the Company are considered to be incidental and part of the Directors' overall management responsibilities within the Group.

The remuneration for the Directors to the Group for the current and prior year is included in note 16.

Notes to the financial statements (continued)

4 Finance income and costs

	Group 2024 £m	Restated Group 2023 £m
Finance income		
Interest income	(19.2)	(10.9)
Capitalised finance income into asset under construction	18.4	10.8
Finance Income	(0.8)	(0.1)
Finance costs		
Interest expense on borrowings*	188.0	263.4
Interest expense on lease liabilities	-	0.1
Financing fees	2.0	1.9
	190.0	265.4
Capitalised finance cost into asset under construction	(190.0)	(265.4)
Net finance costs	-	-
Financial instruments through fair value on profit or loss		
Fair value gain on Index linked swaps	(14.5)	(144.6)
Interest and accretion on Index linked swaps	44.0	100.7
Net financial instruments at fair value through profit or loss	29.5	(43.9)
Capitalised interest and accretion on index linked swaps into asset under construction	(44.0)	(100.7)
Gains on financial instruments	(14.5)	(144.6)

*Includes accretion costs on index linked borrowings of £83.7m for the 12-month period to 31 March 2024 (2023: £169.4m).

Notes to the financial statements (continued)

5 Taxation

	Group 2024 £m	Group 2023 £m
Total current tax	-	-
Total Income Statement tax expense	-	-

The Company's current tax charge was £nil (2023: £nil).

The Group's effective tax rate for the year ended 31 March 2024 is 0% (2023: 0%) which is 25% lower than (2023: 19% lower than) the standard rate of corporation tax in the UK due to the items shown below.

Reconciliation of effective tax rate

	Group 2024 £m	Group 2023 £m
Profit before tax	15.3	144.7
Expected tax charge using UK corporation tax rate of 25% (2023: 19%)	(3.8)	(27.5)
Items not taxable[1]	3.8	27.5
Total Income Statement tax expense	-	-

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

Deferred Tax	Carried forward interest expense £m	Tax losses £m	Financial instruments £m	Total £m
Potential deferred tax assets/(liabilities) at 31 March 2023 (restated)	1.5	11.2	(12.7)	-
Potential credit/(charge) to income statement	3.4	0.3	(3.7)	-
Potential deferred tax assets/(liabilities) at 31 March 2024	4.9	11.5	(16.4)	-

Unrecognised deferred tax assets

As at the Statement of Financial Position date, there is an unrecognised deferred tax asset of £261.8m on gross temporary differences of £1,047.1m (2023: £212.4m DTA on gross temporary differences of £849.5m). The temporary differences do not expire and are made up as follows:

Gross unrecognised temporary differences	2024 £m	2023 £m
Trade losses	4.5	3.5
Aggregate disallowed net interest expense (post 1 April 2017)	1,042.6	846.0
	1,047.1	**849.5**

These deferred tax assets have not been recognised due to uncertainty around their future utilisation. Supported by professional advice, management continues to review objectively verifiable information in order to determine whether there will be probable forecast taxable profits against which these assets could be utilised. If in a future period sufficient certainty can be obtained over such forecast taxable profits, a portion, or all of the deferred tax asset could be subject to recognition.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse using tax rates enacted or substantively enacted at the reporting date. The deferred tax assets above have been calculated with regards to the Group's tax position based on the future tax rate of 25%.

Notes to the financial statements (continued)

6 Property, plant and equipment

Group property, plant and equipment comprised the following at 31 March 2024:

	Right-of-use assets (ROU) £m	Asset under construction £m	Total £m
Cost			
At 1 April 2023	9.7	4,833.2	4,842.9
Additions	1.0	570.0	571.0
Disposals	(8.6)	-	(8.6)
Balance at 31 March 2024	2.1	5,403.2	5.405.3
Accumulated depreciation			
At 1 April 2023	(7.9)	-	(7.9)
Depreciation charge	(1.7)	-	(1.7)
Disposals	8.6	-	8.6
Balance at 31 March 2024	(1.0)	-	(1.0)
Net book value at 31 March 2024	**1.1**	**5,403.2**	**5,404.3**
Net book value at 31 March 2023	1.8	4,833.2	4,835.0

Asset under construction

During the construction phase of the project which commenced in 2015 and which will be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel asset into its working condition for its intended use will be capitalised. All expenditure, excluding fair value movements in the Income Statement, is considered to have met this requirement in the year ended 31 March 2024. The amount of borrowing costs capitalised during the year was £232.0m (2023: £352.8m) with a capitalisation rate of 100%. Included within this borrowing costs capitalised during the year is accrued accretion on index linked swaps of £44.0m (2023:£100.7m) on the basis that this cost would have been avoided if the expenditure on the Thames Tideway Tunnel had not been made. The cumulative total of finance interest and expense costs capitalised project to date at 31 March 2024 was £1,156.7m (2023: £924.7m).

Right-of-use Assets

During the year, the Group disposed of one of its property leases which expired, and subsequently entered into a new property lease.

The right-to-use assets are being depreciated over the lease terms on the Group’s property leases under IFRS 16.

Company

The Company did not hold any property, plant and equipment at 31 March 2024 (2023: £nil).

Notes to the financial statements (continued)

7 Investments in subsidiaries

The Company has held the following investments in subsidiaries in the current year and prior period:

	Nature of entity	Country of Incorporation	Class of shares held	Direct ownership 2024	Indirect ownership 2024	Direct ownership 2023	Indirect ownership 2023
Direct subsidiaries							
Bazalgette Ventures Limited	Holding	UK	Ordinary	100%	-	100%	-
Indirect subsidiaries							
Bazalgette Holdings Limited	Holding	UK	Ordinary	-	100%	-	100%
Bazalgette Tunnel Limited	Operating	UK	Ordinary	-	100%	-	100%
Bazalgette Finance plc	Financing	UK	Ordinary	-	100%	-	100%

All subsidiaries have the same year end as the Company. All subsidiaries have the same registered address as the Company which is the 6th Floor, Blue Fin Building, 110 Southwark Street, London SE1 0SU.

8 Trade and other receivables

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Trade receivables	9.1	7.5	-	-
Accrued Income	22.1	22.5	-	-
Other receivables	7.3	21.4	-	-
Prepayments	28.7	37.5	-	-
	67.2	**88.9**	**-**	**-**
Non-current assets	**20.9**	**29.1**	**-**	**-**
Current assets	**46.3**	**59.8**	**-**	**-**

Accrued income of £22.1m (2023: £22.5m) relates to cumulative revenue earned on the project to date that has not been invoiced to Thames Water as at the Statement of Financial Position date. Prepayments include £10.4m (2023: £14.7m) in relation to the Government Support Package and £1.3m (2023: £5.5m) in relation to insurance contracts and £16.3m (2023: £16.9m) financing related costs.

The Group's non-current assets consist of £20.9m (2023: £29.1m) of prepayments at 31 March 2024. The table below analyses both the Group and Company's non-current assets at 31 March 2024 into recovery maturity groupings based on the remaining periods up to their expected future fully recovered date, at the Statement of Financial Position date.

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Between one and two years	-	-	-	-
Between two and five years	7.1	15.5	-	-
After more than 5 years	13.8	13.6	-	-

Notes to the financial statements (continued)

8 Trade and other receivables (continued)

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Total	**20.9**	**29.1**	**-**	**-**

9 Cash and cash equivalents

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Cash and bank balances	65.8	35.4	-	-
Cash equivalents	124.1	94.0	-	-
Cash and cash equivalents per cash flow statement	**189.9**	**129.4**	**-**	**-**

Cash equivalents comprise deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value. Short-term deposits with a maturity of greater than 3 months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £230.0m (2023: £220.0m).

Restricted Cash

The Group holds Debt Service Reserve Account to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £43.6m at 31 March 2024 (2023: £26.0m) which is sufficient to cover the next 12 months of financing costs payments.

10 Trade and other payables

	Group 2024 £m	Restated Group 2023 £m	Company 2024 £m	Company 2023 £m
Trade payables	2.1	38.6	-	-
Contract retentions payable	8.8	16.4	-	-
Accrued expenses	100.6	75.9	-	-
Deferred income	29.7	28.6	-	-
Advance payment liability	484.5	378.0	-	-
	625.7	**537.5**	**-**	**-**
Non-current liabilities	**496.4**	**415.7**	**-**	**-**
Current liabilities	**129.3**	**121.8**	**-**	**-**

Notes to the financial statements (continued)

10 Trade and other payables (continued)

The advance payment liability represents deferred revenue that has been invoiced to and settled by Thames Water. This revenue is deferred until System Acceptance as the services associated with the revenue will not be delivered until this time. The deferred income of £29.7m (2023: £28.6m) represents the cumulative balance on the project to date of revenue accrued and revenue invoiced to Thames Water, less the revenue that has been settled by Thames Water at the Statement of Financial Position date.

At 31 March 2024, amounts owed to the Group's main works contractors sit within the above accrued expenses. At 31 March 2023, £37.6m in respect of these amounts were included within trade payables.

The table following analyses both the Group and Company's non-current liabilities at 31 March 2024 into relevant maturity groupings based on the remaining periods up to their future payable date.

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Between one and two years	3.0	-	-	-
Between two and five years	493.4	415.7	-	-
After more than 5 years	-	-	-	-
Total	**496.4**	**415.7**	-	-

11 Borrowings

The Group raises finance under a multi-currency financing platform in both a loan and bond format.

Some of the finance raised by the Group is in a deferred format which means that the proceeds from the borrowing are not received until a future settlement date so as to align when funds are raised with the construction expenditure profile of the project. Where bonds are issued with deferred draw dates, the proceeds from these bonds are only received from the bond purchaser on the future settlement dates. This note provides information about the Group's borrowings, which are measured at amortised cost.

	2024 £m	Restated 2023 £m
Third party borrowings		
£250m 2.375% fixed-rate bond 2027	248.9	248.6
£75m 0.828% index-linked bond 2047 [a, b]	96.3	92.6
£200m 0.740% index-linked bond 2042 [a, c]	229.5	222.8
£100m 0.688% index-linked bond 2050 [a]	136.4	129.5
£100m 0.755% index-linked bond 2051 [a]	132.4	125.8
£100m 0.249% index-linked bond 2040 [a, d]	134.0	126.6
£125m 0.192% index-linked bond 2049 [a, e]	175.6	167.0
£25m 1.035% index-linked bond 2048 [a, f]	32.5	30.8
£25m 0.951% index-linked bond 2054 [a, g]	32.5	30.8
£50m 0.787% index-linked bond 2052 [a]	65.1	61.9
£300m 2.860% fixed-rate loan 2032 [h]	300.0	300.0
700m (£620m Sonia+1.094% floating-rate, £80m index-linked+0.010%[d]) [i]	714.1	709.5
£100m 0.010% index-linked loan 2049 [a, m]	130.7	124.5
£25m 1.042% index-linked bond 2048 [a, f]	31.9	30.2
£25m 0.954% index-linked bond 2054 [a, g]	31.9	30.2

Notes to the financial statements (continued)

11 Borrowings (continued)

	2024 £m	Restated 2023 £m
£300m 2.750% index linked bonds 2034	298.9	298.8
£75m 2.418% fixed-rate loan 2041	75.0	75.0
£150m 0.010% Index linked bond 2032 [a]	178.6	170.1
£75m 0.949% Index linked bond 2052 [a, k]	85.3	81.8
£50m 0.074% index linked bond 2049 [a, l]	68.4	64.7
£50m 0.174 index linked bond 2049 [a, l]	68.4	-
£50m 6.020% fixed-rate loan 2033	50.0	-
£150m 6.050% fixed-rate loan 2035	150.0	-
£50m 6.110% fixed-rate loan 2038	50.0	-
Intra-group borrowings		
Shareholder loan notes 8.000 % fixed rate 2064 [j]	922.7	836.1
Total borrowings	**4,540.9**	**4,055.2**

	2024 £m	Restated 2023 £m
Current liabilities	-	-
Non-current liabilities	**4,540.9**	**4,055.2**

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

b) This debt amortises (requires repayment of debt accretion) from 2038

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

d) This debt amortises from 2036

e) This debt amortises from 2045

f) This debt amortises from 2044

g) This debt amortises from 2050

h) The Group has entered into swap agreements that convert £70.0m of this debt into index-linked debt

i) The Group has entered into swap agreements that convert £620.0m of this debt into index-linked debt

j) Borrowing from the Company's immediate parent Bazalgette Ventures Limited

k) This debt amortises from 2042

l) This debt amortises from 2034

m) This debt amortisation from 2040

Deferred loans

As at 31 March 2024, the Group had no third-party loans deferred (2023: £nil). Proceeds of £nil (2023: £40.0m) from deferred loans were received during the year.

Notes to the financial statements (continued)

11 Borrowings (continued)

Deferred purchase bonds

There were no bond issuances placed during the financial year ended 31 March 2024 (2023: £nil). As at 31 March 2024, a total of £nil (2023: £66.0m) of bonds are deferred. Bond proceeds of £65.7m (2023 £283.0m) from deferred bonds were received during the period, and these bonds have maturities of 2049.

12 Financial instruments

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

Financial Assets

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Financial assets at fair value through profit and loss:				
Derivative financial instruments	-	-	-	-
Financial assets:				
Trade and other receivables	38.5	51.4	-	-
Cash and cash equivalents	189.9	129.4	-	-
Short-term deposits	230.0	220.0	-	-
Total	**458.4**	**400.8**	-	-

Trade and other receivables above exclude prepayments. Trade and other receivables are classified and measured at amortised cost under IFRS 9. Impairment of these assets as assessed under the simplified expected credit loss model was immaterial at 31 March 2024 and therefore not recognised within the period.

Financial Liabilities

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Liabilities at fair value through profit and loss:				
Derivative financial instruments -Current	1.5	-	-	-
Derivative financial instruments – Non-current	146.5	118.5	-	-
Other financial liabilities:				
Trade and other payables	111.5	130.9	-	-
Lease Liabilities	0.8	1.4	-	-
Borrowings	4,540.9	4,055.2	-	-
Total	**4801.2**	**4,306.0**	**-**	**-**

Fair value measurements

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

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

Notes to the financial statements (continued)

12 Financial Instruments (continued)

	31 March 2024 Book value £m	31 March 2024 Fair value £m	31 March 2023 Book value £m	31 March 2023 Fair value £m
Financial liabilities at amortised cost				
Non-current				
Borrowings – fixed-rate sterling loans	(1,547.7)	(1,789.8)	(1,211.1)	(1,046.1)
Borrowings – fixed-rate sterling bonds	(547.8)	(476.0)	(547.4)	(466.6)
Borrowings – index-linked sterling bonds and loans	(1,825.4)	(1,291.8)	(1,676.7)	(1,436.9)
Borrowings – floating-rate sterling loans	(620.0)	(593.6)	(620.0)	(595.9)
Financial liabilities at fair value through profit and loss				
Non-current				
Derivatives – index-linked swaps	(146.5)	(146.5)	(118.5)	(118.5)
Financial Liabilities at fair value through profit and loss				
Current				
Derivatives - index-linked swaps	(1.5)	(1.5)	-	-
Financial Liabilities at fair value through profit and loss				
Total	**(4,688.9)**	**(4,299.2)**	**(4,173.7)**	**(3,664.0)**

Financial liabilities at amortised cost

Borrowings include index-linked bonds, fixed-rate bonds, floating-rate loans and fixed-rate loans. The fair value of borrowings is determined using observable quoted market prices where this is available or by discounting the expected future cashflows using appropriate available market data and a credit risk adjustment representative of the Group.

Financial instruments at fair value through profit and loss

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs other than quoted prices included for Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

The Group considers all its derivative financial instruments to fall within level 2 as the calculation of the estimated fair value is based on market data inputs which are observable directly or indirectly. The calculation does include unobservable inputs with regards to the determination of credit risk for the Group but these are not considered significant to the valuation.

The table below sets out the valuation basis of financial instruments held at fair value at 31 March 2024:

	2024 Level 2 £m	Restated 2023 Level 2 £m
Financial instruments at fair value		
Derivative financial liabilities:		
- Index-linked swaps*	(148.0)	(118.5)
	(148.0)	**(118.5)**

The carrying value of the derivative financial instruments is equal to the fair value.

Capital risk management

The Group's principal objectives in managing capital are:

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

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

The Group monitors capital on the basis of the following gearing ratio:

- Net Debt divided by Adjusted RCV.

* Accrued Accretion on index-linked swaps at 31 March 2024 was £219.2m liability (2023: £174.0m), which forms part of the overall fair value of the derivative financial instruments being presented above.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

During the year 31 March 2024, the Group's strategy, which was unchanged from prior years, was to maintain a gearing ratio of less than 70% and preserve the investment grade Baa1 (Moody's) and BBB+ (Fitch) credit ratings. These credit ratings were unchanged in the year and the gearing ratios at 31 March 2024 and 31 March 2023 were as follows:

	2024 £m	2023 £m
Net Debt *	3,456.4	3,065.4
Adjusted RCV *	5,029.9	4,576.9
Gearing %	**68.7%**	**67.0%**

The Group's gearing level remains in line with the Group's capital management strategy and is fully compliant with the financing arrangements and regulatory obligations.

The Group's revolving credit facility (RCF) maturing in 2027 of £160.0m (2023: £160.0m) remained undrawn at the Statement of Financial position date (2023: £nil draw down).

The Group's subsidiary Bazalgette Finance plc did not issue any bonds during the year (2023: £nil) and the total bond issuance continues to stand at £1.8bn (2023: £1.8bn).

Management of financial risk

The Treasury team, which reports directly to the CFO, substantially manages the Group's financing, including debt, cash management and interest costs for the Group on a day to day basis The Audit & Finance Committee which includes the Directors of the Company, meets periodically to review and report on treasury policy, treasury strategies and financing strategy. The Group also has an executive level Funding and Financing Committee, chaired by the CFO, which considers financial, treasury, compliance, tax and regulatory matters in detail on a monthly basis.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund on a timely basis its capital expenditure programme or service its debt. At 31 March 2024, the Group had total liquidity in excess of £536.3m, comprising £376.3m of unrestricted cash and short-term deposits, and the £160m undrawn RCF. This, combined with expected revenue collections, provides 33 months of liquidity, not including the RCF, which is significantly in excess of our 12-month target, including all liquidity required to project handover.

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

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

* As defined in the Company's Common Terms Agreement (CTA).

Notes to the financial statements (continued)

12 Financial Instruments (continued)

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

	2024 £m	2023 £m
Borrowings		
Within one year	(158.3)	(133.8)
Between one and two years	(152.3)	(130.9)
Between two and five years	(686.4)	(629.0)
After more than 5 years	(8,393.2)	(7,841.1)
Total	**(9,390.2)**	**(8,734.8)**
Derivative financial instruments		
Within one year	42.3	40.1
Between one and two years	28.3	36.8
Between two and five years	60.0	67.8
After more than 5 years	(355.7)	(350.5)
Total	**(225.1)**	**(205.8)**

For the maturity profile of financial instruments recognised as liabilities, other than borrowings and derivative financial instruments, refer to note 10.

Credit risk

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

Credit risk for the Group principally arises from trading (the supply of services) and treasury activities (the depositing of cash).

A default on a financial asset is when the counterparty fails to make contractual payments as per pre-agreed payment terms.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group's exposure to trading risk is predominantly with Thames Water which is the Group's only significant trading counterparty and who constitute the full outstanding balance of trade receivables at the Statement of Financial Position date. As part of its licenced activities, the Group generates an annual revenue return on its RCV, which it subsequently invoices to Thames Water periodically through the financial year. At any time the outstanding trade receivable balance is approximately one month's revenue collection and represents amounts already collected by Thames Water. The risk of Thames Water failing to pay Tideway's revenue is currently considered low. However, the Company's exposure to Thames Water is reviewed on a regular basis given Thames Water's current financial position and the potential scenario of a Special Administrator choosing not to pay an element of Tideway's revenue is also carefully assessed. This would not be consistent with Thames Water's licence and would be expected to lead to a breach and enforcement action.

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. A treasury policy on investment management strategy provides clear instrument limits for money market funds and money market deposits. The policy sets counterparty concentration and tenor limits through

Notes to the financial statements (continued)

12 Financial Instruments (continued)

minimum credit rating requirements (as measured by reputable credit agencies). At the Statement of Financial Position date there were no significant concentrations of credit risk.

The Group's maximum exposure to credit risk is the carrying amount of financial assets excluding the Derivative financial assets and therefore the maximum exposure at 31 March 2024 was £458.4m (2023: £400.8m). Analysis of this amount can be found in the financial assets section of this note.

Market risk - Interest rate risk

The Group's finance strategy defines long term objectives for the management of interest rate risk, in addition to compliance with the hedging policies contained in the Government Support Package, financing documentation and the Licence. These include, amongst other things, restrictions on over hedging and requirements as to the amount of the Group's debt which bears a fixed, floating or an index-linked rate of interest.

The Group's deferred revenue and operating cash flows are substantially independent of changes in market interest rates. All drawn debt at 31 March 2024 is either borrowed or hedged via swaps at fixed or index-linked rates. A sensitivity analysis has not been disclosed as the impact from interest rate movements is considered immaterial.

The finance costs of the Group's index-linked debt instruments and derivatives vary with changes in RPI and CPI rather than interest rates. These financial instruments form an economic hedge with the Group's revenues and RCV, which are also linked to RPI changes. The financing strategy has involved issuing

RPI and CPI linked debt to ensure that reductions in revenue due to low inflation will be partially offset by reductions in interest costs.

The Group continues to recognize the expected transition from RPI to CPIH from the next regulatory period starting in 2030 as the underlying measure of inflation for price control periods.

HM Treasury and the UK Statistic Authority have confirmed that RPI will be aligned with CPIH from February 2030, which aligns well with Ofwat's transition.

Inflation risk is monitored and reported monthly to the Funding and Financing Committee and subsequently to the Audit and Finance Committee. The table below summarises the sensitivity at 31 March 2024 of the Group's profit and equity to changes in RPI for the Group's index-linked derivatives only. Due to the adopted accounting policy of capitalising borrowing costs that are directly attributable to the construction of the TTT, the sensitivity analysis excludes the Group's index-linked borrowings. This analysis also excludes any RPI impact on the Group's revenues and RCV. The fair value of the Group's index-linked derivatives is based on estimated future cash flows, discounted to the reporting date and these fair values will be impacted by an increase or decrease in in the year-on-year RPI inflation rate as shown in the table below. This analysis assumes all other variables remain constant.

	2024 £m +1%	2024 £m -1%	2023 £m +1%	2023 £m -1%
(Loss)/profit	(50.2)	52.9	(56.9)	60.5
Equity	(50.2)	52.9	(56.9)	60.5

Financial guarantees

A subsidiary undertaking Bazalgette Holdings Limited (BHL) is part of the security group for the purposes of the Tideway financing platform. Companies in the Group (other than BHL) raise debt in external debt markets through the issuance of secured bonds and loans. BHL guarantees the financial indebtedness of Bazalgette Tunnel Limited. On transition to IFRS 17, the Group has made the election to apply the requirements in IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments' to these financial guarantee contracts. Where BHL enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Group treats any guarantee contract as a contingent liability until such a time as it becomes probable that the relevant member of the Group will be required to make a payment under the guarantee and the amount can be reliably measured.

Notes to the financial statements (continued)

12 Financial Instruments (continued)

Net Debt Reconciliation

This section sets out an analysis of net debt and movements in net debt for each of the periods presented:

	Notes	2024 £m	2023 £m
Cash and Cash Equivalents	9	189.9	129.4
Borrowings (a) & (b)	11	(4,540.9)	(4,055.2)
Lease Liabilities		(0.8)	(1.4)
Net Debt		**(4,351.8)**	**(3,927.2)**

(a) Borrowings includes the £922.7m Shareholder loan notes (2023: £836.1m) which is excluded in the Group's CTA Net Debt figures per the Financial Performance Review section of the annual report.

(b) Borrowings excludes £219.2m of accretion on index-linked swaps (2023: £174.0m) which are captured in Derivative Financial Instruments, however this accretion on index-linked swaps is included in the Group's CTA Net Debt Figures per the Financial Performance Review section of the annual report.

		Financing Liabilities			Other Assets	
	Notes	**Borrowings**	**Lease Liabilities**	**Sub-total**	**Cash and cash equivalents**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**
Net Debt at 1 April 2022		**(3,526.3)**	**(3.4)**	**(3,529.7)**	**345.5**	**(3,175.2)**
Proceeds from new borrowings (Presented as cash flows from financing activities)		(323.2)	-	(323.2)	323.2	-
Other Changes*						
Accretion interest expense on index-linked borrowings	*4*	(169.4)	-	(169.4)	-	(169.4)
Capitalised interest on shareholder loan notes		(36.6)	-	(36.6)	-	(36.6)
Bond premium/discount unwind	*4*	0.3	-	0.3	-	0.3
Lease Liability		-	2.0	2.0	(2.0)	-
Transfers to short-term deposits (presented as cash flows from investing activities)		-	-	-	(75.0)	(75.0)
Cash flows from operating activities (presented as cash flows from operating activities)		-	-	-	36.9	36.9
Cash flows used in Construction of Infrastructure asset (presented as cash flows used in investing activities)		-	-	-	(508.2)	(508.2)
Net Debt at 31 March 2023		**(4,055.2)**	**(1.4)**	**(4,056.6)**	**129.4**	**(3,927.2)**
Proceeds from new borrowings (Presented as cash flows from financing activities)		(315.7)	-	(315.7)	315.7	-
New lease liabilities		-	(0.9)	(0.9)	-	(0.9)
Other Changes*						
Accretion interest expense on index-linked borrowings	*4*	(83.7)	-	(83.7)	-	(83.7)
Capitalised interest on shareholder loan notes		(86.6)	-	(86.6)	-	(86.6)
Bond premium/discount unwind	*4*	0.3	-	0.3	-	0.3
Lease liability payments (presented as cash flows from financing activities)		-	1.5	1.5	(1.5)	-

Notes to the financial statements (continued)

12 Financial Instruments (continued)

	Notes	Borrowings	Lease Liabilities	Sub-total	Cash and cash equivalents	Total
		£m	£m	£m	£m	£m
Transfers to short-term deposits (presented as cash flows from investing activities		-		-	(10.0)	(10.0)
Cash flows from operating activities (presented as cash flows from operating activities)		-	-	-	118.1	118.1
Cash flows used in Construction of Infrastructure asset (Presented as investing acitivities)		-	-	-	**(361.8)**	**(361.8)**
Net Debt at 31 March 2024		**(4,540.9)**	**(0.8)**	**(4,541.7)**	**189.9**	**(4,351.8)**

**Other changes include non-cash movements, including accretion interest expense on index-linked borrowing, capitalised interest on shareholder loan notes and bond premium/discount unwinds during the year*.

13 Capital and reserves

Called-up share capital - Group and Parent Company

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2024 No.	Ordinary shares 2023 No.
Issued for cash at the beginning of the year	507,366,749	507,366,749
Issued for cash during the year	-	-
Issues for cash as at the end of the year	**507,366,749**	**507,366,749**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of the Company in line with the details of the Shareholders agreement. Further information on the role of the shareholders is outlined in the Group's Strategic Report section of the Annual report.

Share premium was unchanged in the year at £2.3m (2023: £2.3m).

Retained earnings	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
At the beginning of the year	51.0	(93.7)	-	-
Profit for the year	15.3	144.7	-	-
Total	**66.3**	**51.0**	**-**	**-**

Notes to the financial statements (continued)

14 Contingent liabilities

There are a number of uncertainties surrounding the Group including potential claims, which may affect the financial performance of the Group. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Consolidated Statement of Financial Position but are monitored to ensure that should a possible obligation become probable and a transfer of economic benefits to settle an obligation can be reliably measured, then a provision for the obligation is made. There were no contingent liabilities at the Statement of Financial Position date.

15 Related parties

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.
The Group's related party transactions throughout the current financial year were made on terms equivalent to those that prevail in arm's length transactions.

Key management personnel

Key management personnel comprise the directors of the Group. The aggregate remuneration of key management personnel to the Group was as follows:

	2024 £m	2023 £m
Short-term benefits	2.0	2.1
Long-term benefits	1.7	2.6
Total Remuneration	**3.7**	**4.7**

Short-term benefits represent the amount of base salary and fees, taxable benefits and annual bonus received by the directors during the year.

Long-term benefits represent the value of long-term incentive plan (LTIP) schemes and retention arrangements that have been awarded to directors in the year based on the performance conditions.

Included in the above aggregate remuneration value are contributions made under the Group's defined contribution pension plan totalling £8k (2023: £10k). The number of Directors for whom pension contributions were made totalled two (2023: two).

The aggregate remuneration of key management personnel disclosed above include the following amounts to the highest paid director within the Group:

	2024 £m	2023 £m
Remuneration for qualifying services	2.0	2.7
	2.0	**2.7**

Further information can be found in the Remuneration report of Bazalgette Tunnel Limited's Annual Report which is available at www.tideway.london.

Company

The directors of the Company are considered to be key management personnel. They did not receive and payment for their services during the year ended 31 March 2024 (2023: £nil). The Company had no employees during the year to 31 March 2024 (2023: no employees).

Notes to the financial statements (continued)

16 Ultimate parent company and parent company of larger group

The Company has no ultimate controlling party. The Company is indirectly owned by Allianz Infrastructure Luxembourg I S.a.r.l, Allianz European Infrastructure II Acquisition Holdings S.a.r.l, Dalmore Capital 14 GP Limited, Auger Bore Investments Limited, IPP (Bazalgette) Limited and Bazalgette (Investments) Limited.

Copies of the consolidated financial statements for the Bazalgette Equity Group are available at www.tideway.london.

17 Prior year restatement

Statement of financial position (extract)	**31 March 2023**	**Increase/ Decrease)**	**31 March 2023 (Restated)**	**31 March 2022**	**Increase/ Decrease)**	**1 April 2022 (Restated)**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Non current asset						
Derivative financial instruments	50.7	(50.7)	-	-	-	-
Current liabilities						
Trade and other payables	(117.0)	(4.8)	(121.8)	(146.3)	(2.0)	(148.3)
Non current liabilities						
Borrowings	(4,229.2)	174.0	(4,055.2)	(3,596.8)	70.5	(3,526.3)
Derivative financial instruments	-	(118.5)	(118.5)	(93.9)	(68.5)	(162.4)
Net assets	560.7	-	560.7	416.0	-	416.0
Retained earnings	51.0	-	51.0	(93.7)		(93.7)
Total equity	560.7	-	560.7	416.0		416.0

The historic presentation of the accrued interest and accretion relating to the derivative financial instruments as part of the Borrowings was not in line with IAS 1 paragraph 59. The above presentational restatement is to correctly reflect the accrued interest and accretion relating to derivative financial instruments within the Derivative Financial Instrument line in the statement of financial position. There has been no change to the net assets of the company as a result of this presentational correction.

The above presentational restatement has also resulted in the prior year net finance (cost)/income figure presented in the Company's income statement at 31 March 2023, to be disaggregated into sperate line items of finance income, finance costs and gains on financial instruments.

Furthermore, the above presentational restatement has affected amount disclosed in the following notes to the financial statements which have been restated:

- Financial Statements note 4 – Finance income and costs;
- Financial statements note 10 – Trade and other payables;
- Financial statements note 11 – Borrowings; and
- Financial statements note 12 – Financial instruments.

Notes to the financial statements (continued)

18 Subsequent events occurring after the reporting date

No material events have occurred between the year end date and the signing of these financial statements that would require the Company to adjust the financial statements or require disclosure in these financial statements.