Bazalgette Holdings Group

Interim Report and Financial Statements for the six months ended 30 September 2016

Interim Operational Review

In the past six months Tideway has made good progress towards its ambition to safely deliver the Thames Tideway Tunnel as early as possible. We have mobilised each of the three main tunnel drive sites between three and five months earlier than the original schedule. We continue to develop our transformational approach to health, safety and wellbeing, and are pleased to report that we have had no major injuries to date. To manage our financial risk, we have extended our liquidity to cover the entire construction period through agreeing a £700 million, 35 year maturity loan from the European Investment Bank (EIB) in May and pricing £350m of bond issues in June. These innovative deferred-purchase bond issues marked Tideway's debut on the capital markets. With progress to date, we believe we are well placed to meet our target of handing over the Thames Tideway Tunnel to Thames Water to operate earlier than the baseline date, consistent with our licence, of 2024. The programme's estimate-at-completion figure remains at £3.144bn (2014/15 prices), which is in line with our regulatory baseline. Total project costs for the six month period were £163.8m, taking the costs to date to £325.0m.

Health, Safety and Wellbeing ('HSW')

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.*

2016/17 Priorities:

- *Establish a 'RightStart' programme, which aims to reduce the number of incidents in the first six months on-site, when accidents typically occur;*
- *Continuing and developing our Employee Project Induction Centre (EPIC) programme, which is mandated for all people working on our sites.*

Ensuring the highest standards of health, safety and wellbeing are paramount for Tideway – we intend to do things safely or not at all. We are pleased to report that there were no significant injuries during the six-month period. The accident frequency rate (the number of incidents resulting in greater than three days lost time per 100,000 hours worked) was 0.11 for the period. Whilst below the average for similar construction programmes, we want to do better. Our transformational HSW strategy, 'RightWay', continues to be delivered across the project. From the start of the project to 30 September 2016, 4,760 people have attended EPIC - our industry-leading, interactive induction centre. The focus of RightWay in 2016 has been 'RightStart', the implementation of actions and standards designed to prevent those incidents that typically occur at the start of major projects – 'starting the RightWay'. RightStart will be undertaken at all construction sites and, during the period, evaluations were undertaken at the three main drive sites – Carnwath Road, Kirtling Street and Chambers Wharf.

Company and People

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

2016/17 Priorities:

- *Support employee engagement by rewarding our people appropriately, recognising good performance and giving them the chance to develop their skills;*
- *Improve employee effectiveness by empowering our people to make decisions, while ensuring accountability for delivery within a strong governance framework.*

Our people are fundamental to our success. We have defined and begun to implement our strategy to improve decision making, performance management and help all employees to be effective. We launched a company-wide initiative to support leaders across the organisation, who are empowered and trusted to make decisions at the appropriate level. This initiative aims to promote collaborative, innovative and proactive individuals and teams that work together towards our common goals, exploring ways of improving decision making at every level of the company. This was kicked off at the Tideway 'Safer, Smarter, Better' conference which was held at Old Billingsgate in September. The day provided the opportunity for us to take stock of progress, and to discuss what we need to do to make us 'tunnelling ready' by summer 2017.

We have launched the Tideway Information Management project, with the aim of uniting information management in one effective, clear and usable solution. The project aims to improve information management by simplifying our approach, making information more accessible, and promoting better control.

Schedule, Cost and Quality

Objective: *We want to deliver the Thames Tideway Tunnel safely and at the earliest time. Finishing earlier will reduce cost, benefiting bill payers and investors, and deliver environmental benefits more quickly.*

2016/17 Priorities:

- *Make progress against our construction schedule to de-risk the programme by beginning drop shaft construction at the three main tunnel drive sites;*
- *Agree the interface with Thames Water on the Counters Creek sewer flooding alleviation plan.*

Progress on the construction schedule in the first six months of 2016/17 was ahead of the regulatory baseline, with the main tunnel drive sites in the West, Central and East sections of the tunnel mobilised three to five months early and, shortly after period end, two of the six tunnel boring machines ('TBMs') had been ordered.

In the West section, site preparation started at the Carnwath Road main drive site and Hammersmith Pumping Station. At Carnwath Road, work took place to progress the design and initial consents were secured post period end to strengthen the river wall in advance of our main shaft construction. The contractor has secured a letter of intent with the manufacturer for the procurement of the main tunnel TBM for the West section.

In the Central section, sheet piling for the shaft at the Kirtling Street main drive site has been completed. Shortly after period end the diaphragm wall construction commenced and both the TBMs were procured. Good progress was made during the period to relocate the Millennium Pier at Blackfriars and following the period end the new pier opened for riverboats to the east of Blackfriars Station together with a new lift and stairs.

In the East section, ground treatment, jetty demolition and temporary cofferdam piling started at the Chambers Wharf main drive site. This will create the space we need to construct the main tunnel drive shaft. In line with our commitment to utilise the river more, the site offices were delivered by barge and these are now in use. Site investigation works have been completed at Greenwich Pumping Station that will inform the temporary and permanent works on the site.

The system integrator has, as planned, commenced the survey and inspection of the existing sewer network.

We continued to explore the potential for directly integrating Thames Water's proposed Counter's Creek sewer flooding alleviation scheme with our works at Cremorne Wharf. We submitted a Proposed Variation Notice (PVN) for Counter's Creek to the Liaison Committee, whose attendees include Defra, Ofwat, the Environment Agency and Thames Water. The PVN is the first stage in an on-going process with stakeholders to consider the integration of the scheme.

Total project costs for the six month period were £163.8m, taking the costs to date to £325.0m. The tunnel's estimate-at-completion figure remains at £3.144bn (2014/15 prices), which is in line with our regulatory baseline.

Financing

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

2016/17 Priorities:

- *Position ourselves to access the debt markets, to benefit from the current low interest rate environment;*
- *Agree terms on the £700m EIB loan and make progress on the bond financing programme.*

Tideway entered into financing transactions during the period which improve its liquidity and help to fix its finance costs in the current low interest rate environment. In May 2016, the EIB agreed to provide a £700m 35 year maturity loan to Tideway. The structure of the loan enables the company to lock in financing costs whilst matching its funding requirements and profiling debt service in line with the expected growth in Tideway's asset base.

In June 2016, Tideway priced bond issues totalling £350m. These deferred-purchase bonds mark Tideway's debut on the capital markets. Combined with the EIB loan, they help secure the financing for the company's long-term investment programme. Following period end, Tideway priced a further £100m deferred-purchase bond issue.

Vision, Legacy and Reputation

Objective: *Create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders.*

2016/17 Priorities:

- *Secure the consents necessary to support our earlier programme ambitions;*
- *Commence the programme for local employment and apprenticeships;*
- *Agree a 'more by river' plan that maximises benefits to communities at our key sites;*
- *Establish a robust river skills training programme.*

We are helping deliver our vision of 'Reconnecting London, and Londoners, with the River Thames' through supporting community activities in the Boroughs where we work. These events have included the historic Doggett's Coat and Badge Race, the Totally Thames Festival, Source to Sea stand-up paddleboard relay as well as backing the Thames21 Citizen Science Initiative to monitor the health of the river. Tideway's staff community and STEM volunteering programme ramped up significantly in participation, with the project team (including the Main Works Contractors) volunteering 2,605 hours by half year. The Thames Skills Academy, which will train a new generation of river workers, was launched in the period.

Tideway has developed a 'more by river' strategy which will minimise the impact of road traffic movement on local communities and goes beyond the commitments of our Development Consent Order (DCO). The 'more by river' strategy has seen mobile office units for the Chambers Wharf and Carnwath Road sites transported to site by river.

Our community relations programme established working groups at several key sites, providing a forum for Tideway to engage with local residents and businesses through the life of the project. We have been working well with stakeholders and the consent granting authorities to secure the consents necessary to maintain the schedule, including early mobilisation to key sites.

Risk Management

Risk management is embedded in Tideway's culture and is central to achieving its objectives. The company has implemented a clearly defined process for identifying, analysing and controlling risks throughout the business.

Tideway's principal risks, which could have a material, adverse impact on the business, reputation and/or financial condition, are unchanged from those reported in the Annual Report and Financial Statements for the period ended 31 March 2016. These comprise: health, safety and wellbeing; programme delivery; supply chain failure; high impact, low probability events; financial risks; inflation risks; reputational risk; the performance of Thames Water; and regulatory risk. These principal risks are under continual review. We are closely monitoring potential impacts of the UK's exit from membership of the European Union and will continue to monitor both political and economic events and consider any possible impact on the business.

Further detail on these risks can be found in the Annual Report and Financial Statements for the year ended 31 March 2016, which can be found on the Tideway website at www.tideway.london.

Interim Financial Performance Review

Accounting Basis

Our condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group's accounting policies are consistent with those disclosed in the Group's Annual Report for the period ended 31 March 2016, except in respect of derivative financial instruments. 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. Regulated revenue received from Thames Water is recognised as deferred income within the Statement of Financial Position.

Non-GAAP Measures: Reporting of Allowable Project Spend

In its reporting of financial information, the Group uses certain measures that are not required under IFRS, the Generally Accepted Accounting Principles ("GAAP") under which the Group reports. The principal non-GAAP measure which the Group uses is the reporting of Allowable and Excluded Project Spend. The Group believes that these measures are valuable to users of the accounts in helping them understand our underlying business performance.

Tideway's costs are classed as either "Allowable Project Spend" or "Excluded Project Spend" under the regulatory licence. Allowable Project Spend (on a cash basis) is added to the Regulatory Capital Value "RCV". Excluded Project Spend (on a cash basis), such as financing costs, is not added to the RCV.

"Allowable Costs" are costs stated on an accruals basis which will form part of 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.

Income Statement

During the six month period ended 30 September 2016, the Group reported a loss of £30.3m. We do not consider the reported loss in the period is a reflection of the performance of the business. The loss reflects the movement in the fair value in the Group's financial instruments. These are long-term swaps which the Group entered into with commercial banks to hedge the interest rate of the first three tranches of the £700m EIB loan that was secured in May 2016. The swaps fix finance costs for the Group's regulatory period in a cost effective manner and ensure that the Group benefits from low cost financing.

The movement in fair value of these financial instruments is recognised in the Income Statement because under IAS 23 these do not represent current borrowing costs incurred for financing the project and so, unlike our other expenditure, cannot be capitalised. Note 6 to the condensed consolidated financial instruments provides more detail on these financial instruments.

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

No dividends were paid or proposed in the period. A corporation tax charge of £nil was recognised in the period, which reflects the position that the Group did not have any taxable profits.

Statement of Financial Position

The table below provides an analysis of the costs capitalised in the Statement of Financial Position and cash outflows for the period ended 30 September 2016.

Analysis of Costs and Cash Outflows	Costs £m	Timing differences £m	Cash Outflows £m
Direct Costs	104.1	(3.6)	100.5
Indirect Costs	42.6	1.2	43.8
Allowable	146.7	(2.4)	144.3
Excluded	17.1	14.7	31.8
Total	163.8	12.3	176.1
B/fwd 31 Mar 2016	161.2		
Total	325.0		

Our Allowable Project Spend is marginally lower than the Allowable Costs as our Allowable Costs includes the timing of accruals and the unwinding of prepayments of items including insurance contracts and the Government Support Package.

At 30 September 2016, costs of £325.0m were capitalised within the asset under construction in the Statement of Financial Position. This represents £163.8m of costs during the period and £161.2m for the prior period to 31 March 2016.

The table below provides an analysis of the Allowable costs for the period to 30 September 2016:

Allowable Costs	£m
Main Works Costs	100.9
Other Direct Costs	3.2
Direct Costs	104.1
Resource Costs	29.9
Other Indirect Costs	12.7
Indirect Costs	42.6
Total	146.7

Main Works Costs:

Main Works Costs are split between the three regional contracts West, Central and East for the design and construction of the Main Tunnel, the system integrator contract and the Volker Stevin marine contract. The three regional Main Works Contracts are based on the New Engineering Contract (NEC3) Option C Target Price with Activity Schedule terms and conditions.

The costs incurred in the period include contractors' staff, design, consents and preliminary costs to support mobilisation, site preparation activities at key sites across the project and also to support the "Right Start" readiness programme.

Other Direct Costs:

The Other Direct Costs of £3.2m mainly consist of third party costs for the management, monitoring and mitigation of the impact of construction on third parties and safety training costs.

Indirect Costs:

The largest Indirect Costs are resource costs of £29.9m which includes the staff cost of those employed directly by the Group or through framework contracts and the resource costs of the programme delivery partner CH2M. Other Indirect Costs include non-resource costs such as information systems, premises and insurance.

Excluded Costs:

Excluded Costs to 30 September 2016 are £17.1m which largely reflects financing costs such as interest on shareholder loans and costs related to the Group's debt financing activities such as bank fees, legal advice and rating agency fees.

Cash Flow & Financing

Our net cash at 30 September 2016 was £278.6m which was split between cash held at bank of £90.1m and cash equivalents of £188.5m, comprising short-term deposits and investments in money market funds.

The tables below summarise the movements in net cash during the period.

Net Cash	£m	Ref. [1]
31 March 2016 (excluding short term deposits)	**112.9**	
Net proceeds from Loans	179.7	d
Proceeds from Equity	127.7	d
Deferred revenue	14.5	a
Transfer from Short Term Deposits	17.5	c
Other	2.4	a
Cash Inflows	**341.8**	
Construction of the tunnel asset	(163.8)	b
Working capital outflows	(12.3)	a
Cash Outflows	**(176.1)**	
30 September 2016	**278.6**	

Reconciliation to the Consolidated Cash Flow Statement (page 12)	£m	Ref. [1]
Net cash used in operations	4.6	a
Net cash used in investing activities - Infrastructure asset	(163.8)	b
Net cash used in investing activities - Short term deposits	17.5	c
Net cash from financing activities	307.4	d
Net increase in cash and cash equivalents	**165.7**	
Cash and cash equivalents at the start of the period	112.9	
Cash and cash equivalents at the end of the period	**278.6**	

[1] see cross ref.

The cash inflows of £341.8m includes financing cash flows of £307.4m from net shareholder injections. The shareholder injections comprise £127.7m of shareholder equity and £179.7m of net shareholder loans. During the period £191.5m of proceeds from shareholder loans were received and repayments of the loans were made totalling £11.8m. Working capital inflows totalled £16.9m and include £14.5m regulated revenue received from Thames Water and £2.4m of other inflows including interest and payments for other services provided to Thames Water.

Cash outflows of £176.1m includes £163.8m of investment on the construction of the Thames Tideway Tunnel and working capital outflows of £12.3m.

At 30 September 2016 the Group held debt of £384.8m in the form of shareholder loans. In addition to the secured loan for £700m with the EIB and the deferred bond issuances of £350m completed in the period, the Group has access to a £1.0 billion Revolving Credit Facility (RCF). At the period end both the RCF and the EIB loan were undrawn.

Statement of the Directors' responsibilities in respect of the Interim Report and Financial Statements

The Directors confirm that to the best of their knowledge this condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the Interim Report and Financial Statements includes a fair review of the information required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, paragraphs 4.2.7 and 4.2.8.

The Directors of Bazalgette Holdings Limited are as listed on page 23 in the Bazalgette Holdings Annual Report for the 11 month period ended 31 March 2016 with the exception of Angela Roshier who was appointed a director on 2 September 2016 and Moira Turnbull-Fox who resigned on 2 September 2016. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london.

The above statement of Directors responsibilities was approved by the Board of Directors on 15 December 2016 and signed on its behalf by:

Amanda Woods

Director

15 December 2016

Consolidated Income Statement

For the six month period ended 30 September 2016

	Note	Six months ended 30 September 2016 Unaudited £m
Net operating costs		-
Operating result		-
Net financing costs	2	(30.3)
Profit on ordinary activities before tax		**(30.3)**
Taxation		-
Result for the period		**(30.3)**

Consolidated Statement of Other Comprehensive Income

For the six month period ended 30 September 2016

	Six months ended 30 September 2016 Unaudited £m
Result for the period	(30.3)
Other comprehensive income for the period	-
Total comprehensive income for the period attributable to owners of the parent	**(30.3)**

The Group began trading in August 2015 and did not publish an Interim Report for the period ending 30 September 2015. No comparative information for this prior period is presented in the condensed consolidated financial statements.

Consolidated Statement of Financial Position

At 30 September 2016

	Note	30 September 2016 Unaudited £m	31 March 2016 Audited £m
Non-current assets			
Property, plant and equipment	4	325.0	161.2
Trade and other receivables		56.1	54.9
		381.1	216.1
Current assets			
Trade and other receivables		24.6	25.3
Cash and cash equivalents		278.6	112.9
Short-term cash deposits		-	17.5
		303.2	155.7
Total assets		**684.3**	**371.8**
Current liabilities			
Trade and other payables		(33.5)	(28.4)
		(33.5)	(28.4)
Non-current liabilities			
Borrowings	5	(384.8)	(205.1)
Derivative financial instruments	6	(30.3)	-
		(415.1)	(205.1)
Total liabilities		**(448.6)**	**(233.5)**
Net assets		**235.7**	**138.3**
Equity attributable to equity holders of the parent			
Share capital	7	266.0	138.3
Retained earnings		(30.3)	-
Total equity		**235.7**	**138.3**

The above condensed consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 13 to 18 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

At 30 September 2016

	Share capital £m	Retained earnings £m	Total Equity £m
Balance at 01 April 2016	**138.3**	-	**138.3**
Profit or loss for the period	-	(30.3)	(30.3)
Total comprehensive income for the period	**-**	**(30.3)**	**(30.3)**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	127.7	-	127.7
Total contributions by and distributions to owners of the parent	**127.7**	**-**	**127.7**
Balance at 30 September 2016 (unaudited)	**266.0**	**(30.3)**	**235.7**

Consolidated Cash Flow Statement

For the six month period ended 30 September 2016

	Six months ended 30 September 2016 Unaudited £m	Period ended 31 March 2016 Audited £m
Cash flows from operating activities before working capital movements		
Increase in trade and other receivables	(0.5)	(80.2)
Increase in trade and other payables	5.1	28.4
Cash used in operations	**4.6**	**(51.8)**
Net cash used in operating activities	**4.6**	**(51.8)**
Cash flows used in investing activities		
Construction of infrastructure asset	(163.8)	(160.3)
Short-term cash deposits	17.5	(17.5)
Net cash used in investing activities	**(146.3)**	**(177.8)**
Cash flows from financing activities		
Proceeds from the issue of share capital	127.7	138.3
Proceeds from shareholder loans	191.5	207.4
Repayment of shareholders loan principal	(11.8)	(3.2)
Net cash from financing activities	**307.4**	**342.5**
Net increase in cash and cash equivalents during the period	**165.7**	**112.9**
Cash and cash equivalents at the start of the period	112.9	-
Cash and cash equivalents at the end of the period	**278.6**	**112.9**

Notes to the condensed consolidated interim financial statements

1. General Information

Basis of preparation

The Bazalgette Holdings Group comprises Bazalgette Holdings Limited "BHL", Bazalgette Tunnel Limited, Thames Tideway Tunnel Limited and Bazalgette Finance plc.

These condensed interim financial statements consolidate those of BHL and its subsidiaries (together referred to as the "Group") and comprise the unaudited financial statements for the six months to 30 September 2016.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Transparency Rules issued by the Financial Conduct Authority and they should be read in conjunction with the Group's last audited consolidated financial statements for the 11 month period ended 31 March 2016. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

Accounting policies

These condensed consolidated interim financial statements have been prepared on a basis consistent with the IFRS accounting policies as set out in the Group's Annual Report for the 11 month period ended 31 March 2016.

Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the 11 month period ended 31 March 2016, with the addition of judgements relating to the fair value measurement of derivative financial instruments.

Notes to the condensed consolidated interim financial statements (continued)

Derivative financial instruments

Derivative financial instruments are measured at fair value at each reporting date, with changes in the fair value being charged or credited to the Income Statement. The Group has not designated any financial instruments within hedging relationships and therefore does not apply hedge accounting.

A net present value model is used to estimate the fair value of the Group's derivative financial instruments. This requires management to estimate future cash flows based on market data. Projected cash flows are then discounted back using discount rates which are derived from market data adjusted for management's estimate of the Group's credit risk. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible.

Estimates of fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation as follows:

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

If the inputs used to measure the fair value of an asset or liability might be 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 has an established control framework with respect to the measurement of fair values.

Further information about the assumptions made in measuring fair values is included in Note 6 – fair value measurements and valuation.

2. Finance income and costs

	Six months ended 30 September 2016 £m
Finance income	
Interest income	(0.6)
Finance costs	
Interest expense on borrowings	12.2
Financing fees	2.5
Financial instruments at fair value through profit or loss:	
- Index linked swaps	30.3
Capitalised finance income and costs into asset under construction	(14.1)
Net finance costs	**30.3**

Notes to the condensed consolidated interim financial statements (continued)

3. Taxation

The Income Statement tax charge for the six month period was £nil. There are no reconciling items between the reported current tax charge and the effective tax charge using the UK corporation tax rate of 20%.

A reduction in the UK corporation tax rate from 18% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. As at the Statement of Financial Position date, deferred tax assets of £8.5m have been calculated using the enacted rate, consisting of carried forward losses on fair value movements against financial instruments (£5.2m) and capitalised interest (£3.3m). These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

4. Property, plant and equipment

Asset under construction

During the construction phase of the project which commenced in 2015 and which is expected to be completed at System Acceptance, all expenditure which is directly attributable to bringing the Thames Tideway Tunnel into its working condition for its intended use will be capitalised. During the six months ended 30 September 2016, expenditure totalling £163.8m was considered to have met this requirement. The amount of net borrowing costs capitalised during the period was £11.6m with a capitalisation rate of 100%.

5. Borrowings

In May 2016, the Group secured a £700m loan with the European Investment Bank (EIB). The loan is not expected to be drawn until 2018 and will subsequently be drawn in 10 tranches between 2018 and 2022, to match the Group's capital requirements for that period. In June 2016, the Group put in place a bond issuance platform and priced deferred bond issues of £350m in the period.

This note provides information about the contractual terms of the Group's outstanding interest-bearing loans and borrowings, which are measured at amortised cost.

	Currency	Nominal interest rate	Maturity date	Carrying Amount £m
Shareholder loans measured at amortised cost at 30 September 2016	GBP	8%	2064	384.8

Notes to the condensed consolidated interim financial statements (continued)

6. Derivative financial instruments

During the six month period ended 30 September 2016, the Group entered into three long-term index linked swaps to hedge the interest rate of the first three tranches of the EIB loan. The valuation techniques employed for these are outlined below. The Group did not have any derivative financial instruments for the period ended 31 March 2016.

Where an active market exists, derivatives recorded at fair value are valued 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 estimated future cash-flow associated with each leg of the swap; the pay leg which is index-linked and the receive leg which is floating. Estimates of future floating-rate cash flows and index-linked cash flows are based on well-defined and traded market references. Estimated future cash flows associated with each swap are discounted to the reporting date using market rates and adjusted for the credit risk of the Group.

The Group considers all its derivative financial instruments to fall within level 3 of the fair value hierarchy as the calculation of the estimated fair value is based on assumptions which include an unobservable input with regards to the Group's credit risk. The estimate of fair value is as follows:

	30 September 2016 Level 3 £m	31 March 2016 Level 3 £m
Financial instruments at fair value		
Derivative financial liabilities:		
- Index linked swaps	30.3	-
	30.3	**-**

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

The following table shows a reconciliation from the opening balance to the closing balance for level 3 fair values.

	Derivative financial instruments at fair value through profit or loss £m
Balance 1 April 2016	-
Loss recognised in finance costs	
- Net change in fair value (unrealised)	(30.3)
Balance at 30 September 2016	**(30.3)**

Notes to the condensed consolidated interim financial statements (continued)

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

Level 3 fair values sensitivity

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

	30 September 2016 Impact on loss for the period	
	Decrease	**(Increase)**
Risk-adjusted discount rate (+/- 100bps movement)	£5.8m	(£6.8m)

7. Capital and reserves

Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares No.
At 01 April 2016	138,258,754
Issued for cash	127,692,186
At 30 September 2016	**265,950,940**

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to vote at meetings of BHL in line with the details of the Shareholders agreement. Further information on the role of the shareholders is outlined in the Holding Company Principles statement which is available at www.tideway.london.

8. 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 material contingent liabilities at the Consolidated Statement of Financial Position date.

Notes to the condensed consolidated interim financial statements (continued)

9. Related party transactions

Transactions between Bazalgette Holdings Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Amounts outstanding on borrowings from the immediate parent company, Bazalgette Ventures Limited were £384.8m at 30 September 2016.

10. Subsequent events

On 18 November 2016, the Group priced a further deferred-purchase bond issue of £100m.