Bazalgette Holdings Group

Interim Report and Financial Statements for the six months ended 30 September 2019

Interim Operational Review

The Group

The Directors present the Interim Operational Review for Bazalgette Holdings Group (the Group) for the six months ended 30 September 2019.

The Group comprises Bazalgette Holdings Limited (BHL), Bazalgette Tunnel Limited (BTL) and Bazalgette Finance plc (BF). BTL began operating as an independent regulated water company when it was awarded its licence by Ofwat in August 2015. The principal activity of the Group is to design, build, commission, finance and maintain the Thames Tideway Tunnel (TTT). The emphasis given to BTL, which trades under the name ‘Tideway’, throughout this report reflects its importance to the overall performance of the Group.

Overview

Tideway has made good progress towards its ambition to safely deliver the TTT at the right quality and to best value. We continue to develop our transformational approach to health, safety and wellbeing and are pleased to report that we have had no life changing injuries to date. The programme schedule remains in line with the regulatory baseline and total delivery cost remains in line with the £3.8bn cost estimate in the 2018/19 Annual Report.

Tideway has continued to make good progress against its Business Plan targets. Construction activity on the project is now 48 per cent complete in line with our Business Plan. Shaft completion and tunnelling are ahead of plan. Overall thirteen construction milestones are complete against the schedule set at the beginning of the year of twelve. We have four of our six tunnel boring machines (TBMs) in the ground and tunnelling, with a further two due to start in 2020. We have successfully completed all eight of the cofferdams (new areas of land in the River Thames) needed for the project, nine of the shafts are excavated with a further eight in progress and four yet to commence.

Total project costs for the six-month period were £389.8m, taking the total capitalised costs relating to the tunnel at September 2019 to £2,218.6m.

In July and August 2019, we raised £150 million of deferred term debt through private placements with UK investors under our medium-term note (MTN) programme and with US investors through a private placement. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover anticipated construction costs. Tideway’s credit ratings of Baa1 by Moody’s and BBB+ by Fitch have been re-affirmed and the outlook remains stable.

In June, following approval of the Annual Report and Financial Statements for the year ending 31 March 2019, Tideway announced the appointment of Baroness Ruby McGregor-Smith as a new Independent Non-Executive Director to the Tideway Board. She brings with her significant experience as the former CEO of Mitie Group PLC and complements the skills and experience of Tideway’s other Non-Executive Directors as the project moves through peak construction and towards its commissioning phase.

Also, in line with the Board’s succession plan, at the end of July, Anne Baldock stepped down as an Independent Non-Executive Director on the Tideway Board, having been engaged in the project since 2013. We are very grateful for her significant contribution to the Board.

Health, Safety and Wellbeing (HSW)

	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.
2019/20 Priorities	Reinforce HSW performance in the construction phase which shows improvement in comparison to previous projects. Ensure the Main Works Contractor's marine operations (including other safety critical operations) are in line with our requirements.

Tideway has committed to reaching transformational standards of HSW. We are pleased to report that there were no major (life-changing) incidents during the six-month period ended 30 September 2019 and HSW performance across the programme remains strong compared to all industry benchmarks.

Our accident frequency rates (AFR, measuring lost-time injuries over a rolling 12-month window) improved during the period, with AFR-1 reducing by 8% (0.26 down to 0.24), AFR-3 by 25% (0.16 down to 0.12) and AFR-7 by 25% (0.12 down to 0.09). There were nine lost-time injuries during the 3 million hours worked, four of which resulted in over seven days lost time. Whilst our AFRs remain better than previous infrastructure projects we believe that more is achievable to eliminate injuries entirely.

The Health and Safety Executive (HSE) undertook unannounced visits to sites in each of the three project areas (West, Central and East). Overall the visits were positive with some best practices observed. There were areas identified for improvement which were common across all areas, including welfare within the shaft/tunnel, proximity of self-rescue sets to the works area and clarity of exclusion zones.

The Central area has restored good HSW performance despite having had some challenges in the past. Over the last 12 months the Central area has worked over 2 million hours without a lost-time injury. In addition, the Falconbrook site won an award in Tideway's internal RightWay in Delivery programme for their continued good HSW performance.

Whilst still strong, performance has been slightly less favourable in the East area and following an increasing trend of lost-time incidents (with five in the period), we have worked jointly with the main works contractor (a joint venture of Costain, Vinci Construction Grand Projets and Bachy Soletanche) to produce a HSW improvement plan. The plan was presented to the Tideway Health, Safety and Wellbeing Director and will continue to be developed, jointly with Tideway and the joint venture, with emphasis on a comprehensive HSW approach, leadership, engagement and performance review. The outputs are reviewed at the monthly senior management HSW meeting.

There was a significant incident at the Greenwich site in the first quarter, relating to a lift of heavy machinery, which resulted in one lost-time injury and damage to plant. Following this we have worked with our Main Works Contractors to refocus on lifting operations and exclusion zones. Each area has developed shaft lifting and exclusion zone guidance, based on a common approach agreed across the programme, which has been communicated across all sites.

HSW ‘stand down’ events, such as Tideway’s RightWay Live programme, continued across the project with events focussed on lifting operations, safe zones and slips/trips. To ensure the contractors have implemented their guidance and are working to their own procedures we have been undertaking various monitoring activities such as leadership tours, site inspections and workshops to provide ongoing assurance.

As the project has moved into a phase in which river and operational movements are at their peak, marine logistics are increasingly important for Tideway’s delivery programme. In recognition of this Tideway recruited a Marine Operations Manager and this has assisted Tideway’s understanding in relation to marine works risks. This has also led to inclusion of more risks in the marine risk register and additional planned mitigations.

Our forward-looking Health and Safety Performance Index (HSPI) scores were broadly consistent throughout the first half of 2019/20, although there have been some recent reductions relating to site security and failure to conduct occupational health inspections across all active worksites. There has now been a renewed focus in both of these areas to address the issues and ongoing assurance is in place to identify if any further improvements are needed.

The occupational health teams delivered programmes focussing on noise awareness, hearing protection, respiratory awareness and skin health. The ‘Eat, Sleep, Move, Repeat’ campaign, focussed on promoting physical and mental health and wellbeing and included toolbox talks at daily safety briefings, videos, leaflets and advice cards. Tideway continues to work closely with onsite hygienists and occupational health nurses including delivering Mini Health Checks across all the sites to identify, assess and raise awareness of potential cardio-vascular risk factors amongst the employees.

Mental health of the workforce continues to be a major drive for the project and has been supported with the Mates in Mind programme, mental health first aiders, mindfulness sessions and support from local services such as MIND, the mental health charity. The mental health working group uses the mental health maturity matrix, created following the Stephenson-Farmer review, to assist with action plans to aid the Main Works Contractors in striving to improve mental health within their organisation.

Schedule, Cost and Quality (SCQ)

	Schedule, Cost and Quality
Objective	We want to deliver the TTT safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, deliver environmental benefits more quickly and reduce disruption to local residents.
2019/20 Priorities	Working with the Programme Manager to deliver the best value for money schedule possible. Be in a position to hand back sites or parts of sites on completion of construction including architecture and landscaping and worksite testing. Develop our relationship with Thames Water to support efficient delivery and deliver to the joint plan for commissioning and handover. Ensuring that the asset being delivered is of the right quality. Seeking and implementing all appropriate opportunities to increase efficiency.

The programme schedule remains in line with the regulatory baseline and total delivery cost remains in line with the £3.8bn cost estimate in the 2018/19 Annual Report. In the past six months Tideway has continued to make good progress on constructing the tunnel and construction activity is 48 per cent complete in line with our Business Plan. We have four of our six tunnel boring machines (TBMs) in the ground and tunnelling, with a further two due to start next year. Shaft completion and tunnelling is ahead of plan. Overall thirteen milestones are complete against a schedule of twelve. We have successfully completed all eight of our cofferdams, nine of our shafts are excavated with a further eight in progress and four yet to commence.

Our TBMs made good progress on their journeys with 7.4km of the 25km of main tunnel complete. The summer also marked our peak for river traffic with tunnel segments arriving on site and spoil from the tunnel being removed by barge. As part of our 'More by River' approach we have avoided over 260,000 lorry movements on London's roads to date and moved over two million tonnes of material by river.

West: The West area team is mobilised on all seven sites. The most visible progress is at our Carnwath Road site, where the main TBM, Rachel, was launched in May. She has bored through 800m of London clay and will complete her journey when she arrives in Acton in 2020. At Acton the team successfully completed the shaft and poured its base in July. Charlotte, the second TBM for the West, began her journey to King George's Park earlier this year and has now completed over 32 per cent of her journey. Once she arrives at King George's Park she will be taken out and taken back to Dormay Street. From there, she will be lowered back into the shaft to complete her journey to Carnwath Road, creating the Frogmore Connection Tunnel.

Central: The two TBMs have made strong progress. The eastbound machine, Ursula, was launched in March and has completed 1.9km on her journey towards Chambers Wharf in Bermondsey. Her sister, Millicent, has been tunnelling westbound towards Carnwath Road in Fulham for the past nine months and has completed 90 per cent of her 5km journey. To date, over 900,000 tonnes of spoil has been removed from the tunnel drives by river, avoiding around 115,000 lorry movements. At Albert Embankment, the primary lining of the first connection culvert in the Central section is complete. A number of other sites are moving below ground, with shaft excavation well underway at Heathwall Pumping Station, Victoria Embankment and Blackfriars Bridge, with Falconbrook Pumping Station, Cremorne Wharf and Chelsea Embankment soon to begin following completion of piling activities.

East: The East area team has continued to make good progress across all sites. We have made significant progress at our Chambers Wharf site, the main drive site for the East section of the project. Following the construction of a large acoustic enclosure the team has constructed the 64m deep shaft. Over the summer, the team successfully carried out a 36-hour continuous concrete pour to construct the base of the shaft. As part of this the team worked closely with the local community to keep them informed and advise on mitigation measures to seek to manage any impacts from the works. Since the start of 2019, we have used over 100 barges to remove nearly 100,000 tonnes of spoil as well as avoiding over 10,000 lorry movements. At King Edward Memorial Park, we have been working hard to improve ground conditions with deep soil mixing, with diaphragm walling to construct the shaft due to start in the Autumn of 2019. Across the rest of the East sites, we have successfully excavated shafts at Greenwich Pumping Station and Deptford Church Street, as well as starting to construct the shaft at Earl Pumping station. The Greenwich Connection Tunnel's TBM, Annie, is currently being reassembled and will arrive at the Greenwich site early in 2020.

Vision, Legacy and Reputation (VLR)

	Vision, Legacy and Reputation
Objective	We want to create a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. Looking after our neighbours and stakeholders reduces the scope for delays, so we can deliver the tunnel's benefits as soon as possible.
2019/20 Priorities	Refine our stakeholder engagement programme in a structured and targeted way to support efficient delivery of tunnelling operations and handover.

As the project reaches the peak of construction activity, continuing to build good relations, trust and confidence with stakeholders is vital to ensure efficient delivery. Our aim is to communicate the need for the project, its benefits and our progress in delivering it whilst engaging proactively with communities close to our sites.

With the project's increased visibility and activity on site and on the river, there were around 3,300 contacts to our 24-hour Helpdesk in the first six months of the year, an increase of 18 per cent on the same period last year. We held 22 Community Liaison Working Groups, plus weekly information centre sessions at Chambers Wharf, monthly sessions at Carnwath Road and a dedicated noise drop in for those residents living closest to Kirtling Street. This dialogue is supported by regular updates to all residents. A feedback survey posted to all those living within 250m of our sites within our quarterly River Times newsletter generated about 400 responses. This level of feedback is encouraging and helps to inform how we communicate with our local communities.

We continued to run a programme of engagement with a range of stakeholders including site visits and boat tours. Ministers, MPs, councillors, officials and industry leaders were among visitors to the project. In August, Work & Pensions Secretary and Equalities Minister Amber Rudd came to our Blackfriars site to announce record numbers of women in employment.

Engaging with a range of media is an important way of extending awareness of the project and its benefits to as broad an audience as possible. In July aerial photography of key sites was widely covered in the media. In September, there was widespread coverage of project progress, with photographs from the tunnel at Carnwath Road carried in national, regional and local titles. Interaction on social media increased significantly.

Tideway's good progress in delivering its legacy commitments continued and we are on track with 91 per cent of the 'live' commitments from our Legacy Statement. The number of apprentices on the programme increased, with a ratio of 1 in 41 at the end of the period, against a target of 1 in 50. We are also working hard to meet those commitments where we are behind our target: for example, in the East section of the project we achieved the target of 25 per cent of staff being from the 14 London boroughs in which we work, with our West and Central areas increasing to 23 per cent and 24 per cent respectively against the 25 per cent target. Additionally, performance against our ex-offender target has improved and we are working with a local charity to support ex-offenders into work within and beyond Tideway.

We achieved recertification to the BRE Ethical Labour Sourcing Standard (ELS). This demonstrates our commitment to eliminating any possibility of human trafficking and modern slavery from our business as well as our supply chain. Our 2019 assessment achieved the highest level of performance (Level 4) in the HR section for our policies in this regard and for achievements such as being a Times Top 50 Employer for Gender Equality.

The numbers of minor environmental incidents continue to drop due to maturity of control measures on site. During the past six months there have been fourteen minor incidents, predominantly involving burst hydraulic hoses and no major incidents. All incidents were managed and there was no material adverse impact caused.

Community investment is a vital component of both our legacy and community engagement aims, delivering benefits locally and supporting our wider vision to reconnect Londoners with the Thames. The programme received significant external recognition - Tideway and environmental charity Thames21 won the Commitment To The Local Community category at the Better Society Awards for our Thames River Watch partnership; Active Row, our partnership with London Youth Rowing to help young people to get active through indoor and on-water rowing, was shortlisted in the National Lottery 25th birthday awards; and for the third year running, Tideway finished in the top 25 of national community investment index GivX, which measures staff and corporate giving.

Company and People

	Company and People
Objective	A high-performing, motivated and engaged workforce will deliver better value and help us recruit and retain people.
2019/20 Priorities	Evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team.

Tideway has continued to focus on supporting and developing our people's engagement and effectiveness through individual and corporate action planning. We introduced a new performance management process - MAP (Mastery, Autonomy, Purpose) which has been well received and is encouraging individuals to focus on ensuring they have, and continue to develop, skills for their role and beyond.

To support the introduction of MAPs, the CEO and HR Director continued to run "Best Year Yet Sessions" with women on the project to encourage individuals to focus on their career and personal development. These sessions have enabled us to develop a range of workshops to support individuals to prepare for their next role whether on the project or in the future. These included 'How to succeed as an introvert', LinkedIn, 'your google profile' and Networking.

We have more than 100 apprentices on the project with the latest being in corporate roles (IS, Business Excellence and External Affairs), with the IS Cyber Security apprentice starting in the period.

Gender diversity continues to be a key performance indicator for Tideway and female staff represented 35 per cent of headcount across the project (58 per cent for Tideway only staff). Our Programme Manager continued its focus on improving diversity including running a "Hackathon" on gender diversity with colleagues across Jacobs to develop options to increase the representation of women on the project. We were awarded "Most Engaged Client – London" in Jacob's annual awards ceremony, demonstrating our ongoing support for Women into Construction.

Tideway was externally recognised as a winner in Korn Ferry's Engaged Performance Awards 2019. The awards are designed to recognise clients that have achieved best-in-class levels of engagement, enablement, or both.

Tideway signed up to the Business In The Community: Race at Work Charter in the period, completed the Stonewall LGBT index and assessed against the WISE 10 Steps for gender equality (a framework to help firms improve the recruitment, retention and progression of women). All will help us appropriately focus on our priorities in the second half of the year.

To support our staff to do their jobs effectively we continue to develop our information systems and our information management capability.

Financing

	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.
2019/20 Priorities	Support the organisation to deliver the best result for bill payers and shareholders. Funding – undertake opportunistic issuance across formats. Investment management – continue focus on capital preservation and liquidity and seek to optimise returns.

Since Licence Award the Tideway group has raised £2.675 billion of long-term debt finance. A significant proportion of this has been on a deferred basis, with debt raised in a range of different instruments and markets, demonstrating the benefits of our flexible platform. The deferred element enables Tideway to de-risk its financing plan and secure favourable borrowing terms by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding.

In July and August 2019, we raised £150 million of deferred term debt through private placements with UK investors under our medium-term note (MTN) programme and with US investors through a private placement. Tideway has reached a point of strong financial resilience, where sufficient liquidity has been secured to cover construction costs. In the summer of 2019, Tideway's credit ratings of Baa1 by Moody's and BBB+ by Fitch were affirmed and the outlook remains stable.

The debt instruments (bonds and USPP) issued since November 2017 have been designated as "green" under Tideway's Green Bond Framework. The Green Evaluation by Standard & Poor's was updated in June 2019 and the E1/95 evaluation was maintained. We have published a Green Bond Report to inform investors of the allocation of proceeds and impact of the project.

Interest rates continue their downward trend, impacting positively our fund raising but putting stress on the return on cash held.

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 risk throughout the business. This includes quantification of project risks, and the potential cost and impact to the schedule. This approach allows us to challenge the effectiveness of our mitigating actions.

Our Risk Management Framework

Tideway's principal risks are those that could have a material, adverse impact on the business, reputation and/or financial condition of the project. The principal risks are: health, safety and wellbeing; programme delivery; supply chain failure; high impact, low probability events; credit rating; inflation; reputation; the performance of Thames Water; regulatory and political, and Brexit.

During the period Tideway's focus for its risks remained broadly unchanged. These principal risks are under continual review as part of the Risk Management Framework. We continued to closely monitor potential impacts of the UK's exit from membership of the European Union alongside other political and economic events.

The principal risks have not changed since they were reported in the Annual Report and Financial Statements for the period ended 31 March 2019. Further detail can be found 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) as adopted by the EU. The Group's accounting policies are consistent with those disclosed in the Group's Annual Report for the period ended 31 March 2019, except for new standards and interpretations effective for the first time from 1 April 2019. IFRS 16 has been adopted for the first time and the impact of the adoption is explained further in note 1 to these interim financial statements.

During the construction phase of the project, expenditure which is directly attributable to bringing the TTT asset into its intended use will be capitalised as an asset under construction. Regulated revenue which is received periodically throughout the project from Thames Water is recognised as deferred revenue within the Statement of Financial Position.

Non-GAAP Measures: Reporting of Allowable Project Spend

In our financial reporting, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. 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 "Allowable Project Spend" or "Excluded Project Spend". 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, are not added to the RCV.

"Allowable Costs" are costs stated on an accruals basis which will form part of Allowable Project Spend (and added to our RCV) when the underlying assets or liabilities are cash settled. "Excluded Costs" are costs stated on an accruals basis which will be Excluded Project Spend (and not added to our RCV) when the underlying assets or liabilities are cash settled.

For the purpose of calculating net debt, borrowings include third-party borrowings with the exclusion of shareholder loan notes. Due to the adoption of IFRS 16, from 1 April 2019, net debt now includes finance lease liabilities.

Income Statement

During the six-month period ended 30 September 2019, the Group reported a loss of £58.6m (2018: £3.2m profit) with no dividends paid or proposed (2018: £nil).

We do not consider that the reported loss in the period reflects our business performance, as it results from the movement in the fair value of 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 in a cost-effective manner and ensure that we benefit from low-cost financing.

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

We did not recognise any taxable profits in the period (2018: £nil) and the estimated current tax charge for the period is £nil (2018: £nil).

Statement of Financial Position

The table below analyses capitalised costs in the Statement of Financial Position.

Asset Under Construction (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Net Book Value Brought Forward	1,828.8	1,154.9
Additions (Capitalised Costs)	389.8	325.3
Net Book Value Carried Forward	2,218.6	1,480.2

Analysis of Capitalised Costs (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Direct Costs	301.3	240.8
Indirect Costs	39.7	42.3
Total Allowable	341.0	283.1
Excluded costs	48.8	42.2
Total Capitalised Costs	389.8	325.3

For the six-month period ended 30 September 2019, total capitalised costs were £389.8m (2018: £325.3m). The increase reflects the further growth of construction activities across all our current sites and in particular the progress of our tunnelling where we now have four of the six TBM's in the ground and tunnelling. Additionally, we have now successfully completed all eight of the cofferdams and nine of our shafts are excavated with a further eight currently in progress. The costs in the first six months of this financial year take the total costs capitalised to £2,218.6m, which includes £1,828.8m brought forward form prior periods.

Our Allowable Costs of £341.0m (2018: £283.1m) includes £301.3m of Direct costs and £39.7m of Indirect costs. These are explained further below.

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

Indirect costs:
The largest indirect costs are resource costs of £29.3m. This represents the cost to employ the c400 Full Time Equivalents (FTEs) either employed or contracted by the Group. Other indirect costs include non-resource costs such as information systems, office, insurance, Government Support Package and other running costs. Indirect costs have reduced compared with 2018, largely reflecting cost savings from lower FTEs and other running costs.

Excluded Costs:
Excluded costs for the six-month period to 30 September 2019 were £48.8m (2018: £42.2m). These comprise £49.2m of interest expense (including shareholder loan interest), £2.6m of costs which mainly related to financing activities, partly offset by £3.0m of interest income.

The table below analyses the Allowable Costs and the equivalent Allowable Project Spend and the Excluded Costs and equivalent Excluded Project Spend for the six months ended 30 September 2019.

Analysis of Project Costs and the equivalent Net Cash Outflows for the six months ended 30 September 2019 (£m)	Costs	Timing Differences	Cash Outflow
Direct Costs	301.3	(58.5)	242.8
Indirect Costs	39.7	(0.3)	39.4
Total Allowable	**341.0**	**(58.8)**	**282.2**
Excluded Costs	48.8	(16.6)	32.2

The timing differences between Allowable Costs and Allowable Project Spend are mainly due to the timing of monthly payments to our three Main Works Contractors and the System Integrator. Timing differences between Excluded Costs and Excluded Project Spend are principally due to the accretion of index-linked third-party borrowings.

Net Debt and Financing

Net debt at 30 September 2019 was £898.3m, which has increased by £610.1m from the £288.2m net debt at 30 September 2018. The table below shows the movement between cash and borrowings:

Net Debt (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Cash *	733.7	723.8
Borrowings **	(1,624.7)	(1,012.0)
Lease Liabilities	(7.3)	-
Net Debt	**(898.3)**	**(288.2)**

** **Cash** exclude short term deposits*

*** **Borrowings** exclude the shareholder loans*

At 30 September 2019, the Group's net debt included borrowings of £1,624.7m with third parties. These were in the form of £649.2m fixed and floating rate loans and £975.5m of fixed rate and index linked bonds. A further £713.0m of Shareholder loans, which are not included in net debt, takes the total Statement of Financial Position borrowings to £2,337.7m.

In addition, the Group had the following undrawn debt facilities: £500.0m Revolving Credit Facility (RCF), £460.0m loan with the European Investment Bank, and £625.0m of deferred bonds and loans.

Due to the adoption of IFRS 16, the Group's outstanding lease liabilities totalled £7.3m at 30 September 2019 and these have been included now in the calculation of net debt. The Group has applied the modified retrospective option on adoption of IFRS 16 and as a result there is no prior year comparative.

Cash

Cash at 30 September 2019 was £733.7m, which was £9.9m higher than the £723.8m cash at 30 September 2018.

The tables below show the movements in cash as per the IFRS Cash Flow Statement.

Cash Flow (£m)	Six months ended 30 September 2019	Six months ended 30 September 2018
Cash generated from operations before changes in working capital	-	-
Decrease/(Increase) in trade and other receivables	13.0	(0.3)
Increase in trade and other payables	58.1	50.7
Increase in advance payment liability	31.5	19.1
Net cash from operating activities	**102.6**	**69.5**
Construction of infrastructure asset	(374.0)	(319.3)
Transfers from/(to) short-term deposits	29.0	(51.5)
Net cash used in investing activities	**(345.0)**	**(370.8)**
Proceeds from new borrowings	413.1	180.0
Repayment of shareholder loan principal	-	(1.3)
Lease payments	(1.5)	-
Net cash from financing activities	**411.6**	**178.7**
Net increase/(decrease) in cash and cash equivalents during the period	**169.2**	**(122.6)**
Cash and cash equivalents at the start of the period	564.5	846.4
Cash and cash equivalents at the end of the period	**733.7**	**723.8**

Net cash flows from operating activities of £102.6m (2018: £69.5m) represent movements in working capital and are chiefly driven by timing of payments to our Main Works Contractors and the receipt of regulated revenue payments from Thames Water which are deferred on the Statement of Financial Position during the construction phase of the project.

Net cash flows used in investing activities of £345.0m (2018: £370.8m) show the gross cash outflows used in constructing the TTT as well as movements to and from short-term deposits which represent money market funds where cash is held on deposit for a period longer than three months.

The net cash inflows from financing activities of £411.6m (2018: £178.7m) are largely the result of new borrowings drawn in the period which included £233.1m of index linked bonds and £180.0m of floating rate loans. These financing inflows were partly offset by £1.5m lease payments in relation to the Group's IFRS 16 leases.

Financial Key Performance Indicators

Under it's Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including calculating two key ratios, Senior Regulatory Asset Ratio (RAR) and Funds from Operational Interest Cover (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios at 30 September 2019 are provided below.

1) Senior RAR (Regulatory Asset Ratio)

This ratio compares the net debt to the RCV. It is calculated as long-term senior borrowings, less cash and short-term deposits to the RCV. The Senior RAR trigger in the CTA is 70%.

			30 September	
Senior RAR			**2019**	**2018**
a	Net Debt - Per CTA		850.1	181.9
b	RCV - Per CTA [1]		2,091.3	1,303.0
c	Senior RAR	a/b	40.6%	14.0%

1 RCV is per the CTA definition not the Regulatory Accounts definition.

Reconciliation to reported Net Debt (£m)	2019	2018
Net Debt per CTA	850.1	181.9
Short term deposits	61.0	109.0
Other Adjustments [2]	(12.8)	(2.7)
Reported Net Debt	898.3	288.2

2 Adjustments for cash held by Bazalgette Finance plc and Fixed Rate Bond discount

2) FFO ICR (Funds from Operations Interest Cover Ratio)

This ratio compares the level of cash interest cover compared with the funds from operations. The FFO ICR trigger in the CTA is 1.3 times. The test period is twelve months to the reporting date.

			30 September	
FFO ICR			**2019**	**2018**
d	Net Cash Flow - per CTA		59.7	37.4
e	Debt Interest - per CTA		11.3	8.2
f	FFO ICR	d/e	5.3	4.6

Reconciliation to the financial statements (£m)	2019
Increase in Advance payment liability 2019/20 [1]	31.5
Increase in Advance payment liability 2018/19 [1]	19.3
VAT adjustment per CTA	8.9
Net Cash Flow per CTA	59.7

Reconciliation to the financial statements (£m)	2019
Net interest (exc. shareholder interest) paid 2019/20	1.5
Net interest (exc. Shareholder interest) paid 2018/19	7.2
Commitment fees paid 2019/20	1.1
Commitment fees paid 2018/19	1.5
Debt Interest per CTA [2]	11.3

1 Part of "Cash from operations" within the Consolidated Cash Flow Statement

2 Part of "Construction of infrastructure asset" within the Consolidated Cash Flow Statement

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

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Bazalgette Holdings Limited are as listed on page 47 in the Bazalgette Holdings Annual Report for the year ended 31 March 2019. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london

For and on behalf of the Board of Directors:

Alistair Ray

Director

21 November 2019

Consolidated Income Statement

	Note	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m	Year ended 31 March 2019 Audited £m
Net operating costs		-	-	-
Operating result		**-**	**-**	**-**
Net finance (costs)/income	2	(58.6)	3.2	(31.0)
(Loss)/Profit before tax		**(58.6)**	**3.2**	**(31.0)**
Taxation	3	-	-	-
(Loss)/Profit for the period		**(58.6)**	**3.2**	**(31.0)**

Consolidated Statement of Other Comprehensive Income

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m	Year ended 31 March 2019 Audited £m
(Loss)/Profit for the period	(58.6)	3.2	(31.0)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	**(58.6)**	**3.2**	**(31.0)**

Consolidated Statement of Financial Position

	Note	30 September 2019 Unaudited £m	30 September 2018 Unaudited £m	31 March 2019 Audited £m
Non-current assets				
Property, plant and equipment	4	2,226.4	1,480.2	1,828.8
Trade and other receivables		44.9	52.0	47.3
		2,271.3	1,532.2	1,876.1
Current assets				
Trade and other receivables		28.6	35.6	39.2
Cash and cash equivalents	5	733.7	723.8	564.5
Short-term cash deposits	5	61.0	109.0	90.0
		823.3	868.4	693.7
Total assets		**3,094.6**	**2,400.6**	**2,569.8**
Current liabilities				
Trade and other payables	6	(89.9)	(89.1)	(37.2)
Lease liabilities		(1.9)	-	-
		(91.8)	(89.1)	(37.2)
Non-current liabilities				
Other payables	6	(26.6)	(4.2)	(21.2)
Lease liabilities		(5.4)	-	-
Advance payment liability	6	(123.4)	(72.6)	(91.9)
Borrowings	7	(2,337.7)	(1,725.0)	(1,909.8)
Derivative financial instruments	8	(114.3)	(21.5)	(55.7)
		(2,607.4)	(1,823.3)	(2,078.6)
Total liabilities		**(2,699.2)**	**(1,912.4)**	**(2,115.8)**
Net assets		**395.4**	**488.2**	**454.0**
Equity				
Share capital		509.7	509.7	509.7
Retained earnings		(114.3)	(21.5)	(55.7)
Total equity		**395.4**	**488.2**	**454.0**

The above condensed consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 23 to 30 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019	509.7	(55.7)	454.0
Loss for the period	-	(58.6)	(58.6)
Total comprehensive income for the period	**-**	**(58.6)**	**(58.6)**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	-	-	-
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**
Balance at 30 September 2019 (unaudited)	**509.7**	**(114.3)**	**395.4**

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018	509.7	(24.7)	485.0
Profit for the period	-	3.2	3.2
Total comprehensive income for the period	**-**	**3.2**	**3.2**
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	-	-	-
Total contributions by and distributions to owners of the parent	**-**	**-**	**-**
Balance at 30 September 2018 (unaudited)	**509.7**	**(21.5)**	**488.2**

Consolidated Statement of Changes in Equity (continued)

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018	509.7	(24.7)	485.0
Loss for the year	-	(31.0)	(31.0)
Total comprehensive income for the period	**-**	**(31.0)**	**(31.0)**
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 2019 (audited)	**509.7**	**(55.7)**	**454.0**

The accompanying notes on pages 23 to 30 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Cash Flow Statement

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m	Year ended 31 March 2019 Audited £m
Cash generated from operations before changes in working capital	-	-	-
Decrease/(Increase) in trade and other receivables	13.0	(0.3)	0.8
Increase in trade and other payables	58.1	50.7	15.8
Increase in advance payment liability	31.5	19.1	38.4
Cash from operations	**102.6**	**69.5**	**55.0**
Net cash from operating activities	**102.6**	**69.5**	**55.0**
Cash flows used in investing activities			
Construction of infrastructure asset	(374.0)	(319.3)	(661.0)
Transfer from/(to) short-term cash deposits	29.0	(51.5)	(32.5)
Net cash used in investing activities	**(345.0)**	**(370.8)**	**(693.5)**
Cash flows from financing activities			
Proceeds from new borrowings	413.1	180.0	360.0
Repayment of shareholder loan principal	-	(1.3)	(3.4)
Lease payments	(1.5)	-	-
Net cash from financing activities	**411.6**	**178.7**	**356.6**
Net increase/(decrease) in cash and cash equivalents during the period	**169.2**	**(122.6)**	**(281.9)**
Cash and cash equivalents at the start of the period	564.5	846.4	846.4
Cash and cash equivalents at the end of the period	**733.7**	**723.8**	**564.5**

Construction of infrastructure asset includes capitalised interest of £30.8m (Six months ended September 2018: £33.1m, Year ended 31 March 2019: £71.1m) and capitalised interest received of £2.8m (Six months ended September 2018: £2.1m, Year ended 31 March 2019: £4.5m).

The accompanying notes on pages 23 to 30 which are an integral part of these condensed consolidated Interim Financial Statements.

Notes to the condensed consolidated interim financial statements

1. General Information

Basis of preparation

The Bazalgette Holdings Group comprises Bazalgette Holdings Limited, Bazalgette 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 2019.

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 year ended 31 March 2019. 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.

Significant 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 year ended 31 March 2019, with the exception of new standards and interpretations effective for the first time from 1 April 2019.

With effect from 1 April 2019, the Group has adopted IFRS 16 (Leases). IFRS 16 replaces IAS 17 (Leases) and eliminates the classification of leases as either operating or finance leases and introduces a single recognition model for lessees.

Previously, the Group's property leases were classified as operating leases under IAS 17 and the Group recognised the lease payments as an expense when incurred. Under IFRS 16, these property leases meet the new lease definition and therefore the Group is required to recognise right-of-use assets and lease liabilities. These right-of-use assets will be depreciated over remaining lease terms and the group will incur interest costs calculated periodically on the outstanding lease liabilities.

On transition to IFRS 16, the Group has elected to apply the modified retrospective approach and therefore no comparative period information has been restated. Lease liabilities of £8.8m were recognised as the present value of outstanding lease payments on the Group's property leases, discounted at an appropriate incremental borrowing rate applicable at 1 April 2019. Right-of-use assets were measured at 1 April 2019 to be equal to lease liabilities of these property leases.

The group applied the following practical expedients on transition to IFRS 16:

- Applied the same discount rate to all property leases within scope of IFRS 16 as they share similar characteristics.
- Excluded leases with lease term ends within 12 months of transition date as these leases would be considered short-term leases.
- Excluded leases of identifiable low-value assets from consideration.
- The Group separated non-lease components being services charges from lease components (i.e. rental charges) for property leases.

Notes to the condensed consolidated interim financial statements

Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, the directors have made certain 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 the directors 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 year ended 31 March 2019.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing these interim financial statements and there have been no material uncertainties identified that would impact the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

2. Finance income and costs

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Finance income			
Interest income	(3.0)	(2.7)	(6.0)
Finance costs			
Interest expense	49.2	41.7	84.9
Financing fees	1.9	2.3	4.3
Financial instruments at fair value through profit or loss:			
- Index-linked swaps loss/(gain)	58.6	(3.2)	31.0
Capitalised finance income and costs into asset under construction	(48.1)	(41.3)	(83.2)
Net finance costs/(income)	**58.6**	**(3.2)**	**31.0**

3. Taxation

Income tax expense is recognised based on management's estimate of the weighted average effective annual corporation tax rate expected for the full financial year. The Group capitalises all costs incurred in relation to its tunnel asset and fair value gains and losses are disregarded for current tax purposes. As a result, the calculated profits attributable to corporation tax are £nil (2018: £nil) and therefore the estimated average effective annual tax rate used for the six months to 30 September 2019 is 0% (2018: 0%).

As at the Statement of Financial Position date, unrecognised deferred tax assets of £56.9m have been calculated with regards to the Group's carried forward trading losses. These deferred tax assets have not been recognised due to uncertainty around the timing of the recoverability of these losses against future taxable profits.

Notes to the condensed consolidated interim financial statements

4. Property, plant and equipment

Property, plant and equipment comprised the following:

	Right-of-use Assets £m	Asset under construction £m	Total £m
Balance at 1 April 2019	8.8[i]	1,828.8	1,837.6
Additions for the period	-	389.8	389.8
Depreciation charge for the period	(1.0)	-	(1.0)
Balance at 30 September 2019	**7.8**	**2,218.6**	**2,226.4**
Balance at 1 April 2018	-	1,154.9	1,154.9
Additions for the period	-	325.3	325.3
Depreciation charge for the period	-	-	-
Balance at 30 September 2018	**-**	**1,480.2**	**1,480.2**
Balance at 1 April 2018	-	1,154.9	1,154.9
Additions for the period	-	673.9	673.9
Depreciation charge for the period	-	-	-
Balance at 31 March 2019	**-**	**1,828.8**	**1,828.8**

i. The Right-of-use assets opening balance at 1 April 2019 reflects the modified retrospective transition approach of IFRS 16 applied by the Group at the date of transition.

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 TTT 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 six months ended 30 September 2019. The amount of net borrowing costs capitalised during the period was £46.2 with a capitalisation rate of 100% (2018: £39.0m).

5. Cash and cash equivalents

	30 September 2019 £m	30 September 2018 £m	31 March 2019 £m
Cash and bank balances	44.7	32.8	38.0
Cash equivalents	689.0	691.0	526.5
Cash and cash equivalents per cash flow statement	**733.7**	**723.8**	**564.5**

Notes to the condensed consolidated interim financial statements

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 three months are shown separately on the Statement of Financial Position. At the Statement of Financial Position date these totalled £61.0m (2018: £109.0m).

6. Trade and Other Payables

	30 September 2019 £m	30 September 2018 £m	31 March 2019 £m
Trade payables	1.7	1.2	1.1
Contract retentions payable	20.7	-	16.5
Accrued expenses	78.9	81.9	26.1
Deferred income	15.2	10.2	14.7
Advanced payment liability	123.4	72.6	91.9
	239.9	**165.9**	**150.3**
Non-current liabilities	**150.0**	**76.8**	**113.1**
Current liabilities	**89.9**	**89.1**	**37.2**

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 £15.2m (2018: £10.2m) 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.

7. 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 to align when funds are required for 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.

Notes to the condensed consolidated interim financial statements

This note provides information about the Group's borrowings, which are measured at amortised cost.

	30 September 2019 £m	30 September 2018 £m	31 March 2019 £m
Third party borrowings			
£250m 2.375% fixed-rate bond 2027	247.6	247.3	247.5
£75m 0.828% index-linked bond 2047 [a, b]	78.5	77.0	77.9
£200m 0.740% index-linked bond 2042 [a, c]	207.4	203.8	205.4
£100m 0.688% index-linked bond 2050 [a]	103.8	101.0	102.2
£100m 0.755% index-linked bond 2051 [a]	102.4	-	-
£100m 0.249% index-linked bond 2040 [a, d]	102.0	-	100.4
£133m 0.192% index-linked bond 2049 [a]	133.8	-	-
£300m 2.860% fixed-rate loan 2032 [e]	304.5	302.4	303.4
£240m Libor+0.360% floating-rate loan 2051 [f]	244.7	80.5	162.0
£100m 0.010% index-linked loan 2049 [a]	100.0	-	-
Intra-group borrowings			
Shareholder loan notes 8.000 % fixed-rate 2064 [g]	713.0	713.0	711.0
Total borrowings	**2,337.7**	**1,725.0**	**1,909.8**
Current liabilities	-	-	-
Non-current liabilities	**2,337.7**	**1,725.0**	**1,909.8**

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

f) The Company has entered into swap agreements that convert £240m of this debt into index-linked debt

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

Deferred purchase bonds & Deferred loan notes

For the six-month period ended 30 September 2019, the Group raised a £75m RPI linked bond with a deferred period of two years, and a maturity of 2036. Additionally, the group raised a £75m fixed-rate loan with a deferred period of two years and maturity of 2041.

8. Fair value of financial instruments

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 value of financial instruments and a comparison to their carrying value is shown in the table below. 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 condensed consolidated interim financial statements

	30 September 2019		30 September 2018		31 March 2019	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial liabilities at amortised cost						
Non-current						
Borrowings – Fixed-rate sterling loans	1,017.5	1,149.5	1,015.4	1,031.7	1,014.4	1,072.5
Borrowings – Fixed-rate sterling bonds	247.6	269.8	247.3	244.2	247.5	254.3
Borrowings – Index-linked sterling bonds	727.9	1,011.3	381.8	423.3	485.9	579.4
Borrowings – Floating-rate sterling loans	344.7	359.4	80.5	74.3	162.0	145.4
Financial liabilities at fair value through profit and loss						
Non-current						
Derivatives – Index-linked swaps	114.3	114.3	21.5	21.5	55.7	55.7
Total	**2,452.0**	**2,904.3**	**1,746.5**	**1,795.0**	**1,965.5**	**2,107.3**

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 cash flows 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)

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 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 table below sets

Notes to the condensed consolidated interim financial statements

out the valuation basis of financial instruments carried at fair value at the Statement of Financial Position date.

	30 September 2019 Level 3	30 September 2018 Level 3	31 March 2019 Level 3
Financial instruments at fair value	**£m**	**£m**	**£m**
Derivative financial liabilities			
Index-linked swaps	114.3	21.5	55.7
	114.3	**21.5**	**55.7**

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
Opening liability at 1 April 2019	55.7
Loss recognised in net finance costs	
- Net change in fair value (unrealised)	58.6
Closing liability at 30 September 2019	**114.3**

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 publicly available and based on a large portfolio of liquid, tradeable instruments, as well as an assessment of the credit spread on the Group's recent debt issuances. Having considered all available information, the directors believe that the risk adjustment applied in the fair value estimate reflects the Group'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 2019 Impact on loss for the period	
	Decrease in loss £m	**Increase in loss £m**
Risk-adjusted discount rate (+/- 100bps movement)	18.8	21.4

Notes to the condensed consolidated interim financial statements

9. Related party transactions

Transactions between BHL 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 £713.0m at 30 September 2019 (2018: £713.0m).

During the six-month period ended 30 September 2019, interest totalling £26.5m (2018: £28.3m) was paid on these borrowings and £nil (2018: £1.3m) of principal repayments were made.