Bazalgette Holdings Group

Interim Report and Financial Statements for the six months ended

30 September 2020

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 2020.

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 Thames Tideway Tunnel at the right quality and to best value despite the impacts of Covid-19. We continue to develop our transformational approach to health, safety and wellbeing and are pleased to report that we have had no major (life changing) injuries to date.

Total project costs for the six-month period were £316.8m, taking the total capitalised costs relating to the tunnel at 30 September 2020 to £2,910.7m.

The Key Dates and Estimate at Completion (EAC) were revised in the first quarter to cater for the forecast impact of Covid-19 on the delivery of the works. The EAC was increased by £233m and reported at £4,133m. The performance in Q2 has underpinned this forecast and it has therefore remained unchanged in the second quarter report. Tideway confirmed that there will be no change to the estimated £20-25 annual cost range for Thames Water bill-payers. The Start of Commissioning is forecast to commence in September 2023 and Handover in March 2025, and this represents a circa nine month delay against that reported in the 2020/21 Business Plan and is consistent with our Regulatory News Service (RNS) update in the summer. The nine month delay is due to a slowdown in productivity due to the essential Covid-safe measures (including social distancing) in place on sites. The dates are based on an assumption that these measures continue to have an impact until May 2021.

Tideway has continued to make good progress and construction activity on the project is now over 60% complete. We have one tunnel boring machine (TBM) currently tunnelling with the last two of the six to start tunnelling in the second half of this financial year. We have successfully excavated 19 shafts with only two remaining. The commencement of secondary lining works on the West and Central contracts are forecast to commence in the second half of this year and are key activities that support the critical path to commissioning.

The Covid-19 pandemic is unprecedented, and could not have been, and was not, anticipated or allowed for at the time of licence award. Tideway acted swiftly in March, as we entered the first lockdown, to protect the health and wellbeing of the workforce, to protect the delivery capability of the supply chain, with the intent of maximising the ability to resume works as quickly as possible, and to maintain a level of operational agility and resilience that could respond to a changing environment to deliver the best value for money outcome possible. These actions were successful in allowing tunnelling work to restart; and the all but essential and safety critical works that were paused were also able to resume. Production has increased to near pre Covid-19 levels, ultimately mitigating significant potential cost and schedule increases above those forecasted.

Our new ways of working have worked well, and we implemented measures to ensure, as best we can, work could continue if there was a "second wave". Our preparedness has allowed us to continue our work successfully as the anticipated "second wave" materialised in the autumn.

The Board approved the deferral of the June and September distributions.

Tideway's credit ratings were affirmed at Baa1 by Moody's and BBB+ by Fitch. Moody's changed the outlook to negative following the operational update to investors on the impact of Covid-19 on cost and schedule published in August. The negative outlook could lead to the Company being put on negative watch, which could in turn lead to a consequent rating downgrade. It should be noted that the Company's rating is presently two notches above the requirements of the covenants in its financing documents and licence.

Fitch maintained the outlook stable. Standard & Poor's published an Environmental, Social and Governance Assessment for Tideway, with a score of 74/100 with our culture rated as 'excellent'. Our environmental and social scores (which includes safety, workforce and diversity, and community relations considerations) are above the industry average and our governance score is in line with the industry.

We were pleased to be named Company of the Year at the Global Good Awards in September, in recognition of our approach to sustainability and social impact. The judges said that "sustainability had been designed in [to the project] from the beginning" and commended the "real sense of purpose, innovation and management support."

Health, Safety and Wellbeing (HSW)

	Health, Safety and Wellbeing
Objectives	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
2020/21 Priorities	Continue to reinforce HSW performance in the construction phase with consistent strong performance in all areas but specifically high-risk activities including marine and tunneling Develop an effective HSW strategy that is fit for the future with a specific focus on managing MEICA installation and worksite testing & commissioning risks

Tideway has committed to reaching transformational standards of Health Safety and Wellbeing (HSW). We are pleased to report that there were no major (life-changing) incidents during the six-month period ended 30 September 2020 or on the project to date. 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 11% (0.19 down to 0.17), AFR-3 by 9% (0.11 down to 0.10) and AFR-7 by 30% (0.10 down to 0.07). There were five lost time injuries during the 2.5 million hours worked, two of which resulted in over seven days lost time. Whilst our AFRs remain better than previous infrastructure projects we believe that more is achievable to eliminate injuries entirely.

Following a temporary pause of activities across all sites due to the Covid-19 pandemic all sites returned to work applying the requirements of the Construction Leadership Council (CLC) Standard Operating Procedure (SOP) to ensure sites were Covid-19 secure.

The Covid-19 Pandemic has resulted in a reduction in the planned assurance activities with limited assurance undertaken in the early stages of lockdown, due to restrictions of personnel visiting sites in accordance with CLC SOP. A revised approach has now been established and levels of assurance have recovered.

Our forward-looking Health and Safety Performance Index (HSPI) scores were impacted by Covid-19 throughout the first half of 2020/21. We have agreed and implemented a revised set of Key Performance Indicators to ensure our measures continue to be relevant.

A rise in incidents between June to September across the programme raised concerns over the control of traditional construction risks. Main Works Contractors (MWCs) recognised this trend and developed and implemented plans to address this. Tideway and the Programme Manager have supported this with information for re-energising the site teams and ensuring that focus is not detracted due to Covid-19 controls. This has subsequently seen positive improvements in performance.

Risks associated with marine operations remain a key focus with a robust assurance programme in place. Due to Covid-19 restrictions much of this assurance is performed remotely but continues to identify areas for improvement.

Mental health of the workforce continues to be a major drive for the project and has been supported with the Mates in Mind the charitable programme to improve and promote positive mental health in the workplace. This has been identified as particularly important during the current pandemic and with many people working from home for a prolonged period. Tideway’s mental health working group has developed a number of “tribes” to connect people that are facing similar challenges during the pandemic, bringing them together to share experiences and possible solutions.

The HSW Strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) and worksite testing and commissioning has not yet commenced. It will be a focus for the second half of the year for end-of-year completion.

Schedule, Cost and Quality (SCQ)

	Schedule, Cost and Quality
Objective	We want to deliver the Thames Tideway Tunnel safely at the right quality and to best value. Finishing earlier would reduce cost, benefiting bill payers and investors, and deliver environmental benefits more quickly and reduce disruption to local residents
2020/21 Priorities	Working with the Programme Manager to deliver the best value for money schedule possible Start to handback areas on completion of construction (including architecture and landscaping) and worksite testing Securing TWUL's commitment, through the joint approach, to the earliest possible Handover and Acceptance Seeking and implementing all appropriate opportunities to increase efficiency Ensuring that the asset being delivered is of the right quality Commercial status of all three MWCs and SIC aligned to Tideway's objectives for cost and schedule

Tideway has continued to make good progress and construction activity on the project is now over 60% complete with 65% forecast to have been completed by the end of the financial year although this is behind our original expectation of 70% completed for the period due to Covid-19. One tunnel boring machine (TBM) is currently tunnelling and is forecast to complete tunnelling in the second half of this financial year. The last two of the total six are forecast to commence tunnelling in the second half of this year. We have successfully completed the shaft excavation works in the West contract. There remains one shaft in the Central contract (Blackfriars) that is circa 50% complete and one shaft in East (King Edward Memorial Park) that is forecast to commence in the second half of this year. The commencement of secondary lining works on the West and Central contracts are forecast to commence in the second half of this year and are key activities that support the critical path to commissioning.

The Key Dates and Estimate at Completion (EAC) were revised in the first quarter to cater for the forecast impact of Covid-19 on the delivery of the works. The EAC was increased by £233m and reported at £4,133m. The performance in Quarter 2 (Q2) has underpinned this forecast and it has therefore remained unchanged in the second quarter report and there will be no change to the estimated £20-25 annual cost range for Thames Water bill-payers.

The Start of Commissioning is forecast to commence in September 2023 and Handover in March 2025, and this represents a circa nine month delay against that reported in the 2020/21 Business Plan and is consistent with our Regulatory News Service (RNS) update in the summer. The nine month delay is due to a slowdown in productivity due to the essential Covid-safe measures (including social distancing) in place on sites. The dates are based on an assumption that these measures continue to have an impact until May 2021.

The cost efficiencies programme continues with £136m of the £145m 2019 target being realised and a further £29m of efficiencies have been identified.

In respect of construction quality, the extent of non-conformance and re-work on the project continues to be at a satisfactory level. Construction quality is the responsibility of the MWCs who self-certify their works. This self-certification is overseen through regular surveillance by the Programme Manager. Further technical assurance is provided by inspections from Tideway's NEC Supervisor team with regular oversight by the Chief Technical Officer. All aspects of Tideway's Quality Management System are subject to regular Executive review and internal audit. These levels of assurance provide the project with a robust framework to drive construction quality compliance and enable an integrated approach for dealing with quality related issues.

Tideway and Thames Water continue to work together to deliver their joint approach, developing the requirements and working relationships for the handover and acceptance phase. The preparations for land hand back are continuing and there has been substantial progress on the joint workstream regarding the retention of temporary works. Other interfaces on the project remain positive, there is continued satisfactory access to the Thames Water sewer system and robust arrangements have been implemented for asset protection. As part of our joint planning Tideway and Thames Water are preparing a Rehearsal of Concept (RoC) exercise for the system commissioning phase.

Vision, Legacy and Reputation (VLR)

	Vision, Legacy and Reputation
Objective	We want to maintain a supportive environment for delivering the tunnel and build a positive reputation with our stakeholders. We want to continue to be a responsible business in all that we do and demonstrate these credentials in order to build trust.
2020/21 Priorities	Continue to ensure our stakeholder engagement programme supports efficient delivery of the project Evolve the narrative and prepare our 'successful delivery' plan with the end point in mind. Includes engagement with Thames Water to agree a joint approach to communications, engagement and Corporate Responsibility to the end of the project

Tideway continues to deliver a proactive engagement and communications strategy through a range of channels, to inform all stakeholders of progress and the ultimate benefits of the project.

Some activities have changed during the period of the pandemic – for example local community forums and key stakeholder briefings have moved online.

Relationships with consent granting bodies continue to be constructive and the project's stakeholder forum (the Thames Tideway Tunnel Forum) met twice virtually during the period to discuss issues including project progress; the impact of the pandemic on construction activities; and planning for the final phases of the project.

Our corporate responsibility programmes have continued however some elements (e.g. community volunteering), have been affected by the pandemic. To mitigate these impacts, we ran a campaign during September to encourage staff to 'Make a Difference' by volunteering for good causes close to their homes. Staff volunteered 600 hours during the campaign, supporting 58 organisation and raising more than £20,000 for charity.

Media campaigns during the period have sought to raise awareness of key elements of the project - such as the volume of sewage overflowing into the River Thames – as well as highlighting construction milestone such as the arrival of TBM Selina by River to our Chambers Wharf site and completion of the Frogmore Connection Tunnel. Our aim is to reach as wide an audience as possible. At the end of the period we were preparing to launch a new YouTube Channel – Tunnel Vision - which will stream monthly episodes featuring stories from around the project.

Internal communications have been a critical element of our activities during the period, with a proactive strategy of keeping the Tideway team connected with the company and each other, to aid wellbeing and motivation. New channels have been introduced including a monthly online briefing for all staff to hear directly from the CEO and executive team.

Despite the challenges in the first half of the year 88 per cent of live legacy commitments remained on track.

Earlier in the year we appointed 'Jump' as social value consultants to assess the social value creation of Tideway's Legacy programme and provide third party verification of the achievements of the Legacy programme. This is a two year process.

Tideway maintained its verification to the BRE Ethical Labour Sourcing Standard for the third year. For the first time we surpassed a 25 per cent target to recruit locally from the 24 London boroughs we work within, achieving 26 per cent.

Tideway's programme to support people with convictions has a social return of £6.86 for each £1 invested, according to an independent Social Return on Investment report. The report also outlines how to measure impact more effectively and these alternatives are currently being considered.

Tideway has delivered over 4,000 sustainable jobs (total 4,144 project to date).

Despite the challenges associated with the pandemic, our programme with schools to promote Science Technology Engineering and Maths (STEM) is on track after an overhaul on how we engage with young people, one of the groups most affected by the pandemic. We have reached over 230 young people through virtual work experiences, STEM workshops and mentoring. Around 50 per cent were female and over 65 per cent were from an ethnic minority background.

We were pleased to be named Company of the Year at the Global Good Awards in September, in recognition of our approach to sustainability and social impact. The judges said that "sustainability had been designed in [to the project] from the beginning" and commended the "real sense of purpose, innovation and management support."

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.
2020/21 Priorities	Continue to evolve the capabilities of the organisation to support and encourage efficient delivery through a motivated and empowered team.

Good performance has been achieved against our objective of engagement and motivated employees. The combined wellbeing and engagement survey in July provided us with a snapshot of not only how people were feeling but how we were performing against the November 2019 engagement survey. Whilst some areas were marginally less favourable our results continue to hold up well against external benchmarks. Compared to the 2019 results for the same questions the favourable improvements from 2020 to 2019 were: Open and honest communication up 3% to 81% and Motivated to do more up 6% to 80%.

Tideway's Commitment to gender parity is still at 36% against target of 40%. There has been a renewed focus on race and a significant increase in the number of people attending the newly re-named Race Equality Encompass Group and ethnicity data being reviewed with Encompass and at our Executive Company and People performance meeting to develop an appropriate plan of action to address the current under representation of BAME employees in more senior positions.

Training provision has reduced over the half year due to delivery challenges during the first lockdown, this is now improving. During this time there has been ongoing mentoring activity and we now have seven employees who have qualified as coaches.

As the project moves forward there will be regular reviews of the organisation roles and structure. Our organisation continues to evolve to support the changing requirements of the project. The aim being to support individuals to develop appropriate skills and experiences during their time on the project and future career.

The Covid-19 pandemic which required home working where possible has been effectively supported by the Information Systems (IS) team, leading them to roll out Microsoft Teams ahead of their original schedule to support more effective working from home. During the first lockdown period we identified some Tideway roles that could be furloughed and agreed with those staff the arrangement to do so, this was a challenging decision but the right one as was the support provided for those affected. Tideway’s supply chain also to a greater extent adopted the furloughing scheme.

Financing

	Financing
Objective	We aim to deliver efficient sustainable financing and financial risk management, which minimises our cost of capital and supports our investment grade credit rating.
2020/21 Priorities	Maintain the Company Credit rating & deliver IRR and shareholder distributions in line with the financing plan Liquidity and investment management – continue focus on capital preservation and liquidity and seek to optimise return

Since Licence Award the Tideway group has raised £2,683 million of long-term debt finance, of which £1,858 million has been drawn and is outstanding. A significant proportion of this debt has been agreed on a deferred basis, with debt raised in a range of different instruments and markets, demonstrating the benefits of our flexible platform. Tideway has reached a point of strong financial resilience, where sufficient liquidity, taking into account the undrawn £160 million Revolving Credit Facility, has been secured to cover anticipated construction costs up to handover.

Further to the operational update to investors on the impact of Covid-19 on cost and schedule published in August disclosing a £233 million cost increase and a nine month delay to handover, Moody's placed Tideway on negative outlook and affirmed the Baa1 rating. The negative outlook could lead to the Company being put on negative watch, which could in turn lead to a consequent rating downgrade. It should be noted that the Company's rating is presently two notches above the requirements of the covenants in its financing documents and licence.

Fitch affirmed Tideway's credit rating of BBB+ and the outlook remains stable.

S&P Global Ratings completed an Environmental, Social and Governance (ESG) Evaluation of Tideway during the period which was published in April 2020. Tideway achieved a 74/100 score with our culture rated as 'excellent'. Our environmental and social (which includes safety, workforce and diversity, and community relations considerations) scores are above the industry average and our governance score is in line with the industry.

The Board approved the deferral of the June and September distributions.

We adjusted our cash investments in response to market volatility caused by the pandemic, strengthening the liquidity of the positions.

Debt covenants remain healthy and fully compliant with Net debt/Adjusted RCV (gearing) at 54.9% and Interest Coverage Ratio at 4.1x (see the Financial Performance Review section for more details).

The Sustainable Finance Report for 2019/20 was published in August, a condition of our sustainable debt issuance. This report provides information to investors of the allocation of proceeds and impact of the project, including mapping of our Legacy commitments against the UN Sustainable Development Goals at target level where we expect to make a significant contribution during and/or after construction.

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.

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.

The identified principal risks have not changed since they were reported in the Annual Report and Financial Statements for the period ended 31 March 2020. Further detail can be found at www.tideway.london.

*CARG – Compliance and Assurance Review Group

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 2020.

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

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.

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). We believe these measures are valuable to the users of the accounts in helping them understand our underlying business performance. Our principal non-GAAP measure is Allowable and Excluded Project Spend.

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

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

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

Income Statement

During the six-month period ended 30 September 2020, the Group reported a loss of £23.8m (2019: £58.6m loss) with no dividends paid or proposed (2019: £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 have 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 (2019: £nil) and the estimated current tax charge for the period is £nil (2019 £nil).

Statement of Financial Position

The total carrying value of the tunnel asset under construction is shown in the table below.

Asset Under Construction (£m)	Six months ended 30 September 2020	Six months ended 30 September 2019
Net Book Value Brought Forward	2,593.9	1,828.8
Additions (Capitalised Costs)*	316.8	389.8
Net Book Value Carried Forward	2,910.7	2,218.6

** Capitalised Costs is the GAAP measure and aligns with the property, plant and equipment note in the financial statements*

At 30 September 2020, costs of £2,910.7m were capitalised within the asset under construction in the Statement of Financial Position. This represents £316.8m of costs during the six months and £2,593.9m for the prior periods to 31 March 2020.

The table below reflects the split of this years capitalised costs between the Direct costs, Indirect costs and Excluded costs.

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

For the six-month period ended 30 September 2020, total capitalised costs were £316.8m (2019: £389.8m). The decrease in capitalised costs primarily results from the impact of Covid-19 on our works during the period. The Covid-19 impact primarily caused the majority of our planned works to be temporarily paused as we implemented new Covid-secure working requirements across our sites.

Our Allowable Costs of £273.9m (2019: £341.0m) includes £241.5m of Direct costs and £32.4m 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 related construction activities such as shaft and cofferdam construction.

Indirect costs

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

Excluded costs

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

Costs and net cash outflow comparison

The table below shows both the Allowable costs and Excluded costs and the equivalent Allowable Project Spend and Excluded Project Spend for the six months ended 30 September 2020.

	Six months ended 30 September 2020			Six months ended 30 September 2019		
Analysis of Project Costs and the equivalent Net Cash Outflows (£m)	**Costs**	**Timing Differences**	**Cash Outflow**	**Costs**	**Timing Differences**	**Cash Outflow**
Direct Costs	241.5	10.5	252.0	301.3	(58.5)	242.8
Indirect Costs	32.4	3.1	35.5	39.7	(0.3)	39.4
Total Allowable	**273.9**	**13.6**	**287.5**	**341.0**	**(58.8)**	**282.2**
Excluded Costs	42.9	(31.1)	11.8	48.8	(16.6)	32.2
Total	**316.8**	**(17.5)**	**299.3**	**389.8**	**(75.4)**	**314.4**

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 cost accretion of index-linked third-party borrowings and the accrual of shareholder interest which has not been paid in the six months to 30 September 2020.

Net debt and financing

Net debt at 30 September 2020 was £1,459.2m, which has increased by £560.9m from the £898.3m net debt at 30 September 2019. The table below shows the movement between cash and borrowings:

Net Debt (£m)	**Six months ended 30 September 2020**	**Six months ended 30 September 2019**
Cash *	442.5	733.7
Borrowings **	(1,895.7)	(1,624.7)
Lease Liabilities	(6.0)	(7.3)
Net Debt	**(1,459.2)**	**(898.3)**

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

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

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

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

Cash

Cash at 30 September 2020 was £442.5m, which was £291.2m lower than the £733.7m cash at 30 September 2019. The tables below show the movements in cash as per the IFRS Cash Flow Statement.

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

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

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

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

Financial key performance indicators (KPIs)

Under its Common Terms Agreement (CTA), Tideway must comply with a set of financial covenants including to calculate two key ratios, Senior Regulatory Asset Ratio (Senior RAR) and Funds from Interest Cover Ratio (FFO ICR) and report compliance with certain thresholds in specified circumstances. The performance of the two ratios at 30 September 2020 are provided below.

1 - Senior RAR

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			2020	2019
a	Net Debt - Per CTA		1,452.6	850.1
b	RCV - Per CTA [1]		2,647.8	2,091.3
c	Senior RAR	a/b	54.9%	40.6%

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

Reconciliation to reported Net Debt (£m)	2020	2019
Net Debt per CTA	1,452.6	850.1
Short term deposits	20.0	61.0
Other Adjustments [1]	(13.4)	(12.8)
Reported Net Debt	1,459.2	898.3

1 Adjustment for fixed rate bond discount on £250m bond 2027 and cash held by Bazalgette Finance plc

2 - FFO ICR

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.

			12 months to 30 September	
FFO ICR			2020	2019
d	Net Cash Flow - per CTA		51.6	59.7
e	Debt Interest - per CTA		12.6	11.3
f	FFO ICR	d/e	4.1	5.3

Reconciliation to the financial statements (£m)	2020	2019
Increase in Advance payment liability 2020/21	26.1	-
Increase in Advance payment liability 2019/20	26.1	31.5
Increase in Advance payment liability 2018/19	-	19.3
VAT adjustment per CTA	(0.6)	8.9
Net Cash Flow per CTA [1]	51.6	59.7

Reconciliation to the financial statements (£m)	2020	2019
Net interest (exc. shareholder interest) paid 2020/21	3.3	-
Net interest (exc. shareholder interest) paid 2019/20	7.4	1.5
Net interest (exc. shareholder interest) paid 2018/19	-	7.2
Commitment fees paid 19/20	0.4	-
Commitment fees paid 19/20	1.5	1.1
Commitment fees paid 18/19	-	1.5
Debt Interest per CTA [2]	12.6	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 44 in the Bazalgette Holdings Annual Report for the year ended 31 March 2020. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london

For and on behalf of the Board of Directors:

Javier Falero

Director

23 November 2020

Consolidated Income Statement

	Note	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m	Year ended 31 March 2020 Audited £m
Net operating costs		-	-	-
Operating result		-	-	-
Net finance costs	2	(23.8)	(58.6)	(33.1)
Loss before tax		**(23.8)**	**(58.6)**	**(33.1)**
Taxation	3	-	-	-
Loss for the period		**(23.8)**	**(58.6)**	**(33.1)**

Consolidated Statement of Other Comprehensive Income

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m	Year ended 31 March 2020 Audited £m
Loss for the period	(23.8)	(58.6)	(33.1)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	**(23.8)**	**(58.6)**	**(33.1)**

The accompanying notes on pages 22 to 28 form an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Statement of Financial Position

	Note	30 September 2020 Unaudited £m	30 September 2019 Unaudited £m	31 March 2020 Audited £m
Non-current assets				
Property, plant and equipment	4	2,917.1	2,226.4	2,601.3
Trade and other receivables		42.7	44.9	44.0
		2,959.8	2,271.3	2,645.3
Current assets				
Trade and other receivables	5	50.3	28.6	40.7
Cash and cash equivalents	6	442.5	733.7	391.5
Short-term cash deposits	6	20.0	61.0	157.5
		512.8	823.3	589.7
Total assets		**3,472.6**	**3,094.6**	**3,235.0**
Current liabilities				
Trade and other payables	7	(124.7)	(89.9)	(89.1)
Lease liabilities		(2.1)	(1.9)	(2.1)
		(126.8)	(91.8)	(91.2)
Non-current liabilities				
Other payables	7	(40.3)	(26.6)	(48.1)
Lease liabilities		(3.9)	(5.4)	(4.9)
Advance payment liability	7	(175.6)	(123.4)	(149.5)
Borrowings	8	(2,616.1)	(2,337.7)	(2,431.4)
Derivative financial instruments	9	(112.8)	(114.3)	(89.0)
		(2,948.7)	(2,607.4)	(2,722.9)
Total liabilities		**(3,075.5)**	**(2,699.2)**	**(2,814.1)**
Net assets		**397.1**	**395.4**	**420.9**
Equity				
Share capital		509.7	509.7	509.7
Retained earnings		(112.6)	(114.3)	(88.8)
Total equity		**397.1**	**395.4**	**420.9**

The accompanying notes on pages 22 to 28 form 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 2020	509.7	(88.8)	420.9
Loss for the period	-	(23.8)	(23.8)
Total comprehensive income for the period	**-**	**(23.8)**	**(23.8)**
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 2020 (unaudited)	**509.7**	**(112.6)**	**397.1**

	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**

Consolidated Statement of Changes in Equity (continued)

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019	509.7	(55.7)	454.0
Loss for the year	-	(33.1)	(33.1)
Total comprehensive income for the period	**-**	**(33.1)**	**(33.1)**
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 2020 (audited)	**509.7**	**(88.8)**	**420.9**

The accompanying notes on pages 22 to 28 form an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Cash Flow Statement

	Six months ended 30 September 2020 Unaudited £m	Six months ended 30 September 2019 Unaudited £m	Year ended 31 March 2020 Audited £m
Cash generated from operations before changes in working capital	-	-	-
(Increase)/Decrease in trade and other receivables	(8.3)	13.0	1.8
Increase in trade and other payables	27.8	58.1	78.8
Increase in advance payment liability	26.1	31.5	57.6
Cash from operations	**45.6**	**102.6**	**138.2**
Net cash from operating activities	**45.6**	**102.6**	**138.2**
Cash flows used in investing activities			
Construction of infrastructure asset	(311.1)	(374.0)	(734.5)
Transfer from/(to) short-term cash deposits	137.5	29.0	(67.5)
Net cash used in investing activities	**(173.6)**	**(345.0)**	**(802.0)**
Cash flows from financing activities			
Proceeds from borrowings	180.0	413.1	493.1
Interest received	-	-	0.1
Lease liability payments	(1.0)	(1.5)	(2.4)
Net cash from financing activities	**179.0**	**411.6**	**490.8**
Net increase/(decrease) in cash and cash equivalents during the period	**51.0**	**169.2**	**(173.0)**
Cash and cash equivalents at the start of the period	391.5	564.5	564.5
Cash and cash equivalents at the end of the period	**442.5**	**733.7**	**391.5**

Construction of infrastructure asset includes capitalised interest paid of £4.8m (six months ended September 2019: £30.8m, Year ended 31 March 2020: £63.2m) and capitalised interest received of £1.5m (six months ended September 2019: £2.8m, Year ended 31 March 2020: £6.3m).

The accompanying notes on pages 22 to 28 form 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 (BHL), 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 2020.

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 2020. 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 2020.

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 consistent with those applied to the consolidated financial statements for the year ended 31 March 2020.

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.

Notes to the condensed consolidated interim financial statements

2. Finance income and costs

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Finance income			
Interest income	(0.6)	(3.0)	(5.4)
Finance costs			
Interest expense on borrowings	41.2	49.2	92.0
Interest expense on lease liabilities	0.1	-	0.2
Financing fees	1.2	1.9	3.9
Financial instruments at fair value through profit or loss:			
- Index-linked swaps	23.8	58.6	33.3
Capitalised finance income and costs into asset under construction	(41.9)	(48.1)	(90.9)
Net finance costs	**23.8**	**58.6**	**33.1**

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 applied against the loss before tax for the period. 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 (2019: £nil) and therefore the estimated average effective annual tax rate used for the six months to 30 September 2020 is 0% (2019: 0%).

As at the Statement of Financial Position date, unrecognised deferred tax assets of £78.7m (2019: £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.

4. Property, plant and equipment

Property, plant and equipment comprised the following:

	Right-of-use Assets (ROU) £m	Asset under construction £m	Total £m
Balance at 1 April 2020	7.4	2,593.9	2,601.3
Additions for the period	-	316.8	316.8
Depreciation charge for the period	(1.0)	-	(1.0)
Balance at 30 September 2020	**6.4**	**2,910.7**	**2,917.1**

Notes to the condensed consolidated interim financial statements

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 2019	8.8[i]	1,828.8	1,837.6
Additions for the period	-	765.1	765.1
Re-measurement of ROU asset	0.5	-	0.5
Depreciation charge for the period	(1.9)	-	(1.9)
Balance at 31 March 2020	**7.4**	**2,593.9**	**2,601.3**

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 2020. The amount of net borrowing costs capitalised during the period was £40.6 with a capitalisation rate of 100% (2019: £46.2m).

5. Trade and other receivables

	30 September 2020 £m	30 September 2019 £m	31 March 2020 £m
Trade receivables	12.6	5.4	5.0
Accrued income	19.8	10.8	14.7
Other receivables	8.3	3.3	12.0
Prepayments	52.3	54.0	53.0
	93.0	**73.5**	**84.7**
Non-current assets	**42.7**	**44.9**	**44.0**
Current assets	**50.3**	**28.6**	**40.7**

Accrued income of £19.8m (2019: £10.8m) relates to cumulative revenue earned on the project to date that has not been invoiced to Thames Water as at the Statement of Financial Position date.

Prepayments include £23.2m (2019: £24.1m) in relation to the Government Support Package, £9.1m (2019: £8.8m) in relation to insurance contracts and £18.9m (2019: £19.5m) financing related costs.

Notes to the condensed consolidated interim financial statements

6. Cash and cash equivalents

	30 September 2020 £m	30 September 2019 £m	31 March 2020 £m
Cash and bank balances	30.0	44.7	42.5
Cash equivalents	412.5	689.0	349.0
Cash and cash equivalents per cash flow statement	**442.5**	**733.7**	**391.5**

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 £20.0m (2019: £61.0m).

Restricted Cash

The Group holds Debt Service Reserve Accounts to maintain committed liquidity facilities with regards to the prospective financing cost payments for a period of 12 months from the Statement of Financial Position date. The restricted cash value in Debt Service Reserve Accounts was £16.8m at 30 September 2020 (2019: £18.3m).

7. Trade and other payables

	30 September 2020 £m	30 September 2019 £m	31 March 2020 £m
Trade payables	48.5	1.7	60.1
Contract retentions payable	31.2	20.7	27.0
Accrued expenses	55.2	78.9	31.4
Deferred income	30.1	15.2	18.7
Advanced payment liability	175.6	123.4	149.5
	340.6	**239.9**	**286.7**
Non-current liabilities	**215.9**	**150.0**	**197.6**
Current liabilities	**124.7**	**89.9**	**89.1**

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 £30.1m (2019: £15.2m) 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.

The Trade payables balance at 30 September 2020 mainly represents one month of invoices payable to the Group's main works contractors (MWCs) totalling £47.2m which were received ahead of the interim reporting date. At September 2019, the Group had not received the equivalent MWCs invoices and as a result this liability was included in accrued expenses.

Notes to the condensed consolidated interim financial statements

8. 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.

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

	30 September 2020 £m	30 September 2019 £m	31 March 2020 £m
Third party borrowings			
£250m 2.375% fixed-rate bond 2027	247.9	247.6	247.7
£75m 0.828% index-linked bond 2047 [a, b]	78.9	78.5	78.9
£200m 0.740% index-linked bond 2042 [a, c]	208.6	207.4	208.7
£100m 0.688% index-linked bond 2050 [a]	104.9	103.8	104.5
£100m 0.755% index-linked bond 2051 [a]	101.9	102.4	101.5
£100m 0.249% index-linked bond 2040 [a, d]	103.2	102.0	102.7
£125m 0.192% index-linked bond 2049 [a, e]	135.1	133.8	134.6
£300m 2.860% fixed-rate loan 2032 [f]	305.3	304.5	305.0
£400m Libor+0.360% floating-rate loan 2051 [g]	408.2	244.7	327.0
£100m 0.010% index-linked loan 2049 [a]	101.6	100.0	100.4
£25m 1.035% index-linked bond 2048 [a]	25.0	-	-
£25m 0.951% index-linked bond 2054 [a]	25.0	-	-
£50m 0.787% index-linked bond 2052 [a]	50.1	-	-
Intra-group borrowings			
Shareholder loan notes 8.000 % fixed-rate 2064 [h]	720.4	713.0	720.4
Total borrowings	**2,616.1**	**2,337.7**	**2,431.4**
Current liabilities	-	-	-
Non-current liabilities	**2,616.1**	**2,337.7**	**2,431.4**

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

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

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

d) This debt amortises from 2036

e) This debt amortises from 2045

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

g) The Company has entered into swap agreements that convert £400m of this debt into index-linked debt

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

Notes to the condensed consolidated interim financial statements

9. 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.

	30 September 2020		30 September 2019		31 March 2020	
	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	1,025.6	1,187.6	1,017.5	1,149.5	1,025.4	1,171.2
Borrowings – Fixed-rate sterling bonds	247.9	270.9	247.6	269.8	247.7	260.8
Borrowings – Index-linked bonds and loans	934.4	1,323.7	828.0	1,148.7	831.3	1,000.1
Borrowings – Floating-rate sterling loans	408.2	372.5	244.6	222.0	327.0	278.6
Financial liabilities at fair value through profit and loss						
Non-current						
Derivatives – Index-linked swaps	112.8	112.8	114.3	114.3	89.0	89.0
Total	**2,728.9**	**3,267.5**	**2,452.0**	**2,904.3**	**2,520.4**	**2,799.7**

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)

Notes to the condensed consolidated interim financial statements

- 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 2 of the fair value hierarchy as the calculation of the estimated fair value is based on market data inputs which are observable directly or indirectly. The calculation does include unobservable inputs with regards to the determination of credit risk for the Group but these are not considered significant to the valuation. The table below sets out the valuation basis of financial instruments carried at fair value at the Statement of Financial Position date.

Financial instruments at fair value	**30 September 2020 Level 2 £m**	**30 September 2019 Level 3 £m**	**31 March 2020 Level 2 £m**
Derivative financial liabilities			
Index-linked swaps	112.8	114.3	89.0
	112.8	**114.3**	**89.0**

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

10. 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 £720.4m of loan principal (2019: £713.0m) and £28.9m of interest (2019: £nil) at 30 September 2020.

During the six-month period ended 30 September 2020, £nil interest (2019: £26.5m) was paid on these borrowings and £nil (2019: £nil) of principal repayments were made.

In September 2020 the CEO and COO received an overpayment in relation to the deferred element of LTIP Tranche 1 which was awarded in the prior financial year. This overpayment was due to an administrative error which resulted in the CEO and COO being overpaid £206k and £143k respectively. The Directors have agreed that the overpayment will be re-paid and fully recovered before the end of this financial year. The total balance outstanding at 30 September 2020 was £349k. We have reviewed our internal controls in this area and as a result have implemented changes to improve the strength of these controls which will prevent such incidents occurring again.