Bazalgette Holdings Limited

Interim Report and Unaudited Consolidated Financial Statements for the six months ended 30 September 2022

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 2022.

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 continues to make good progress towards its ambition to safely deliver the TTT at the right quality and to best value. Overall accident frequency rates (AFR), which measure lost-time injuries over a rolling 12-month period, have remained relatively stable.

Total project costs for the six-month period were £418.0m (2021: £365.4m), taking the total capitalised costs relating to the tunnel at 30 September 2022 to £4,434.9m (2021: £3,596.5m).

The project is 83 per cent complete in line with the 2022/23 Business Plan, this includes: the completion of all tunnel primary lining 30.7km (100 per cent), completion of 20.2km (66 per cent) of tunnel secondary lining works and completion of 83 per cent of shaft secondary lining with 18 of 21 shafts completed.

The project remains on track for completion (handover) in 2025. Issues relating to the connection between the TTT and the Lee Tunnel at Abbey Mills Pumping Station affected the start of secondary lining during the period, adding approximately 12 weeks to the schedule. The issues have now been resolved and we are working with Thames Water and the contractor to identify opportunities for mitigating the potential 12- week impact.

The estimate at completion is now £4,384m which is an increase of £96m (2 per cent) over the last six months. The primary reason for the increase in outturn costs is inflation, given the substantial increase in rates over the last six months, plus higher costs being incurred by our main works contractor in the East (CVB). The annual bill impact for Thames Water customers remains unchanged at £20-25 (2014/15 prices).

The handback of areas to Thames Water on completion of construction has continued with the successful handback of two areas in the period.

In October, Ofwat modified our Licence for the schedule impact of Covid-19 following earlier public consultations. The Planned System Acceptance Date was changed from February 2027 to August 2027. Ofwat noted that 'Tideway managed the disruption caused by Covid-19 well and they acted for the benefit of the project in a situation that was largely beyond their control'.

Investment grade credit ratings were affirmed at Baa1 by Moody's and BBB+ by Fitch with both agencies having a stable outlook.

In September 2022, DIF Capital Partners completed the process to divest its 10.66 per cent stake in the Bazalgette group of companies, which was acquired by the group's other existing shareholders.

The total distributions paid in the six months to 30 September 2022 were £17.1m and £23.7m were capitalised, taking the overall shareholder loan balance to £823.2m.

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.
Priorities	Continue to reinforce HSW in the construction phase, to achieve positive improvements on previous performance in all areas but specifically high-risk activities including marine, tunnelling and secondary lining. Ensure Tideway transformational HSW behaviours and standards are realised in the forthcoming worksite testing and commissioning phases. Implement the HSW strategy for Mechanical, Electrical, Instrumentation, Control and Automation (MEICA) installation and site commissioning risks and review to determine effectiveness.

Tideway remains committed to completing the programme with zero fatalities or serious injuries on or off site.

Overall AFR, which measure lost-time injuries over a rolling 12-month period, have remained relatively stable, however there has been an increase in incidents resulting in over 7 days lost-time affecting AFR-7.

There have been six lost time injuries (LTI) during 2.6 million hours worked, four of which resulted in +7-day lost time and two +1-day lost time.

Q4 FY 2021/22*			Q2 FY 2022/23**		
AFR1	AFR3	AFR7	AFR1	AFR3	AFR7
0.40	0.16	0.09	0.34	0.13	0.11

*AFR as measured on 11 March 2022

**AFR as measured at 16 September 2022

HSW improvement strategies and action plans are in place for each contract to address the increased injury rate trends, to consider the future risk profile and to continually improve HSW performance. These are monitored each period to assess their continued suitability and effectiveness.

As the project transitions increasingly towards MEICA activities, worksite testing and commissioning a dedicated working group has been established to ensure collaboration and to determine the key actions to formulate the formal strategy for these works.

Supporting the health and wellbeing of the workforce continues to be a major driver for the project and has been supported with the Mates in Mind charitable programme and our Occupational Health Service provider. A number of campaigns have taken place to support the workforce. A successful hypertension project was rolled out over 4 phases, with 1200 blood pressure checks taken. This project identified 23 per cent of individuals at risk. Education and support were provided to those involved and there was positive behaviour change and a reduction of blood pressure levels.

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, and deliver environmental benefits more quickly and reduce disruption to local residents.
Priorities	Working with the Programme Manager, all three Main Works Contractors (MWCs), the System Integrator Contractor (SIC) and Thames Water (TWUL) to deliver the best value for money schedule. Continue to handback areas on completion of construction (including architecture and landscaping) and/or worksite testing and commissioning (as applicable). Maintaining TWUL's continued support for the schedule (to be re-confirmed at T-12 - the 12 months prior to start of Commissioning), through the joint approach, to the earliest possible Preliminary Commissioning Commencement Date (PCCD), Start of Systems Activation, System Commissioning Commencement Date (SCCD), Handover and Acceptance. Obtaining commitment from the Environment Agency (EA), OFWAT, Thames Water and Department for Environment, Food & Rural Affairs (DEFRA) to the most flexible approach for bulkhead removal that minimises the impact of sewage discharges into the River Lee whilst enabling the schedule to be achieved. Ensuring that the asset being delivered is of the right quality, demonstrated by contemporaneous quality certification and particularly certification to achieve Systems Activation. Commercial status of all three MWCs, SIC and TWUL aligned to Tideway's objectives for cost and schedule.

The project remains on track for completion (handover) in 2025. Issues relating to the connection between the TTT and the Lee Tunnel at Abbey Mills Pumping Station affected the start of secondary lining during the period, adding approximately 12 weeks to the schedule. The issues have now been resolved and we are working with Thames Water and the contractor to identify opportunities for mitigating the potential 12- week impact.

The estimate at completion is now £4,384m which is an increase of £96m (2 per cent) over the last six months. The primary reason for the increase in outturn costs is inflation, given the substantial increase in rates over the last six months, plus higher costs being incurred by our MWC in the East (CVB).

Overall, works are now 83 per cent complete, which is in line with the 2022/23 Business Plan target. Key progress since the establishment of the 2022/23 Business Plan has included; the completion of all tunnel primary lining (30.7km), completion of 20.2km of tunnel secondary lining works and completion of 83 per cent of shaft secondary lining with 18 of 21 shafts completed.

The handback of areas on completion of construction has continued with the successful handback of two areas in the period, the changing rooms at Barn Elms and Area A1 at Dormay Street. Both handbacks benefited from the lessons learnt from the first land handback at Hammersmith Pumping Station and subsequent lessons learnt workshops have been held to refine the process. Preparations for three handbacks (Dormay Street, Causeway island / access road and park land within King George's Park) planned for the next six months are well progressed.

Thames Water's commitment to the schedule continues with a focus on submitting the System Commissioning Plan in October 2022. We will now focus on resolving comments on the System Commissioning Plan ready for formal acceptance ahead of the Preliminary Commissioning Commencement Date. Thames Water are an integral part of the T-12 reviews for the remainder of this calendar year that will validate the methodology and programme ahead of System Commissioning Commencement. Positive discussions are ongoing with Thames Water to agree a Strategic Intent that includes optimising the approach to System Acceptance.

The workstream on securing commitment from key stakeholders to a flexible approach to bulkhead removal was effectively put on hold due to the bulkhead factor of safety issue, this workstream has now recommenced. The mitigation works at Shaft F of a new wall potentially provide some opportunities to optimise the bulkhead removal works and there is confidence that the required flexibility can be secured.

In relation to certification, there is good confidence and evidence that the required quality is being achieved in delivering the Tideway assets with only some exemptions not conforming. However, those exemptions were identified in a timely manner and are being resolved satisfactorily through agreed processes, thereby leaving us with no legacy concerns that demonstrate the 'as built quality' is being achieved. There is a backlog in receiving Quality Certification Packages from the MWCs, this is assessed as a timing issue rather than a quality issue and has been escalated with the MWCs to resolve and is not impacting the critical path.

Tideway has continued to progress the implementation of commercial agreements with the MWCs and the SIC resolving historical commercial issues, aligning their schedules with the Tideway Business Plan whilst ensuring objectives remain aligned through effective cost and schedule incentives. Tideway is continuing to progress further agreements where required to ensure schedule and cost objectives remain aligned.

Vision, Legacy and Reputation (VLR)

	Vision, Legacy and Reputation
Objective	We want to maintain a supportive environment for delivering the project and develop a positive reputation with our stakeholders. We want to continue to be a responsible business in all that we do and demonstrate our ESG credentials in order to build and retain trust.
Priorities	Continue to ensure our stakeholder engagement programme supports successful completion of the project, which includes engagement with Thames Water and critical stakeholders to ensure a joined-up, 'one team' approach. Evolve the narrative to reflect Tideway's position as a leading environmental project and prepare for 'successful delivery. Ensure that we deliver on our essential ESG commitments.

Tideway has continued with its proactive engagement and communications strategy, with the aim of building positive relationships and a positive environment for the delivery of the project. The issue of sewage pollution continues to be high on the public agenda and Tideway has sought to inform all audiences of how the project will tackle the issue.

We have continued to promote awareness and understanding of the project through our internal and external communication channels. We hosted around 60 site tours during the period with visitors including the Secretary of State for DEFRA and the Shadow Environment Minister. We continued to post updates, including short videos, on our social media channels daily. In April we marked the completion of the tunnelling phase of the project with a campaign based on an underground musical performance which attracted national media coverage carrying key messages about the aims and progress of Tideway. The campaign was supported and shared widely by stakeholders and supply chain partners.

The independently chaired TTT Forum, which brings together key project stakeholders including consent-granting bodies, met twice in the period. Meetings will be more regular in 2023, to enable a greater level of stakeholder engagement for the final phases of the project.

Contacts to our 24-hour Helpdesk (including complaints) continue to be tracked and we held 10 community meetings during this period. Complaint levels were 42 per cent lower compared with the first half of last year.

Our legacy programme, underpinned by 54 measurable commitments, remains on track with a total of 93 per cent of our live legacy commitments on track against a target of 85 per cent. We closed out two commitments during the period, taking the total number closed to 17.

We launched a new community fund, specifically targeting small-scale community cohesion projects in the London Borough of Lambeth. We partnered with the Corbett Network for Prisoner Re-Integration, as part of our legacy commitment to supporting pathways to employment for people with convictions. The 27 London 'community greening' projects which are being supported by our funding of the 2022 Groundwork London Our Space Award began to take shape, supported on several occasions with Tideway volunteers.

Tideway's communication and engagement efforts were recognised with our communications team named 'Best In-House Communications Team' in the private sector category of the PR Moment Awards. The judges noted our approach to highlighting the environmental benefits of the project, including during COP26, the United Nations Climate Change Conference. The project, through programme manager Jacobs, also won the Sustainable Infrastructure category in the 2022 International Sustainability Consulting Awards.

Company and People

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

Tideway has seen a good overall performance against this objective. We have continued with a hybrid way of working, allowing teams to set their own patterns for office attendance. We are keeping this under review to ensure that we have appropriate levels of engagement and team interaction.

Diversity and inclusion remain core to our actions and we have refined our employee network Encompass to focus on a smaller number of events and activities, whilst signposting a vast range of support material already in place.

Our gender numbers ended the half-year at 31.6 per cent female across Tideway (including Jacobs) down from 35.2 per cent at year-end 2022. As we work towards completion and handover our ability to impact the actual percentages will be constrained by a reducing headcount. However, we will maintain our focus on supporting our female and minority ethnic employees to develop their careers within and beyond Tideway.

An all-staff survey in June, provided a good insight into staff engagement with high favourable scores across a range of dimensions; Respect and Recognition 89 per cent, Clear and Promising Direction 86 per cent, Confidence in Leaders 86 per cent, Employee Enablement 81 per cent.

The external employment market was buoyant in the first half of the year, and our annualised attrition rate (including Jacobs) increased to 10.72 per cent up from 8.87per cent at 2022 year end. We continue to monitor, and work with employees to understand their career aspirations and development needs, as well as having appropriate retention tools available as required.

The Board endorsed the Company's 2021/2022 performance by agreeing to an annual Company bonus achievement of 95 per cent. The Company is reviewing the impact of Inflation and the cost of living increases on our people and will take appropriate action in the second half of the year to support those on lower incomes and ensure the benefits package remains competitive.

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.
Priorities	Maintain the Company Credit rating & deliver Internal Rate of Return (IRR) and shareholder distributions in line with the financing plan. Liquidity and investment management –continue to focus on capital preservation and liquidity and seek to optimise return. Conclude consultations and Licence modifications with Ofwat and DEFRA relating to Covid-19's impact on schedule specifically extending the System Acceptance date.

Since Licence Award the Tideway group has raised £3.0 billion of long-term debt finance, of which £50 million is outstanding and will be drawn in May 2023. Tideway continues to benefit from strong financial resilience, with sufficient liquidity, taking into account the undrawn £160m million Revolving Credit Facility (RCF), secured to cover anticipated construction costs up to handover. At 30 September 2022, total liquidity stood at £778 million, comprising £567.6m of unrestricted cash, the £160m undrawn RCF and the £50 million undrawn index linked bond.

At 30 September 2022, financial ratios remain healthy and fully compliant with covenants. Gearing (Net debt/Adjusted RCV) was 64.0 per cent and interest coverage ratio was 5.3x, compared to covenant trigger levels of 70.0 per cent and 1.3x respectively (see the Interim Financial Performance Review section for more details on debt covenant triggers).

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

We published a Sustainability Report summarising progress against our legacy plan and how our commitments are aligned to the UN Sustainability Development Goals (SDGs). The Sustainability Report incorporates our assessment against the Task Force on Climate Related Financial Disclosures (TCFD) framework and our previous Sustainability Finance Report.

In October, Ofwat modified our Licence for the schedule impact of Covid-19 following earlier public consultations. The Planned System Acceptance Date was changed from February 2027 to August 2027. Ofwat noted that 'Tideway managed the disruption caused by Covid-19 well and they acted for the benefit of the project in a situation that was largely beyond their control'.

Investment grade credit ratings were affirmed at Baa1 by Moody's and BBB+ by Fitch with both agencies having a stable outlook.

The total distributions paid in the six months to 30 September 2022 were £17.1m and £23.7m were capitalised, taking the overall shareholder loan balance to £823.2m.

In September 2022, DIF Capital Partners completed the process to divest its 10.66 per cent stake in the Bazalgette group of companies, which was acquired by the group's other existing shareholders, an affiliate of Allianz Capital Partners, an affiliate of Dalmore Capital and two Amber Infrastructure-related entities (International Public Partnerships and Swiss Life Asset Managers).

Risk Management

Risk management is embedded in Tideway's culture and is central to achieving its objectives. The Group 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; and regulatory and political.

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 2022. Further detail can be found at www.tideway.london.

Our Risk Management Framework

*CARG – Compliance and Assurance Review Group

Interim Financial Performance Review

Accounting basis

Our condensed consolidated interim financial statements have been prepared and approved by the Directors in accordance with International Standards in conformity with the requirements of the Companies Act 2006 ("UK Adopted IFRS"). The Group's accounting policies are consistent with those disclosed in the Group's Annual Report for the period ended 31 March 2022.

During the construction phase of the project, expenditure which is directly attributable to bringing the TTT 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 TTT as a finance lease is the most appropriate accounting basis under IFRS.

Non-GAAP Measures

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

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

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

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

Income Statement

During the six-month period ended 30 September 2022, the Group reported a gain of £172.6m (2021: £13.1m loss) with no dividends paid or proposed (2021: £nil). We did not recognise any taxable profits in the period (2021: £nil) and the estimated current tax charge for the period is £nil (2021 £nil).

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

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

Statement of Financial Position

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

Asset Under Construction (£m)	6 months ended 30 September 2022	6 months ended 30 September 2021
Net Book Value Brought Forward	4,016.9	3,231.1
Additions (Capitalised Costs)*	418.0	365.4
Net Book Value Carried Forward	4,434.9	3,596.5

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

At 30 September 2022, costs of £4,434.9m were capitalised within the asset under construction in the Statement of Financial Position. This represents £418.0m of costs during the six months and £3,596.5m for the prior periods to 31 March 2022.

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)	6 months ended 30 September 2022	6 months ended 30 September 2021
Direct Costs	201.4	253.9
Indirect Costs	31.5	30.1
Total Allowable	232.9	284.0
Excluded costs	185.1	81.4
Total Capitalised Costs	418.0	365.4

For the six-month period ended 30 September 2022, total capitalised costs were £418.0m (2021: £365.4m). The increase in capitalised costs primarily results from higher Excluded costs in the period, largely as a result of higher interest costs for our index linked debt.

Our Allowable Costs of £232.9m (2021: £284.0m) includes £201.4m of Direct costs and £31.5m of Indirect costs. These are explained further below.

Direct costs

Direct costs are primarily the MWC costs and the SIC costs so reflect costs directly related to the tunnelling programme such as primary tunnelling and secondary lining works and also other related construction activities such as shaft construction and marine works.

Indirect costs

The largest indirect costs are resource costs of £22.5m. This represents the cost to employ an average of 258 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 increased compared with 2021, largely because of higher Insurance & GSP costs due to an increase in the OCIP premiums.

Excluded costs

Excluded costs for the six-month period to 30 September 2022 were £185.1m (2021: £81.4m). These comprise £183.5m of net interest expense (including shareholder loan interest of £32.4m) and £1.6m of costs which mainly related to financing activities. These costs have increased compared with 2021 as rising inflation indices have increased our index linked debt interest costs.

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 2022.

	6 months ended 30 September 2022			6 months ended 30 September 2021		
Analysis of Project Costs and the equivalent Net Cash Outflows (£m)	Costs	Timing Differences	Cash Outflow	Costs	Timing Differences	Cash Outflow
Direct Costs	201.4	17.6	219.0	253.9	(19.0)	234.9
Indirect Costs	31.5	1.1	32.6	30.1	(1.0)	29.1
Total Allowable	232.9	18.7	251.6	284.0	(20.0)	264.0
Excluded Costs	185.1	(161.4)	23.7	81.4	(70.3)	11.1
Total	418.0	(142.7)	275.3	365.4	(90.3)	275.1

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 cost of index-linked third-party borrowings and the shareholder loan interest accrual.

Cash

Cash at 30 September 2022 was £367.6m, which was £76.0m higher than the £291.6m cash at 30 September 2021. The tables below show the movements in cash as per the IFRS Cash Flow Statement.

Cash Flow (£m)	Six months ended 30 September 2022	Six months ended 30 September 2021	Year ended 31 March 2022
Cash generated from operations before changes in working capital	-	-	-
Decrease/(Increase) in trade and other receivables	8.3	2.7	(1.1)
Increase in trade and other payables	(32.2)	49.3	8.1
Increase in advance payment liability	46.8	38.9	72.9
Net cash from operating activities	22.9	90.9	79.9
Construction of infrastructure asset	(252.0)	(320.0)	(583.8)
Transfers (to)/from short-term deposits	(80.0)	(90.0)	(90.0)
Net cash used in investing activities	(332.0)	(410.0)	(673.8)
Proceeds from new borrowings	323.2	269.1	607.8
Repayment of lease liabilities	(1.0)	(1.1)	(2.1)
Net cash from financing activities	322.2	268.0	605.7
Net (decrease)/increase in cash and cash equivalents during the period	13.1	(51.1)	11.8
Cash and cash equivalents at the start of the period	354.5	342.7	342.7
Cash and cash equivalents at the end of the period	367.6	291.6	354.5

Net cash flows from operating activities of £22.9m (2021: £90.9m) represent movements in working capital and are chiefly driven by timing of payments to our MWCs 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 £332.0m (2021: £410.0m) 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 £322.2m (2021: £268.0m) are largely the result of new borrowings drawn in the period which included £275m of index linked bonds and £40.0m of floating rate loans.

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 2022 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			2022	2021
a	Net Debt - Per CTA		2,687.4	1,954.2
b	RCV - Per CTA [1]		4,200.3	3,331.6
c	Senior RAR	a/b	64.0%	58.7%

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

Reconciliation to the financial statements (£m)	2022	2021
Cash	367.6	291.6
Short term deposits	225.0	145.0
Borrowings	(3,261.8)	(2,382.1)
Lease liabilities	(2.4)	(4.0)
Other adjustments [1]	(15.8)	(4.7)
Net Debt - Per CTA	(2,687.4)	(1,954.2)

1 Adjustment for discount on £250m fixed rate bond 2027, discount on £300m fixed rate bond 2034, premium on £150m index linked bonds 2032, premium on £75m index linked bond 2036 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			2022	2021
d	Net Cash Flow - per CTA		75.5	83.3
e	Debt Interest - per CTA		14.2	16.0
f	FFO ICR	d/e	5.3	5.2

Reconciliation to the financial statements (£m)	2022	2021
Increase in Advance payment liability 2022/23 [1]	41.3	
Increase in Advance payment liability 2021/22 [1]	34.0	38.9
Increase in Advance payment liability 2020/21 [1]	0.0	42.8
Increase in Advance payment liability 2019/20 [1]	-	-
VAT adjustment per CTA	0.2	1.6
Net Cash Flow per CTA	75.5	83.3

Reconciliation to the financial statements (£m)	2022	2021
Net interest (exc. shareholder interest) paid 2022/23	2.6	
Net interest (exc. shareholder interest) paid 2021/22	11.2	4.4
Net interest (exc. shareholder interest) paid 2020/21		10.9
Commitment fees paid 22/23	0.3	
Commitment fees paid 21/22	0.1	0.3
Commitment fees paid 20/21		0.4
Commitment fees paid 19/20		-
Debt Interest per CTA [2]	14.2	16.0

Directors Responsibility Statement

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 for use in the UK and as issued by the International Accounting Standards Board (IASB).
- 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 in the Bazalgette Holdings Annual Report for the year ended 31 March 2022 with the exception of Javier Falero who resigned on 7 September 2022. The Bazalgette Holdings Limited Annual Report is available at www.tideway.london

For and on behalf of the Board of Directors:

Chris Morgan

Director

29 November 2022

Consolidated Income Statement

	Note	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2022 Audited £m
Net operating costs		-	-	-
Operating result		**-**	**-**	**-**
Net finance income/(costs)	2	172.6	(13.1)	(10.9)
Profit/(loss) before tax		**172.6**	**(13.1)**	**(10.9)**
Taxation	3	-	-	-
Profit/(loss) for the period		**172.6**	**(13.1)**	**(10.9)**

Consolidated Statement of Other Comprehensive Income

	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2022 Audited £m
Profit/(loss) for the period	172.6	(13.1)	(10.9)
Other comprehensive income for the period	-	-	-
Total comprehensive income/(loss) for the period	**172.6**	**(13.1)**	**(10.9)**

Consolidated Statement of Financial Position

	Note	30 September 2022 Unaudited £m	30 September 2021 Unaudited £m	31 March 2022 Audited £m
Non-current assets				
Property, plant and equipment	4	4,437.7	3,600.9	4,020.7
Trade and other receivables	5	31.7	36.3	33.2
Derivative financial instruments	9	43.8	-	-
		4,513.2	3,637.2	4,053.9
Current assets				
Trade and other receivables	5	41.4	41.3	48.2
Cash and cash equivalents	6	367.6	291.6	354.5
Short-term cash deposits	6	225.0	145.0	145.0
Derivative financial instruments	9	34.9	8.4	18.5
		668.9	486.3	566.2
Total assets		**5,182.1**	**4,123.5**	**4,620.1**
Current liabilities				
Trade and other payables	7	(109.8)	(196.5)	(146.3)
Lease liabilities		(2.1)	(2.1)	(2.1)
		(111.9)	(198.6)	(148.4)
Non-current liabilities				
Other payables	7	(58.2)	(44.9)	(53.9)
Lease liabilities		(0.3)	(1.9)	(1.3)
Advance payment liability	7	(338.1)	(257.3)	(291.3)
Borrowings	8	(4,085.0)	(3,102.5)	(3,596.8)
Derivative financial instruments	9	-	(104.5)	(112.4)
		(4,481.6)	(3,511.1)	(4,055.7)
Total liabilities		**(4,593.5)**	**(3,709.7)**	**(4,204.1)**
Net assets		**588.6**	**413.8**	**416.0**
Equity				
Share capital		509.7	509.7	509.7
Retained earnings		78.9	(95.9)	(93.7)
Total equity		**588.6**	**413.8**	**416.0**

The above condensed consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 21 to 28 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 2022	509.7	(93.7)	416.0
Profit for the period	-	172.6	172.6
Total comprehensive income for the period	-	**172.6**	**172.6**
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 2022 (unaudited)	**509.7**	**78.9**	**588.6**

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2021	509.7	(82.8)	426.9
Loss for the period	-	(13.1)	(13.1)
Total comprehensive loss for the period	-	**(13.1)**	**(13.1)**
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 2021 (unaudited)	**509.7**	**(95.9)**	**413.8**

Consolidated Statement of Changes in Equity *(continued)*

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2021	509.7	(82.8)	426.9
loss for the year	-	(10.9)	(10.9)
Total comprehensive loss for the period	**-**	**(10.9)**	**(10.9)**
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 2022 (audited)	**509.7**	**(93.7)**	**416.0**

The accompanying notes on pages 21 to 28 which are an integral part of these condensed consolidated Interim Financial Statements.

Consolidated Cash Flow Statement

	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2022 Audited £m
Cash generated from operations before changes in working capital	-	-	-
Decrease/(increase) in trade and other receivables	8.3	2.7	(1.1)
(Decrease)/increase in trade and other payables	(32.2)	49.3	8.1
Increase in advance payment liability	46.8	38.9	72.9
Net cash from operating activities	**22.9**	**90.9**	**79.9**
Cash flows used in investing activities			
Construction of infrastructure asset	(252.0)	(320.0)	(583.8)
Transfer (to)/from short-term cash deposits	(80.0)	(90.0)	(90.0)
Net cash used in investing activities	**(332.0)**	**(410.0)**	**(673.8)**
Cash flows from financing activities			
Proceeds from borrowings	323.2	269.1	607.8
Lease liability payments	(1.0)	(1.1)	(2.1)
Net cash from financing activities	**322.2**	**268.0**	**605.7**
Net increase/(decrease) in cash and cash equivalents during the period	**13.1**	**(51.1)**	**11.8**
Cash and cash equivalents at the start of the period	354.5	342.7	342.7
Cash and cash equivalents at the end of the period	**367.6**	**291.6**	**354.5**

Construction of infrastructure asset includes capitalised interest paid of £22.0m (six months ended September 2021: £4.5m, Year ended 31 March 2022: £45.7m) and capitalised interest received of £2.3m (six months ended September 2021: £0.1m, Year ended 31 March 2022: £0.3m).

The accompanying notes on pages 21 to 28 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 unaudited consolidated Bazalgette Holdings Limited financial statements comprise 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 2022.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted for use in the UK and as issued by the International Accounting Standards Board (IASB) and the Disclosure Transparency Rules issued by the Financial Conduct Authority. These condensed consolidated financial statements do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and they should be read in conjunction with the Group’s last audited consolidated financial statements for the year ended 31 March 2022. 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.

These condensed consolidated financial statements have been prepared under the historical cost convention, except in respect of certain financial instruments, and 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 2022.

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 2022.

After considering current financial projections and facilities available to the Group, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these interim financial statements. The Group has sufficient liquidity, via its available cash balances and undrawn financing facilities, to meet its operational needs and its liabilities as they fall due and there have been no other material uncertainties identified that would impact the Group's operational ability over the going concern period 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 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Finance income			
Interest income	(3.7)	(0.1)	(0.5)
Finance costs			
Interest expense on borrowings	187.2	79.8	197.4
Interest expense on lease liabilities	-	0.1	0.1
Financing fees	1.0	1.0	2.0
Financial instruments at fair value through profit or loss:			
- Index-linked swaps	(172.6)	13.1	10.9
Capitalised finance income and costs into asset under construction	(184.5)	(80.8)	(199.0)
Net finance (income)/costs	**(172.6)**	**13.1**	**10.9**

3. Taxation

Income tax expense is recognised based on management's estimate of the weighted average 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 derivative fair value gains and losses are disregarded for current tax purposes. As a result, the calculated profits attributable to corporation tax are £nil (2021: £nil) and therefore the estimated average annual tax rate used for the six months to 30 September 2022 is 0% (2021: 0%).

As at the Statement of Financial Position date, unrecognised deferred tax assets of £182.7m (2021: £107.6m) have been calculated with regards to the Group's unused carried forward tax losses and reliefs. These deferred tax assets have not been recognised due to uncertainty around the timing of their recoverability 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
Net book value at 1 April 2022	3.8	4,016.9	4,020.7
Additions for the period	-	418.0	418.0
Depreciation charge for the period	(1.0)	-	(1.0)
Balance at 30 September 2022	**2.8**	**4,434.9**	**4,437.7**

Notes to the condensed consolidated interim financial statements

4. Property, plant and equipment (*continued*)

	5.4	3,231.1	3,236.5
Net book value at 1 April 2021	-	365.4	365.4
Additions for the period	(1.0)	-	(1.0)
Depreciation charge for the period			
Balance at 30 September 2021	**4.4**	**3,596.5**	**3,600.9**
Net book value at 1 April 2021	5.4	3,231.1	3,236.5
Additions for the period	-	785.8	785.8
Re-measurement of ROU asset	0.4	-	0.4
Depreciation charge for the period	(2.0)	-	(2.0)
Balance at 31 March 2022	**3.8**	**4,016.9**	**4,020.7**

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 2022. The amount of net borrowing costs capitalised during the period was £183.5m with a capitalisation rate of 100% (2022: £79.7m).

5. Trade and other receivables

	30 September 2022 £m	**30 September 2021 £m**	**31 March 2022 £m**
Trade receivables	8.2	7.8	13.2
Accrued income	17.3	18.4	17.0
Other receivables	6.9	6.7	9.5
Prepayments	40.7	44.7	41.7
	73.1	**77.6**	**81.4**
Non-current assets	**31.7**	**36.3**	**33.2**
Current assets	**41.4**	**41.3**	**48.2**

Accrued income of £17.3m (2021: £18.4m) 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 £16.2m (2021: £18.9m) in relation to the Government Support Package, £5.9m (2010: £6.9m) in relation to insurance contracts and £17.8m (2021: £17.8m) financing related costs.

Notes to the condensed consolidated interim financial statements

6. Cash and cash equivalents

	30 September 2022 £m	30 September 2021 £m	31 March 2022 £m
Cash and bank balances	31.1	19.6	26.0
Cash equivalents	336.5	272.0	328.5
Cash and cash equivalents per cash flow statement	**367.6**	**291.6**	**354.5**

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 £225.0m (2021: £145.0m).

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 £25.0m at 30 September 2022 (2021: £15.5m).

7. Trade and other payables

	30 September 2022 £m	30 September 2021 £m	31 March 2022 £m
Trade payables	0.7	42.0	57.4
Contract retentions payable	53.8	39.3	47.8
Accrued expenses	89.5	49.6	67.1
Deferred income	24.0	24.8	27.9
Advanced payment liability	338.1	257.3	291.3
Interest payable on intra-group loans	-	85.7	-
	506.1	**498.7**	**491.5**
Non-current liabilities	**396.3**	**302.2**	**345.2**
Current liabilities	**109.8**	**196.5**	**146.3**

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 £24.0m (2021: £24.8m) 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.

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 2022 £m	30 September 2021 £m	31 March 2022 £m
Third party borrowings			
£250m 2.375% fixed-rate bond 2027	248.4	248.2	248.3
£75m 0.828% index-linked bond 2047 [a, b]	88.8	81.0	84.1
£200m 0.740% index-linked bond 2042 [a, c]	220.4	213.8	216.3
£100m 0.688% index-linked bond 2050 [a]	121.9	109.0	114.1
£100m 0.755% index-linked bond 2051 [a]	118.4	105.8	110.8
£100m 0.249% index-linked bond 2040 [a, d]	119.3	107.0	111.9
£125m 0.192% index-linked bond 2049 [a, e]	157.2	140.3	147.0
£300m 2.860% fixed-rate loan 2032 [f]	317.5	308.1	311.7
£300m 2.750% fixed-rate bond 2034	298.8	-	298.7
£700m Sonia+0.360% floating-rate loan 2051 [g, h]	810.6	649.1	719.6
£150m 0.01% index-linked bond 2032 [a]	161.4	-	-
£100m 0.010% index-linked loan 2049 [a, i]	118.5	105.4	109.8
£25m 1.035% index-linked bond 2048 [a, j]	29.0	26.0	27.2
£25m 0.951% index-linked bond 2054 [a, k]	29.0	26.0	27.2
£25m 1.042% index-linked bond 2048 [a, j]	28.4	25.4	26.6
£25m 0.954% index-linked bond 2054 [a, k]	28.4	25.4	26.6
£50m 0.787% index-linked bond 2052 [a]	58.2	52.0	54.5
£50m 0.074% index-linked bond 2049 [a, m]	61.1	-	-
£75m 0.010% index-linked bond 2036 [a]	93.1	84.6	87.9
£75m 2.418% fixed-rate loan 2041	75.0	75.0	75.0
£75m 0.949% index-linked bond 2052 [a, n]	78.4	-	-
Intra-group borrowings			
Shareholder loan notes 8.000 % fixed-rate 2064 [l]	823.2	720.4	799.5
Total borrowings	**4,085.0**	**3,102.5**	**3,596.8**
Current liabilities	-	-	-
Non-current liabilities	**4,085.0**	**3,102.5**	**3,596.8**

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) This debt amortises from 2045

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

g) The Group has entered into swap agreements that convert £620m of this debt into index-linked debt

Notes to the condensed consolidated interim financial statements

8. Borrowings (*continued*)

h) This debt amortises from 2025

i) This debt amortises from 2040

j) This debt amortises from 2044

k) This debt amortises from 2050

l) Borrowing from the BHL's immediate parent Bazalgette Ventures Limited

m) This debt amortises from 2034

n) This debt amortises from 2042

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 2022		30 September 2021		31 March 2022	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets at fair value through profit and loss						
Non- Current						
Derivatives – Index-linked swaps	43.8	43.8	-	-	-	-
Financial assets at fair value through profit and loss						
Current						
Derivatives – Index-linked swaps	34.9	34.9	8.4	8.4	18.5	18.5
Financial liabilities at fair value through profit and loss						
Non-current						
Derivatives – Index-linked swaps	-	-	(104.5)	(104.5)	(112.4)	(112.4)
Financial liabilities at amortised cost						
Non-current						
Borrowings – Fixed-rate sterling loans	(1,215.7)	(999.8)	(1,103.5)	(1,190.9)	(1,186.3)	(1,216.8)
Borrowings – Fixed-rate sterling bonds	(547.2)	(428.7)	(248.2)	(264.6)	(547.0)	(546.7)
Borrowings – Index-linked bonds and loans	(1,511.5)	(1,222.1)	(1,101.7)	(1,613.4)	(1,143.9)	(1,605.5)
Borrowings – Floating-rate sterling loans	(810.6)	(653.7)	(649.1)	(591.2)	(719.6)	(662.2)
Total	**(4,006.3)**	**(3,225.6)**	**(3,198.6)**	**(3,756.2)**	**(3,690.7)**	**(4,125.1)**

Notes to the condensed consolidated interim financial statements

9. Fair value of financial instruments (*continued*)

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 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.

	30 September 2022 Level 2 £m	30 September 2021 Level 2 £m	31 March 2022 Level 2 £m
Financial instruments at fair value			
Derivative financial assets			
Index-linked swaps	78.7	8.4	18.5
Financial instruments at fair value			
Derivative financial liabilities			
Index-linked swaps	-	(104.5)	(112.4)
	78.7	**(96.1)**	**(93.9)**

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

Notes to the condensed consolidated interim financial statements

10. Contingent assets and liabilities

There was no change in contingent assets or liabilities for the six months to 30 September 2022 to that disclosed in the annual report and financial statements for the year ended 31 March 2022.

11. 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 £823.2m of loan principal (2021: £720.4m) and £nil of interest (2021: £85.7m) at 30 September 2022. During the period £23.7m (2021: £nil) of loan interest was capitalised back into the intercompany loan principal.

During the six-month period ended 30 September 2022, £17.1m interest (2021: £nil) was paid on these borrowings and £nil (2021: £nil) of principal repayments were made.

In September 2022, DIF Capital Partners completed the process to divest its 10.66% stake in the Bazalgette group of companies, which was acquired by the group's other existing shareholders, an affiliate of Allianz Capital Partners, an affiliate of Dalmore Capital and two Amber Infrastructure-related entities (International Public Partnerships and Swiss Life Asset Managers).