



**The completed acquisition of Thames Water
Holdings Plc by Kemble Water Limited**

A position paper by Ofwat

May 2007

1. Background

- 1.1 On 1 December 2006 Kemble Water Limited completed its acquisition of Thames Water Holdings Plc. Kemble Water Limited is 100% owned by Kemble Water Holdings Limited (Kemble) which, in turn is owned by a consortium of investors (the Consortium). Thames Water Holdings Plc is the UK parent and owner of 100% of the issued share capital of Thames Water Plc which is the UK parent and owner of 100% of the issued share capital of Thames Water Utilities Limited (Thames Water), an appointed water and sewerage undertaker regulated by Ofwat.
- 1.2 We issued a consultation document in February 2007¹ in which we invited views on:
- the capacity of Kemble and its investors to be the owner of a regulated water business;
 - the board structure put in place by the Consortium and its compatibility with good corporate governance of the regulated company;
 - which entities should provide parent company and ultimate controller undertakings to Thames Water under Condition P of its licence;
 - the implications for Thames Water of the proposed long term financial structure for Thames Water and the Thames Water group; and
 - the need for modifications to Thames Water's instrument of appointment (its 'licence') to ensure that, whoever its owners, it has sufficient financial and managerial resources to carry out its functions as an appointed water and sewerage company and is appropriately ring-fenced from the rest of the group.
- 1.3 This note sets out our position on these issues, taking into account the views of respondents to our consultation paper. A list of respondents is provided in Annex 1.

¹ 'The Completed acquisition of Thames Water Holdings Plc by Kemble Water Limited, A consultation paper by Ofwat', February 2007.

2. The capacity of Kemble and its investors to be the owner of a regulated water and sewerage company

Ownership structure

- 2.1 Kemble is owned by a consortium of investors which consists largely of pension funds and other long-term institutional investors from Europe, Canada and Australia. Entities managed by (or otherwise associated with) members of the Macquarie Group own a 47.65% stake in Kemble through their interest in Kemble Water International Holdings Limited (KWIHL), the consortium member with the largest stake. Since we published our consultation paper in February, Kemble has informed us that one of the original members of the Macquarie Group, Macquarie Bank Limited, has sold its remaining interest in KWIHL to LODH Macquarie Infrastructure Fund LP, a description of which appears in Annex 2.
- 2.2 The Consumer Council for Water Thames (CCWater Thames), which represents the Thames Water consumers, and Martin Blaiklock responded to our consultation on this issue. Both considered that the ownership structure was unnecessarily complex.
- 2.3 Some other water companies have complex ownership structures including those owned by private equity and infrastructure funds. Our duties and powers relate to the licence holder, not its owners. We are satisfied that the existing licence conditions of Thames Water, together with the licence modifications proposed in section 6, ensure that Thames Water is adequately ring-fenced from the activities of other entities within the group. In addition we are satisfied that the undertakings to be provided by entities within the ownership structure to Thames Water provide assurance that the new owners will refrain from action that could cause Thames Water to breach its licence (see section 4).
- 2.4 Martin Blaiklock raised concerns regarding the extent of information that is publicly available regarding the Macquarie Investors which own a 47.65% stake in Kemble (i.e. the Macquarie-managed or associated entities which consist of Macquarie European Infrastructure Fund LP (MEIF), Macquarie European Infrastructure Fund II (MEIF II), Macquarie Diversified Infrastructure Fund (MDIF), Macquarie Prism Pty Ltd (MPP), Macquarie-FSS Infrastructure Trust (MFIT) and LODH Macquarie Infrastructure Fund LP (MLODH)).

- 2.5 Transparency of ownership of a water company is greater than for a non-regulated company because of the Condition P requirements which relate to the role of the owners of the regulated entity. We provided details of all of the investors in Kemble in the Annex to our consultation paper. This is reproduced as Annex 2 and includes details on MLODH and additional information on the investors in MEIF and MEIF II.
- 2.6 We stated in our consultation paper that we had been assured that none of the Consortium members has any material interest in any water or water and sewerage companies in England and Wales other than through the acquisition of Thames Water Holdings Plc². Martin Blaiklock considered it is not sufficient to accept such assertions from the Consortium, particularly where investors reside off-shore.
- 2.7 As noted in our consultation, this is a matter for Thames Water and the Office of Fair Trading.

Fit and proper owner

- 2.8 A number of respondents commented on this point.
- 2.9 Martin Blaiklock considered that although the Macquarie Investors had experience as investors in the transportation, water, energy and energy sectors in the UK, their experience as responsible, reliable and accountable utility owners and operators was questionable.
- 2.10 Martin Blaiklock considered that the Macquarie Investors were not socially responsible investors from their track records in other investments. He cited an instance where safety certificates were withdrawn from assets owned by MEIF and an instance where a Macquarie owned fund received payment of an extraordinary dividend as a result of refinancing relating to its ownership of the M6 Toll road. In addition, Martin Blaiklock considered that Macquarie had 'asset stripped' South East Water Limited under its ownership by paying significant special dividends in 2004-05 and 2005-06.

² Canada Pension Plan Investment Board (CPPIB) has a 32.3% stake in Osprey, the new owners of Anglian Water Services Limited, and a limited partnership interest of 13.3% in MEIF. It does not have any board representation in MEIF, nor does it have any voting or other rights that would enable it to veto or materially influence any strategic decisions of MEIF in its capacity as investor in Thames Water Holdings Plc or its subsidiaries. Alberta Investment Management holds a 17.5% stake in Aqueduct Capital, the owner of Sutton and East Surrey Water, and a 3.3% stake in MEIF, again with no board representation or relevant voting or other rights.

- 2.11 We have considered the examples cited by Martin Blaiklock. In the first instance, withdrawal of safety certificates concerned incidents that occurred prior to MEIF's ownership. Payment of the extraordinary dividend in the second instance was a result of refinancing and we state our position on this below.
- 2.12 South East Water's special dividend payments in 2004-05 and 2005-06 were a result of its financial restructuring (in 2004-05) and disposal of land (in 2005-06). We have been clear that capital structures are essentially a matter for companies and the markets. However to the extent that capital restructuring may bring about tax efficiencies these would, as part of the established incentive based regulatory regime, be passed to customers at the next price review. Macquarie informed us of its proposed financial restructuring of South East Water in advance of the transaction. As a result, customer bills already reflect the effect of the tax efficiencies brought about by the increase in gearing which was linked to this special dividend.
- 2.13 CCWater Thames questioned whether the Consortium has a full and proper understanding of the requirements placed on water and sewerage undertakers, because the requirements placed on Macquarie, as the owner of South East Water (a water only company), were different to those as the owner of a water and sewerage company.
- 2.14 Additionally, Josie Lewis, a Thames Water customer, raised concerns with certain aspects of the service provided to consumers. She suggested that Thames Water should have an obligation to make consumers aware of the proposed acquisition and to state the effects the acquisition would have on it as a monopoly supplier. Josie Lewis sought assurances on the standards of service to be provided to customers under Kemble's ownership.
- 2.15 Our view is that consumers should be able to assume that a change of ownership will have no adverse impact on the price or quality of service that they receive. Thames Water's existing price limits will remain unchanged from those determined by Ofwat for 2005-10 at the 2004 periodic review and the outputs of the legally binding undertaking provided by Thames Water on 3 July 2006 in respect of the failure to meet its leakage target in 2005-06 will remain in place.

Conclusion on the capacity of Kemble and its investors to be the owner of a regulated water and sewerage company

- 2.16 Thames Water will continue to have the obligations imposed upon it by legislation (especially the Water Industry Act 1991) and the conditions of its licence. We will continue to regulate Thames Water under those provisions. Price limits for 2005-10 have been determined and accepted by Thames Water. Thames Water must deliver the outputs underpinning those price limits. We will monitor this and, where appropriate, we will exercise our powers to ensure this is the case.

3. Board structure and corporate governance

- 3.1 Our consultation paper detailed Kemble's proposed structure for the Board of Thames Water. Kemble proposed that Thames Water's Board should include fourteen non-executive directors, comprising of three independent non-executive directors, as required by Thames Water's licence, and eleven investor-appointed non-executive directors. The proposed board would have no executive directors.
- 3.2 We had concerns about this proposal and we invited comments on the board structure put in place by the Consortium and its compatibility with good corporate governance of the regulated company.
- 3.3 Nine respondents raised concerns with Thames Water's proposed Board structure. Their responses focussed on two main issues:
- lack of executive representation; and
 - the size of the Board and the relative balance of independent non-executive directors which may prevent the independents from having significant influence on the Board.

These issues are considered below.

Executive membership

- 3.4 A number of respondents considered that boards are most effective where there is a balance between executive and non-executive directors. Respondents considered that where the board consists entirely of non-executives, there will be an inevitably lower level of knowledge of the business within the board than experienced by other water companies. Respondents suggested it would be difficult for the Thames Water Board to be fully conversant with the range of operational, customer service and regulatory challenges facing the company without executive membership and considered there is a risk that the Board would be unable to respond quickly to urgent issues.
- 3.5 Independent Audit Limited responded to our consultation. Independent Audit highlighted the importance of a unitary board such that executive and non-executive directors take shared responsibilities for meeting the board's responsibilities and for any decisions taken.

- 3.6 A number of respondents, including Northumbrian Water and Yorkshire Water, considered it was particularly important that Thames Water is able to exercise sound governance because it serves the greatest number of consumers of any company in England and Wales and its high profile has a significant bearing on the reputation of the industry. Respondents considered this concern was heightened with recent service failures in respect of leakage and the investigation over the integrity of data reported to us, although these issues arose under Thames Water's previous ownership.
- 3.7 Some respondents considered we should consider licence amendments to secure better governance if Kemble did not agree to executive board membership. However, one respondent suggested we should not be prescriptive on board structure for the industry as a whole as this may be detrimental to other companies where boards operate effectively.
- 3.8 The Environment Agency raised concerns that the relationship between the Board and the day-to-day management of the company was not clear, particularly with respect to accountability and responsibility for environmental management and delivery of the water resource plan.
- 3.9 In its response to us, Kemble considered that governance and accountability were clear within the proposed board structure. Kemble considered that the separate Supervisory Board/Management model operates successfully in many large European companies including regulated utility businesses. Kemble also provided further assurances as to how the proposed governance arrangements would operate in practice.

Balance of the Thames Water Board

- 3.10 CCWater questioned whether the independent non-executive directors will be truly independent given their nomination by Kemble. CCWater also asked for disclosure of details of all of the directors and their professional background so as to be assured that the Board has the required range of skills needed given the size and importance of Thames Water.
- 3.11 Condition P of Thames Water's licence requires it to appoint not less than three independent non-executive directors to the Board. Condition P requires these directors to be persons of standing with relevant experience, with collective connections with and knowledge of the areas within which Thames Water provides water and sewerage services and an understanding of the interests of its customers and how these can be respected and protected. Kemble has confirmed that it will comply with this licence requirement.

- 3.12 Independent non-executive directors have an important role to play in ensuring governance arrangements are effective. Appointment of three independent non-executive directors to the Board of Thames Water is consistent with the minimum requirement already set down Thames Water's licence Condition P.
- 3.13 CCWater raised a concern that it was not aware that Kemble proposed that any board member would be responsible for supervising consumer affairs and raised a concern that the consumer interest was not at the forefront of Kemble's strategy.
- 3.14 Kemble proposed a number of actions to ensure customer services receive an appropriate level of visibility within the board of Thames Water. The actions proposed by Kemble are (i) to appoint a non-executive director as the main board contact for CCWater to provide an independent avenue for concerns about the company's performance to be raised and discussed, (ii) invite CCWater to periodically attend full board meetings and (iii) consider further formal engagement by the appointed non-executive director, Thames Water board and executive management team with CCWater and Ofwat on customer service issues.
- 3.15 A number of respondents considered that the investor representatives would swamp the perspective of the independent non-executive directors and may prevent the Thames Water Board from ensuring that the ringfencing licence conditions are met in their entirety. Respondents also expressed views that it will be a challenge for the Thames Water Board to meet the principle of the Combined Code on Corporate Governance which states that the board should not be so large as to be unwieldy.
- 3.16 Independent Audit considered that effective board governance should still be possible with a small proportion of independent non-executive directors. Independent Audit suggested this was dependent on the performance of the Chairman and a clearly defined role of the board. Independent Audit suggested that the balance of independent non-executive directors could be best addressed by ensuring they have significant influence at committees and by putting in place a Consumer Interest Committee to increase the influence of the independent non-executive directors.

Conclusions on board structure and the balance of the Thames Water board

- 3.17 We have considered the views of respondents and raised these issues with Kemble.

- 3.18 Kemble emphasised it is committed to ensuring that the Board structure and governance of Thames Water works effectively and to the satisfaction of customers and stakeholders. In recognition of the issues raised by respondents, Kemble will remove three of the shareholder appointed non-executive directors from the Board of Thames Water and change the status of the Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer from attendees and observers at the board to directors of the Board. We have reflected on these revisions to the structure of the Thames Water Board proposed by Kemble in reaching our overall conclusion on this matter.
- 3.19 The directors on the Board of Thames Water owe their duties to the company. Disclosure of director's details and their professional background is a matter for Kemble. We have consistently stated that it is not for us to manage the water companies. There is no single correct set of governance arrangements for a water company and the onus must be on the company to ensure it discharges its functions effectively.
- 3.20 Kemble has told us that, consistent with the guidelines laid out in the Combined Code, it will conduct an effectiveness review of the Thames Water Board's governance arrangements within the next six to twelve months. On balance, we consider the revisions to the board structure explained above and this future review, mean there is no need for regulatory intervention at this time. We will look carefully at the outcome of the effectiveness review to be assured that the new board structure works in the interests of consumers as well as shareholders.
- 3.21 We expect Thames Water to meet its responsibilities to consumers. We will continue to monitor how Thames Water performs and take action where necessary.

4. Role of the new owners

- 4.1 Thames Water needs the active co-operation of its owner in carrying out its functions as a water and sewerage undertaker and complying with the conditions of its appointment.
- 4.2 Thames Water currently has Condition P in its licence that required it to obtain legally enforceable undertakings from its previous owners.
- 4.3 The companies giving the undertakings are required to:
- give the regulated business any information it needs to comply with its licence;
 - refrain from any action that could cause the regulated business to breach its licence; and
 - maintain a minimum of three independent non-executive directors on the board of the regulated business.
- 4.4 The company's existing Condition P will be amended to require Thames Water to obtain these undertakings from its Ultimate Controller and where its Ultimate Controller is not the UK holding company, from the UK holding company.
- 4.5 Kemble has suggested that the following entities should provide Condition P undertakings to Thames Water:
- Kemble Water Holdings Limited as the UK holding company.
 - MEIF Luxembourg Holdings SA as a joint ultimate controller and the most appropriate entity within the MEIF structure to provide the undertaking.
 - MEIF II Luxembourg Holdings Sarl as a joint ultimate controller and the most appropriate entity within the MEIF II structure to provide the undertaking.
- 4.6 CCWater Thames raised a concern that a sale of further stakes in Kemble International Holdings Limited by MEIF or MEIF II, as the joint ultimate controllers, could lead to each Macquarie group company holding no more than a nominal amount in Kemble Water Holdings. CCWater considered it would be impossible to determine the Ultimate Controller under such circumstances.

- 4.7 We have examined Thames Water's ownership structure and it is our view that the appropriate entities within the MEIF and MEIF II corporate structures, as discussed in the consultation paper, should provide the Ultimate Controller undertakings. Ultimately however, it is for Thames Water to ensure it obtains the undertakings from the correct body. Thames Water understands that, were this not the case, it would be in breach of its licence and we would have to consider taking appropriate action. Thames Water's licence already contains a successor clause that requires the company to obtain new undertakings in the event of a change of ownership.
- 4.8 Martin Blaiklock and CCWater Thames raised concerns with how effective the ultimate controller undertakings would be when the entities giving the undertakings are limited partnerships.
- 4.9 The requirements of the ultimate controller undertakings were explained in paragraph 4.3. The limited liability status of Thames Water's ultimate controllers does not affect the content of the undertakings in any way. Ultimately it is the responsibility of Thames Water to ensure it procures legally enforceable Condition P undertakings from the appropriate entities.

Conclusion on the role of the new owners

- 4.10 In light of respondents views and the information presented to us by Kemble (and explained in the consultation paper) we see no reason to dispute Kemble's view of which entities should provide the Condition P undertakings.

5. Financial structure

- 5.1 Kemble propose to transfer all of Thames Water's existing debt into a securitisation structure and refinance some acquisition debt within this structure. This will involve the issuance of new long term bonds ring fenced around the cash flows and obligations of Thames Water and subject to the agreement with the relevant counterparties, the incorporation of certain existing financing arrangements (such as finance lease facilities and existing bond issuance) within the securitised structure. Thames Water intend to incorporate a covenant package in line with other securitisations undertaken by the water companies, including financial and operational covenants, committed liquidity and facilities for capital expenditure, and provisions that restrict or regulate the exercise, acceleration and enforcement rights of secured creditors.
- 5.2 Kemble propose to implement the securitisation to achieve a strong investment grade credit rating for Thames Water. Kemble anticipate that, after the securitisation, there will also be debt held at the holding companies of Thames Water including a limited amount of debt financed by cash flows from the non-regulated businesses of the Thames Water group. This debt would be fully ring-fenced from Thames Water as the regulated entity with no recourse to Thames Water, even for payment of interest in the event of a 'lock-up' at Thames Water. Kemble anticipate that the securitisation will be completed by autumn 2007.
- 5.3 A number of respondents raised concerns with the proposed financing structure of Thames Water. CCWater questioned how an increase in gearing could improve Thames Water's credit ratings and Martin Blaiklock raised a concern that increased leverage may contribute to a decline in the investment grade status of water company debt. CCWater and Martin Blaiklock also raised concerns that future price determinations should not lead to over-generous returns due to Thames Water's financial structure.
- 5.4 As stated above, capital structures are essentially a matter for the companies and the markets; where capital restructuring may bring about tax efficiencies these would be passed to customers at the next review as part of the established regime.

- 5.5 Consistent with the licence requirements of other companies, Thames Water's ring fencing licencing conditions require it to maintain an investment grade credit rating when it issues corporate debt. Given the nature of the financing proposals, we proposed in the consultation paper that Thames Water's licence be amended so that Thames Water be required to maintain an investment grade issuer credit rating. This is consistent with the licence conditions of Anglian Water, Southern Water and Dŵr Cymru Welsh Water who have developed structures with similar characteristics to the Thames proposal. The issuer rating reflects the financial capacity of the corporate entity and therefore its ability to raise capital or maintain access to liquidity in the future. Any significant adverse changes to the rating would provide us with an early signal that the company's ability to raise future finance was at risk.

Next steps on financial structure

- 5.6 Kemble is targeting a strong investment grade credit rating for Thames Water. We understand rating agencies are in the process of formally considering the financing proposal.
- 5.7 A strong investment grade credit rating will provide headroom above the floor for investment grade credit quality. We consider headroom against this floor important as a safeguard against future uncertainties. The proposed introduction of the cash lock-up licence condition, which will prohibit, subject to certain limited exceptions, and without our prior consent, the transfer of cash or other assets to an associated company in certain circumstances where the company's investment grade credit rating is threatened, will further protect the consumer interest.
- 5.8 However, we reserve our final position on the financial structure pending the reviews by the credit rating agencies. We will publish our conclusions on the financing structure once these reviews are complete in early summer.

6. Licence modifications

- 6.1 In our consultation paper we stated that we propose to amend Thames Water's licence to:
- require Thames Water to maintain an investment grade issuer credit rating;
 - modify Condition P to reflect the new ownership of Thames Water;
 - include the cash lock up provision; and,
 - introduce conditions relating to adequate systems of planning and internal control.
- 6.2 Respondents supported the proposed licence amendments, but some respondents suggested a number of other amendments to further protect the consumer interest.
- 6.3 CCWater Thames suggested that the condition relating to adequate systems of planning and control should be strengthened by stipulating that internal controls should include risk management.
- 6.4 Adequate systems of planning and control will implicitly include controls around risk and its management. In addition, companies are required as part of their licence to have regard to The Combined Code on Corporate Governance. The Combined Code suggests companies should consider the Turnbull guidance in maintaining a sound system of internal control, which suggests that a sound system of internal control depends on a thorough and regular review of risk. We consider therefore, there is no need for Thames Water's licence to be explicit on this point or for Thames Water's licence to be any different to other companies in this respect.
- 6.5 Martin Blaiklock considered that the owners of Thames Water should be required, under the licence of Thames Water, to publish an annual report and to face customers at a stakeholder meeting. Martin Blaiklock considered such a licence requirement should be extended to all companies.
- 6.6 Martin Blaiklock's suggestion is analogous with an annual general meeting, the purpose of which is for shareholders to take part and to decide on matters associated with their membership. We consider it is for each company to manage its relationship with its stakeholders. It is not appropriate therefore that we extend such a condition to company licences.
- 6.7 One respondent suggested that Thames Water's licence should be amended to prevent it from selling any of the office buildings to Kemble, who could then charge Thames Water a rental charge.

- 6.8 Each water company is required by its licence to ensure it retains sufficient rights and assets to enable the affairs, business and property to be managed in the event of special administration. In the event of a sale and leaseback arrangement with an associate, the company is required by its licence to ensure the transactions are at arm's length. We monitor the compliance of companies with these licence conditions and take action where appropriate. There is therefore no need for any further amendment to Thames Water's licence.
- 6.9 A respondent suggested that licence amendments should be introduced to encourage investment by Thames Water in its staff as a method of increasing motivation. This is a matter for the management of the company and is not appropriate to be contained in a licence condition.
- 6.10 Martin Blaiklock suggested that Thames Water should place an 'on-demand' bond to an amount equal to the regulated capital value of the company, which could be called for the full amount should Thames in any way breach its statutory duties, including its duties to invest in its operations.
- 6.11 There would be a significant cost to Thames Water of reserving such a bond, which would ultimately be passed to customers. The powers available to Ofwat, which include enforcement action and imposition of a financial penalty where a company contravenes the conditions of its licence, provide sufficient protection to consumers.

Conclusion on licence modifications

- 6.12 We have considered the proposals raised in response to our consultation and we see no need for additional licence amendments. The amendments we propose to the licence of Thames Water will be consistent with those proposed in our consultation paper.
- 6.13 These changes will be made following a notice under section 13 of the Water Industry Act 1991 (as amended).

Annex 1 – Respondents to our Consultation

We received responses from the following:

Yorkshire Water Services Limited

Northumbrian Water Limited

Environment Agency

Independent Audit Limited

Martin Blaiklock

Consumer Council for Water Thames

Josie Lewis

We received four confidential responses.

Annex 2 – Members of the Kemble Consortium

- **Kemble Water International Holdings Ltd**
Comprising
 - Macquarie European Infrastructure Fund LP
 - Macquarie European Infrastructure Fund II
 - Macquarie Diversified Infrastructure Fund
 - Macquarie-FSS Infrastructure Trust
 - Macquarie PRISM Pty Ltd
 - LODH Macquarie Infrastructure Fund LP

- **Stichting Pensioenfonds ABP**
- **Alberta Investment Management**
- **AMP Capital Investors**
- **Australian Super Pty Ltd**
- **British Columbia Investment Management Corporation**
- **United Super Pty Ltd**
- **Finpro SGPS SA**
- **Motor Trades Association of Australia Superannuation Fund Pty Ltd**
- **OPSEU Pension Trust**
- **Stichting Pensioenfonds voor de Gezondheit, Geestelijke, en Maatshappelijke Belangen**
- **Queensland Investment Corporation**
- **Santander Private Equity**
- **SAS Trustee Corporation**

Description of Consortium members

Macquarie European Infrastructure Fund LP (MEIF)

MEIF is a diversified pan-European infrastructure fund, established in April 2004. At its final closing in June 2005, MEIF had commitments of €1.5 billion from leading institutional investors. Its mandate is to invest in a portfolio of infrastructure assets located in European OECD countries. To date, it has investments in a variety of infrastructure sectors including transport, ports, ferries and utilities.

Macquarie European Infrastructure Fund II (MEIF II)

MEIF II is a follow-on fund to MEIF with similar commercial terms but with a broader geographic mandate across the expanding European Union. It has raised total commitments of €4.618 billion and aims to assemble a diversified portfolio of eight to 15 assets.

Both MEIF and MEIF II are managed by the same investment manager which is a member of the Macquarie Group, a leading global investor and manager of infrastructure businesses. Members of the Macquarie Group manage more than £23 billion in equity invested in infrastructure around the world through a range of listed and unlisted vehicles. Infrastructure investments managed by Macquarie include assets in the transportation, water, telecommunications and energy sectors in the UK, Germany, Portugal, Italy, France, Sweden, Denmark, the Netherlands, Belgium, Canada, US, Australia, Korea, Japan and South Africa. Macquarie aims to manage investments in infrastructure assets profitably and responsibly, and aims to responsibly develop public infrastructure assets.

MEIF has just over 30 underlying investors and MEIF II has just over 100, all of whom participate in the funds by becoming limited partners in, respectively, the MEIF and MEIF II partnerships. Kemble has informed us that as MEIF and MEIF II are limited partnerships, as a matter of limited partnership law, the underlying investors and limited partners cannot take part in the day to day management affairs of the funds.

Macquarie Diversified Infrastructure Fund (MDIF)

MDIF is a Bermudan Trust, the trustee of which is Macquarie Infrastructure Private Trustee Company (MIPTC), and the manager of which is Macquarie Specialised Asset Management (Bermuda) Limited (MSAM). Both MIPTC and MSAM are subsidiaries of Macquarie Bank Limited (MBL). The Military Mutual Aid Association, a South Korean Pension fund, is the sole holder of units in MDIF.

LODH Macquarie Infrastructure Fund LP (MLODH)

LODH is a joint infrastructure investment vehicle launched by Macquarie and Swiss private bank Lombard Odier Darier Hantsch, aimed at Swiss and other European pension funds as well as high net worth investors.

Macquarie PRISM Pty Ltd (MPP)

MPP is an investment vehicle for Macquarie Private Bank (MPB), and MPB has invested in a number of Macquarie's infrastructure funds and co-invested alongside Macquarie in a range of transactions.

Macquarie-FSS Infrastructure Trust (MFIT)

MFIT is an Australian Unit Trust, the trustee and manager of which is Macquarie Specialised Asset Management, a wholly owned subsidiary of MBL. First State Superannuation Scheme, a New South Wales superannuation scheme, is the sole holder of units in MFIT.

Alberta Investment Management (AIM)

AIM is the part of the Department of Finance of the Province that is responsible for Alberta Province's investment activities. AIM manages C\$61.2 billion in assets as of June 30, 2006. AIM manages capital on a discretionary basis for seven Provincial public sector pension funds, medical research, scholarship and other Provincial endowment funds, and other special and general purpose Provincial funds, including the Heritage Savings Trust Fund.

The AIM minority investors in Kemble Water Limited, PIP2 PX (Thames) Limited and PIP2 GV (Thames) Limited, are Canadian special purpose vehicles, wholly-owned subsidiaries of the Province recently incorporated to make and hold these investments in Kemble Water Limited.

Stichting Pensioenfonds ABP (ABP)

ABP is the sectoral pension fund for employers and employees in service of the Dutch government and the educational sector. ABP currently is the largest pension in Europe and the second largest in the world with approximately €200 billion under management and with over 2,6 million participants. ABP's investment portfolio is internationally diversified. ABP has offices in Heerlen, Amsterdam, New York and in Hong Kong as of the end of this year.

AMP Capital Investors (AMP)

AMP Capital Investors are one of Australia and New Zealand's leading specialist investment managers. AMP manages over A\$97 billion (at 1 August 2006). AMP offers a select range of investment opportunities. They also work in partnership with other leading investment specialists in order to further enhance opportunities for their clients. Their investment management business comprises three core areas:

- traditional markets - where they have a significant market presence and depth of resources, allowing them to create a number of innovative products and investment strategies.
- specialist markets - alternative investments where they have established a competitive advantage through their resources and networks.
- partnerships - leveraging local knowledge and resources of like-minded specialists for the management of international assets.

Australian Super Pty Ltd (Australian Super)

Australian Super commenced operations 1 July 2006 as a result of the merger between Australian Retirement Fund (ARF) and the Superannuation Trust of Australia (STA). AustralianSuper is one of Australia's largest superannuation funds with more than 1.2 million members and over A\$ 20 billion in assets under management.

British Columbia Investment Management Corporation (bcIMC)

bcIMC provides professional funds management services for public bodies and publicly administered trust funds. Public sector pension plans constitute the largest client group and account for 74.9 percent of the assets under bcIMC's administration. As one of the largest institutional investors in Canada, bcIMC offers its public sector trust clients a wide range of investment services and options. With assets under administration of C\$76.3 billion as of March 31, 2006, bcIMC is a Canadian leader in investment funds management. Their clients include public sector pension plans, the Province of British Columbia, provincial government bodies (Crown corporations and institutions) and publicly administered trust funds. bcIMC manages more than 40 pooled investment funds in eight major asset classes. They also manage segregated funds.

Construction and Building Industry Superannuation Fund (C-Bus Super)

C-Bus Super is the national industry superannuation fund for the construction, building and allied industries in Australia. C-Bus Super was established in 1984 and currently has over 450,000 members, with over A\$9 billion in funds under management as at April 2006. C-Bus Super has significant infrastructure holdings in Australia, predominantly through its holdings in the Utilities Trust of Australia and Industry Funds Management.

Finpro SGPS SA (Finpro)

Finpro is an independent Portuguese Holding Company investing in existing companies or in start-ups. Finpro has two different investment targets: infrastructure projects (public or private) or companies operating in all sectors, excluding the finance and real state sectors. Finpro's capital is held by a number of different shareholders including prestigious Portuguese Institutions and Investors, with a special focus on the Rentipar Group, Amorim Group, Caixa Geral de Depósitos Group, and the Portuguese Social Security Fund.

Motor Trades Association of Australia Superannuation Fund Pty Ltd (MTAA SUPER)

MTAA Super is the Australian national superannuation fund for the motor trades and allied industries. MTAA Super was established in 1989 and now has over A\$3.5 billion in funds under management.

OPSEU Pension Trust (OPTrust)

OPTrust manages one of Canada's largest pension funds with assets under management exceeding \$11.8 billion. They have approximately 75,000 plan members and pensioners.

Stichting Pensioenfonds voor de Gezondheit, Geestelijke, en Maatshappelijke Belangen (PGGM)

PGGM is the second largest Dutch pension fund with net assets of EUR 77 billion and over 1000 employees. It invests to secure the retirement income of over 2 million active and retired employees in the Dutch healthcare and social work sector at the lowest possible price. The fund investments are spread globally over equities, fixed-income, portfolio of strategies, real estate (including infrastructure), private equity and commodities.

SAS Trustee Corporation

SAS Trustee Corporation is trustee of one of the largest superannuation schemes in Australia, managing over 158,586 member accounts and over A\$25.9 billion in assets at 30 June 2005. It covers the investment assets held on behalf of the four closed NSW public sector superannuation schemes: State Authorities Superannuation Scheme, State Authorities Non-contributory Superannuation Scheme, State Superannuation Scheme and Police Superannuation Scheme.

Queensland Investment Corporation (QIC)

QIC is one of Australia's largest wholesale fund managers and has extensive infrastructure experience and investment capability. QIC's total assets under management were at just over \$50 billion (US\$39 billion) as at 31 March 2006. Owned by the Queensland Government, QIC operates as an independent and fully commercial entity under the Queensland Investment Corporation Act (1991). QIC comprises 385 employees. QIC invests both locally and globally, across all sectors, including the more innovative classes of alternative investments, private equity, infrastructure and biotechnology. QIC Infrastructure was established in January 2006 and forms part of the broader QIC Private Capital Division - a 100% subsidiary of QIC. This division manages over \$5.5 billion of unlisted investments. The Infrastructure team is comprised of executives who have significant prior experience in operating, investing and managing infrastructure assets in both Australia and the UK. The amount of the initial commitment, which has been allocated to the QIC Infrastructure Portfolio from its clients, is approximately A\$2 billion. QIC's investment objective is to achieve a diversified portfolio of infrastructure investments across lifecycle, sector and geography.

Santander Private Equity

Santander Private Equity is part of the Asset Management Division of the Santander Group which has over €140 billion AUM from Pension Funds, Mutual Funds, and separate discretionary accounts. Santander Private Equity is specialised in managing third party investments in Infrastructures, non listed companies, and funds-of-PE funds. Santander Private Equity's investment focus is in those countries where the Santander Group has presence. Santander Private Equity style is characterized by long term investments in Infrastructure Assets.