



**Tideway**

# **BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE**

**HOLDING COMPANY PRINCIPLES  
JULY 2016**

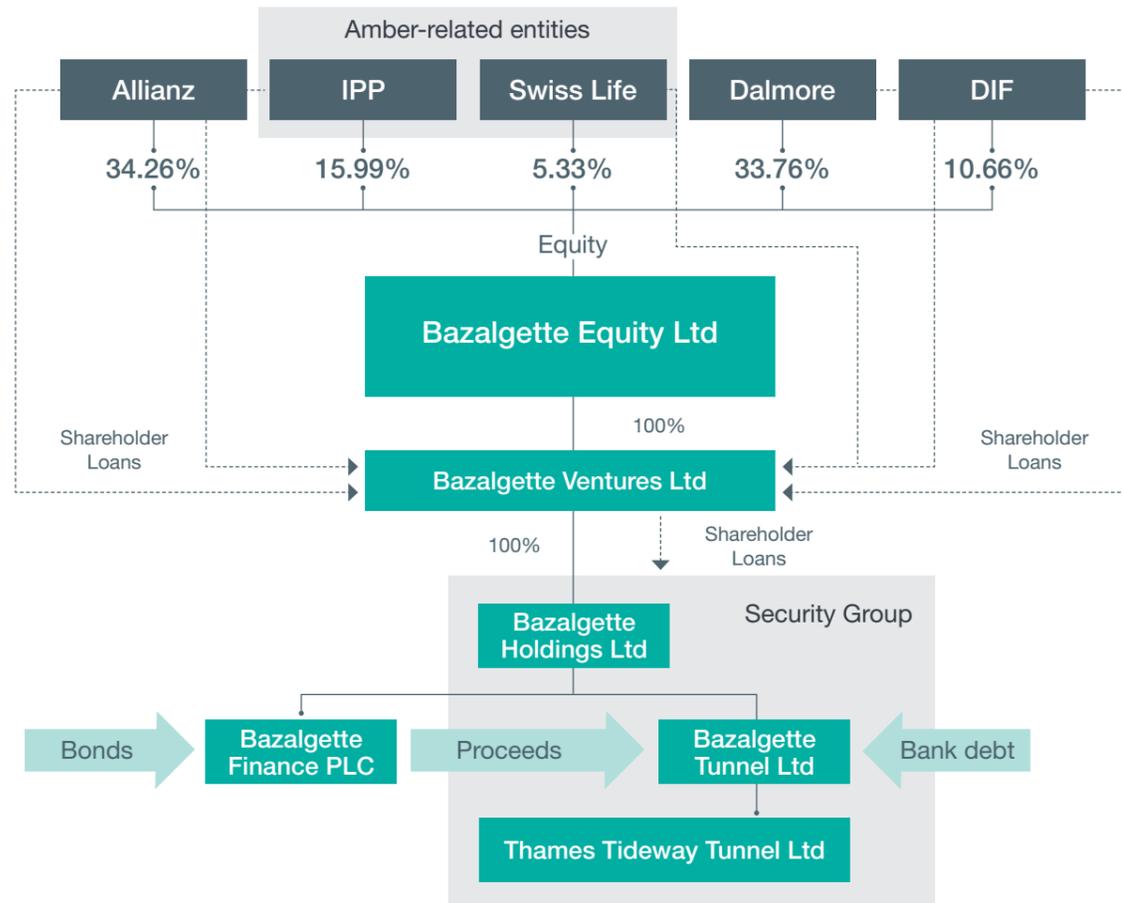


# Board Leadership, Transparency and Governance

*holding company principles*

Bazalgette Tunnel Limited, trading under the name of Tideway, began operating as an independent regulated water company when, in August 2015, Ofwat awarded us our licence to design, build, commission and maintain the Thames Tideway Tunnel. Since the Project Licence, we have implemented an effective governance framework for the Tideway group. This document sets out how we meet the principles outlined in Ofwat's publication (April 2014): Board leadership, transparency and governance – holding company principles.

**Figure 1**  
Structure of the  
Tideway group of  
companies



## TIDEWAY GROUP STRUCTURE

Bazalgette Tunnel Limited is a separate self-standing, independent utility. Bazalgette Tunnel Limited is part of a group of companies. Its immediate parent company is Bazalgette Holdings Limited, which is in turn wholly owned

by Bazalgette Ventures Limited, and its ultimate holding company is Bazalgette Equity Limited. The structure of the Tideway group of companies is shown in Figure 1 and the role of each company is described in Table 1.

Name	Registration Number	Place of Registration	Description
Bazalgette Tunnel Limited	9553573	England and Wales	The Infrastructure Provider entity licenced by Ofwat to design, build, commission and maintain the regulated assets of the Thames Tideway Tunnel. It lies within the security ring-fence.
Bazalgette Holdings Limited	9553510	England and Wales	Bazalgette Tunnel Limited's immediate holding company, established to act as the vehicle where the Secretary of State would inject funds if required. It lies within the security ring-fence.
Bazalgette Ventures Limited	9553461	England and Wales	The holding company of Bazalgette Holdings Limited. It was established to act as the vehicle for shareholder loan funding.
Bazalgette Equity Limited	9553394	England and Wales	The ultimate holding company of the group. It was established to act as the vehicle for shareholder share capital funding.
Bazalgette Finance plc	09698014	England and Wales	A sister company of Bazalgette Tunnel Limited and financing subsidiary of Bazalgette Holdings Limited established to be the issuer of public market bonds. It will on-lend the proceeds of any bond issuance to Bazalgette Tunnel Limited. It lies within the security ring-fence.
Thames Tideway Tunnel Limited	08751040	England and Wales	A subsidiary of Bazalgette Tunnel Limited that provides employees and contracts to Bazalgette Tunnel Limited through a Management Services Agreement. It was transferred from Kemble Water Eurobond Plc to Bazalgette Tunnel Limited at licence award via a Business Sale Agreement. It lies within the security ring-fence.

**Table 1**  
The role of  
each company

# Board Leadership, Transparency and Governance

## holding company principles

### OUR OWNERS

The Company is owned by a consortium of investors. Further information on our equity investors and the equity interests of each as at July 2016 are summarised in Table 2.

**Table 2**  
Shareholder  
description and  
effective equity  
interests

Shareholder and Shareholding	Description
Allianz Infrastructure Luxembourg I S.a.r.l. <b>34.26%</b>	The Allianz Group is a leading global financial services group, active in insurance and asset management. It has assets under management in excess of €1.8 trillion and a market capitalisation of over €65bn. The investment in the Company is funded from the balance sheets of various Allianz Group insurance companies, with over 60% coming from the German life insurance business.
Dalmore Capital 14 GP Limited <b>33.76%</b>	Dalmore is an independent fund manager based in London, with over £1.7bn of investors' funds under management. For the purpose of investment in the Company, Dalmore has established a single purpose fund which has secured commitments from some of the UK's leading pension funds, as well as from a number of European infrastructure investors.
IPP (Bazalgette) Limited <b>15.99%</b> Bazalgette (Investments) Limited <b>5.33%</b> (Both Amber related entities)	Amber is a developer, financial adviser and manager of infrastructure projects. It looks after funds for more than 2,000 public and private sector investors, and has assets under management of c. £5bn. It manages four infrastructure funds, including International Public Partnerships Limited (IPP), which is listed on the London Stock Exchange and has a market capitalisation of over £1.1bn. Amber manages the IPP and Swiss Life Holding AG (Swiss Life) investments in the Company, which are respectively held through IPP (Bazalgette) Limited and Bazalgette (Investments) Limited. Swiss Life is the largest life insurance company in Switzerland, with a market capitalisation of c. CHF 7bn.
DIF Bid Co Limited (UK) <b>10.66%</b>	DIF is an independent fund management company with c. € 3.2 billion of funds raised. Through five investment funds, DIF invests in high-quality infrastructure assets that generate long-term, stable cash-flows, including Public Private Partnership projects (PPP/PFI/P3), renewable energy projects and other core infrastructure projects in Europe, North America and Australia. DIF Management Holding BV directly or indirectly owns and/or manages all of the DIF entities in the corporate structure above Bazalgette Equity Limited. DIF Management UK Limited is the topmost UK company in the DIF corporate structure. The source of DIF's share of equity funding for the project comprises long term pension fund, insurance and fund of funds investors.

Condition K undertakings in respect of Bazalgette Tunnel Limited have been provided by the ten entities listed in Table 3. Bazalgette Tunnel Limited has written to each of those entities to advise that in order to ensure that it complies with the Project Licence obligation to procure from each Ultimate Controller a legally enforceable undertaking, it is essential that it is kept abreast of any change of ownership, control or

influence that might affect the assessment of which entities satisfy the definition of "ultimate controller".

Each shareholder also provides Bazalgette Tunnel Limited an updated and certified structure chart on a six monthly basis. Common directorships across the Tideway group of companies also enables information flow between the companies.

No.	Entity	Type of Undertaking
1	Allianz Infrastructure Luxembourg I S.a.r.l.	Ultimate Controller
2	Dalmore Capital Limited	Ultimate Controller
3	Dalmore Capital 14 GP Limited	Ultimate Controller
4	Amber Infrastructure Group Holdings Limited	Ultimate Controller
5	International Public Partnerships Limited	Ultimate Controller
6	Hunt ELP, Ltd.	Ultimate Controller
7	DIF Management Holding BV	Ultimate Controller
8	Bazalgette Equity Limited	UK Holding Company
9	DIF Management UK Limited	UK Holding Company
10	Bazalgette Finance PLC	FinCo

**Table 3**  
Entities providing  
Condition K  
undertakings

### FINANCING

Bazalgette Tunnel Limited is financially and operationally 'ring-fenced' from the rest of the Tideway group by way of a whole business securitisation. The securitisation has further enhanced the ring-fencing provisions already in our licence. The sole business of Bazalgette Tunnel Limited's immediate holding company, Bazalgette Holdings Limited, is holding the shares of Bazalgette Tunnel Limited and Bazalgette Finance plc. Bazalgette Finance plc has been established to be the issuer of bonds. It will on-lend the proceeds of any bond issuance to Bazalgette Tunnel Limited, who will guarantee the debt raised by Bazalgette Finance plc. The platform that will enable Bazalgette Finance plc to raise bonds in the market has been established and the bonds are now listed with the UK Listing Authority.

In 2015, Bazalgette Tunnel Limited signed a £1bn Revolving Credit Facility from a bank syndicate, and it may seek to raise bank debt to supplement the bond debt raised by Bazalgette Finance plc to finance its investment programme. Our investors have committed £1.3bn to fund the Tideway group's investment programme. They will provide up to £510m in the form

of shareholders equity and up to £764m in the form of shareholders loans. as at 1 July 2016, £564m has been received from shareholders. The combination of the Tideway group's cash balance as of 31 March 2016, plus the outstanding commitment from our shareholders and the available RCF mean that the group has got £2bn available to finance its £3.1bn investment programme.

The Tideway group's financing structure is similar to that of other regulated UK water companies, and it aims to provide the Tideway group with access to the long-term capital markets. This will result in a lower cost of capital, which will ultimately benefit customers.

The Tideway group has listed bonds and therefore its policy is to comply with the Listing Rules and Disclosure and Transparency Rules to the extent that they apply.

An integral part of the Tideway group's financing strategy is to maintain an investment grade credit rating. Moody's has given Tideway a Baa1 Corporate Family Rating, and our revolving credit facility has been rated BBB+ by Fitch.

Table 4 set out the funds committed to date by each shareholder.

# Board Leadership, Transparency and Governance

## holding company principles

**Table 4**  
Funds committed by shareholder. The noted outstanding amounts are fully backed by irrevocable and on-demand Letters of Credit which were put in place at licence award.

Completion Date	Allianz Infrastructure Luxembourg I S.a.r.l.	IPP (Bazalgette) Limited	Bazalgette (Investments) Limited	Dalmore Capital 14 GP Limited	DIF Bid Co Limited (UK)	Total
Total funds committed to date	£192,842,867	£93,881,487	£30,138,829	£193,268,762	£54,255,908	£564,387,853
Outstanding*	£243,172,549	£113,480,523	£37,826,842	£239,660,056	£75,653,680	£709,793,650
Maximum Funding Amount	£436,015,416	£207,362,010	£67,965,671	£432,928,818	£129,909,588	£1,274,181,503

### HOLDING COMPANY DIRECTORS

The Board of Bazalgette Tunnel Limited comprises five independent non-executive directors (including the independent Chairman) which makes the independent directors the largest single group on the Board. The limited nature of the Shareholder Reserved Matters requiring shareholder approval are set clearly articulated in Table 6 and ensure that the board of the regulated company, Bazalgette Tunnel Limited is the leading the company both in terms of accountability and legitimacy. Furthermore, the Shareholders' Agreement entered into on licence award contains legally binding on-going commitments to maintaining an independent board and ensuring Bazalgette Tunnel Limited can make strategic and risk management decisions. The significant independent representation and limited reserved matters help ensure that the Bazalgette Tunnel Limited Board is independent and in control of the regulated business and able to operate in a sustainable way in line with the long-term nature of the sector.

Each shareholder controlling 10% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint one Director to the Boards of Bazalgette Equity

Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited. Each shareholder controlling 20% or more of the ordinary shares of Bazalgette Equity Limited and loan notes of Bazalgette Ventures Limited is entitled to appoint a second Director to the Boards of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.

The directors of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited as at July 2016 are shown in Table 5.

Those directors denoted "\*" are also directors of Bazalgette Tunnel Limited. Their interests in Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited are fully disclosed at the level of Bazalgette Tunnel Limited. All directors of each of the Tideway group of companies are required to complete and return to the Company Secretary self-declaration of interest forms in order for the Company Secretary to keep a register of interests.

Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited hold meetings at least quarterly and this is a requirement under the Shareholders' Agreement.

**Table 5**  
Tideway group companies Boards of Directors

Shareholder	No. of Directors	Directors
Allianz	2	Jaroslava Korpanec* and Mr. Christoph Holzer
Amber	2	Gavin Tait* and Ms Amanda Woods
Dalmore	2	Alistair Ray* and Mr. Michael Ryan
DIF	1	Moira Turnbull-Fox*

### SHAREHOLDER RESERVED MATTERS

There are a limited number of matters reserved by Bazalgette Tunnel Limited's Board for approval by shareholders. Table 6 below describes the shareholder

reserved discretions (requiring approval of shareholders holding 75% of equity interest). Table 7 describes the shareholder reserved discretions requiring approval of shareholders holding 90% of equity interest.

Shareholder and shareholding	Description
General corporate	General corporate matters relating to the issue of any shares in any Tideway group company.
Incurring of commitments, liabilities etc.	Incurring of commitments, liabilities etc. unless contemplated by the annual Business Plan or Budget.
Acquisitions or disposals	Disposals, acquisitions and capital expenditure over £50 million or not contemplated by the annual Business Plan or Budget.
Accounts, auditor	The change of the company accounting reference date, the removal or appointment of auditor's and any change to the accounting policies except where required as a consequence of a change in IFRS, GAAP or law.
Manner of carrying on business	<p>Entering into or materially changing a material contract to the extent not contemplated by the annual Business Plan or Budget.</p> <p>Substantial alteration in the nature of the business or cessation of the business.</p> <p>Approval of or making amendments to the Project Licence, Business Plan or Budget, which would result in additional expenditure or indebtedness over £50 million.</p> <p>Entering into any guarantee in excess of £50 million.</p> <p>The appointment or removal of an Executive Director to the Board, as recommended by the Nominations Committee.</p> <p>The conduct of litigation and claims involving any Tideway group company where the potential liability may exceed £50 million.</p> <p>Any material submission or application to Ofwat, whether pursuant to the licence or otherwise.</p> <p>Any request that Ofwat refer a matter to the Competition and Markets Authority.</p> <p>The submission of any material tax claim, disclaimer, election or consent.</p> <p>The issuances or withdrawal of notices pursuant to the Government Support Package.</p> <p>The replacement of a Main Works Contractor, System Integrator or Project Manager during the Construction Period.</p> <p>The appointment of a Tideway representative to the Liaison Committee and any voting in relation to material variations to the scope of the project.</p> <p>The approval of or entry into a related party transaction.</p>

**Table 6**  
Shareholder Reserved Matters requiring 75% approval

# Board Leadership, Transparency and Governance

*holding company principles*

**Table 7**  
Shareholder  
Reserved Matters  
requiring 90%  
approval

Shareholder and shareholding	Description
Partnership, joint venture or other agreement	Entering into any partnership, JV or other profit sharing agreement in excess of the materiality threshold.
Articles and board composition	A change to the articles, acting contrary to the articles and a change to the Board composition requirements in the Shareholders' Agreement.
Share denomination	Any consolidation or re-denomination of any shares.
Share redemptions or buybacks	The redemption or purchase by Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited of any share or the reduction of its share capital or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account.
Winding-up or liquidation	Any proposal for the winding-up or liquidation of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited.
Control of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited	Any arrangement whereby the directors no longer determine the general policy, scope of activity and operation or major decisions of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited.
Paying up of share capital or debentures	The paying up of any share capital or debenture or debenture stock of Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited by way of capitalisation or application of any profits or reserves.
Schemes or arrangement and demergers	The proposal of any compromise or arrangement within the meaning of section 895 of the Companies Act 2006 or any arrangement pursuant to which Bazalgette Equity Limited, Bazalgette Ventures Limited or Bazalgette Holdings Limited is to make a distribution of the kind described in section 1075 of the Corporation Tax Act 2010.

## HOLDING COMPANY GOVERNANCE

The board of Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited are committed to best practice in corporate governance and have demonstrated that commitment through the matters discussed above (i.e. maintaining an independent board at the regulated company level and the limited reserved matters) as well as ensuring that governance related matters are considered at each board meeting. In addition, the holding companies benefit from the governance training provided for the common directors of the regulated entity.

To date, there have been no material issues identified or disclosed by Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings

Limited to Bazalgette Tunnel Limited. The common directorships across the group of companies, regular briefings/training and regular board meetings provide sufficient opportunity for such issues to be identified and disclosed should they arise in future.

In addition, the Tideway group of companies benefit from responsible and transparent governance arrangements set out in the Shareholders' Agreement entered into on licence award.

Bazalgette Equity Limited, Bazalgette Ventures Limited and Bazalgette Holdings Limited will continue to monitor best practice in corporate governance and will describe any material changes to its processes as appropriate in future years.