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Sir Robert Goodwill  
Chairman  
Environment Food and Rural Affairs Select Committee  
House of Commons

**By Email**

2 December 2023

Dear Sir Robert

## FT article on Thames Water's finances

We are writing to provide detailed information clarifying the position in respect of the additional funding provided by Thames Water shareholders earlier this year and in particular to correct any misunderstanding that may follow from the article by Gill Plimmer and Robert Smith in the Financial Times yesterday, headlined 'Thames Water owners pile group with debt'.

The implication of this article was that the £500m of equity funding received by Thames Water Utilities Limited (TWUL, i.e. the regulated company) in March 2023 added to the financial burden of Thames Water Utilities as opposed to being equity funding. This is not correct.

Confusion may have arisen from the fact that, usually, equity funding is provided in exchange for an ownership interest in a company. The additional funding raised by us earlier this year came from our existing external shareholders, who already own 100% of TWUL. The ownership structure of TWUL was usefully set out in the article (which refers to TWUL, the regulated entity, as 'Thames Water Utilities'). Given this structure, as a matter of corporate law, it is not possible for the external shareholders directly to subscribe for £500mn of shares in TWUL. Instead:

- In March 2023 as set out in the Financial Times article the external shareholders loaned £500m to Kemble Water Holdings. TWUL has **no obligation** in respect of this loan therefore it **does not increase** the debt burden of TWUL. These funds were provided by our external shareholders not third parties.
- Kemble Water Holdings loaned this £500m to Kemble Water Eurobond who purchased c.£480m of shares in Kemble Water Finance and also settled monies owed to Kemble Water Finance, bringing the total sums received by Kemble Water Finance to £500m.
- Kemble Water Finance purchased £500m of shares in Thames Water Limited and Thames Water Limited purchased £500m of shares in Thames Water Utilities Holdings. This is how the funds were received by the Thames Water Utilities ring-fenced group (which is what matters) – **as equity**. Thames Water Utilities Holdings then passed the £500m to TWUL as repayment under an intra ring-fenced group loan.

- TWUL therefore received £500m in cash from its existing external shareholders with no obligation to repay this money.

**It is therefore entirely correct and accurate to describe this as £500m of new equity.** To imply, as the Financial Times article does, that £500m received by TWUL represents an increase in the debt of the company is therefore incorrect and misleading.

We should take the opportunity to address certain other points in the Financial Times article, in particular:

- The flow of funds described above would be well understood by the debt investors (mainly UK pension and insurance companies) in TWUL and therefore it is extremely unlikely that they would have concerns. Indeed, TWUL has recently received £300m additional debt investment from the debt markets;
- TWUL is not struggling with high interest rate on its debt. Due to a financially resilient and prudent policy the majority of TWUL debt is fixed rate or linked to the company's revenues (which are linked to inflation through Ofwat's price controls) and therefore the effects of recent interest rate rises have been substantially mitigated.

We are, as you would expect, raising our concerns about the misleading nature of the article with the Financial Times.

The explanation we have provided above is consistent with the evidence we gave to your committee earlier this year, and we hope that by setting it out in this way we have addressed any concern that you may have had about that evidence and our broader public statements earlier this year. We noted in the Financial Times article that Barry Gardiner MP said that he had yesterday asked us to appear before MPs to answer questions. We have not yet received any such request, but we would of course be happy to appear and to answer any questions either in person or in writing.

I am copying this letter to David Black at Ofwat and to David Hallam at Defra.

Yours sincerely,

Cathryn Ross and Alastair Cochran [by email]  
**Interim Co-Chief Executive Officers**