Sir Adrian Montague, CBE
Chairman

Rt Hon Alistair Carmichael MP
Chair, Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA

23 June 2025

[SENT VIA EMAIL]

Dear Mr. Carmichael

Thank you for your letter dated 9 June 2025 in response to my letter dated 30 May 2025. I have provided you with the requested information on behalf of the Company in this response.

Development of Management Retention Plan (MRP)

The MRP has been designed as a retention tool, rather than to reward performance. The MRP was designed to ensure stability amongst a small number of individuals considered to be critical to both the Company's restructuring process and ongoing operational improvement, where the expectations on our leadership team have been heightened for a significant period of time (expected to continue for the year ahead) and whilst there is significant uncertainty regarding the future of the business.

There have been a large number of changes in the leadership team of Thames Water throughout AMP7 – for example, during the financial year ending 31 March 2025 eight members of our senior leadership team resigned from the Company (c. 20%). We are also aware that in the currently competitive market approaches are regularly made to our team members. It is essential that we identify, recruit and retain the highest calibre of talent with the skillset to deliver the transformation required for Thames Water, acknowledged as being one of the most complex turnarounds that will take at least 10 years to complete. Our regulators, rightly, expect the Company to have a strong management team in place to facilitate this.

We are pleased that the Committee recognised that stability in the leadership team is important at this turbulent time for the Company.

Decisions on remuneration (within the Company's overall remuneration policy as set by the Board) are reserved for our Remuneration Committee, whose terms of reference are attached at Appendix One.

The Remuneration Committee is an independent Committee of the Board composed only of non-executive directors. The Remuneration Committee is chaired by Ian Pearson who has been a member of the Board since 2014 and a member of the Remuneration Committee since then. Ian replaced Jill Shedden who stepped down in September 2024 after serving six years as Chair of the Committee. Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury.

The Remuneration Committee's membership is currently Ian Pearson (Chair), Sir Adrian Montague (Board Chair), Neil Robson (independent non-executive director) and Nick Land (senior independent non-executive director and Chair of the Audit and Risk Committee). No member of the Executive Team is a member of the Remuneration Committee. Whilst the Company's CEO and Chief People Officer are regularly invited to attend the Committee to provide input, they are not members of the Committee and have no decision-making or voting rights. The Committee meets at least quarterly but in the last two years has met more regularly given the extensive agenda the Company is facing.

The main objective of the Remuneration Committee is to assist the Board in developing and implementing the Directors' remuneration policy, setting the remuneration packages of the Board Chair, the Executive Directors and the Executive Team. The Committee also approves any performance-related pay plan structure and is responsible for setting the targets and measures of any such plan, and approving any payments made to Executive Directors and the Executive Team.

The Remuneration Committee has an overview of the wider remuneration approach within the Company and acts in accordance with corporate governance and market best practice. The Committee is aided in this through the services of a retained advisor which is currently Ellason LLP.

The Remuneration Committee was responsible for considering the merits of introducing a retention-focussed scheme (which is common in restructuring situations, where there is significant uncertainty over an extended period of time), and in particular tested proposals relating to both the payment schedule and the amounts payable, meeting several times to discuss and modify the MRP's proposed terms. Attached at Appendix Two are relevant extracts of the minutes of the meetings of the Remuneration Committee held on 4 November 2024, 18 March 2025 and 1 April 2025 where the terms of the MRP were proposed and approved, together with the relevant board papers.

In view of the significance of the scheme we also took it to the main Board of Thames Water, asking the Board to ratify its terms. Attached at Appendix Three are the relevant extracts of the minutes of the Board meeting held on 2 April 2025 at which the MRP was approved, together with the relevant committee papers.

In developing the MRP we took advice over a period of five months on the structure (including proposed individual opportunity levels) of the MRP. Attached at Appendix Four is the information sourced from Willis Towers Watson (on a publicly available basis), Mercers and Rothschilds as part of this benchmarking exercise. The Remuneration Committee also consulted with Ellason LLP and Teneo, although they did not provide written reports, and sought views of Jefferies (as advisors to the ad hoc group of Class A creditors) in relation to the design and structure of the plan. Mercers were paid a fee of £9,780 (plus VAT) in relation to their advice and all other advisors provided their advice as part of wider engagements or on a publicly available basis.

The data from both Mercers and Willis Towers Watson (WTW) provided analysis based on transaction size, with the Mercers data showing that the average retention payment made to CEOs of companies with a transaction size greater than $500 million was 200% of base pay. The data also showed that payments for longer periods of time were backloaded. The WTW data showed the average budget for retention programmes was 2% of the purchase price.

In the case of Thames Water, the size and complexity of the recapitalisation is the largest in the UK for some considerable time, if not ever, and therefore well above the average scenario. The management have faced exceptional pressure to steer the business through two restructuring processes, under intense media and political scrutiny while under the spectre of falling into special administration. With that in mind, the Committee agreed on a 300% base pay across a two-year programme. For clarity, Thames Water's budget for the retention programme is 0.1% of its regulatory capital value.

The individuals eligible to participate in the MRP are from a variety of teams and levels within the Company including our Executive Team, direct reports to the Executive Team, and SMEs (subject matter experts) deeper within the organisation. In providing more granular information to the Committee about participants, I am concerned not to identify individuals below the Executive Directors in order to respect their personal data, and hope the Committee will accept this approach:

Salary Range	No. of Participants
£101,000 - £200,000	8
£201,000 - £300,000	7
£301,000 - £400,000	4
£401,000 - £500,000	2

The summary above does not include our CEO, Chris Weston, who (as we have confirmed) is not enrolled in the scheme. Julian Gething, our Chief Restructuring Officer, who is also an executive member of the Board is also not part of the MRP. Julian is a Partner & Managing Director at AlixPartners. His services are provided under a commercial contract for provision of Chief Restructuring Officer services to the Group by Julian and his team.

The summary does include CFO (Steve Buck) as it was agreed as part of his joining package that he would receive a retention payment. He is not part of the full scheme in that he only receives a payment in June 2026. However, Steve's payment is also now paused as part of the general pause of the MRP.

A template letter is attached at Appendix Five, which details the terms of the MRP. Participants had to return a signed copy of the letter to accept the terms and become part of the plan before payment was made.

It is important to note that the MRP is not funded by customers. Appendix Six details the flow of funds to make the MRP payments, demonstrating the funds come from the new super senior facility and not from customer bills.

Management Retention Plan Payments

The first payment was made to participants on 30 April 2025 once the first tranche of super senior funding was received. The Board decided to proceed with these payments as there was increased retention risk due to concern and instability amongst the population covered by the MRP. The Board wanted to progress with stabilising the leadership team as quickly as possible once funding was available.

The aggregate amount paid under the MRP on 30 April 2025 was £2,460,203. The same amount would be payable in December 2025 (at the latest) and £10,840,810 would be payable in June 2026, assuming all participants remain eligible for payments. I have set out below details further details:

Salary Range	No. of Participants	Total Payments April 2025	Total Payments Dec 2025**	Total Payments June 2026**
£101,000 - £200,000	8	£638,883	£638,883	£2,555,530
£201,000 - £300,000	7	£861,320	£861,320	£3,445,280
£301,000 - £400,000	4	£750,000	£750,000	£3,000,000
£401,000 - £500,000	2	£210,000	£210,000	£1,840,000
Total*	21	£2,460,203	£2,460,203	£10,840,810

note: the above figures exclude National Insurance payments (c.£2.4 million in total) which have been included in the total cost of the programme.
** *note: paused*

The MRP is structured so that the payments are made provided that the relevant individual remains in employment at the relevant time and has not given notice of resignation. These mechanisms are retention tools to ensure employee retention through until at least mid-2026, which is the expected time period for the recapitalisation transaction. The terms of the MRP also include both malus and retention-related clawback which can be triggered under certain circumstances, for example if an individual resigns within six months of the first or second payment being made the Company has the right to require the repayment of up to 100% of the relevant payment.

Our understanding at the time the MRP was put in place was that these retention payments were permitted under the Water (Special Measures) Act 2025. However, we paused the scheme to await final guidance from Ofwat in relation to the implementation of the relevant aspects of the Water (Special Measures) Act 2025, to ensure the Board's approach to remuneration supports both the Company's turnaround plan and broader public expectations.

We are aware that Ofwat has now published its rules under the Water (Special Measures) Act 2025, which apply to TWUL's directors, and that Ofwat has stated in its guidance that retention payments would fall within the rules if they were in any way contingent on the meeting of any targets or performance standards on the part of the relevant company or the relevant director. The guidance is still relatively new, and we will take the appropriate amount of time to consider the rule and engage further with Ofwat. In addition, as part of any future acquisition arrangements, we would expect a new shareholder to take a fresh view of operations and of how to attract and retain key members of staff. The Board has therefore not taken further decisions on the MRP at this stage.

Status of the Management Retention Plan

DEFRA officials are aware that payments were made under the MRP on 30 April 2025 and there have been no discussions with either DEFRA or Ofwat in relation to recovering those payments which have already been made.

The MRP was and remains paused. As noted above, the Board has not taken further decisions on the MRP at this stage.

KKR bid and alternative options

A comprehensive pre-marketing process in respect of our equity raise was launched in July 2024 after the receipt of Ofwat's draft determination and following initial conversations with infrastructure investors during May and June 2024.

Interested parties were invited into Phase 1 receiving a comprehensive set of information, diligence reports and management sessions. This comprehensive approach to information sharing went beyond what is typical in Phase 1 of an M&A transaction, but was designed to facilitate well-informed bids given the urgent need to recapitalise the Company and drive the transformation of Thames Water.

Upon the conclusion of the Phase 1a process the Company received five non-binding proposals on 5 December 2024, with updated non-binding proposals provided on 10 February 2025 from the same five parties and a further party following the Final Determination at the conclusion of the Phase 1b process.

Thames Water established a committee of the Board to independently review the proposals. Following a detailed assessment of each proposal, the committee concluded that KKR provided the most compelling proposal which was in the best interests of all stakeholders, including customers and the environment. This took into account valuation and the financial effect on stakeholders, regulatory support required, certainty of funding, commitment and work done to date and operational experience.

Despite extensive testing with KKR, KKR would only proceed on an exclusive basis. Therefore, on 31 March 2025 the Company announced that it had selected KKR to enter Phase 2 of the diligence process as preferred partner. Certain senior creditors in parallel progressed work on an alternative proposal to recapitalise the Company. This ensured that competitive tension remained in the bidding process.

The Company also announced on 14 February 2025 its decision to refer its final determination in respect of AMP8 to the Competition and Markets Authority (the "CMA"). The Company and Ofwat agreed on 18 March 2025 to a deferral of the reference for a period of up to 18 weeks (the "CMA Deferral Period") to enable the Company to seek a market-led solution for the recapitalisation process without the need for a CMA reference.

During the CMA Deferral Period, the Company facilitated material and confirmatory diligence by KKR and the senior creditors who are progressing the creditor led proposal, and these parties were speaking directly with Ofwat in relation to the regulatory support which is required in order to facilitate a market-led recapitalisation with particular focus on demonstrating a robust turnaround plan and governance structure and a balance sheet capable of attracting a strong investment grade rating. We have also been regularly keeping Government informed of developments.

There was a scheduled check in point between Ofwat and each of KKR and the relevant senior creditors at the end of May 2025, after 10 weeks of the diligence phase. However, immediately prior to the weekend of 31 May, KKR indicated that there were concerns in relation to obtaining final investment committee approval to submit a proposal to the Company and Ofwat. As has been reported in the press, I spoke to the Prime Minister's Special Advisor on Business and Investment, Varun Chandra, to explore whether the Government would help by addressing KKR's concerns directly.

Following discussions over that weekend, KKR confirmed in writing late on the evening of Monday 2 June that it was not in a position to proceed, and its preferred partner status lapsed. Notwithstanding this, KKR provided its transformation plan and draft transaction documents to the Company, albeit without providing associated economics. The Company announced this development to the market on 3 June 2025.

Beyond saying it was not in a position to proceed, KKR did not expand on its reasons for withdrawing. We note, however, that it has been reported in the press that KKR feared political risk from the transaction and was concerned around recent negative rhetoric directed at Thames Water and the rest of the industry.[1]

The Company also announced on 3 June 2025 that senior creditors had provided their proposed turnaround plan and that it intended to progress discussions on the senior creditors' plan with Ofwat and other stakeholders. We are appreciative of the support our senior creditors are continuing to provide. These senior creditors are members of an ad hoc group of creditors advised by Jefferies and Akin, which represents over 100 institutions and in excess of £13 billion of Thames Water's Class A Debt. A co-ordinating committee of these creditors

[1] https://www.ft.com/content/594937ca-2ff0-4e3f-81c5-9a6cf2508e6a; https://news.sky.com/story/kkr-abandoned-thames-water-rescue-despite-no-10-talks-with-kravis-13378479

has been most directly involved in progressing the development of the alternative proposal, on behalf of the wider group in order to streamline discussions.

The senior creditors have released a summary of their proposal, a copy of which is attached at Appendix Seven. Discussions on this proposal are continuing, and the terms may evolve during those discussions.

Since KKR's withdrawal from the equity process each of CKI and Castle Water approached us to indicate a potential willingness to re-engage. We had discussions with each of these bidders throughout the year long equity process and considered their proposals in March 2025, ultimately deciding not to proceed at that time. Recognising that the process is significantly advanced, we will consider all proposals put to us. However, there is an urgent need to achieve a recapitalisation of Thames Water to deliver the transformation we and our stakeholders want to see. In order to assess whether a proposal is viable, any proposal requires stakeholder support, including from Ofwat and our Class A Creditors. We facilitated meetings between our stakeholders and both parties, although we have been advised that there is not a progressable proposal from either party. The Board therefore continues to take forward the creditor-led proposal.

For completeness we have also been approached by an entity which identifies as Titanium SPV, although we have been unable to verify that such entity exists, and in very recent days we have been approached by an individual connected with the water industry with an outline plan to recapitalise Thames Water by tokenisation of debt but with no or low equity injected.

We remain focused on delivering our recapitalisation transaction as soon as practicable and discussions with relevant stakeholders to evolve the creditor-led transaction will continue in the coming weeks – we and the senior creditors are speaking to Ofwat and other regulatory and government stakeholders on a daily basis, working together to assess and evolve proposals. Our goal, which is what all proposals are tested against, is to achieve a solution which delivers a long-term and sustainable transformation of Thames Water, supported by sufficient equity investment and a balance sheet which is capable of receiving a strong investment grade rating and which has the support of our relevant stakeholders.

The recapitalisation transaction is live and the current focus is on discussions between our senior creditors, Ofwat and the other regulators and Government, which are at an important juncture. The Company is currently being kept up to date on these discussions and since the withdrawal of KKR, the Board has been meeting regularly to oversee the progress of the recapitalisation transaction. We are very conscious of our obligations to update the market with any material non-public information, and we fear that, in these fast-moving discussions, sharing the minutes of the historic Board discussion regarding KKR's proposals might provide a point in time view only which could be out of sync with the current status of the process and could prejudice the current discussions. Rather than releasing minutes in a non-confidential forum, we think it might be better if we offered to hold a more detailed private discussion with you as Committee Chair, and we'd be happy to do so if you thought that might offer an acceptable way forward.

We have undertaken prudent contingency planning, although as you will be aware, SAR is a matter for the Government and Ofwat. SAR is not in the interests of customers, taxpayers, employees or our pension scheme. We continue to believe that a sustainable recapitalisation of the Company is in the best interests of all stakeholders and continue to work with our creditors and stakeholders to achieve that goal.

Immediate financial consequences of KKR’s withdrawal

We have drawn £715 million of the first £1.5 billion of our new super senior financing to date, following a series of waivers where our super senior creditors supported the Company notwithstanding that the conditions precedent to the funding have not yet been met.

As a result of previous waivers and drawings, the Company currently has c. £480 million of cash available, funding the Company through July 2025 and into August. We are currently discussing the next drawing that would provide additional funding into September and an extension of the June Release Condition, and once that is agreed we will launch the next waiver process.

The first tranche of £1.5 billion super senior funding is currently expected to provide liquidity until mid-December, provided that the conditions precedent to further drawings (as set out in Chris Weston’s letter to you dated 30 May 2025) are met or continue to be waived.

Given that we have committed liquidity until mid-December 2025, the Company does not currently require immediate access to the second tranche of £1.5 billion. To the extent that the supported lock-up agreement is entered into at a later date, it would remain possible for the Company to access that funding at such time. If the supported lock-up agreement is not in place at a time at which the Company needs to access funding, we would expect to discuss with our senior creditors and request a waiver of the relevant condition – our senior creditors have provided two waivers under the super senior funding to date and continue to be supportive of the liquidity extension transaction and broader recapitalisation process.

The withdrawal of KKR has had no immediate impact on the MRP, which remains paused.

Your sincerely,

Sir Adrian Montague, CBE

APPENDIX ONE

REMUNERATION COMMITTEE - TERMS OF REFERENCE

Thames Water Utilities Limited

Remuneration Committee Terms of Reference

June 2023

These Terms of Reference set out the specific responsibilities delegated by the Board to the Remuneration Committee (the "Committee") of Thames Water Utilities Limited (the "Company") and detail the manner in which the Committee will operate.

1. Overview

1.1. The main objectives of the Remuneration Committee are to assist the Board in developing and implementing the remuneration policy, to set the remuneration packages of, and targets for, senior executives (which includes the Executive Directors, and the Executive team) and senior management of the company, and to have regard to best practice and the pay and conditions across the Company.

2. Membership

2.1. The Committee shall comprise at least three independent non-executive directors and up to two non-executive directors. The Chair of the board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chair.

2.2. Members of the Committee shall be appointed by the Board, on recommendation of the Nomination Committee.

2.3. The Board shall appoint the Committee Chair who must be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chair of the Board shall not be Chair of the Committee. No member of the Committee shall be entitled to vote (or chair the Committee) in relation to him/herself or his/her own emoluments and benefits

2.4. The Committee may invite any persons (including the CEO, CFO, People Director and external advisers) to attend any meetings or parts of meetings. However, any invited person (including the CEO and CFO) will not be entitled to vote at any meetings or parts of meetings of the Committee.

2.5. Each member of the Committee shall be entitled to one vote.

2.6. The Chair of the Committee shall not be entitled to a second or casting vote in the case of an equality of votes on any matter.

3. Secretary

3.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

3.2. The Secretary shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to all such matters.

4. Quorum

4.1. The quorum for Committee meetings shall be three members, two of whom must be an independent non-executive director.

5. Meetings

5.1. The Committee shall meet at least twice a year.

5.2. Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members.

5.3. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded in electronic form to each member of the Committee, and any other person required to attend, no later than five working days before the date of the meeting. Relevant supporting papers shall be sent to Committee members and other attendees at the same time.

5.4. The attendance of any non-Committee person at the meeting shall be at the invitation of the Committee Chair.

6. Minutes of Meetings

6.1. The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance and the existence of any conflicts of interest.

6.2 Draft minutes of committee meetings shall be agreed with the Committee Chair and then circulated to all members of the committee and once agreed, to all members of the Board.

7. Annual General Meeting

7.1. The Chair of the Committee shall attend the Annual General Meeting, in the event that such a meeting is held, and be prepared to respond to any shareholder questions on the Committee's activities.

8. Duties

The Committee shall carry out its duties for the Company and shall:

8.1. Design, develop and recommend to the Board, the remuneration policy. The policy shall be transparent and designed to promote the long-term success of the Company. The policy should be formally reviewed every three years.

8.2. Design and develop additional policies, standards and practices related to remuneration (where required) to support the Company strategy and promote long-term sustainable success, with senior executive and senior management remuneration aligned to company purpose and values, and demonstrably linked to performance commitments for customers, the environment and shareholder return;

8.3. Agree, in line with the remuneration policy, the total remuneration package of all senior executives and the Chair, including any bonuses and incentive payments. The Board itself or, where required by the Articles of Association, the shareholders, shall determine the remuneration of the non-executive directors and the independent non-executive directors.

When determining the remuneration of senior executives and (where appropriate) senior management of the Company, consideration must be given to the Corporate Governance Code (the 'Code') requirements for clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture;

8.4. Set the performance targets for senior executives and senior management;

8.5. Approve the design of and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments under such schemes;

8.6. Review the ongoing appropriateness and relevance of the remuneration policy and benefits;

8.7. Have regard to pay and conditions across the Company when setting remuneration policy for the senior executives and senior management, including when determining annual salary increases;

8.8. Approve the terms of any contract of employment or related contract with a senior executive on behalf of the Company;

8.9. Ensure that contractual terms on termination, and any payments made, are fair to any senior executive and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;

8.10. Approve any contract of employment or related contract with an executive director on behalf of the Company; and

8.11. Review workforce remuneration and related policies.

9. Reporting

9.1. The Committee shall report, through the Committee Chair, on its activities and how it has discharged its responsibilities to the Board after each committee meeting.

9.2. The Committee shall produce a report to be included in the Company's Annual Report on its activities.

9.3. The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Corporate Governance Code (the "Code"), are fulfilled, and produce a report of the Company's remuneration policy and practices to be included in the Company's Annual Report. If the Committee has appointed remuneration consultants, the annual report of the Company's remuneration policy will identify such consultants and state whether they have any connection with the Company.

10. Authority and Legal Advice

The Committee is authorised to:

10.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.

10.2. Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.

10.3. Undertake any other duties as requested by the Board from time to time and to investigate any activities it deems necessary to carry out its duties and to seek information from any employee.

10.4. Give due consideration to all relevant laws and regulations, the provisions of the UK Corporate Governance Code and any other applicable rules, as appropriate.

11. Terms of reference and performance

The Committee is authorised to:

11.1. At least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11.2. Ensure that an annual evaluation of the committee's performance is carried out.

11.3. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

Version control

Version	Date Approved	Comments (amendments)
1.0	1 January 2006	Original T&C's
2.0	June 2018	Approved by TWUL board
2.1	March 2022	Approved by TWUL board (formatted onto new template. Minor amendments).
3.0	June 2023	Version control added and minor changes to reflect consistencies across the other Company TOR

APPENDIX TWO

4 NOVEMBER REMUNERATION COMMITTEE PAPER
MINUTES OF THE MEETING

+Company No 2366661

THAMES WATER UTILITIES LIMITED
(the “Company”, “Thames Water”, or “TWUL”)

MINUTES OF A MEETING OF THE REMUNERATION COMMITTEE (the “Committee”)
held on Monday, 4 November 2024 at 9.00am by Microsoft Teams Conferencing.

Present:	Ian Pearson (IP)	Committee Member (Chair)
	Nick Land (NL)	Committee Member (INED)
	Sir Adrian Montague (AM)	Committee Member (TWUL Chair
In attendance:	Catherine Green (CG)	(People Director)
	Neil Robson (NR)	(INED)
	Chris Weston (CW)	(Chief Executive Officer (CEO))
	Sally Lewis (SL)	(Director of Corporate Governance)
	Kate Sheldon (KS)	(HR Director for Reward & People Services)

14. PRELIMINARY MATTERS

14.1. The Chair noted that the meeting had been duly convened and that a quorum of the Committee was present and formally declared the meeting open. The meeting remained quorate throughout. It was noted there were no apologies for absence. Neil Robson was introduced and in attendance. His appointment as a Member of the Committee is due to be considered by the Nomination Committee prior to a recommendation to the TWUL Board.

14.2. The Members were reminded of their obligation to disclose full details of all existing or new conflicts or interests relating to any matters considered during the meeting or otherwise in accordance with sections 177 or 182 Companies Act 2006 (the Act) and the Company’s Articles of Association. The Members acknowledged that in conducting the business of the meeting they would act in good faith, with reasonable care, skill and diligence and have due regard to the provisions of section 172 of the Act.

15. CRABTREE RETENTION UPDATE

2.1 The paper was taken as read. CW said that following discussion with David Burlison at Jefferies regarding the ad hoc group of creditors’ term sheet as well as comments in the marked-up term sheet from the B group, he had thought long and hard about a potential retention plan, and the ad hoc group had encouraged him to be generous. There will be two restructuring plans: RP1 which secures the liquidity runway, and RP2 which is when we bring in new equity and the retention is designed to reflect the sheer scale and complexity of what TWUL is dealing with. The proposal outlined in the paper is for 1 x base salary to be paid in 2025 and up to 2 x base salary in 2026 to allow time for a management retention plan to be put in place. The feedback from creditors has been to split the first payment with 50% after RP1 and 50% two/three months later hence the structure proposed in the paper.

2.2 CW said the proposal was paused slightly due to media coverage and concern re perception of conflict. David Burlison had said he was talking to the B group, and we will wait to see what will happen on that. At present this proposal is being put forward for the Committee to note and the intention is to come back to the Committee to approve the plan (which might be very shortly or might be next year. The Chair thanked CW for the introduction and invited questions.

2.3 A question was asked whether CW was reasonably confident the retention programme would “do the job” and be well received. CW replied that he had held discussions with the Executive and whilst some expectations were high so he could not guarantee, he believed it would “do the job”. In response to a question how this would relate to the Performance Related Pay Plan (“PRPP”), CW confirmed this would be in addition to PRPP. CW had also spoken with NR whilst going through discussions with the Executive team. The proposal was generous compared with other market benchmarks but those involved a single restructuring plan not on the same scale, so CW felt this was an appropriate landing point.

2.4 NR added that the fact this process goes on for 18 months - 2 years plus the equity raise, an initial payment on two restructuring plans and then a final payment when the transaction is complete is appropriate. However, 200% felt generous on top of PRPP bonus and NR had questioned how certain the bonus would be and if any pressure to waive bonus would be a risk generally or under the Water (Special Measures) Bill ("the new Bill") as this then mitigates the point. NR does share a concern this will be seen to be generous notwithstanding people's expectations (which are not necessarily the benchmark).

2.5 A comment was made that the situation with the Executive Directors (CW and Al Cochran) could be different to the rest of the Executive team given the new Bill and where Ofwat will land following consultation. If just one category 1 or category 2 pollution in a year means that directors will not be eligible for a bonus, no water company CEO will receive a bonus which will be difficult for the CEO and AC as a Director. PRPP is designed to pay something as a lot of the measures are process driven so for other people, they would still be likely to see some PRPP payout. The difficulty for the Committee is how to factor in environmental performance going forwards which is a hugely complex issue.

2.6 The Committee Members agreed that it must be clear the retention bonus was not being paid for by customers. Retention is something the bondholders want to see implemented not something the Committee is saying must be put in place. The is part of the overall agreement of the restructuring plan as the bondholders need a stable management team and are therefore insisting upon this. A comment was made that there is a provision in the term sheet which required TWUL to attribute spending to creditors if that mechanic is implemented. CW commented that David Burlison at Jefferies is aware of the sensitivity and that payments need to come from creditors or shareholders.

2.7 In response to a concern regarding Ofwat's reaction, the TWUL Chair said he would talk to Ofwat so they understand the realty of the situation and that these payments are not attributed to company performance. In response to a question on timing and when this proposal may need to come back to the Committee, CW said this was difficult to say as it would depend upon the current discussions with the B group. The Committee Members discussed the need to consider the impact on year end disclosures if payments were split into instalments and CG confirmed this was being considered. After due discussion and consideration, the Committee **NOTED** the Crabtree Retention update.

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18. AOB

There being no other business the meeting closed at 9.55am.

Signed…………………………..

Chair

APPENDIX TWO

18 MARCH REMUNERATION COMMITTEE PAPER

MINUTES OF THE MEETING

Report to:	Remuneration Committee	Executive Sponsor:	Catherine Green
Pages:	6 plus appendices	Date of meeting:	18 March 2025
Subject:	Crabtree Retention		

6. PURPOSE

The purpose of this paper is to present to the Remuneration Committee the final retention proposal in-line with the restructuring Term Sheet announced on Friday 25 October 2024.

7. EXECUTIVE SUMMARY

As part of the discussions in relation to the restructuring Term Sheet announced on Friday 25 October 2024 the creditors expressed concern to ensure there was management stability during the crucial period in the lead up to the recapitalisation of the Company, recognising that a significant burden would be placed on management during that period and that management retention would be key to facilitating the recapitalisation process. As such it was agreed in the Term Sheet that Thames Water would put a retention programme in place for critical senior leaders, including the Executive Team.

Given the uncertainty surrounding the restructuring process, formal discussions on the structure of the retention programme were paused until the conclusion of the legal process. Whilst that process has not concluded at the time of submitting the paper, it is deemed to be appropriate to finalise the plans with the aim of communicating the payments to participants as soon as is practicable after the Court of Appeal outcome.

Payments will be made to all the Executive Team and 11 members of the Senior Leader Population. The payments will be structured as follows:

Timing	Payment
Immediately post completion of RP1 (April 2025)	50% of base salary
September 2025	50% of base salary
June 2026	200% of base salary

The exact payments to be made to the Executive Team are detailed in the main body of the paper. Payments to the Senior Leader Population are included in Appendix One. A sample letter confirming the payments is included in Appendix Two.

Benchmarking information provided by Willis Towers Watson and Mercers is included in Appendices Three and Four.

It should be noted that the costs of the programme are borne by the creditors and are not paid for by customers.

8. ACTION(S) REQUIRED

The Remuneration Committee is asked to:

- APPROVE the overall retention programme
- APPROVE the payments for the Executive Team
- NOTE the payments to be made to the Senior Leadership Population
- NOTE the proposed conditions attached to the programme

9. DETAILS OF THE PROGRAMME

4.1 Thames Water Context

Thames Water is facing into an unprecedented period of uncertainty over the coming 12 months as it: navigates the final determinations of PR24 and referral to the CMA (Competition and Markets Authority): seeks to secure significant investment through the liquidity extension restructuring process and further equity raise and recapitalisation transaction (expected to be implemented through a further restructuring process): supports the Cunnliffe review: and deals with intense public (and political) scrutiny.

For many leaders, this is a very uncomfortable environment, giving little in the way of stability and security whilst also being extremely demanding on them personally and professionally. In the context of a buoyant recruitment market across London and the Thames Valley, it is highly likely that we will continue to see attrition of our senior leadership team. During FY25 eight grade Ds have submitted their resignations and we are aware of other individuals who are concerned and could be looking elsewhere.

4.2 Creditor Context

As part of Crabtree, the Term Sheet included a requirement for a retention programme. Via Jefferies, the Class A AHG have provided feedback that they require the Executive Team and critical members of the Senior Leadership Team to remain in place throughout the equity raise process in order to, among other things, support the equity process and ensure that bidders have an engaged management team to interact with as part of their diligence process, and to then facilitate the implementation of the recapitalisation transaction, whilst at the same time continuing to process the Company's turnaround and ensure that the Company does not fall further behind during this critical phase. It has been indicated that an 18-month timetable is appropriate.

For the Company to be in the best position to attract new equity, the team is required to focus on delivering against the transformation roadmap and improving performance, as well as demonstrating stability in leadership.

4.3 Quantum and Timing of Retention Payments

Retention payments are generally based on the principles that payments are significant enough to encourage people to stay, are significant enough to make it difficult for potential employers to buy them out and are regular enough so individuals have line-of-sight to receiving them.

Multiple conversations have been held since 25 October including the CEO, People Director, Creditors, the Remuneration Committee, Linklaters, Rothschild and Jefferies. As a result of these conversations the following structure is proposed:

Timing	Payment
Immediately post completion of RP1 (April 2025)	50% of base salary
September 2025	50% of base salary
June 2026	200% of base salary

The People Director and the board Chair have both sought external benchmarks. Information has been provided by Rothschilds, the Committee's remuneration advisor, Ellason LLP, Teneo, Willis Towers Watson and Mercers. Information sourced from WTW and Mercers can be found in Appendices Three and Four. Confirmation has been received from Jefferies that the proposals are in-line with other retention plans put in place in these types of scenarios although there were no direct comparisons given the scale of the activity being undertaken. In terms of assessing the levels of payment both the duality and length of time of the restructuring processes (liquidity extension and equity raise), and the value and scale of the restructuring to be undertaken, has been considered. The fact the Company is unable to offer equity as part of the programme has also been taken into consideration as there is no opportunity for the value of retention to increase over time. Overall, it is believed the proposal is reasonable given the specific conditions facing Thames Water.

Discussions have taken place about whether to make the first payment and whether this can truly be considered a retention payment given its timing. However, making this payment aides retention by demonstrating to recipients that the programme is 'real' and payments will be made. The terms of the Retention Payments (see 4.6) include the ability for the Company to clawback the first two retention payments should an individual resign within six months of each payment, thereby creating further incentive for individuals to stay in position across this period.

4.4 Funding the Programme

The payments will be funded directly by the Creditors. A new financing vehicle will be established for the super senior debt and the initial £1.5bn will be placed into it (and any subsequent drawing of the additional £1.5bn will also be placed into it). TWUL can draw-down against the £1.5bn according to an agreed schedule and against a cashflow forecast which will include the retention payments. The relevant portion of the monies will be transferred into a specific bank account held solely for the purposes of making the retention payments to the named recipients. In this way, both the Company and the Creditors can demonstrate the flow of the payments and evidence they are not coming out of the regulatory allowance.

Should the super senior facility not be available due to the ongoing legal process, the recommendation is to include the payments in the monthly credit facilities agreed with the creditors. This should only impact the April payment.

The total cost of the programme is £21mn (including National Insurance). This includes £20mn for the recipients named in this paper plus an additional £1mn contingency should, for example, new hires or additional colleagues need to be included in the programme.

4.5 Operationalising the Programme

The retention programme will be owned by the People Director with administration run through People Services. Letters will be issued to all eligible participants with the timing of these letters agreed with the creditor group through Jefferies and PWP (see Appendix Two for the letter template). No payments will be made to any individual until the funding has been received by the Company.

4.6 Conditions of the Programme

A summary of the conditions attached to the programme are below (see full terms in Appendix Two):

- Individuals will not be eligible to receive a payment should they have given notice of resignation or have ceased to be employed by the Company as a result of serving resignation at the date of payment
- Should the Company terminate employment other than for reasons of redundancy or for reasons of misconduct individuals will be eligible to receive a pro-rated payment
- Should the Company terminate employment by reason of redundancy individuals will receive all three tranches of the retention payments
- Individuals will not be eligible to receive payment if they are found to have materially breached the terms of the programme and/or their contract of employment
- If an individual has been notified that they are under investigation in accordance with the Company's disciplinary procedure the Company may decide, at its absolute discretion, to suspend payment until the investigation and any subsequent disciplinary hearing meeting concludes

The terms of the programme also include provisions for clawback.

4.7 Executive Team Payments

Based on the proposal payments to the Executive Team would be:

Employee Name	Pay Grade	Salary	April-25	Sept-25	Jun-26
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The payments to the CEO and CFO will be reported in the Directors' Remuneration Report published in June 2025. The Company will aim to agree with PwC that, in-line with previous DRRs, only the payment made in March 2025 will appear in the single figure table. The future payments will however be declared in the body of the report. As these are effectively guaranteed payments, they must be declared in the financial year in which they are committed to.

The Committee should note that the payments to the CEO and CFO are a deviation from the Directors' Remuneration Policy which does not specifically cater for retention payments.

[redacted]

4.8 Senior Leadership Team Payments

Significant discussions have taken place as to who in the Senior Leadership Population should be included in the programme. The proposal is to include those individuals who have and who will continue to significantly contribute to the restructuring activities, including those in critical roles, with niche skill sets, roles where there are no internal successors and roles where it would be difficult to attract a strong candidate from the external market.

As such, 11 members of this population will be included. A full list is in Appendix One.

4.9 Public Scrutiny

The Term Sheet requirement to instigate a retention plan is already in the public domain through the publication of the Term Sheet. The Media Team have received a small number of queries, and it has clearly been reported as a potential conflict of interest in management's decision-making. However, whilst management are aware of the concept of a retention plan given the public nature of the term sheet, other than the CEO and People Director (who have been involved in shaping the plan, with relevant external input and in conjunction with the Chair and Remuneration Committee members), the terms of the plan have not been discussed with management to date.

It is anticipated there will be further media scrutiny, especially once the Directors' Remuneration Report is published.

The Remuneration Committee Chair has informed Ofwat of the intention to introduce a retention programme but has not shared the details as no detail had been confirmed at that time. The People Director will write to Ofwat once the programme has been agreed.

10. APPENDICES

Appendix One	Recipients
Appendix Two	Letter Template
Appendix Three	Willis Towers Watson Summary
Appendix Four	Mercers' Benchmarking
Appendix Five	Remuneration Committee Meeting Minutes November 2024

APPENDIX ONE – RECIPIENTS

APPENDIX TWO – LETTER TEMPLATE

For the purpose of this response please see **Appendix 5**

APPENDIX THREE – WILLIS TOWERS WATSON SUMMARY

For the purpose of this response please see **Appendix 4**

APPENDIX FOUR – MERCERS' BENCHMARKING

For the purpose of this response please see **Appendix 4**

Company No' 2366661

THAMES WATER UTILITIES LIMITED

(the "Company", "Thames Water", or "TWUL")

MINUTES OF A MEETING OF THE REMUNERATION COMMITTEE (the "Committee")

held on Tuesday 18 March 2025 at 10:00

by Microsoft Teams Conferencing

Present:	Ian Pearson	Committee Chair (the "Chair")
	Sir Adrian Montague	Committee Member (TWUL Chair)
	Neil Robson	Committee Member (INED)
	Nick Land	Committee Member (INED)
In Attendance:	Aidan de Brunner	(INED)
	Julian Gething	(CRO)
	Chris Weston	(CEO)
	Catherine Green	(People Director)
	Kate Sheldon	(HR Director for Reward & People Services)
	Emma Crawford	(Managing Associate, Linklaters LLP)
Apologies:	None	

1 PRELIMINARY MATTERS

1.1 The Chair noted that the meeting had been duly convened and that a quorum of the Committee was present and formally declared the meeting open. The meeting remained quorate throughout. It was noted there were no apologies for absence.

1.2 The Members were reminded of their obligation to disclose full details of all existing or new conflicts or interests relating to any matters considered during the meeting or otherwise in accordance with sections 177 or 182 Companies Act 2006 (the Act) and the Company's Articles of Association. The Members acknowledged that in conducting the business of the meeting they would act in good faith, with reasonable care, skill and diligence and have due regard to the provisions of section 172 of the Act.

2 MANAGEMENT RETENTION PLAN

2.1 Introduction

2.1.1 The Chair noted that it was proposed that a management retention plan (the "**Management Retention Plan**" or "**MRP**") be put in place, and that this was intended to address two very real practical challenges facing the Company, namely the uncertainty facing the Company's talented people for a prolonged period of time, who are continually being approached by head-hunters, and the need (as confirmed also by the Company's creditors) for stable leadership to steer the Company through the current restructuring and transformation.

2.1.2 The Chair noted that that two of the Company employees present at the meeting [redacted] were proposed as recipients of MRP awards and therefore have a personal interest in the MRP arrangements. The Chair confirmed he was comfortable all were acting in the best interests of the Company without regard to their personal perspectives.

2.1.3 The Chair invited Catherine Green ("**CG**") to update the Committee on the background to the MRP.

(i) CG explained that at the request of the Company's creditors, the Company had explored options for the MRP following the inclusion in the 25 October 2025 liquidity extension transaction term sheet of a requirement to put in place a management retention plan following the Plan Effective Date.

(ii) Whilst the requirement to put in place the MRP was public, discussions within the Company in relation to the proposed structure/terms of the MRP had been confined to Committee Members, Chris Weston, CG and Kate Sheldon. Advice had been sought from Ellason LLP (RemCo Adviser), Linklaters, Rothschild & Co, Jefferies, Teneo, WTW and Mercers.

(iii) Ofwat was aware of the requirement to put in place the MRP, but given that the terms had not yet been agreed, Ofwat was not yet aware of the specific proposals and would be updated once the terms were agreed.

(iv) Details of the proposed structure/terms of the MRP were set out in the Committee Paper and the Committee Members noted its contents.

2.2 Size of Payments

2.2.1 There was a detailed discussion on the quantum of the various tranches.

2.2.2 It was noted that the comparator data suggested that a payment of 100% of base pay was the median reward. The Committee noted that the first two payments would be in line with this comparator and debated whether it was appropriate to deviate from the median comparator for the final payment – factors discussed included:

(i) The Committee agreed that the MRP should be seen as a two-year retention programme, reflecting that the work on the recapitalisation started in earnest from early July 2024.

(ii) 100% was the median payment – there were other higher examples.

(iii) The Company was facing a more complex situation than the comparators – as well as running two restructuring plans the Company had a third-party equity process ongoing, potential CMA appeal (or other regulatory ask discussions), business turnaround and risk of SAR, whilst being under significant public and government scrutiny. This was emphasised by all Committee Members as a key and unique factor facing the Company.

(iv) The 200% had not been discussed with the wider executive team and no expectations had yet been set.

(v) There would be scrutiny from the public and Ofwat in relation to the MRP and it would be necessary for the Company to be able to justify the payment.

2.2.3 There was a discussion as to whether the Class A Creditors were supportive of the terms under discussion. CW noted that he had discussed this with Jefferies (as representatives of the Class A AHG) and they were supportive of the plans. Julian Gething ("**JG**") further noted that he had recent discussions with Jefferies on the same basis and that once the Committee had concluded on the final terms it would be necessary to confirm these with Jefferies.

2.2.4 The Committee concluded that given the circumstances the Company was facing, it would be appropriate to have a final payment in excess of 100% and it was agreed that the CEO would consider further whether 200% remained the appropriate figure and report back to the Committee.

2.3 Timing of Payments

2.3.1 It was noted that under the original proposal the first payment was due to be made in February following the sanction of the interim restructuring plan, but that this had been delayed given the uncertainty of the Court of Appeal. The Committee was supportive of making the first payment following the first tranche of funding being provided in mid-April notwithstanding the small risk of a Supreme Court appeal, given the success in the High Court and Court of Appeal and need to focus the business on RP2 and the recapitalisation.

2.3.2 There was a discussion as to whether the second payment should be made in September 2025 or if this should be tied to a milestone such as completion of RP2. It was noted that RP2 would not be completed before the summer, so September 2025 would remain the earliest payment date. It was noted that increasing variables could make the MRP less effective as a retention tool and there was a suggestion that the second payment could be upon the earlier of RP2 completion and December 2025. The Committee agreed that this would be appropriate.

2.3.3 It was noted that if the latest date for RP2 was December 2025, the third payment in June 2026 would allow a 6-month transition window. The Committee agreed that this was a sensible final payment date.

2.3.4 The Committee recognised that the final payment would in all likelihood be made under new ownership and the new owners would be responsible for deciding on the future approach to remuneration for the senior leadership population. It was discussed that, in general, new equity owners would look to put in place a Management Incentive Plan (MIP) in the form of an equity share approach, which could take into consideration the final retention payment.

2.4 Identity of Participants

2.4.1 CG noted that the participants had been identified on the basis that:

(i) the executive was critical to delivering RP2 and the glide path to any new management following the equity raise; and

(ii) members of the senior leadership team had been considered based on a number of criteria, including whether they had a niche or critical skillset that was required for RP2 and beyond.

2.4.2 There was a discussion as to whether the list of 19 individuals was the appropriate list and the Committee questioned whether there were other critical individuals who should be added. There was a discussion as to whether other members of the finance team and/or the transformation team ought to be included, and it was agreed that CW would consider this further.

2.4.3 There was a discussion as to whether there should be differences in the quantum and structure of MRP awards for the executive as compared to the senior leadership team. It was noted that this was a small group of 19 out of a workforce of c. 8,000 and that it was important to have consistency within this group. The Committee noted that the Mercer report identified the need to support rising middle stars and noted the breadth and quality needed to deliver the Thames Water business and the friction which differences in treatment could cause.

2.4.4 The Committee agreed that it would be appropriate to retain the same payment structure for all participants and that there would be consideration of whether further participants should be added.

2.5 Funding of Payment

2.5.1 CG explained that the Class A creditors had been clear that they were willing to fund the MRP, given their view that the MRP was critical to retaining talent during the recapitalisation process. It was therefore intended that the MRP would be funded from the Super Senior Debt, with the relevant proceeds transferred into a specific Company bank account and funds then transferred into the payroll account on the date of that payment.

2.5.2 The Committee noted that the funding for the MRP would be from creditors, rather than customers.

3 ANY OTHER BUSINESS

3.1 It was agreed that an update would be provided to the Committee to allow finalisation of the recommended MRP, following which approval from the Class A creditor advisors would be sought and the MRP would then be presented for final approval by the Board. Once approved, Ofwat would be informed about the key features of the MRP.

3.2 There being no further business, the Chair declared the Meeting closed at 11:05.

[redacted]

………………………

CHAIR

APPENDIX TWO

01 APRIL REMUNERATION COMMITTEE PAPER
MINUTES OF THE MEETING

Report to:	Remuneration Committee	Executive Sponsor:	Catherine Green
Pages:	4 plus Appendices	Date of meeting:	01 April 2025
Subject:	Crabtree Retention		

11. PURPOSE

The purpose of this paper is to present to the Remuneration Committee the final retention proposal in-line with the restructuring Term Sheet announced on Friday 25 October 2024. This paper should be read in conjunction with the paper of 18 March 2025 and the minutes of the Committee meeting of the same date.

12. EXECUTIVE SUMMARY

On 18 March 2025, the Remuneration Committee discussed the proposals for implementing the Management Retention Plan (**MRP**) required by the creditors as announced in October 2025 and included within the restructuring Term Sheet.

As a result of those discussions, three actions were requested:

- Review the list of participants from the Senior Leadership Team and ensure there is appropriate coverage
- Consider the quantum of the third payment which was presented as 200% of base pay, specifically the rationale for the payment being higher than the market median
- Prior to any board ratification after recommendation from RemCo (3 April), seek written confirmation from the advisers to the AHG that they support the proposed MRP

The People Director, along with the CEO and the CRO, has reviewed the list of participants and has concluded that an additional three individuals should be added. The final list of participants is available in Appendix One.

The final recommendation on the third payment is to retain that payment at 200% of (1 January 2025) base pay.

Julian Gething, CRO, has received confirmation there are no objections from the AHG (email attached). Julian will speak to this in the meeting.

13. ACTION(S) REQUIRED

The Remuneration Committee is asked to:

- APPROVE the overall retention programme
- APPROVE the payments for the Executive Team
- NOTE the payments to be made to the Senior Leadership Population
- NOTE the proposed conditions attached to the programme

14. LIST OF PARTICIPANTS

At the request of the Committee, the individuals selected to be included in the programme have been reviewed. The same criteria have been applied as previously i.e. individuals who have and who will continue to significantly contribute to the restructuring activities, including those in critical roles, with niche skill sets, roles where there are no internal successors and roles where it would be difficult to attract a strong candidate from the external market.

The People Director has discussed with the CRO, CEO and the COO and it has been agreed to include an additional three people to the programme. Two of those individuals sit below the SLT within [redacted].

As such, 14 individuals outside the Executive Team will be included. A full list is in Appendix One.

15. PAYMENT QUANTUM

In the 18 March Committee Meeting the quantum of payments being proposed was fully discussed, with a particular reference to the benchmarking data provided by Willis Towers Watson and Mercers. Benchmarking data showed a median payment of 100% of base pay per 12 months of retention.

The MRP was proposed in the restructuring term sheet signed in October 2024. It is intended to cover the two year period since the recapitalisation process commenced in July 2024 following the Draft Determination, through to June 2026, in order to finalise the recapitalisation and facilitate a handover of the business to new ownership along with bridging to an agreed long term MIP (Management Incentive Programme) for retained management. This was supported by the Committee and two additional iNEDs who were invited to advise the Committee on the matter.

The Committee was supportive of the first two payments being 50% of base pay, however requested a change to the timing of the second payment. Rather than being in September 2025 it will be paid on the completion of RP2 or December 2025, whichever is earlier.

There was significant discussion about the third payment being 200% of base pay as that results in a total payment being proposed of 300% of base pay (50%/50%/200%), which is above the median payment of 200% for a two-year period.

The relevant factors to where the third payment should sit on the scale of 100% to 200% is summarised below.

5.1 Market Median

This is a two-year retention plan (July 2024 to June 2026), supporting payments totalling 200% at the median level. However, it is difficult to argue Thames Water is facing a median scenario:

- The business is undergoing two restructuring processes including liquidity extension and equity raise, the first of which has been heavily contested
- Management is having to operate under significant pressure with a constant spectre of special administration
- Multiple parties are involved (regulators, government, creditors and potential sources of equity) which is being conducted on a day-to-day basis in the court of public opinion
- The size and complexity of the recapitalisation is the largest in the UK for some considerable time, if not ever

Mercer's benchmarking data shows that although the median retention payment was 100% of base pay, the payment can differ by deal size with CEO's receiving 200% of base pay for deal size of over $500mn:

Median Retention Bonus Values (as % salary)

Role	By Region		By Deal Size		
	All*	Europe	< $100M	$100M - $500M	> $500M
CEO or Business Head of Target	100%	100%	140%	100%	200%
Executives (CEO's direct reports)	100%	100%	125%	80%	113%
Senior management (VP & above)	75%	88%	88%	50%	88%
Other employees critical for integration	40%	44%	40%	25%	50%
Other recipients	63%	78%	50%	25%	128%

*Includes deals in US & Canada, Asia, and Europe

5.2 Workload and Fatigue

The Company's formal restructuring process started almost nine months ago. During that time the Executive Team and members of the Senior Leadership Team (SLT) have:

- Submitted the response to the Draft Determination in preparation for the Final Determination
- Responded to the FD and worked with the board to assess and recommend a referral to the CMA
- Subsequently agreed with Ofwat a delay to the CMA referral
- Completed significant due diligence activities for RP1
- Undertaken management presentations to potential sources of new equity
- Supported two court hearings
- Completed IBP25 and the AMP8 narrative
- Created the Water, Waste, Customer, Digital and People strategies
- Continually worked on contingency planning including Project Samuel

Moving forward, it is clear the workload will not reduce for at least the remainder of the calendar year with:

- Due diligence and management presentations for RP2 (initial discussions indicate this will be significant)
- Preparation for and participation in the RP2 court proceedings
- Ongoing dialogue with Ofwat over an 18-week period towards an agreed transformation plan and recapitalisation
- Preparation for dropping back into the CMA appeal process
- Ramp-up to deliver year one of AMP8
- A large number of external/regulatory commitments to be delivered including the Holistic Compliance Plan and the Delivery Assurance Plan
- Further internal instability e.g. re-organisations within Digital and Finance and Commercial, and the operationalisation of the new AO&CD model

Little annual leave has been taken, with individuals working whilst supposedly on leave and regularly at weekends. There is genuine concern for the welfare of this population with the CEO and People Director monitoring closely.

5.3 External Context

The external context being faced by the team is unprecedented with continuous public scrutiny and an extremely negative public relations context. Two examples of how this impacts individuals personally are protestors attending Clearwater Court on 18 March to affect a citizens' arrest on the CEO and CFO and, through the call centre, threats of sewage being pumped through Executive Team letter boxes being received.

Thames Water continues, and will continue, to be high profile. This naturally results in additional pressure for the teams.

5.4 Attrition and Market Attractiveness

Within FY25, eight grade D colleagues have resigned from the Company (c. 20%). Colleagues are extremely attractive in the market given the experiences gained through the work outlined above. The end of an AMP is also a natural time for individuals to look for new roles and opportunities when the best people are at their most marketable. Most of the Executive Team have received calls from search firms and this will be no different for members of the SLT.

The People Director has held confidential conversations with a small number of trusted search firms to test whether the retention payments being proposed would be bought-out by hiring firms. They have confirmed that a total payment of 300% is highly unlikely to be bought-out, given the clawback mechanism built in.

Company No. 2366661

THAMES WATER UTILITIES LIMITED
(the “Company”, “Thames Water”, or “TWUL”)

MINUTES OF A MEETING OF THE REMUNERATION COMMITTEE (the “Committee”)
held on Tuesday, 1 April 2025 at 9.00 a.m.
at the offices of Linklaters LLP, One Silk Street, London, EC2Y 8HQ

Present:	Ian Pearson (IP)	Committee Member (INED) (Chair)
	Nick Land (NL)	Committee Member (INED)
	Sir Adrian Montague (AM)	Committee Member (TWUL Chair)
	Neil Robson (NR)	Committee Member (INED)
In attendance:	Chris Weston (CW)	Chief Executive Officer (CEO) (until the end of item 9)
	Catherine Green (CG)	People Director
	Kate Sheldon	HR Director – Reward & People Services
	Ed Mottley (EM)	Partner, Ellason LLP
	Emma Crawford (EC)	Linklaters (from item 8 onwards)
	John Downing	Director of Corporate Governance (until the end of item 9)
	Helen Baker	Assistant Company Secretary (until the end of item 9)
	Sherry Hans	Assistant Company Secretary (until the end of item 9)
Apologies:	None	

19. PRELIMINARY MATTERS

The Chair noted that the meeting had been duly convened and that a quorum of the Committee was present and formally declared the meeting open. The meeting remained quorate throughout. It was noted there were no apologies for absence.

The Directors were reminded of their obligation to disclose full details of all existing or new conflicts or interests relating to any matters considered during the meeting or otherwise in accordance with sections 177 or 182 Companies Act 2006 (the Act) and the Company’s Articles of Association.

The Directors acknowledged that in conducting the business of the meeting they would act in good faith, with reasonable care, skill and diligence and have due regard to the provisions of section 172 of the Act.

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10.2 Management Retention Plan

10.2.1 Introduction

The Chair noted that, as discussed at the 18 March Committee Meeting, it was proposed that a management retention plan (the "**Management Retention Plan**" or "**MRP**") be put in place. The Chair noted that that one of the Company employees present at the meeting ([redacted]) was proposed as recipients of MRP awards, and therefore has a personal interest in the MRP arrangements. The Chair confirmed he was comfortable [redacted] was acting in the best interests of the Company without regard to [redacted] personal perspectives.

[redacted] reminded the Committee of the background to the MRP, as previously discussed at the 18 March Committee Meeting and noted that there were several updates since the original proposal presented:

- following a request from the Committee to consider again the participants, the participants had been updated from 19 to 22;

- as agreed at the previous Meeting, the first payment would be in April 2025, with a 6 month discretionary clawback, the second payment would be updated to be the earlier of the completion of RP2 and December 2025 and the third payment would be June 2026; and
- the Committee would need to consider and decide on the quantum of the final payment.

10.2.2 Identity of Participants

CG noted that following the review requested by the Committee, three additional names had been added to the list of participants: [redacted]. The Committee discussed the list and it was noted that there was 1 Grade E who was not included, but that this was felt to be appropriate given that individual's wider compensation package, and that every Grade D had been discussed and the selection had been made based on the agreed criteria. It was noted that there was a contingency built in in case of the need for replacements and that, for example[redacted] had been removed from the list, [redacted]

The Committee agreed to recommend the list of participants to the Board.

10.2.3 Funding of Payment

CG explained that the funding for the MRP would come from creditors and as such following the previous meeting a summary of the MRP proposal had been provided to Jefferies, as representatives of the Class A Ad Hoc Group, and that Jefferies had provided an email, included within the Committee pack, confirming they did not have objections. Julian Gething **(JG)** noted that Jefferies had spoken with several key creditors who were funding the first tranche of the Super Senior Debt as part of providing this confirmation.

The Committee noted that it would be important to show that the funding was coming from creditors rather than customers and **CG** confirmed that the relevant proceeds of the first tranche of Super Senior funding would be placed into a specific Company bank account and funds then transferred into the payroll account on the date of that payment. It was agreed that this process would be fully documented, and that PwC would be asked to audit the funding process.

10.2.4 Disclosure

CG noted that there was not intended to be an announcement of the MRP and that individual recipients would be subject to confidentiality obligations. It was agreed that, following Board approval, the Board Chair would write to Ofwat and update them on the MRP.

It was also noted that the MRP would be disclosed in the remuneration report in respect of the CEO and CFO.

10.2.5 Water (Special Measures) Act

The Committee requested to reconfirm whether the MRP was consistent with the Water (Special Measures) Act and related Ofwat consultation and it was confirmed that the MRP was a retention payment rather than a bonus, and had no performance related element. As such, it was not restricted by the Water (Special Measures) Act.

10.2.6 Quantum

CG noted that the Committee paper included factors relevant to the sizing of the MRP and reminded the Committee that it had been agreed that quantum would be re-considered at this Meeting.

CG and KS left the meeting.

The Chair summarised the factors set out in the Committee paper and the Committee discussed these in detail. It was noted that:

- the size, complexity, level of distress and duration of distress indicate that Thames Water is not a median company in a median situation;
- this is a two year retention programme, commencing from July 2024 and as such represented a 50 per centage points increase per annum to a median company;
- advice suggested that a final payment lower than 200% was likely to be bought out, risking losing key employees immediately after RP2 and before June 2026;
- the forthcoming period would bring heightened uncertainty to key team members around their future following a successful equity raise, but that it was key to retain MRP participants across this period to allow that successful equity raise to be delivered; and
- some members of the executive and senior management team had joined to facilitate the turnaround, but not necessarily with such significant levels of distress and wider complexity and all bore the risk of being replaced by an incoming shareholder.

The Committee agreed that the quantum proposed in the Committee Paper was appropriate in all the circumstances.

10.2.7 Recommendation

The Committed agreed to **RECOMMEND** to the Board the MRP as set out in the Committee Paper.

CG and KS re-join the meeting.

The Chair updated CG and KS of the Committee's recommendation and asked CG to prepare a paper for submission to the Board.

There being no further business, the Chair declared the meeting closed at 11.00am.

APPENDIX THREE

2 APRIL MINUTES OF THE MEETING

Company No. 02366661

THAMES WATER UTILITIES LIMITED

(the "Company" or "TWUL")

MINUTES OF A MEETING OF THE BOARD (the "Board")

held on 2 April 2025 at 10.00am at Linklaters LLP, One Silk Street, London EC2Y 8HQ

Present:	Sir Adrian Montague	Chair
	Chris Weston	Chief Executive Officer (CEO) (CW)
	Nick Land	Senior Independent Director (NL)
	Adam Banks	INED
	Aidan de Brunner	INED (AdB)
	Julan Gething	Chief Restructuring Officer (CRO) (JG)
	Catherine Lynn	INED (CL)
	Andrew McNaughton	INED
	Ian Pearson	INED (IP)
	Neil Robson	INED
In attendance:	See Schedule 1	
Apologies:	Nirmal Kotecha	INED

1. PRELIMINARY MATTERS

1.1. Quorum & Conflicts

1.1.1. The Chair noted that the meeting had been duly convened with notice being given in accordance with the Company's Articles of Association (the Articles), and that a quorum of the Board was present and formally declared the meeting open. The meeting remained quorate throughout.

1.1.2. The Directors were reminded of their obligation to disclose full details of all existing or new conflicts or interests relating to any matters considered during the meeting or otherwise in accordance with sections 177 or 182 Companies Act 2006 and the Articles. For the purposes of the resolutions referred to below, it was noted that all declarations of interest, direct or indirect, required to be made or given to or obtained by the Company for the purposes of any applicable law, the memorandum and Articles or otherwise had been so made or given or obtained.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

1.3. Retention

1.3.1. IP summarised the discussions regarding retention plans that had taken place at the Remuneration Committee the day before, emphasising that having arrangements in place was a requirement of the Term Sheet signed on 25 October 2024 as part of RP1, to ensure the Company retained a stable leadership team to work through the restructuring processes and to ensure a stable transition to new ownership. It was further noted that the cost of any such retention arrangements would not be borne by customers, but rather paid for by the Company's creditors. The proposed retention letters would include wording to make any retention payment contingent on creditor funding (whereupon the retention amounts would be held in a separate account until due, when they would need to be transferred to the payroll account).

1.3.2. Further terms of the retention plan were outlined, including:

- The quantum of 300% over 2 years, which it was noted as being above Mercers' comparator of 200% over 2 years for medium-sized companies. However, 300% was agreed as being appropriate given the size, duration, and complexity of the restructuring, as well as the criticality of certain individuals in delivering the restructuring;
- The 50 / 50 / 200 split of the 300% quantum;
- Payment dates, with it being noted that the second payment was linked to RP2 and was therefore likely to move from September to December, and that new owners would likely be in place for the final payment due in June 2026; it was also noted that new owners would probably put in place a Management Incentive Plan in the form of an equity share approach, which could take into consideration the final retention payment;

- Clawback, with it being noted that notwithstanding there being nothing in Ofwat's guidance on this, payment under the retention arrangements remained subject to any relevant legislative requirements, but was <u>not</u> subject to any performance criteria;
- Those 22 individuals who would be offered a retention, and those who were considered but not included, with key determinants including the amount of work required to be undertaken by an employee on top of their current 'day job', longer-term prospects and flight risk; and
- Leaving some flexibility to bring others onto a retention plan, if thought to be prudent.

1.3.3. It was noted that the new CFO would be given a retention plan for the third tranche (200%).

1.3.4. It was agreed that being front footed with a clear communication strategy for Ofwat on the intended retention arrangements was critical. Ideally this would mean including the creditors, despite anticipating their reluctance to be part of such discussions.

1.3.1. The Board noted the Remuneration Committee's recommendation and APPROVED the proposed retention plan, with the Executive team being duly authorised to put such arrangements in place.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

13.1. There being no other business, the meeting ended.

…………………………..

CHAIR

Schedule 1

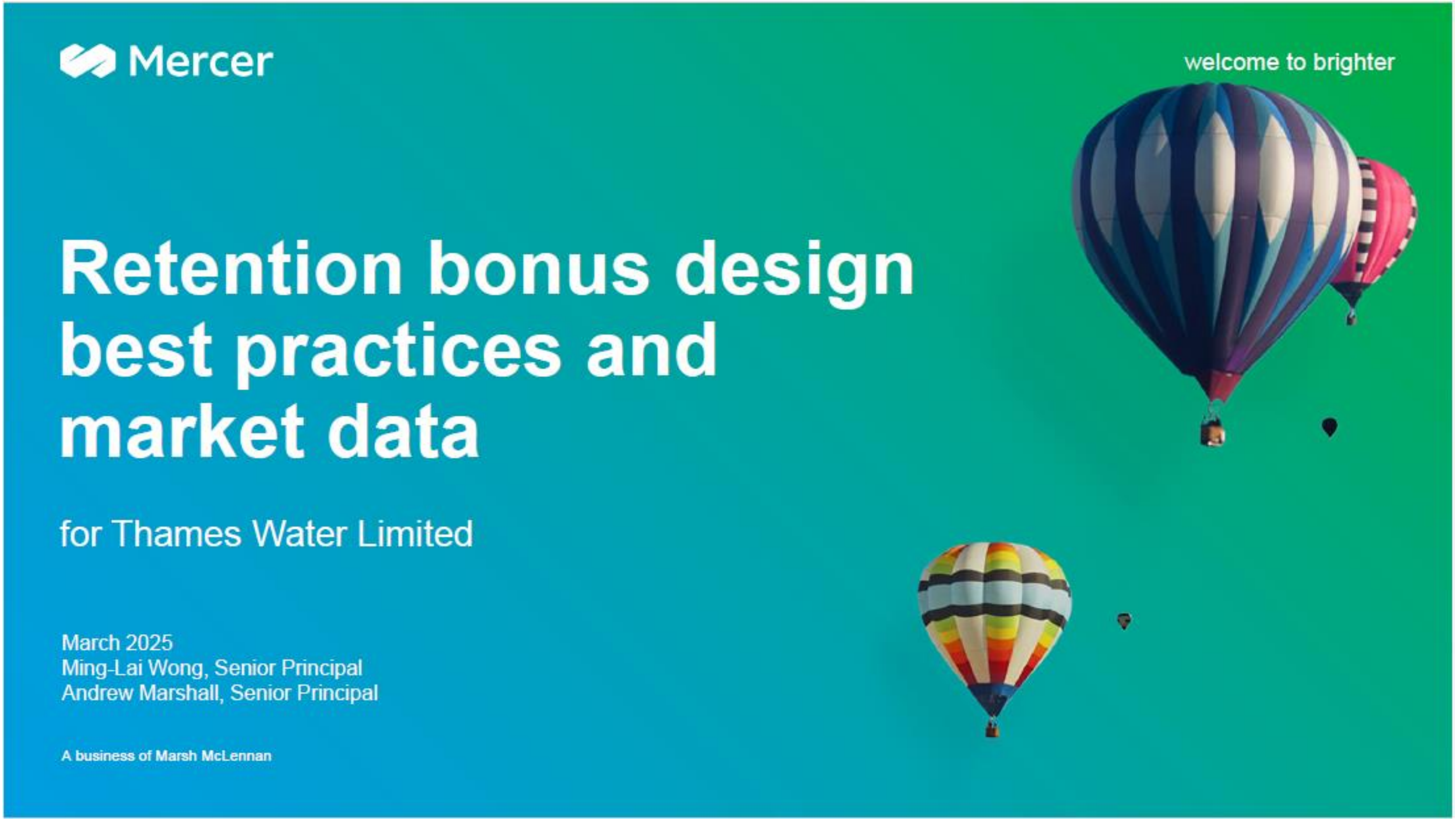
Board Attendees

[redacted]	[redacted]	In person (Joined from Item 6)
Alan Bloom	Board Advisor	In person
[redacted]	[redacted]	Via Teams (Item 10.2 only)
[redacted]	[redacted]	In person (Item 6 only)
[redacted]	[redacted]	In person (item 6 only)
John Downing	Director of Corporate Governance	In person
[redacted]	[redacted]	In person (Joined from Item 2)
Catherine Green	Chief People Officer (CG)	In person (Items 1.2 & 1.3)
[redacted]	[redacted]	In person (Items 6 & 7)
[redacted]	[redacted]	In person (Item 7 & 10.3)
[redacted]	[redacted]	In person (Item 10.1 only)
[redacted]	[redacted]	In person (Item 4 only)
[redacted]	[redacted]	Via Teams (Items 5 & 6)
[redacted]	[redacted]	Via Teams (Item 7.4 only)
[redacted]	[redacted]	Via Teams (Item 10.2 only)
[redacted]	[redacted]	In person (Item 7.7 only)
[redacted]	[redacted]	In person (Joined from Item 6)
[redacted]	[redacted]	In person (Item 7.7 only)
[redacted]	[redacted]	In person (Joined from Item 4)
[redacted]	[redacted]	In person (Item 5.2 only)
[redacted]	[redacted]	In person (Joined from Item 2)
[redacted]	[redacted]	In person (Item 6 only)

APPENDIX FOUR

MERCERS BENCHMARKING ,
WILLIS TOWERS WATSON AND
ROTHSCHILD & CO REPORTS

APPENDIX **FOUR** – MERCERS BENCHMARKING **AND WILLIS TOWERS WATSON REPORTS**



Introduction

- Mercer has been asked by Thames Water Limited ("TWUL") to provide UK market data on financial retention arrangements for senior management roles
- We understand that implementing a senior management retention plan is a condition of the creditor to secure the Company's financial restructuring plan to extend the liquidity runway of the Thames Water; the Company's current proposal for the retention plan is summarised below:

Design element	TWUL current proposal
Eligibility	Executive Directors and senior management (n=19)
Form of award	Cash
Retention period	15 months (April 2025 to June 2025)
Performance conditions	N/A, time-bound only
Payout period	Three payments, as follows: • April 2025 • September 2025, upon completion of 1st restructuring phase • June 2026, upon completion of the 2nd restructuring phase
Estimated cost	[c. £17 million]

- The Remuneration Committee has requested market data to understand market practice for retention plan design given the anticipated public scrutiny throughout the financial restructuring process and the requirement to disclose these arrangements for the Executive Directors and other eligible participants (as part of "promise to pay" documentation)
- This short paper summarises:
  - European data from Mercer's proprietary 2023/24 retention strategy live database*, which includes data from 140 corporate and private equity professionals on their approach to structuring retention arrangements in M&A situations (aggregated data is shown due to confidentiality)
  - Design considerations for TWUL
  - Best practice design features of typical retention plans are included in the appendix

*Mercer's database covers data from Asia, U.S. and Canada, and Europe

Executive Summary

- Although implementing a senior management retention plan is a condition of the creditor to secure the Company's financial restructuring plan, the quantum and structure of any retention bonus should be carefully considered given the anticipated public scrutiny
  - **Quantum**: Median awards are c.88% - 100% of salary for CEOs and senior management teams and standard 12-month retention periods. This aligns with our consulting experience with setting aggregate payouts to executives at a level that is broadly equal to or slightly in excess of 1 year's salary for 12-month retention periods, with lower amounts applied to critical employees below Board. Longer retention periods would normally correlate to higher retention award values and our general rule of thumb is to scale amounts based on a 12-month equivalent value (within reason)
  - **Structure**:
    - ***Eligibility***: Are all 19 employees equally critical to the full completion of the Restructuring Plan and TWUL's overall turnaround? If not, consider differentiating awards in terms of quantum and structure
    - ***Time horizon and payment conditions***: Most retention plans are time-based, so linking payment to milestones that track the completion of the Restructuring Plan should be positively noted. However, there are certain aspects of this Restructuring Plan that are outside of management's control (e.g. CMA approval of re-determination of the PR24 plan) which can diminish the perceived value of the second and third retention award tranches (payable in September 2025 and June 2026). In this context, TWUL should consider:
      - If payments should be linked to the completion of any other milestones that that are critical to securing the required funding and within management's influence and control, noting that the overlap with the current payment conditions for in flight PRPP awards should be limited
      - If there is a case for reserving the right to review the arrangement for subsequent retention award payments (i.e. tranches 2 and 3) upon receiving CMA approval on the re-determination of the PR24 plan
    - ***Vesting schedule***: Retention awards are most commonly paid in two instalments for employees critical in the long-term, and in one instalment for employees critical in the short-term. We would normally expect a longer retention period to be correlated with a higher number of payments and backloading awards is a common practice
  - As part of TWUL's broader liquidity management and planning, TWUL should also consider:
    - The Change in Control definition(s) applicable to existing remuneration arrangements and employment contracts
    - The Change in Control treatment of any retention awards
    - The total financial liability resulting from remuneration owed to eligible participants upon triggering a Change in Control at any point during the [18 month] vesting period currently envisaged (i.e. PILON + in flight PRPP + retention award + any other amounts including from a potential MIP in FY 2027)

Table of contents

Market practice

When determining eligibility for retention bonuses, buy-side companies often segment the critical talent not only by the desired retention period (near vs. long-term), but also by level in the organisation

Key employees targeted for retention

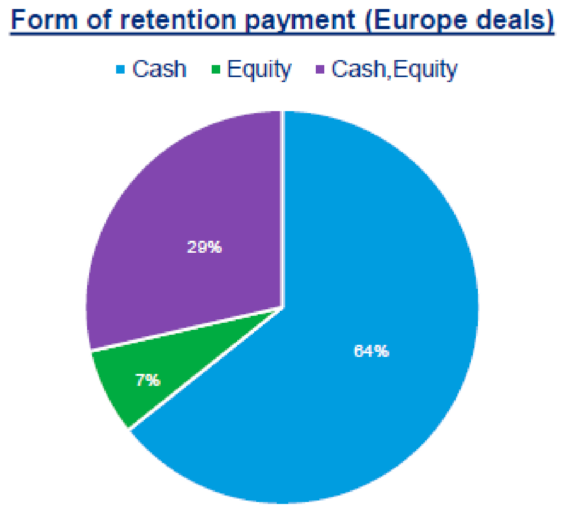
Role	By Region		By Deal Size		
	All*	Europe	< $500M	$500M - $1B	> $1B
CEO or Business Head of Target	69%	62%	85%	85%	71%
Executives (CEO's direct reports)	77%	74%	85%	85%	83%
Senior management (VP & above)	69%	69%	80%	80%	71%
Other employees critical for integration	56%	60%	75%	75%	42%
Other recipients	14%	21%	20%	20%	4%

*Includes deals in US & Canada, Asia, and Europe

- For key executives, award levels and payment timing should be carefully calibrated taking account of the size and timing of each individual's aggregate cash flows
- For "Rising Middle Stars" further down in the organisation, a more standardised approach is often effective and appropriate
- Historically, retention plans have tended to be focused on senior management and critical roles. However, in our database we found companies increasingly designing retention programs for employees outside of senior management, regardless of their criticality to the organisation

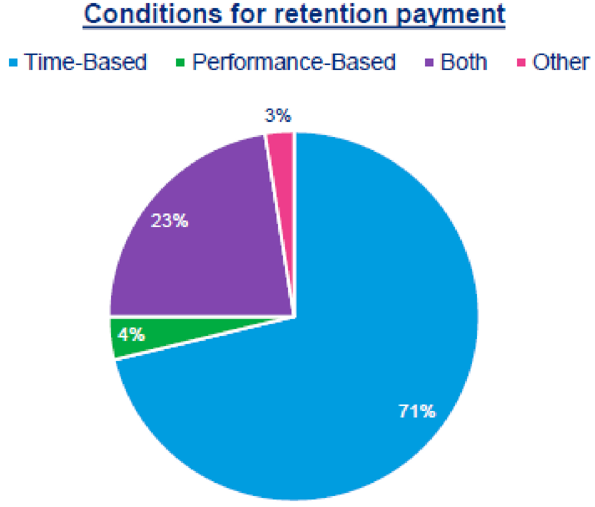
Market practice

Cash is the most common form of retention payment as cash is more retentive than equity during times of significant uncertainty (we note that equity is not a choice available to Thames Water)



Market practice

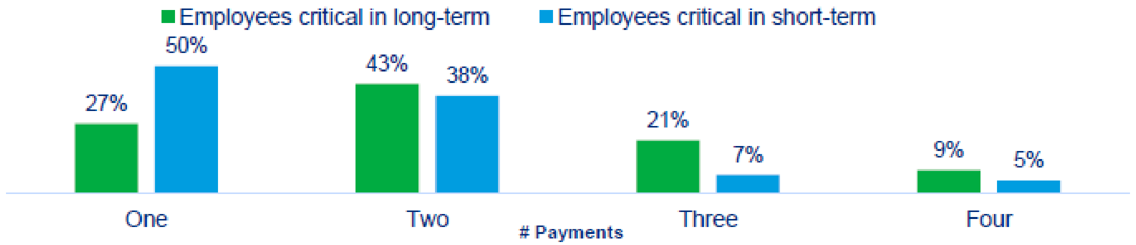
Most retention awards have time-based only vesting conditions; less than 30% have performance-based conditions (which need not be applied to Thames Water)



Market practice

Awards are typically phased, particularly for long-term critical employees

 # Installments used to pay Retention Bonus



	One	Two	Three	Four
First Tranche	**12 months**	**12 months**	**6 months**	**12 months**
Last Tranche	**12 months**	**24 months**	**24+ months**	**24+ months**

Common payment timing (for employees critical in the long-term)

- **For employees critical in the long-term, retention bonuses are most commonly paid in two installments:**
  - First payment at 12 months
  - Last payment at 24 months
- **For employees critical in the short-term, retention bonuses are most commonly paid in one installment**
- We would normally expect a longer retention period to be correlated with a higher number of payments
- Our data suggests back-loading payments is a common practice

Market practice

Retention bonus awards equal to c.88% - 100% of salary for standard 12-month retention periods are most typical for CEOs and senior management teams of European headquartered companies

Median Retention Bonus Values (as % salary)

Role	By Region		By Deal Size		
	All*	Europe	< $100M	$100M - $500M	> $500M
CEO or Business Head of Target	100%	100%	140%	100%	200%
Executives (CEO's direct reports)	100%	100%	125%	80%	113%
Senior management (VP & above)	75%	88%	88%	50%	88%
Other employees critical for integration	40%	44%	40%	25%	50%
Other recipients	63%	78%	50%	25%	128%

*Includes deals in US & Canada, Asia, and Europe

- Our experience is that award levels are often set at a level that is broadly equal to, or slightly in excess of, one year's salary
- This is broadly supported by the survey data which suggests that, at median, a payment of around 100% of salary is typical for CEOs and 88% - 100% of salary for their direct reports and other senior management roles
- Any retention arrangements for the Executive Directors will need to be disclosed in the Remuneration Report and this will be subject to creditor and public scrutiny

Market practice

At median, the retention pool value is 0.4% of the deal value (for deals > $500M)

Retention pool (as % of deal value)

Deal value	25th percentile	Median	75th percentile
Less than $100M	4.0%	7.3%	10.4%
$100M - $500M	0.4%	0.8%	1.4%
More than $500M	0.2%	0.4%	0.5%

- Retention pools expressed as a percentage of deal (acquisition/trade sale value) tend to decrease in size relative to deal value, demonstrating that there is a likely minimum fixed cost to retention plans, but little evidence of an upside in payout values the bigger the deal. In other words, the retention pool is often a meaningful portion of a small deal but relatively small in terms of a large deal
- In terms of the aggregate costs of retention arrangements, our data suggests that the total retention pool value is 0.4% of the deal value at median (for deals > $500M)

Design considerations for TWUL

Element	TWUL current proposal	Additional considerations
Target population	N=19	• **TWUL may wish to consider differentiating the structure of the retention bonus between the Executive Directors (n=2) and the other senior leaders (n=17) based on criticality and the desired retention period; some considerations:** – Are all 19 employees equally critical to the full completion of the Restructuring Plan and TWUL's overall turnaround? – Disclosure required for Executive Directors; consider interplay between retention bonus opportunity and current PRPP opportunity
Vehicle	Cash	• **Cash only**, as Thames Water is a private company and equity is not currently available for remuneration purposes
Time horizon and conditions for payment	15 months, tied to completion of Restructuring Plan	• In line with the Court sanctioned Restructuring Plan, TWUL will receive £3 billion of super senior funding to be delivered in up to 3 tranches subject to continued satisfaction of conditions at the time, including: (1) TWUL has progressed towards a more holistic recapitalisation transaction with the agreement of a sufficient proportion of its creditors during the year; and (2) completion of the CMA appeal process in respect of Ofwat's PR24 price review • The funding tranches are set out as follows: – **First tranche (£1.5 billion)**: accessible after certain conditions are satisfied by September 2025 – **Second and third tranches (£750 million each)**: if required, liquidity may be further extended to May 2026, following TWUL's decision to make an appeal to the CMA following receipt of the Final Determination (i.e. this is not yet confirmed) • **The critical retention period is 14 months (i.e. now through May 2026) to fully align with the completion of the Restructuring Plan** • As the second and third tranches of funding are not yet confirmed, consider if payments should be linked to the completion of any other milestones that are critical to securing the associated funding • Assuming the PRPP will continue to operate and the senior management will continue to participate and receive awards, ensure any such milestones do not significantly overlap with current (and any anticipated changes to) payout conditions applicable to the PRPP

Design considerations for TWUL (cont'd)

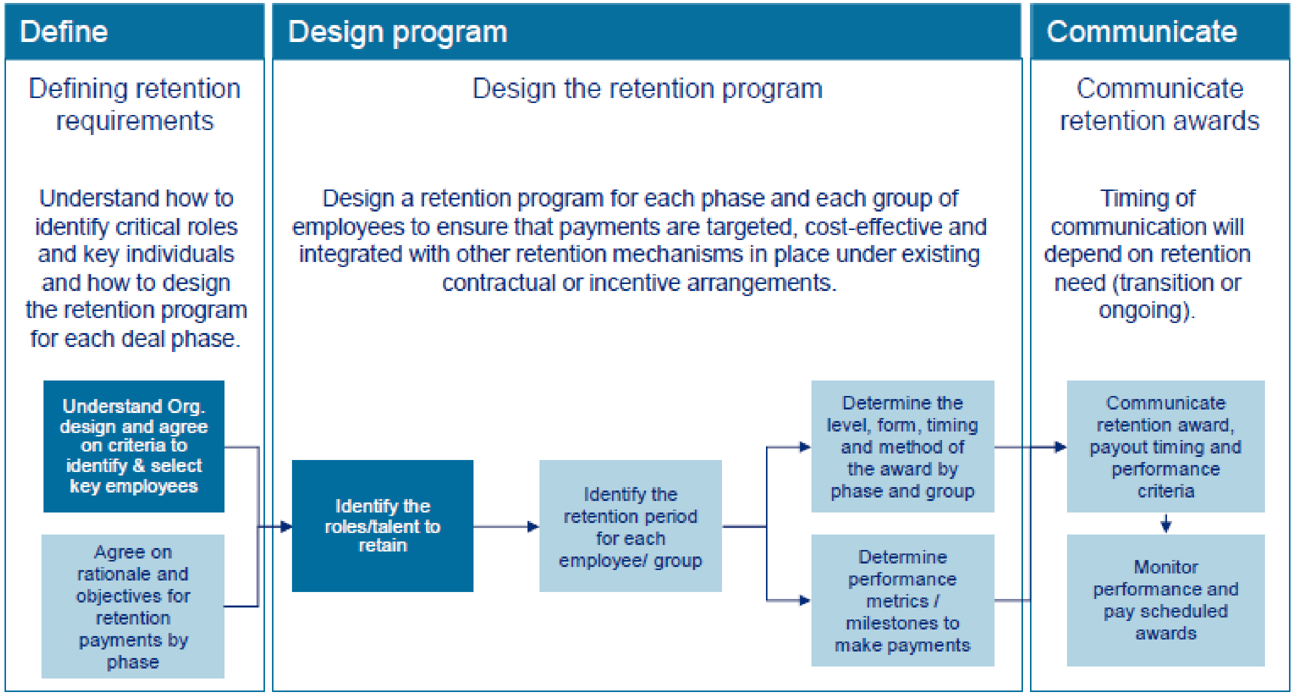
Element	TWUL current proposal	Additional considerations
Vesting schedule	3 tranches over the vesting period tied to Restructuring Plan: 1. April 2025 2. September 2025 3. June 2026	• **Will all tranches be equally weighted? Consider the relative importance of achieving each phase of the Restructuring Plan** • Our data suggests back-loading payments is a more common practice to facilitate long-term retention. However, TWUL should consider this in the context of: 1. The likelihood of securing additional liquidity from the second and third tranches subject to the completion of the CMA appeal process; and 2. The criticality of eligible participants to the successful delivery of each phase (this can be differentiated by individuals/groups).
Quantum	TBC, estimated aggregate cost of £17 million	• **Given the anticipated public scrutiny, the value of any retention bonus should be carefully considered. Our experience is that aggregate payouts are often set at a level that is broadly equal to or slightly in excess of 1 year's salary for 12-month retention periods** • For Executive Directors and other key executives, it is important to carefully calibrate the value of the retention bonus taking into account the size and timing of each's individual's aggregate cash flows (including expected payments from any in flight incentive arrangements)
Governance	TBC	• How will/should the creditors and RemCo interact – if at all – in respect of decisions on payouts? • Will a creditor representative be appointed to the RemCo/Board?

Design considerations for TWUL (cont'd)

Element	TWUL current proposal	Additional considerations
Change in Control	TBC	• **Given retention payments are linked to time-based and milestone-based requirements, unvested retention awards normally lapse in the event of termination** • **However, if there is a possibility for the new equity injection to trigger a Change in Control, TWUL should:** 1. Review the Change in Control definition applicable to existing remuneration plans (i.e. the PRPP) and contracts 2. Consider how unvested retention award payments should be treated in this scenario – We understand that the introduction of a MIP is envisaged in FY 2027 – Should there be an option/facility to rollover retention awards into a future Management Incentive Plan (MIP) assuming the same management team are likely to stay on? 3. Consider the cumulative financial impact of remuneration owed to eligible participants (PILON + PRPP + retention award + any other amounts incl. potential MIP in 2026) upon triggering a Change in Control – In accordance with the current Remuneration Policy, upon a change in control, notice periods apply and Executive Directors would be eligible for Good Leaver treatment as per the PRPP scheme rules: • **Notice periods**: CEO (12 months), CFO (6 months) • **PRPP awards**: Normal policy is to prorate any PRPP award (base and/or deferred award) for time and performance to the date of the change of control, subject to Committee discretion

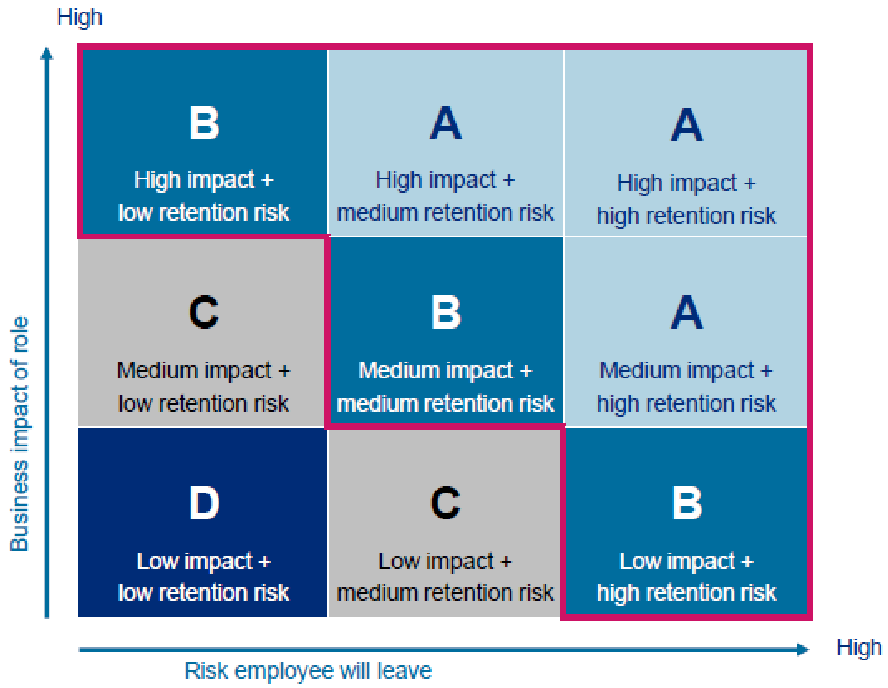
Appendix: Retention plan design

Three steps to implementing a retention plan: defining program requirements, designing the program and communication



Appendix: Retention plan design

Successful retention plans tend to focus on the As and Bs identified based on the grid below



Retention factors

- Performance
- Organizational knowledge
- Transaction criticality
- Technical knowledge
- Managerial capability
- Potential
- Difficult to replace
- Likely to leave
- Wealth

Appendix: Retention plan design

There are three critical periods in a deal when employees are most likely to leave; retention payments should be designed to address the different priorities for each period

Phase	Employee group	Reasons for leaving	Business risk	Timing of payout	Method of payout
Following announcement and prior to closing the transaction	Critical to successful completion of transaction	• Unsettled by the announcement • Unsure of future job security/opportunity • Have concerns about new ownership • Vulnerable to being head-hunted and/or actively pursuing advertised positions	• Uncontrolled loss of key talent	• Full award will not be paid out until close	• Typically in a lump sum and in cash
During initial integration	Critical to effective integration	• Retrenched as job role made redundant • Disappointment with new role • Disappointment with new manager, colleagues, work environment • Unable/unwilling to relocate to accept new role • Frustrated by integration process • Heavy workload during integration	• Greater degree of control over turnover, but can lose key talent through poor management of integration process • May still lose key talent stimulated to review career option following the announcement	• Full award will not be paid out until the integration period is complete (e.g., 6–18 months post-close)	• Typically in a lump sum or in two installments and in cash
9–[24] months after integration	Critical to success of combined entity	• Unable to "fit in" to new organization • "Not the same as it used to be" • Perceive future opportunities to be limited or have unmet expectations	• Turnover at this point is probably less of a concern provided the organization has managed integration effectively	• Full award will not be paid out until the employee is fully integrated into the new entity (e.g., 1–3 years post-close)	• Typically in two or three installments; may be in cash and/or equity (where applicable)

Mercer

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SURVEY REPORT (HTTPS://WWW.WTWCO.COM/EN-US/INSIGHTS/ALL-INSIGHTS#SORT=%40FDATE13762%20DESCENDING&F:@ARTICLEZ45XCONTENTZ45XTYPE=[SURVEY%20REPORT])

2024 M&A Retention Study

Executive summary

March 13, 2024

Mergers and acquisitions create uncertainty for employees at both firms involved with a transaction. Explore how retention agreements are being used to retain key talent.

Failure to retain key executives and employees can negatively impact an otherwise successful merger or acquisition. Retention agreements can play a critical role in keeping talent, whether at the acquirer or at target companies, both during and after the transaction. Structuring retention agreements and determining which executives and employees should be offered them is a consistent challenge for acquiring companies.

WTW's 2024 M&A Retention Study provides a detailed look at the current state of retention agreements across a broad swathe of industries. This executive summary highlights the study's key findings. The details behind these findings can be found within the full report.

The transactions

In most transactions completed by the respondents over the past two years, the buyer, typically a larger publicly traded company and the seller, typically a smaller private organization, have been in the same industry and market. However, approximately one-third of transactions involved buyers and sellers in the same industry, but in different markets or regions.

These transactions, defined from the start date of preliminary discussions until the deal closes, can be time-consuming. The typical transaction took six months from preliminary discussions to the execution of a letter of intent and then an additional six months from the execution of the letter of intent until the deal closed. Typically, larger transactions take longer and the average time from preliminary discussions to the execution of the letter of intent and the time from the execution of the letter of intent and deal closure are each over seven months long for a total length of about 13 or 14 months on average.

Using retention agreements to hold onto employees

Mergers or acquisitions often represent a significant period of disruption for employees, particularly at the target organization. From the moment a deal is announced (or sometimes even suspected) these employees face a sense of uncertainty about the impact of the transaction on their own career prospects. This uncertainty often lasts well beyond the deal's closure.

Organizations often use retention agreements as rewards to help retain eligible employees through this period of disruption. About 70% of acquirers track or set aside fixed budgets for retention pools. Although these pools can be quite large, they are typically less than 2% of the purchase price. However, the actual pool depends significantly on whether the target company is purchased primarily for human capital as an asset, or as one of many assets.

72%

of respondents track or set aside a fixed amount for a retention pool

The buyer typically bears the cost of retention pools. Fewer than one in five transactions see the seller bear the entire cost of the retention pool through a reduction in the purchase price. Aside from deal size, several other factors drive the magnitude of retention pools. Most commonly cited factors are related to the perceived importance of human capital to the success of the deal. For example, respondents often cited the need to retain certain employees to transition core responsibilities or to acquire new critical skills that the buyer doesn't have. Similarly, organizations entering a new market through the acquisition commonly cite the need to retain employees because of their expertise in that market.

A common challenge for acquirers is understanding how engaged the employees are and what impact the transaction will have on their engagement level and their intent to remain with the new organization. One obvious area of concern will be the impact of the transactions on existing long-term incentive plans. For example, retention problems are likely to be more severe when management and other employees receive significant deal proceeds or accelerated equity awards, reducing their impact on retention. Such circumstances make it necessary to create a new retention agreement to provide additional incentives to remain, leading to increased retention pools overall.

A company's retention strategy may have an impact on employees who were selected for retention awards. Three out of four organizations said that they relied on information from the seller's leadership when deciding who to include in the retention awards.

Three out of four organizations relied on information from the seller's leadership when deciding who to include in the retention awards.

Organizations are most likely to offer retention awards to employees who have key/critical skills or market/industry knowledge. Individual characteristics, such as being identified as a high-potential employee or having a record of being a top performer are significantly less likely to impact the probability of receiving a retention award. Respondents were evenly split on whether the entire pool was spent for an initial list of key employees or whether some portion of the total pool was reserved for later use, including 30% of respondents who indicated that money was reserved for use after the close of the deal.

In practice, these factors contribute to the result that over half of the C-suite executives at the acquired organization are eligible for retention awards at 44% of respondents that offer retention agreements. On the other end of the spectrum, fewer than 10% of executives are given retention agreements at over one third of the same respondents. In contrast to the all-or-nothing (at least most-or-almost-nothing) approach often taken in executive eligibility decisions, eligibility decisions for salaried employees tend to focus on a relatively small portion of salaried employees. Most respondents reported that fewer than 5% of salaried employees were eligible for retention awards.

In addition to eligibility for retention agreements, there are also significant differences between senior executives and other salaried employees in the timing of these agreements. Senior leadership is typically asked to sign retention agreements earlier in the deal process than other employees. For example, respondents were more than twice as likely to say senior leadership was asked to sign a retention agreement before signing the deal, while other salaried employees were more than twice as likely to do so at or after the closing.

Terms of the retention agreements

Turning from the who and when of retention agreements to the terms of retention agreements, we can see similarities and differences in the terms of these agreements for different employee populations. Retention agreements are almost always time-based — although in many cases these agreements also include a performance-based component. Thirty-six percent of respondents report using a combination of performance metrics and time-based components for senior leadership and 23% report using both for the salaried population. The most common time-based approach to retention award vesting involves cliff vested payments, where payments are made all at once after the entire retention period has passed. The other common approach is to make payments on an intermittent basis, where payments are made evenly across the retention period.

For retention awards that have a performance-based component, there are a variety of types of performance metrics used. For senior leaders, the metrics used most typically focus on the financial metrics of the entire company or the acquired business exclusively. Other performance metrics for senior leaders may relate to the deal itself, including the length of time required to complete the acquisition or the achievement of cost synergies. For other employees, the focus is on financial performance — either of the entire company or the acquired business — although manager discretion is also relatively common.

It's important to note that the length of the retention period matters. Typical retention periods are between 13 to 18 months for all employee groups. However, the spectrum of retention periods varies based on the circumstances of each deal.

Regardless of retention award values, vehicles used to pay retention awards are similar across employee groups. Cash retention bonuses are the most common form of award, used by over four out of five organizations for both senior leadership and salaried employees. Stock-based awards — whether in options or full-valued shares — are also used for both, although the use of stock options is more common for senior leaders.

The amounts for these awards are usually set as follows:

- Three in 10 organizations offer a fixed amount for both senior leadership and salaried employees.
- About half of respondents offer retention awards in amounts expressed as a fixed percentage of salary for senior leadership and salaried employees.

However, within these general parameters, the actual aggregate and annualized values provided vary substantially depending on role or job level. For example, average total retention value as a percentage of salary ranges from approximately 40% for salaried employees to 140% for the CEO, with annualized retention values ranging from approximately 25% for salaried employees to 90% for the CEO.

While important, retention awards aren't the only tool used to retain employees. Respondents also identified other monetary and nonmonetary tools as effective for talent retention. For example, 30% of respondents identified increases in base pay as effective tools for retention. Nonmonetary retention tools such as career enhancement opportunities and personal outreach by leaders and managers were also used.

Nonmonetary retention tools such as career enhancement opportunities and personal outreach by leaders and managers were also effectively used.

Perceived effectiveness of retention awards

Despite the significant amount spent on retention awards and the importance of employee retention to the success or failure of many acquisitions, almost 40% of respondents report that they don't track retention rates. While over half of respondents (62%) report tracking retention rates through the end of the period to measure the success of their retention strategy, only 15% of all respondents continue to track retention beyond the end of the retention agreement. Failure to measure this outcome means that many respondents are unable to track the true effectiveness of their retention agreements or to establish their ROI.

Respondents reported generally positive expectations of the number of employees who received retention agreements who would remain through the end of the retention period. Over half of respondents expected at least 80% of both senior leadership and other salaried employees to remain through the end of the retention period. This percentage declined substantially for both groups one year after the end of the retention period. However, over 60% of respondents expect approximately three out of five employees from these groups to remain for a full year after the end of the retention period.

The most commonly cited reasons for attrition during a transaction include discomfort with the changing organizational culture and misalignment with the direction of the new company. Some respondents cite participants' dissatisfaction with their new role or manager. The above factors create uncertainty among employees and, in turn, greater attrition risk. Therefore, it isn't surprising that competitors also view this time as an opportunity to poach employees from both organizations involved in the transaction. Many respondents reported that employees left as the result of aggressive recruiting by competitors.

Conclusion

Mergers and acquisitions create a great deal of uncertainty for employees at both firms involved in the transaction, and this uncertainty can impact engagement, productivity and retention. Given the importance of human capital considerations in the success or failure of transactions, it isn't surprising that organizations spend significant amounts on retention pools for executives and other employees to tie them to the organization for considerable periods of time. Organizations' use of retention awards may be time- or performance-based, depending on the purpose of the retention program and the facts and circumstances of the deal. Measurement of success is important; however, many organizations find themselves unable to methodically determine the impact of their programs. Organizations could refine measurement of their results to understand the impact of monetary awards and whether greater use of other nonmonetary tools may be effective to retain and engage employees through these periods of dramatic change.

About the respondents

The 2024 Mergers and Acquisition Retention Study was conducted September through November 2023 and was completed by 159 respondents, with headquarters in over 20 countries. Respondents represented a variety of industries, most commonly including manufacturing, IT healthcare and financial services.

Respondents by industry

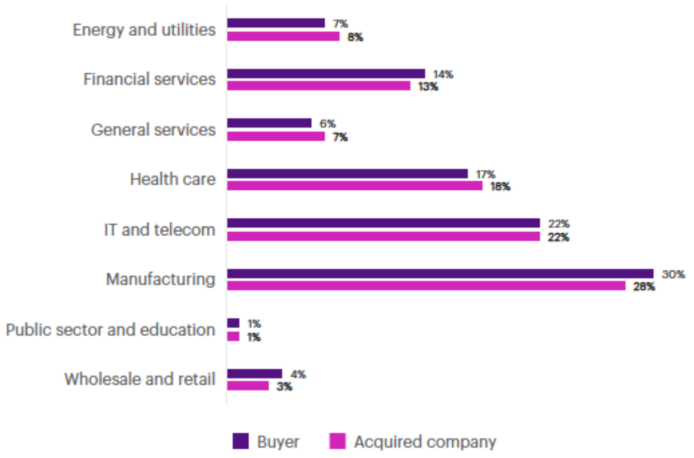

Chart shows respondents by industry for both buyers and acquired companies
WTW

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62%

of respondents report tracking retention rates through the end of the period to measure the success of their retention strategy

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Key employee retention plans in restructuring situations

February 2025

Rothschild & Co

Key employee retention plans – Ongoing US cases

Company				Retention Plan				
Company	**Debt**	**Assets**	**Revenue**	**Plan total value**	**Cost per participant**	**% of debt**	**% of assets**	**% of revenue**
	$m	**$m**	**$m**	**$m**	**$k**	**%**	**%**	**%**
Hearthside Food Solutions LLC	3,057	-	3,303	5.3	34	0.17%	-	0.16%
Conn's Inc.	530	831	665	0.7	42	0.13%	0.08%	0.10%
Robertshaw	833	583	-	1.3	54	0.16%	0.22%	-
Pennsylvania Real Estate Investment Trust	1,147	1,718	296	0.4	16	0.03%	0.02%	0.12%
GenesisCare	1,714	1,439	1,541	11.4	43	0.67%	0.79%	0.74%
Wesco Aircraft	3,144	2,431	1,960	5.3	96	0.17%	0.22%	0.27%
SVB Financial Group	3,370	4,087	6,200	3.0	27	0.09%	0.07%	0.05%
FTX	-	19,092	-	4.0	73	-	0.02%	-
Voyager Digital	1,125	5,088	-	1.9	50	0.17%	0.04%	-
Revlon	4	9,488	2,079	15.4	96	433.95%	0.16%	0.74%
Seadrill	7,238	3,450	912	5.5	44	0.08%	0.16%	0.60%
Valaris plc	7,096	12,911	2,053	24.2	49	0.34%	0.19%	1.18%
GNC Holdings Inc.	903	1,214	2,068	3.1	79	0.35%	0.26%	0.15%
Speedcast International Ltd.	679	1,665	722	4.0	45	0.59%	0.24%	0.55%
Frontier Communications Parent Inc.	17,500	17,433	8,107	37.7	97	0.22%	0.22%	0.46%
OneWeb Holdings LLC	1,733	3,300	-	2.4	50	0.14%	0.07%	-
McDermott International	5,226	8,737	8,431	79.4	71	1.52%	0.91%	0.94%

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APPENDIX FIVE

LETTER TEMPLATE

APPENDIX **FIVE** – LETTER TEMPLATE

Retention Payment

Dear <Name>,

Following our recent discussions regarding the Company's successful work to secure liquidity provisions from its creditors, I can confirm that Thames Water Utilities Ltd. (the **Company**) wishes to offer you retention payments in accordance with the terms of this letter (the **Retention Payment(s)**). The Retention Payments are a requirement of the creditor restructuring deal and will be wholly funded by the creditors. The Retention Payments are offered in addition to any variable discretionary remuneration that may be awarded to you for the 2024/2025/2026 performance years.

Retention Payments

You are offered the following Retention Payments (subject to the eligibility conditions set out below):

- 50% of your base salary on conclusion of the RP1 process and receipt of funding, payable on 30 April 2025 or as soon as practicable thereafter.
- 50% of your salary payable on conclusion of the RP2 process or on the December 2025 payroll date, whichever is earlier.
- 200% of your base salary payable on the June 2026 payroll date.

Each Retention Payment will be a one-off payment, calculated using your base salary as at 1st January 2025 and paid into your normal salary bank account. The Retention Payments will be subject to any withholding for income tax and employee's National Insurance contributions (NICs) and any other deductions the Company is required by law to make, and will be non-pensionable.

Eligibility

You will not be eligible to receive the applicable Retention Payment (and any subsequent Retention Payment(s)) if at the above payment due date for that Retention Payment you have given notice of resignation or have ceased to be employed by the Company as a result of serving your resignation.

Should the Company terminate your employment other than for reasons of redundancy (within the meaning of the Employment Rights Act) or for reasons of misconduct (including gross misconduct), you will be eligible to receive a pro-rated payment in-line with the following schedule

- For the September 2025 Retention Payment: 100% of the payment
- For the June 2026 Retention Payment: one twelfth of the Retention Payment due for every month of completed service between 01 June 2025 and 31 May 2026: where pay in lieu of notice is served, the Retention Payment shall be pro rated to include the length of service accrued should notice have been worked.

Should the Company terminate your employment by reason of redundancy (within the meaning of the Employment Rights Act), you will receive all three tranches of the Retention Payments (subject to the eligibility conditions and clawback provisions set out in this letter). The Retention Payments will be made at the same time as any redundancy payment.

You will not be eligible to receive the applicable Retention Payment (and any subsequent Retention Payment(s)) if at the above payment due date for that Retention Payment you are found to have materially breached any of the terms of this letter and/or your contract of employment with the Company or another member of the Company's group (a **Breach**). In addition you may be required to repay any Retention Payments already made to you.

If you have been notified that you are under investigation in accordance with the Company's disciplinary procedure before the payment due date for that Retention Payment then the Company may decide, at its absolute discretion, to suspend payment of the relevant Retention Payment until the investigation and any subsequent disciplinary hearing meeting concludes. If you are then subject to a sanction under the disciplinary procedure, the Company may decide, at its absolute discretion, that you will not be eligible for that Retention Payment (or any subsequent Retention Payment(s)).

If, at any time from the date of this letter up to the above payment due date for each Retention Payment (the **Retention Payment Period**), you are absent from work due to sickness or ill health or otherwise, for a continuous or aggregate period of more than 30 calendar days, the amount of any Retention Payment due to you may, at the Company's absolute discretion, be pro-rated accordingly, to reflect the proportion of time spent by you at work in the applicable Retention Payment Period.

Clawback

If any **Clawback Event** comes to the attention of the Company within the two-year period after the applicable Retention Payment has been made to you, then the Company may, at its absolute discretion, require you to repay to the Company an amount equal to the applicable Retention Payment (or such lesser amount as the Company determines at its absolute discretion) (the **Clawback Sum**). The Company shall notify you of the Clawback Sum as soon as practicable after it has made its determination.

A Clawback Event means any of the circumstances described below:

- there is reasonable evidence of a Breach or other misconduct (including gross misconduct); or
- there is a regulatory sanction or serious reputational damage where the Company determines that your conduct or omission contributed to the sanction and/or damage;
- the Retention Payment has been received in breach of relevant legal requirements.

If an investigation and any subsequent disciplinary hearing meeting in accordance with the Company's disciplinary procedure has started before, but has not been completed by, the end of the two-year period after the payment due date for that Retention Payment, the Company may decide, at its absolute discretion, to postpone the decision to apply clawback under this clause until the investigation and any subsequent disciplinary hearing meeting is completed.

The Company also reserves the right at its absolute discretion to require you to repay to the Company the applicable Retention Payment(s) in the following circumstances:

- Should you give notice of your resignation within six months of the initial Retention Payment (due around 30 April 2025) having been made, up to 100% of that payment
- Should you give notice of your resignation within six months of the second Retention Payment (due on conclusion of RP2 or December 2025, whichever is earlier) having been made, up to 100% of that payment

(each a "**Recoupment Sum**").

You agree that:

- the Company may deduct the Clawback Sum and/or Recoupment Sum (or such amount as it determines in the event of a Breach) from any future salary and/or payments made to you by the Company (including any future Retention Payment under this letter or any payments that you may be eligible to receive under any other discretionary bonus plans or other incentive arrangements operated by the Company or another member of the Company's group); or
- the Company may determine that you shall repay the Clawback Sum and/or Recoupment Sum (or such sum as it determines in the event of a Breach) within the time limit advised to you by the

Company at the time it notifies you of the Clawback Sum/Recoupment Sum (or amount in the event of a Breach) which will be a minimum of 30 days from such notice

(each a "**Repayment Right**").

Regulatory compliance

The Company shall be entitled to make any changes to the terms and conditions of the Retention Payments to the extent such changes are required on account of a change in law or any policy of the Company governing remuneration.

Confidentiality

You are required to keep all details of the Retention Payments confidential and you must not disclose its existence or any of the terms set out in this letter to anyone other than myself, Catherine Green, or Kate Sheldon. You may disclose the existence of the Retention Payments to your spouse or partner provided that person agrees to keep the terms confidential. You may also disclose the Retention Payments where necessary to your professional advisors under their duties of confidentiality. The payment of the Retention Payments will be forfeited if the Company reasonably believes such confidentiality has not been maintained and any payment previously made may be recouped in the same manner as a Clawback Sum.

Change of Control

The above Retention Payments schedule will be retained should there be a change of Control at any time until the final payment has been made in June 2026. A change of Control occurs if a person who controls any body corporate ceases to do so or if another person acquires Control of it. The definition of Control, in relation to a body corporate, is the power of a person to secure that the affairs of the body corporate are conducted in accordance with the wishes of that person:

i. by means of the holding of shares, or the possession of voting power, in or in relation to, that or any other body corporate; or

ii. as a result of any powers conferred by the articles of association or any other document regulating that or any other body corporate.

Acceptance

Once you have read the content of this letter, please sign, and return a copy or send an email confirmation to [redacted] by <date> to confirm your acceptance of the terms as set out in this letter, including but not limited to the Repayment Right.

If you have any questions or require clarification, please contact [redacted].

I would like to thank you for your continued loyalty to the Company and for your support to the team.

Yours Sincerely,

Chris Weston

Chief Executive Officer

APPENDIX SIX

REMUNERATION COMMITTEE PAPER DEMONTSTRATING THE FLOW OF FUNDS FOR THE MRP

Report to:	Remuneration Committee	Executive Sponsor:	Catherine Green
Pages:	1	Date of meeting:	09 June 2025
Subject:	Management Retention Programme Traceability		

17. PURPOSE

The purpose of this paper is to update the Remuneration Committee on the financial process put in place to provide an audit trail for the payment of Management Retention Programme (MRP) payments.

18. EXECUTIVE SUMMARY

On 02 April 2025 the board approved the MRP with the first payment to be made on 30 April 2025 (providing funds had been received). As part of the approval, the board requested confirmation of the Company's ability to demonstrate the MRP was being funded by the creditors and was not being paid for by customers out of the regulatory allowance.

The Company has set-up specific bank accounts for the receipt of the super-senior funding and in which to hold the MRP payments ahead of these being made to individuals. Payments to individuals needs to be made through the normal payroll bank account.

The full process is shown in section four of the paper.

19. ACTION(S) REQUIRED

The board is asked to:

- NOTE the financial processes put in place

20. FINANCIAL PROCESS

The flow of funds is as follows:

Process	Account Name	Sort Code	Account Number
Receipt of net proceeds from the TW super-senior funding agreement	TWUL SS PROCEEDS	[redacted]	[redacted]
Receipt of MRP payments amount from TWUL SS PROCEEDS	TWUL SS PROC2	[redacted]	[redacted]
Receipt of balance of funds from TWUL SS PROCEEDS	TWUL MAIN	[redacted]	[redacted]
Approx. 3 working days before payment to individuals MRP payments received from TWUL SS PROC2	BACS acct	[redacted]	[redacted]

APPENDIX SEVEN

SENIOR CREDITOR PROPOSAL SUMMARY

Thames Water Creditors deliver £17 billion recapitalisation proposal to transform customer and environmental outcomes

- A large group of senior creditors (**Creditors**) of Thames Water Utilities Limited (**Thames Water**) have submitted to Ofwat a £17 billion plan designed to fix the fundamentals, turn around Thames Water, and improve performance for customers and the environment once and for all.
- The proposal has been developed following an extensive due diligence process undertaken by Creditors and a significant team of industry specialists over several months. The Creditors' proposal, which remains subject to further negotiation and refinement, would see £3 billion of equity and over £2 billion of debt funding committed from day one post completion, a complete loss for existing shareholders, and several billion of debt write-downs to restore financial resilience and improve services for the benefit of customers, employees and the taxpayer.
- The proposal would produce a balance sheet and credit metrics consistent with investment grade from day one post completion to establish a route to an investment grade credit rating as quickly as possible.
- Customer bills are not expected to rise further under the Creditors' plan than under the Company's Final Determination for the five-year period to 31 March 2030.
- Operational turnaround and enhanced governance are intended to reset the business and rebuild a new and resilient Thames Water that can deliver the high-quality service the public expects. The proposal seeks to deliver a transparent approach to corporate governance, in particular providing enhanced transparency to Ofwat and its nominated Independent Monitor for the duration of Thames Water's turnaround.
- Creditors consider that their proposed new investment will deliver a strong foundation for the Company, laying the groundwork for a potential future public listing of Thames Water, and a focus on improving customer and environmental outcomes.

The Creditors have submitted to Ofwat a detailed long-term "Transformation and Turnaround Plan" that is intended to fix the root causes of Thames Water's problems, rebuild customer trust and deliver improved environmental performance as quickly as possible whilst fixing the fundamentals of the business once and for all.

Following an exhaustive and rigorous 12-month equity raise process, the Creditors' consider their plan to be the best route to recapitalising Thames Water and driving a turnaround that delivers significant and lasting benefits.

The proposed recapitalisation of Thames Water is expected to represent the largest financial loss suffered by investors on an infrastructure asset in British history.

Fixing the Fundamentals from Day One

Under the proposal, new funding would be committed from day one, post completion, with a view to ensuring that Thames Water is sufficiently capitalised through the current price control period AMP8 (2025 – 2030) and beyond and able to deliver, amongst other things, the huge and complex investment program Thames Water requires to improve its infrastructure. To fix the Company's balance sheet and kick-start its transformation, the Creditors' plan is expected to:

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- **Deliver a £17 billion recapitalisation** that puts Thames Water back on a sustainable financial footing to protect customers, employees and the taxpayer.

- **Commit over £5 billion of new funding** (comprised of £3 billion of equity and over £2 billion of debt financing) to help drive a new business plan which focuses on delivering customers' priorities and improving environmental outcomes.
- **See several billion pounds written off across the capital structure** including all of the existing equity and a material write-down to the Class A debt.
- **Ensure significant deleveraging upon completion of the transaction to reduce gearing to below 60%** and deliver a financially resilient capital structure which would be one of the lowest leverage levels in the sector.
- **Produce a balance sheet and credit metrics consistent with investment grade from day one post completion** to establish a route to an investment grade credit rating as quickly as possible
- **Create a pathway to regain access to the debt capital markets**, bringing down the cost of borrowing and enabling a return of Thames Water to the public markets with a public listing possible in the future.

Based on the proposal submitted by the Creditors, all the benefits outlined above are expected to be delivered without increasing customer bills above those contemplated by Ofwat's Final Determination for the five-year period to 31 March 2030.

Building an Operational Engine to Deliver for Customers and the Environment

The Creditors' turnaround plan seeks to fix the fundamentals of the Company to improve underlying asset health, prioritising public health and safety risks and focusing on delivering what matters most for customers. It is expected to:

- **Restore public trust with enhanced governance and leadership, and restore financial resilience**, by re-establishing greater accountability and transparency alongside robust financial resilience with reduced leverage, robust liquidity and committed equity and debt.
- **Rebuild a strong foundation** to improve Thames Water's capital delivery capabilities and operational resilience, enabling Thames Water to deliver future capital investments at the best possible price for customers.
- **Deliver a Transformation and Turnaround Plan led by an experienced executive management team** with a proven track record in both the infrastructure sector and the implementation of complex turnarounds to lay the groundwork for a potential public listing of Thames Water at a suitable point in the future.
- **Support economic growth, regional regeneration, and increased housing development** through increased sewage and wastewater treatment capacity, accelerating the building of new strategic reservoirs, and the development of digital infrastructure required to power the future economy.

The Creditors' plan is designed to allow £20.5 billion of strategically targeted operational expenditure over the next five years – mirroring Thames Water's allowance for AMP8. This expenditure is intended to reduce pollution events and leakage, enhance power, cyber security and climate change resilience, and deliver improved digital customer service.

The operational transformation aims to deliver against customers' priorities and improve environmental performance through:

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- **A multi-AMP (10 – 15 year) programme of cleaning up rivers across London and the Thames Valley,** including increased replacement and improvement of ageing assets and infrastructure.
- **Enhanced investment in cleaning and sewer lining** to drive down the rate of pollutions and flooding incidents.
- **Increased investment in metering, mains replacement and leak detection** to address broken pipes more efficiently and drive leakage reduction.
- **Prioritisation of investment in waste treatment capacity** to enable the delivery of new housing developments and support economic growth.
- **Investment directed to focus on upgrades of high-risk sites** where there is the highest customer and environmental impact, to de-risk critical asset issues and strengthen overall resilience.
- **Significant investment in digital solutions** to substantially improve customer service and satisfaction.

Enhanced Governance and Accountability

A new Board of Directors is expected to be established consistent with Ofwat's governance principles and the Wates Code.

Mike McTighe has been appointed by the Creditors as a Senior Adviser. He has extensive experience in business transformation, complex turnarounds and regulated assets. McTighe is working closely with the Creditors to identify the mix of skills and experience necessary to oversee an improved governance structure that drives an effective turnaround of the Company.

The new Board is expected to have the requisite experience and expertise needed to help transform the business, with experience spanning UK regulated water, delivery of large capital projects, business transformation, capital markets, economic regulation, and public policy.

A Supportive Regulatory Environment to Reset the Business and Launch the Turnaround

Alongside an anticipated investment of billions of pounds in new committed capital, the Creditors consider that regulatory support is required for a transformation and turnaround of this scale and complexity to succeed, so that asset health and performance can be improved to the levels that customers and the environment deserve.

The regulatory support requested has been calibrated based on the extensive due diligence exercise undertaken to reflect the Creditors' views of what Thames Water can actually deliver with its current asset base. It includes the Creditors' proposals for ambitious, but realistic, targets to be set based on achievable compliance and what Thames Water is currently able to physically deliver. The proposal includes a request for:

- **Totex reprioritisation to allow a focus on fixing the core business fundamentals**, allowing investment to be reprioritised and re-phased to enable Creditors to focus on fixing the core fundamentals, customer priorities, and delivering tangible improvement in environmental performance as quickly as possible.

- **Re-basing incentives and performance targets to allow an ambitious compliance trajectory**.
- **An enhanced aggregate sharing mechanism** with an appropriate risk-return balance to reduce the inherent risks that Creditors anticipate Thames Water will face during a highly uncertain turnaround period and with the vast majority of any outperformance under that mechanism returned to customers.
- **Full transparency and alignment between owners, the public, and regulators**. ● **A pragmatic approach to historic and future legal and regulatory compliance while Thames Water is undergoing its turnaround**, reflecting realistic levels of compliance that the Company can achieve now and during delivery of the turnaround.
- **A clean slate that would see Thames Water and investors held to account** to deliver an ambitious trajectory for the Company's return to compliance.

The Creditors' proposal is intended to deliver a fundamental reset of Thames Water, allowing the Company to move forward from past failures, make it possible to chart a clear path to success, and rebuild a stronger culture within the Company based on high performance and customers' priorities. The proposal is designed to rebuild public trust and ensure that the Company can deliver the extensive programme of work ahead as efficiently as possible for its customers. To mitigate against the risk of moral hazard, the proposed regulatory reset is intended to be a tailored package of support and commitments that would only be available to a water company that is in turnaround and the subject of a fundamental financial restructuring in which equity has been, or will be, materially impaired.

Without the regulatory support requested, the Creditors believe that customers will remain exposed to the risk of a continued "doom loop" of underperformance and non-compliance, and Thames Water's rate of pollutions, asset health deterioration, and customer service levels are likely to worsen.

A Spokesman for the Creditors said:

"The Creditors' turnaround plan is designed to fix the root causes of Thames Water's problems, restore its balance sheet, rebuild customer trust, and provide the financial investment and operational capabilities to fix the fundamentals of the business once and for all.

"The plan seeks to break from the patterns of the past by delivering customers' priorities and improved outcomes for the environment in the shortest possible timeframe.

"The Creditors include some of the largest investors in UK water companies, as well as UK and global infrastructure more broadly, with a proven track record of corporate turnarounds and long-term stewardship.

"These investors have the funding and experience required to deliver a transformation of the Company's performance which is intended to mark a departure from past failings, creating a 'new' Thames Water that works effectively alongside Government, regulators, and customers to deliver for the environment and economic growth."

-ENDS

Notes to Editors:

About the Creditor Group

- The Creditors are a large and representative sub-group of a wider Creditor Group that holds over £13bn Class A and super senior debt and is made up of more than 100 financial institutions. The Creditors restricted themselves from trading in the Company's debt to conduct detailed due diligence and build the Creditor's proposal.
- As committed lenders to Thames Water, the Creditors have a strong economic interest in driving and delivering a successful, market-led solution that delivers stability to the wider sector, avoiding the risk of a highly value-destructive SAR, which was not designed for, nor well suited to, a company in need of a significant operational turnaround.
- The Creditors also hold substantial debt holdings in other regulated UK water companies and in the broader UK and global infrastructure sectors, representing a significant proportion of the debt capital markets in the sector.
- Stabilising Thames Water is expected to boost confidence of debt capital markets and international investors participating in the sector.

New Investors to Provide the Stewardship and Expertise Required

- The Creditors that have developed the Transformation and Turnaround Plan are made up of pension and insurance funds, asset managers, and investment funds with a strong track record of helping complex businesses grow through committed capital and long-term stewardship.
- These investors have extensive experience in successfully delivering financial recapitalisations and operational turnarounds for companies facing financial distress, restructurings, and insolvency.
- Deep-dive meetings with Ofwat have begun with the Creditors aiming to have a transaction and the terms of their proposal agreed upon in early July, with the implementation process expected to begin immediately thereafter.