Sir Adrian Montague, CBE
Chairman

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

10th July 2025

[SENT VIA EMAIL]

Dear Mr. Carmichael

Thank you for your letter dated 8 July 2025 in response to my letter dated 4 July 2025.

KKR Proposal

We thought it might be helpful for the Committee's understanding to set out in more detail how the Board approached the decision making in respect of the equity process following the receipt of the updated non-binding proposals provided on 10 February 2025.

- Thames Water established a committee of the Board to consider the equity proposals. I am chair of the committee, and the other members are also independent non-executive directors, enabling independent review of the proposals, with the CRO and certain other independent non-executive directors attending regularly as observers. The CEO received some anonymised summaries principally related to operational matters and periodically attended the final section of meetings to be kept abreast of developments, but management were not otherwise involved in the process and did not receive the proposals.
- This committee met in the week after the proposals were received and Rothschilds summarised the key aspects of the proposals for the committee. The committee tasked Rothschilds with seeking further clarity from bidders where necessary, testing and challenging requests for exclusivity from bidders and seeking feedback from Ofwat on the proposals (given that the proposals required regulatory support).
- In the weeks which followed, the committee met several more times to discuss the further information and clarification which had been received on the proposals from the bidders and feedback which had been received from Ofwat. During this time the committee was also informed that many of the bidders met with representatives of the senior creditors. The committee also took the opportunity to consider the shape of the next phase of the equity process.

- Towards the end of March 2025, the committee met to take stock of the proposals following the clarifications received over the previous month. The committee also had the benefit of feedback provided by Ofwat to Rothschilds and of feedback provided to the committee by representatives of the senior creditors. Having considered the proposals and feedback in detail, and mindful of the duties and responsibilities of the Board to select the option that was best for the Company balancing all the facts before it, the committee made a recommendation to the Board of the next steps in the equity process. The Board met a few days later and, equally mindful of their duties and responsibilities, having considered the facts before them, agreed with the recommendation to proceed with KKR on an exclusive basis, but also alongside the alternative senior creditor proposal as an alternative proposal and to ensure competitive tension.

- Due to changes in the proposals from other bidders and after re-testing the position with KKR, the Board met a further time before the announcement that KKR was Thames Water's preferred partner to discuss again whether it was possible to proceed on a non-exclusive basis and considered that it was not possible to do so, but reconfirmed that the alternative senior creditor proposal would continue as an alternative proposal and to ensure competitive tension.

- The Board received routine updates during the due diligence work undertaken by KKR, and expected KKR to submit its proposal on 30 May 2025 at the scheduled check in point with Ofwat, after 10 weeks of the diligence phase. On 29 May 2025, however, it emerged that KKR had concerns in relation to obtaining final investment committee approval to submit a proposal to the Company and Ofwat. The position remained fluid and uncertain over the following weekend, notwithstanding an intervention by the Government, and KKR ultimately confirmed that it was not in a position to proceed in the evening of 2 June 2025, leading the Company to make an announcement the following morning at 7am.

- The committee met to discuss the way forward a few days later. The committee noted that the creditors had produced a fully-funded, highly developed and credible proposal and agreed that it would be in the best interests of the Company to pursue the creditor-led proposal. Nonetheless, the Committee was mindful of the interests of all its stakeholders, and agreed that the Company should carefully consider any other proposals put to it. The committee recommended that course of action to the Board, which met the same day and, mindful of its duties and responsibilities, confirmed that it agreed with the committee's recommendation.

- Since then, each of CKI and Castle Water have approached us to indicate a potential willingness to re-engage and more recently a group led by Lord Redesdale has approached us with a proposal (in addition to the unverifiable Titanium SPV proposal). Following each approach the committee has met to consider the proposals and, notwithstanding the committee's concerns in relation to the substance of these proposals (two of which had previously not been taken forward by the Company and

two of which had not previously been involved in the Company's equity raise process), encouraged those bidders to discuss their proposals with the senior creditors in order to further assess the viability. We have been advised that the senior creditors consider that there is not a progressable proposal from any such party. This is consistent with the committee's own views.

As has also been noted by Ofwat in their letter dated 23 June 2025, the recapitalisation transaction is a live process and much of the information relating to the process is market sensitive and/or confidential. It is essential that the confidentiality and integrity of the equity raise is preserved and this has also been recognised by Ofwat. The Board has statutory duties to act in the best interests of its stakeholders. As we have explained, we are very concerned that disclosure of the board minutes, or other market sensitive or confidential information, relating to the equity process could undermine the successful conclusion of this transaction which remains subject to negotiation, and that would not be in the interests of those stakeholders.

We have sought to be as forthcoming and transparent as we can be in the circumstances and have provided detailed information on the progress of the equity process to date. Noting the sensitivities above, we will discuss this further with you at our meeting on 15 July but do not believe it is proper or appropriate for the Board to act in a manner which is inconsistent with its duties.

Senior Creditors

The Class A Ad Hoc Group comprises over 100 institutions and in excess of £13 billion of Thames Water's Class A Debt. A large, representative group of those senior creditors have over a number of months undertaken significant work to develop a fully-funded, highly developed and credible creditor-led proposal for a fundamental recapitalisation of Thames Water. This group holds over £9 billion of Thames Water's Class A Debt and includes a mix of pension and insurance funds, asset managers, and investment funds with a strong track record of investment in UK infrastructure and helping complex businesses grow through committed capital and long-term stewardship.

As is usual in restructuring situations of this nature with a significant number of publicly traded instruments, the key discussions are taking place with the representative group primarily through the group's advisors, rather than with individual creditors. Thames Water has therefore focused on ensuring that the make-up of the group is sufficiently representative of the views of the senior creditors, rather than on the individual members of the group.

Discussions are ongoing and it would be premature to comment on the final transaction structure including any potential future equity ownership.

Yours sincerely,



Sir Adrian Montague, CBE