Sir Adrian Montague, CBE
Chairman

Rt Hon Alistair Carmichael MP
Chair, Environment, Food and Rural Affairs Committee
House of Commons
London
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[SENT VIA EMAIL]

04 August 2026

Dear Mr. Carmichael

## Management Retention Plan – Final Update

I promised to keep you apprised of any changes to the status of the management retention plan. The final payment under the plan was due in June 2026 and, as with the December 2025 payment, was not paid. The plan has now therefore expired, and I am writing in relation to the finalisation of the Company's liabilities under the plan.

I understand that for customers who believe, rightly, that they have not received the service they deserve, it feels unjust that senior leaders of the Company receive significant compensation. However, we need those senior leaders to remain in post to continue the good progress made on the turnaround and, as you are aware, the retention plan was put in place in April 2025 in response to the urgent need to retain these senior leaders at a time of significant uncertainty as to the future of Thames Water and uncertainty as to their own employment futures. Management faced, and still faces, the challenge of delivering the biggest infrastructure upgrade in 150 years against the backdrop of the largest and most complex recapitalisation the UK has seen.

The majority of the team were brought in recently to fix the problems the Company faces and are not responsible for causing those problems. These talented and experienced individuals have opportunities for roles outside Thames Water and, in many cases, have been actively approached by other companies. These roles would be less in the public gaze, less difficult and more remunerative.

The retention plan was therefore designed to encourage these leaders to stay at least until July 2026. The plan has retained almost the entire leadership team with only two participants leaving in the plan period. This contrasts with the significant churn experienced prior to the retention plan. Most importantly, under stable and consistent leadership, Thames Water is turning round: a £20 billion expenditure programme is underway, capital investment has accelerated by 20%, 1,000 new employees have been hired, and serious pollution incidents are down 27%.

In April 2025, as a necessary incentive to join the Company, the CFO was offered a sign-on payment of £1 million. As the retention plan was being put in place at that time, it was decided to incorporate the CFO's sign-on payment into the retention plan rather than make the payment upfront. This protected the Company against the CFO leaving and was more advantageous to the Company than using a claw-back mechanism to guard against this risk. The arrangement was disclosed in the FY25 annual report. This payment is distinct from the tranches under the retention plan: the underlying obligation is the CFO's sign-on entitlement, and the retention-plan structure was used only as the payment deferral mechanism. Following expiry of the retention plan without payment, and after discussions with the CFO and approval by the Board, this payment was made on 31 July 2026 with funds provided under the super-senior new money facility.

In respect of the other participants, as payments were not made in December 2025 and June 2026, the Company sought legal advice as to the participants' rights under employment law. Based on clear legal advice the Company decided that reaching an individual agreement with each participant would be significantly cheaper and less disruptive than being in due course ordered by a Court to make payment, with associated costs and damages. Importantly, this approach also provided the best opportunity of retaining the relevant employees.

The Company has therefore sought individual agreements to resolve its liability for any potential claims. Where possible these payments have been structured on a deferred schedule. As at the date of this letter the Company has entered into 14 agreements, including with the leavers in respect of their accrued employment-law rights, and expects to finalise this process in the coming weeks.

The challenge of recruitment and retention remains. It has, for example, not yet proved possible for Thames Water to replace two senior finance leaders in the Company. Recruiting senior leaders is a difficulty faced by the water sector as a whole and is particularly acute in the case of Thames Water as a company in turnaround, a process which, although already showing results, will take at least a decade to complete.

These recruitment and retention pressures are a function of the Company's circumstances and would persist in special administration or in a nationalisation. The special administrator, or the Government as the case may be, would therefore also need to address them through additional payments to retain, recruit and motivate those needed to operate and turnaround the Company.

I will be happy to answer any questions you may have.

Yours sincerely,

Sir Adrian Montague, CBE

Copied to:
Iain Coucher, Chair, Ofwat
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Anna Payton, Director of Sector Governance & Company Engagement, Ofwat
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