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CREDIT OPINION
1 June 2023

Update

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RATINGS

United Utilities Water Limited

Domicile	United Kingdom
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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United Utilities Water Limited / United Utilities PLC

Regular update reflecting reported performance FY2022/23

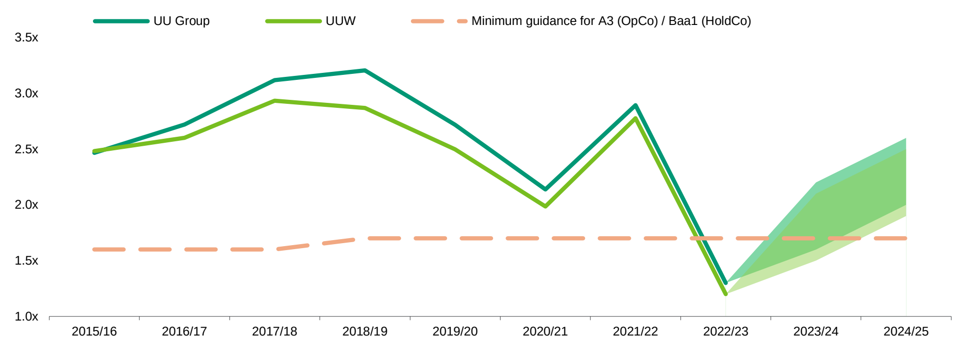
Summary

The credit quality of United Utilities Water Limited (UUW, A3 stable) is supported by its low business risk as the monopoly provider of essential water and sewerage services in the North West of England, relatively stable and predictable cash flow generation under a well-established and transparent regulatory framework, and its moderate gearing. UUW's intermediate parent United Utilities PLC (UU, Baa1 stable) has weaker credit quality than the operating company as a result of its creditors' structural subordination.

UUW received a fast-tracked determination for the current 2020-25 regulatory period (AMP7), which means that its plans were accepted with minimal regulatory intervention and the company achieved a reward of around £24 million (in 2017/18 prices). With its acceptance of the determination, UU announced plans to grow its dividend in line with CPIH inflation over the period while maintaining gearing within the current range of 55-65% of Regulatory Capital Value (RCV).

The group will continue to benefit from relatively low interest costs and a high proportion of inflation-linked debt, which reduces cash interest paid. In line with the sector, UUW as well as the consolidated group faced significant inflationary pressure over FY2022/23, which led to a material fall in the adjusted interest coverage ratio (AICR) for the year. However, we expect average AICR to remain well above 1.7x for the period as a whole.

Exhibit 1
Despite cost pressures significantly reducing FY2022/23 AICR, we expect UUW as well UU Group to exhibit average AMP7 AICR well above minimum guidance
Forecast represents Moody's view and not that of the issuers



Guidance was tightened in May 2018 following our review of the sector's business risk.
Source: Moody's Investors Service

Credit strengths

» Stable cash flow generated from the provision of monopoly water and wastewater services

» Well-established, transparent and predictable regulatory regime

» Moderate financial leverage, providing significant financial flexibility

Credit challenges

» The significant cut in allowed returns from April 2020 reduced interest coverage ratios, although the impact is mitigated by UUW's low cost of embedded debt

» Changes to regulations (aimed at increasing competition in certain parts of the value chain) may reduce cash flow stability and create financial pressure for the sector

» More demanding efficiency and performance targets will also increase cash flow volatility

» UUW is not currently in focus but ongoing investigation by Ofwat and the Environment Agency into the sector's performance with respect to wastewater assets may result in penalties or detrimental policy/regulatory interventions while increased public scrutiny heightens social risks

» Parent company UU's structural subordination to its operating company's cash flow

Rating outlook

The outlook is stable, reflecting our expectation that the companies will exhibit a financial profile that is in line with our ratio guidance for an A3 (OpCo)/Baa1 (HoldCo) rating category (as outlined below) over the medium term.

Factors that could lead to an upgrade

An upgrade is not anticipated over the medium term. However, the ratings could be considered for upgrade if financial metrics were to improve such that net debt/RCV would be consistently below 55% and adjusted interest coverage above 2.0x at both UUW and United Utilities Group PLC (UU Group). In considering a possible rating upgrade, we will take into account any potential risks associated with ongoing reforms of the water sector, including competition for retail services and certain upstream activities.

Factors that could lead to a downgrade

Downward rating pressure could result from regulatory decisions, operational performance or financial policies that would result in a deterioration of the group's financial profile, particularly net debt/RCV persistently above 65% or adjusted interest coverage below 1.7x. Furthermore, the ratings could be considered for a downgrade upon (1) a change in corporate strategy towards higher-risk non-regulated activities; (2) a significant increase in business risk for the sector as a result of legal or regulatory changes leading to a reduction in the stability and predictability of regulatory earnings, which are also not offset by other credit-strengthening measures; and/or (3) unforeseen funding difficulties.

Key Indicators

Exhibit 2
United Utilities Group PLC
Consolidated group metrics drives rating positioning of UUW and UU PLC

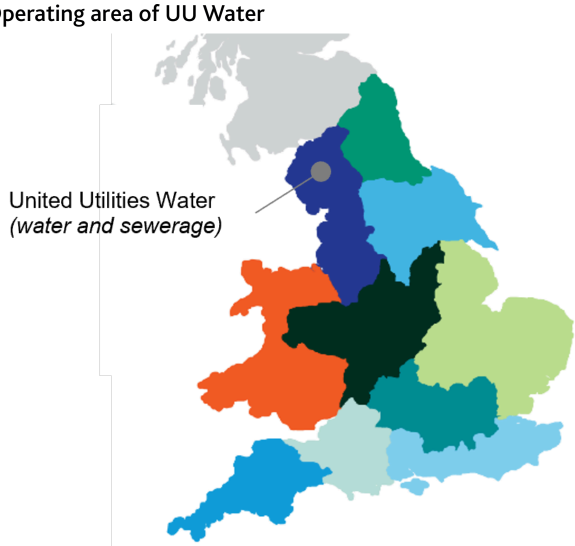
	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23 E	Mar-24 (proj.)
Adjusted Interest Coverage Ratio	3.1x	3.2x	2.7x	2.1x	2.9x	1.3x	1.6x-2.2x
Net Debt / Regulated Asset Base	61.9%	61.4%	61.2%	62.5%	62.7%	60%-62%	60%-65%
FFO / Net Debt	14.4%	14.4%	14.6%	11.2%	11.7%	9%-9.5%	9%-11%
RCF / Net Debt	10.5%	10.5%	10.6%	7.2%	7.8%	5.4%-5.5%	6%-8%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms, please see the accompanying User's Guide. Forecast ratios are Moody's opinion and do not represent the views of the issuer. Ratios for United Utilities Water Limited and United Utilities PLC can be found under the relevant issuer landing page on moodys.com.
Source: Moody's Financial Metrics TM

Profile

United Utilities Water Limited (UUW) is the main operating subsidiary of United Utilities PLC (UU), an intermediate holding company under United Utilities Group PLC (UU Group). UUW is the second largest of 10 water and sewerage companies in England and Wales, with an RCV of £13.4 billion as of 31 March 2023. UU Group is one of the three publicly listed water and sewerage groups and had a market capitalisation of around £7 billion as of 1 June 2023.

Exhibit 3
Operating area of UU Water



Source: Moody's Investors Service

Exhibit 4
Price control overview

	GB Water
Regulator/Price Control	Ofwat / AMP7
Term of price control	April 2020 - March 2025
Allowed return (appointee, vanilla CPIH-real)	2.96%
Regulatory Capital Value	£13.4 billion (March 2023)

Source: Ofwat, Moody's Investors Service

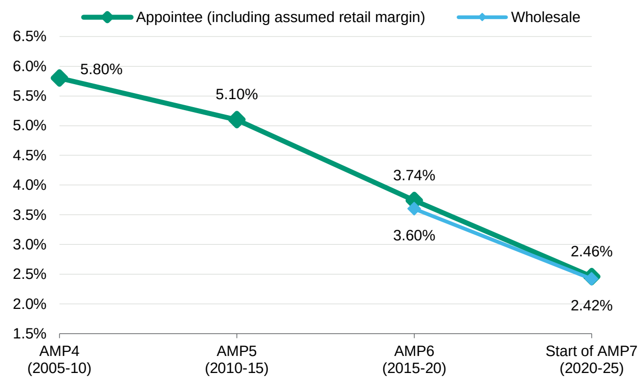
Detailed credit considerations

Transparent regulatory regime, but falling returns pressure companies' financial flexibility

The UK water sector benefits from a transparent, stable and predictable regulatory regime, which is based on clearly defined risk allocation principles and their consistent application in setting water tariffs by an independent regulatory body, the Water Services Regulation Authority (Ofwat).

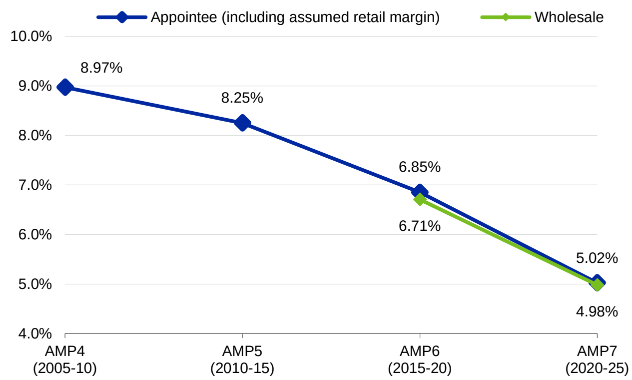
Ofwat has, to date, reset price limits every five years and published its final determination for the 2020-25 period, known as AMP7, in December 2019 (PR19). The PR19 determination included a significant cut in allowed cash returns to ca. 2.42% for the wholesale activities at the start of the new period, which incorporates the regulator's decision to only link half of the existing regulatory assets as at March 2020 to the Retail Prices Index (RPI), with the remainder and any new additions linked to the Consumer Prices Index adjusted for housing costs (CPIH). As the share of regulatory assets linked to CPIH grows over time, we estimate that most companies will have an average allowed cash return of around 2.5% over AMP7. For comparison and on a like-for-like RPI-stripped basis, allowed returns will fall by close to 50% to 1.92% (1.96% including retail margin) in AMP7 from 3.6% (3.74% including the retail margin) in AMP6 (April 2015 - March 2020).

Exhibit 5
Significant cut in allowed returns, despite lower inflation index
Real (cash) allowed returns



Since PR14, Ofwat has separated retail activities from the wholesale services.
Source: Ofwat

Exhibit 6
Unprecedented cut in nominal allowed returns
Nominal (total) returns including forecast inflation of RCV



Assuming ex ante expectation of 3% RPI inflation and 2% CPIH inflation.
Source: Ofwat, Moody's Investors Service estimates

The final determination incorporated increasing efficiency challenges for companies, including: (1) totex efficiency, with a frontier shift of 1.1%, set at the upper quartile level as opposed to the sector average level; and (2) an outcome delivery incentives mechanism calibrated so that only the top quartile performers can achieve a reward. Consequently, average as well as below average performers could be negatively affected, putting a further strain on companies' cash flows.

In December 2022, Ofwat published its final methodology for the 2024 price review, outlining its approach to setting allowed returns, incentivising operational performance and establishing cost targets for the next regulatory period, which will run from 1 April 2025 to 31 March 2030 (known as AMP8). The regulator's early view of the cost of capital, based on average market conditions during September 2022, is 3.29% at the appointee level, an increase from the current period. Ofwat also confirmed that it will transition to full CPIH indexation of companies' RCV in AMP8; because CPIH is structurally lower than RPI, the "early view" of the cost of capital implies an approximately 30% higher return in cash terms, compared to the current period. The best performers will enjoy higher incentive payments, but others will face greater penalties where they fall short of Ofwat's targets.

In March 2023, Ofwat also published its decision to modify the regulatory ring-fencing conditions in the licences of the water and wastewater companies in England and Wales. With effect from 1 April 2025, the rating trigger resulting in a cash lock-up under the licence will be raised to Baa2/BBB negative from Baa3/BBB- negative currently. Additional licence changes, which apply from 17 May 2023, will allow the regulator to also take enforcement action where companies do not link their dividend payments to operational performance or fail to be transparent about their dividend policy. On balance, the licence modifications are credit positive for the operating companies, but detrimental to holding company credit quality where the operating company is at an increased risk of triggering the lock-up. In the context of the changes, UU PLC's credit quality is supported by (1) management's financial policy including, in particular, a balanced approach to dividends and track record of defending credit quality; (2) the operating company's solid operational performance track record; and; (3) the relatively small amount of holding company debt in the context of overall consolidated debt.

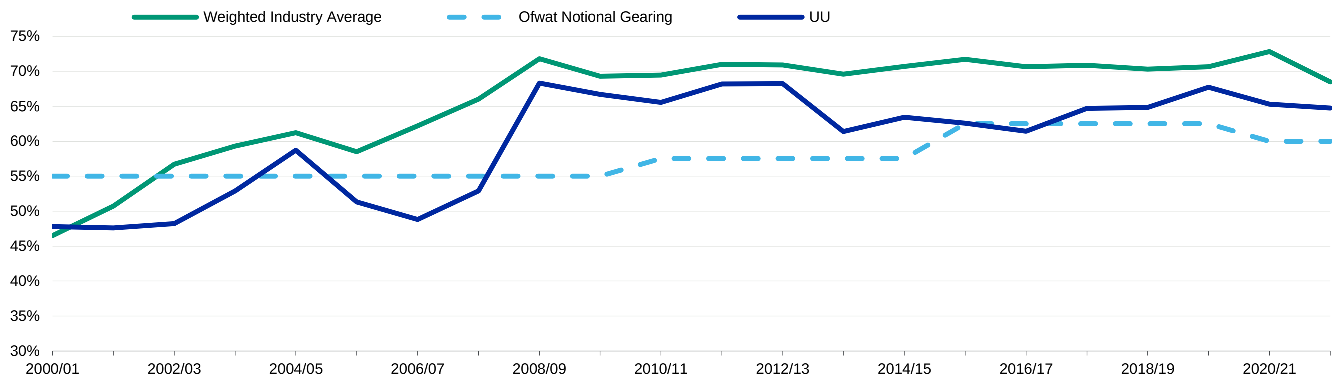
In May 2023, Ofwat announced a consultation on a new customer-focused licence condition for all water companies in England and Wales. The proposed condition aims to improve companies' communication with customers, in particular when there are issues with the service provision, and ensure a tailored approach depending on the customers' needs. The consultation is open until summer with licence changes expected to take effect from autumn this year. Having additional customers service standards embedded in companies' licences would, if implemented, provide Ofwat with additional enforcement powers, which could add to financial performance incentives already in place. This development highlights the continued close scrutiny of the sector's operational performance and increasing social risk exposure.

Modest leverage and low funding costs support credit quality

We expect that UU and UUW will maintain a balanced financial policy, with consolidated UU group net debt/RCV below 65% during AMP7. This takes into account the company's published gearing target and its AMP7 dividend policy, announced in January 2020, which is to grow the dividend in line with CPIH inflation, rather than by the higher RPI measure used in AMP6.

Exhibit 7

UUW's regulatory gearing is roughly mid-way between the regulator's notional level and the sector average (weighted by RCV)
Regulatory gearing ratios as reported by companies to Ofwat



Average gearing as reported, and not reflective of Moody's standard adjustments.
Source: Companies' performance reports, Ofwat, Moody's Investors Service

We also expect that UUW's financing costs will remain among the lowest in the sector during the current regulatory period, reflecting both its low leverage and low average interest rate. In March 2023, UUW's cash interest cost were around 1.4% supported by the high proportion of index-linked debt within the company's capital structure.

We believe UUW and the UU group will be able to continue exhibiting strong financial metrics, despite macro-economic pressures (discussed below), benefiting from the group's interest rate management strategy to fix nominal debt service over a 10-year rolling forward horizon, broadly in line with regulatory assumptions in setting the cost of debt allowances.

Macro-economic conditions increase volatility of key credit metrics

In recent months, inflation in the UK has been at or close to 40 year highs (8.9% CPIH and 13.5% RPI over the twelve months to March 2023) and we expect will remain elevated in the short term (see our Global Macro Outlook 2023-24, published in May 2023).

A sustained period of higher inflation is generally credit positive for UK water companies. However, in a rapidly changing inflation environment and because indexation of revenue and RCV is subject to a lag, companies' financial metrics will be volatile. Customer bills for FY2022/23, for example, reflected inflation as at November 2021 and recent highs will only feed through revenue and bills from 1 April 2023. In addition, bills and, therefore, revenue will inflate with headline inflation linked to the consumer price index, adjusted for housing costs (CPIH), which may not fully reflect actual cost pressures.

In its full-year results for FY2022/23, the UU group reported a 31% and 46% increase in its cost for power (with mitigating effects from a rolling hedging strategy and 25% self-generation) and materials, respectively, compared with the prior year. Overall, the group's operating costs (including infrastructure renewals, but excluding depreciation) were roughly 15% higher compared with FY2021/22, driven to a large extent by inflationary cost pressures, but also additional cost due to a dry summer. We generally expect cash flows to remain volatile over the rest of the AMP7 period, but largely driven by timing differences that are recoverable under the regulatory regime in later years.

Inflation-linked RCV growth will also benefit UU's gearing, albeit mitigated by approximately 40% and 15% of the group's net debt at March 2023 subject to RPI and CPIH/CPI inflation accretion, respectively. The high level of inflation accretion, which is reported as part of interest expense, is not paid in cash but will add to the debt principal.

Net ODI rewards despite tough performance commitments

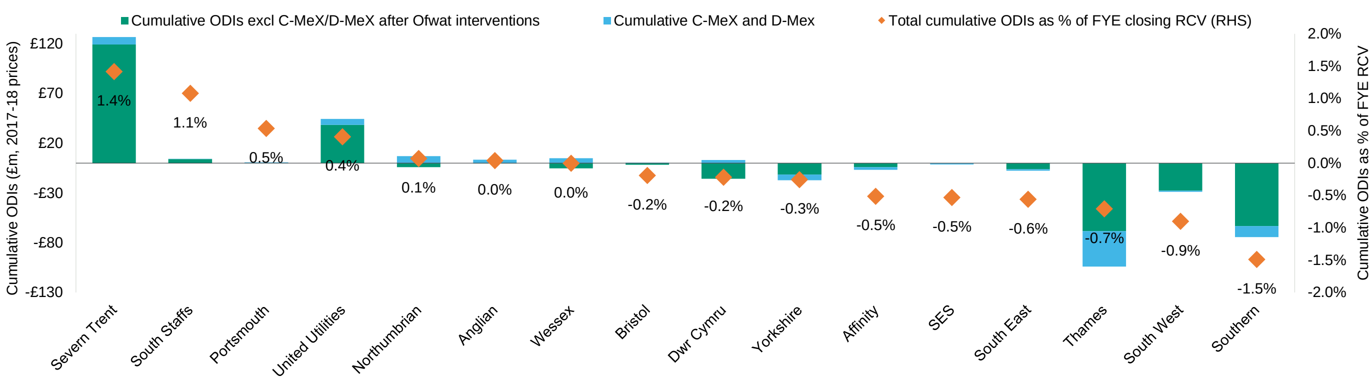
UUW's final determination represented a significant tightening of operational performance commitments compared to the previous price control, although they are less demanding than proposed at the draft determination stage (see UUW and UU: Ofwat sets tough targets, then makes them tougher, 29 August 2019). UUW's most challenging performance commitment is for internal sewer flooding, where sewage enters a customer's property.

However, due to its fast-tracked determination, UUW had early sight of the most stretching targets and reinvested £100 million of AMP6 outperformance into the business during 2019-20 to improve performance levels. It also continued to advance investments during the early years of AMP7, in contrast to most of its peers. Reflecting its continued focus on service improvements, UUW achieved aggregate net rewards of £45 million (in 2017/18 prices) over the first two years of the period and expects to earn approximately £25 million for FY2022/23. The company targets overall net rewards of around £200 million for the entire five-year period.

Exhibit 8

UUW generated among the highest cumulative net rewards during AMP7 to date

Cumulative ODI performance FY2020/21 - FY2021/22 in absolute terms and as % of March 2022 RCV (in 2017/18 prices)



Source: Companies' annual performance reports, Ofwat final determination on in-period ODIs

Most notably, over the past two regulatory periods, UUW has significantly improved its performance under Ofwat's customer service incentive mechanism. As part of the above incentive income, UUW accumulated £6.1 million of aggregate rewards for its performance under customer (C-Mex) and developer (D-Mex) service measures in the first two years of AMP7.

Pollution investigations ongoing, but UUW currently not in focus

In November 2021, the UK government's Environment Agency (EA) and Ofwat launched an investigation into more than 2,000 sewage treatment works, "after new checks led to water companies admitting that they could be releasing unpermitted sewage discharges into rivers and watercourses." In November 2022, Ofwat confirmed that it had opened enforcement cases against six companies: Anglian Water Services Ltd. (A3 stable), Northumbrian Water Ltd. (Baa1 stable), South West Water, Thames Water Utilities Ltd. (Baa2 stable), Wessex Water Services Limited (funded through Wessex Water Services Finance Plc, rated Baa1 stable) and Yorkshire Water Services Limited (funded through Yorkshire Water Services Finance Limited and Yorkshire Water Finance plc, with senior debt rated Baa2, stable, and junior debt rated Ba1, stable). However, while these companies have been highlighted on the basis of the information provided, all wastewater companies remain part of the regulator's wider investigation.

We currently view the risk of material unforeseen fines as lower for UUW than some of its peers. The company has achieved a 4 star ranking, or industry leading, in the latest available environmental performance assessment for the English Water companies.[1] It also reported zero serious pollution incidents for FY2022/23 and a reduction in the number of reported spills from combined sewer overflows by 39% since 2020.

In August 2022, the UK Government's Department for Environment, Food and Rural Affairs (DEFRA) published its Storm Overflow Discharge Reduction Plan. The plan requires English wastewater companies to invest £56 billion between 2025 and 2050 to reduce discharges from combined sewer overflows.[2] While the investment will be over 25 years, the proposed amount is large, and not equally split across all companies. UUW will be one of the companies most affected and is forecast to carry around a third or almost £20 billion of the expected investment over the next 25 years, equivalent to approximately 1.5 times of UUW's March 2023 RCV.

Of the overall planned future investment to reduce storm overflows, the water sector is committing to spend £10 billion to 2030, in addition to £3.1 billion over the current five year period. This aims to cut sewage overflows by up to 140,000 each year compared to the level in 2020, when the Environment Agency recorded 403,171 number of spills in England. UUW forecasts its share of the £10 billion AMP8 investment to be around £3 billion, of which £914 million have already been pre-approved by Ofwat as part of transition expenditure between periods, and £194 million will still be spend within AMP7 (see further below).

Gap between company's requested totex and Ofwats allowance remains small...

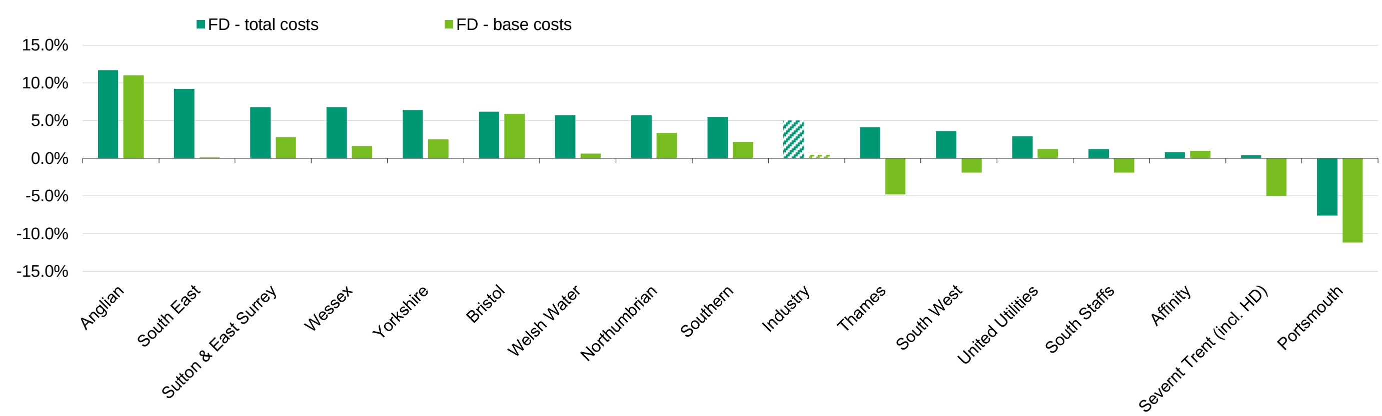
Over AMP6, UUW delivered £100 million totex outperformance against its output requirements and, as previously reported, pledged to share its outperformance through additional investments – including in network resilience – to prepare the business for AMP7. These additional investments included high frequency pressure loggers, additional pressure management valves and a survey of 2,000 km of sewers for potential blockages.

For AMP7, the company has been given £5 billion of base totex allowance, including household retail but excluding enhancement projects. This is £57 million or around 1% less than the regulators view of the company's "representations" (its revised business plan following draft determinations). On enhancement expenditure, Ofwat has allowed £85 million or 10% less than requested by the company. However, £42 million relates to leakage work and has been removed in tandem with the relaxation of associated targets.

Exhibit 9

As a fast-tracked company, UUW's totex efficiency challenge for AMP7 is well below the sector average

Cost efficiency challenge at final determination (FD)



FD efficiency challenge compares FD allowance against companies' response to draft determination (DD) from August 2019. Comparison of base cost efficiencies may be affected by re-classification from base to enhancement expenditure (and vice versa) between DD and FD.
Source: Ofwat

Ofwat also allowed £57 million for preparatory work relating to the Manchester and Pennines resilience scheme (now called the Haweswater Aqueduct Resilience Programme), which is considered for delivery by a third party under the new direct procurement for customers (DPC) framework (see highlight box below), an additional £100 million for atypical diversionary work, mainly related to England's new high speed railway (HS2), and £44 million for strategic water resources regional solutions.

... but growing amount of accelerated and pre-funded investments

Subsequent to its AMP7 final determination, UUW received regulatory approvals for extensions to its investment programme of around £265 million, including £65 million in relation to Green Recovery proposals. In addition, management elected to spend a further £250 million on dynamic network management, drinking water quality improvements and other projects intended to drive ODI performance, which the company expects to be fully remunerated through regulatory mechanisms, and accelerated another £250 million related to environmental obligations and improving river health.

In April 2023, Ofwat announced its draft decision in relation to accelerated infrastructure investments proposed by the sector. Of 31 approved schemes, equivalent to £492 million of investment over the 2023-25 period and over £1.6 billion in aggregate (all in 2020/21 prices), UUW received the lion share, responsible for just under 40% of the amounts approved for the remainder of the current regulatory period as well as approximately 56% of the total investments. The vast majority of UUW's four approved schemes aim to reduce storm water overflow discharges. The company had also submitted additional schemes to improve its water resources and manage demand as well as tackle climate change, with aggregate cost of £121 million and £307 million over the 2023-25 period and in aggregate, respectively, but these have not met the regulator's approval criteria for transition expenditure.

In aggregate, the above £765 million additional and accelerated investments as well as the £194 million approved transition expenditure until 2025 are equivalent to approximately 17% of UUW's wholesale totex allowance for the period.

Large project considered for DPC framework

During the 2019 regulatory price review, Ofwat introduced a new framework for the provision of major discrete water and wastewater infrastructure projects through third party providers, the so-called Direct Procurement for Customers (DPC).

UUW's Manchester and Pennines scheme, now called the Haweswater Aqueduct Resilience Programme (HARP), is one of the first investment projects to be considered under the DPC framework.

The existing aqueduct is the largest potable water aqueduct by capacity and length in England and Wales. It is a key strategic asset to ensure water supply within UUW's region, supplying 570Ml/d to Manchester, Cumbria, the Pennines and Lancashire across 19 offtakes, providing roughly one third of the company's total distribution input. The asset consists of ca. 52 km of single line tunnel sections and 47 km of pressured single- and multi-line siphons. The existing aqueduct was completed post-World War 2, built between 70-90 years ago during a period of material and skill shortages, and – given the age and condition of the asset – UUW has identified material resilience risks, in particular with the tunnel sections.

Ofwat issued the DPC designation for UU Water's HARP project in December 2021. The DPC project will include design, construction, testing, commissioning, planned and corrective maintenance of the tunnel assets as well as financing of these activities under a 25-year project agreement. The estimated DPC project value exceeds £1.0 billion of construction costs.

In November 2022, UU shortlisted three bidding consortia to participate in the tender process: (1) HARP Community Connectors: Acciona, Dragados and Iridium; (2) More Water: FCC Construccion, SNC-Lavalin, FCC Aqualia, Webuild and BeMo Tunnelling; and (3) Strabag-Equitix Consortium.

Likely accounting treatment and considerations around calculation of key ratios

We expect that if the HARP project is delivered under the DPC framework and built, financed and maintained by a special purpose vehicle (SPV) for a certain period of time, it will likely fall under the definition of a lease under IFRS16 accounting standards.

Once a new tunnel section becomes available for use, a lease liability and corresponding right of use asset would be recognised on UUW's balance sheet, and the lease liability would be included in UUW's and the consolidated group's net debt position. However, the asset would not become part of UUW's RCV for as long as it is owned and maintained by a project SPV under the DPC framework.

In assessing UUW's and the wider UU group's financial risk profile, we envisage to add the reported IFRS16 lease asset or liability (assuming a typical project finance structure with project gearing of around 90%, the difference between these two approaches is likely to be minimal) to UUW's RCV. This would allow us to look at the financial metrics of the group in a way that is broadly comparable to a self-funding approach. It also reflects the importance of the asset to UUW's operations as well as the likelihood that it would ultimately become part of the company's RCV at the end of any DPC project agreement (through the applicable regulatory price review process at that time). We note, however, that, depending on the gearing profile of the project SPV, this approach may result in a modest loss of financial flexibility for UUW and the UU group with respect to Moody's ratio guidance.

Structural considerations

The current A3 rating for UUW and its guaranteed financing subsidiary United Utilities Water Finance PLC takes into account the consolidated financial profile of the UU group. The one-notch differential between A3-rated UUW and Baa1-rated UU reflects the structural subordination of holding company debt relative to vis-à-vis the operating company debt.

Exhibit 10
Debt structure at United Utilities Group
Debt list as at 31 March 2023

Free Float

United Utilities Group PLC

United Utilities PLC
Senior Unsecured: Baa1 STA

GBP10bn EMTN Programme – (P)Baa1

Senior Unsecured – Baa1

USD400m	6.875% Notes	due Aug 2028

United Utilities Water Limited
LT Issuer Rating: A3 STA

GBP7bn EMTN Programme – (P)A3

Rated EMTN Issuances – A3

GBP300m	5.625% MTN	due Dec 2027
GBP50m	RPI+3.375% IL MTN	due Dec 2032
GBP200m	5% MTN	due Feb 2035
GBP100m	RPI+1.9799% IL MTN	due Oct 2035
GBP35m	RPI+1.66% IL MTN	due Nov 2037
GBP70m	RPI+2.4% IL MTN	due Jul 2039
GBP100m	RPI+1.7829% IL MTN	due Dec 2040
GBP50m	RPI+1.3258% IL MTN	due Jan 2041
GBP100m	RPI+1.5802% IL MTN	due Mar 2042
GBP20m	RPI+1.5366% IL MTN	due Apr 2043
GBP50m	RPI+1.397% IL MTN	due Feb 2046
GBP50m	RPI+1.7937% IL MTN	due May 2049
GBP100m	RPI+1.847% IL MTN	due Jul 2056
GBP100m	RPI+1.815% IL MTN	due Jul 2056
GBP100m	RPI+1.662% IL MTN	due Aug 2056
GBP50m	RPI+1.5865% IL MTN	due Aug 2056
GBP25m	RPI+1.591% IL MTN	due Sep 2056
GBP50m	RPI+1.556% IL MTN	due Oct 2056
GBP35m	RPI+1.3805% IL MTN	due Nov 2056
GBP50m	RPI+1.435% IL MTN	due Nov 2056
GBP100m	RPI+1.585% IL MTN	due Jul 2057
GBP50m	RPI+1.702% IL MTN	due Nov 2057

Unrated Debt (as of 31 March 2023)

GBP419m	RPI EIB Loans
GBP200m	RPI Loans
GBP100m	CPI Loans
GBP445m	Non-IL EIB Loans
GBP46m	Short-term Loans
JPY10bn	Dual Currency Loan
GBP410m	Other Loans

United Utilities Water Finance PLC
(Guaranteed by United Utilities Water)

GBP10bn EMTN Programme – (P)A3

Rated EMTN Issuances – A3

GBP450m	2.0% MTN	due Feb 2025
GBP25m	RPI+0.013% IL MTN	due Apr 2025
HKD320m	2.867% MTN	due Jan 2026
HKD739m	2.92% MTN	due Feb 2026
EUR52m	1.129% MTN	due Apr 2027
HKD830m	2.37% MTN	due Oct 2027
GBP20m	RPI+0.01% IL MTN	due Sep 2028
GBP100m	1.43%	due Oct 2028
GBP300m	0.875% *	due Oct 2029
GBP35m	RPI+0.178% IL MTN	due Apr 2030
JPY11bn	0.175% MTN	due Aug 2030
EUR30m	2.058% MTN	due Oct 2030
GBP425m	2.625% MTN *	due Feb 2031
EUR30m	1.641% MTN	due Jun 2031
HKD600m	2.9% MTN	due Jun 2031
USD35m	1.474% MTN	due Aug 2031
GBP38m	RPI+0.01% IL MTN *	due Dec 2031
GBP20m	CPI+0.245% IL MTN	due Dec 2031
EUR28m	1.707% MTN	due Oct 2032
EUR26m	1.653% MTN	due Dec 2032
EUR30m	1.7% MTN	due Jan 2033
GBP350m	2.0% MTN *	due Jul 2033
GBP27m	RPI+0.01% IL MTN *	due Sep 2036
GBP29m	RPI+0.01% IL MTN *	due Dec 2036
GBP20m	CPI+0.379% IL MTN	due Dec 2036
GBP60m	CPI+0.093% IL MTN	due Feb 2037
JPY8.5bn	1.45% MTN	due Dec 2037
GBP325m	1.75% MTN	due Feb 2038
GBP300m	5.125%	due Oct 2038
GBP125m	CPIH+0.01% IL MTN	due Jul 2040
GBP300m	1.875% MTN	due Jun 2042
GBP32m	CPI+0.359% IL MTN	due Oct 2048
GBP33m	CPI+0.387% IL MTN	due Oct 2057

* Fully or partially swapped to CPI/CPIH

Source: Company reports, Moody's Investors Service

Liquidity analysis

The UU group demonstrates a solid liquidity profile, underpinned by the stable and predictable cash flow generated by its regulated utility activity. As of 31 March 2023, the group had cash and short-term deposits of around £340 million, with a further £397 million net proceeds received from funding raised in April 2023, and undrawn amounts under medium-term committed bank facilities of around £700 million. In total over 2020-25, the group expects to raise around £2.7 billion to cover refinancing and incremental debt to support its investment programme, of which £1.8 billion had been raised as of March 2023. The currently available liquidity is sufficient to cover the group's overall requirements until the end of August 2025, beyond the end of the current regulatory period.

ESG considerations

United Utilities Water Limited's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 11
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

The **CIS-3** ESG Credit Impact Score for United Utilities PLC (UU) and its subsidiary United Utilities Water Limited (UU Water) indicates that ESG considerations have a limited impact on the current credit ratings with potential for greater negative impact over time. This reflects the companies' exposure to water management and pollution risks, but also recognises mitigating factors, in particular the regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost. However, as investment needs continue to grow to tackle climate change and population growth, the resulting increase in regulated assets and their remuneration will have to continue to be supported by the regulatory tariff framework in order to avoid negative credit implications in the future.

Exhibit 12
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

UU Water's **E-3** score primarily reflects the company's moderate risk exposure to water management and natural capital, which both also take into account the effects of water pollution. According to an analysis by the UK government's Environment Agency (EA), overall water supply in England will need to increase by around 25% between 2025 and 2050. This exposure is most acute in southeast England. The west of the country including UU Water is part of the Water Resources West region. The region will require an additional 640 million litres a day by 2050 (roughly 13% of current distribution input), but has some excess water available and – with further efficiency measures – could free up more water for cross-regional transfer. As a wastewater company, UU Water is also exposed to the risk of pollution and associated fines. In November 2021, the UK government's Environment Agency and water regulator Ofwat launched investigations into wastewater treatment works, with companies more at risk of greater penalties than in the past. However, UU Water is among the stronger performers, achieving the highest four-star rating in the Environment Agency's 2021 environmental performance report.

Social

UU Water's **S-3** score reflects the risk, common to all regulated utilities, that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. While water companies and regulators have sought to address criticism over operational performance, bills and dividend payments, the opposition UK Labour Party has argued for nationalisation. The risks associated with societal trends and responsible production are balanced by UU Water's solid operational performance track record.

Governance

The **G-2** score reflects the widely diversified ownership and relatively simple corporate structure of the listed UU Group PLC as well as a balanced financial and dividend policy. In the context of UU's main operating subsidiary, UU Water, we also take into account regulatory requirements that ensure that independent directors account for the largest single group on the company's board and the company's regulatory licence prescribing a minimum credit profile. The moderate risk score for compliance and reporting reflects an ongoing investigation by the regulator and the UK's Environment Agency into potentially illegal wastewater discharges into rivers by the wastewater companies in England and Wales.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Our assessment of UUW's and UU's credit quality is based on our Regulated Water Utilities rating methodology, published in June 2018. The below scores represent the positioning of UUW, which generates almost all of the underlying group's operating profit, against the qualitative factors, but in assessing the company's credit quality we also take into account the debt at the wider UU group.

The below scorecard includes 0.5 notches of uplift from regulatory ring-fencing provisions, which UUW benefits from as part of its licence. However, such uplift does not apply to the holding company within the group. The consolidated credit quality of the wider group is reflected within the A3 rating assigned at the operating company, while the Baa1 at UU PLC reflect structural subordination of creditors at the holding company.

Exhibit 13

Rating Methodology Scorecard

United Utilities Water Limited

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2022		Moody's 12-18 Month Forward View As of June 2023 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	2.4x	Baa	1.5x - 2.1x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	66.3%	Baa	63% - 68%	Baa
c) FFO / Net Debt (3 Year Avg)	11.4%	Baa	9% - 11%	Baa
d) RCF / Net Debt (3 Year Avg)	7.8%	Baa	6% - 8%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		A3		A3
Notch Lift		0.5		0.5
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned				A3

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 31/03/2022. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics TM

Exhibit 14

Rating Methodology Scorecard

United Utilities PLC

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2022		Moody's 12-18 Month Forward View As of June 2023 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	2.5x	A	1.6x - 2.2x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	62.9%	Baa	60% - 65%	Baa
c) FFO / Net Debt (3 Year Avg)	12.2%	Baa	9% - 11%	Baa
d) RCF / Net Debt (3 Year Avg)	8.3%	Baa	6% - 8%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		A3		A3
Notch Lift		0		0
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned				Baa1

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 31/03/2022. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics TM

Ratings

Exhibit 15

Category	Moody's Rating
UNITED UTILITIES WATER LIMITED	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured MTN	(P)A3
PARENT: UNITED UTILITIES PLC	
Outlook	Stable
Senior Unsecured	Baa1
UNITED UTILITIES WATER FINANCE PLC	
Outlook	Stable
Bkd Senior Unsecured	A3

Source: Moody's Investors Service

Appendix

Exhibit 16
United Utilities Water Limited
Peer Comparison

	United Utilities Water Limited A3 Stable			United Utilities Group PLC *UU PLC, Baa1 Stable*			Severn Trent Water Limited Baa1 Stable			Dwr Cymru Cyfyngedig A3 Stable		
(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22
Revenue	1,850	1,798	1,845	1,859	1,808	1,863	1,715	1,700	1,809	779	778	810
EBITDA	1,259	1,012	1,003	1,230	1,029	1,034	1,118	1,047	1,134	318	361	518
Regulated Asset Base (RAB)	11,791	11,681	12,336	11,791	11,681	12,336	9,412	9,514	10,261	5,907	6,010	6,460
Total Debt	8,411	8,309	8,371	7,746	8,047	7,980	6,447	6,647	6,536	4,209	3,909	4,305
Net Debt	7,910	7,660	8,189	7,217	7,303	7,739	6,432	6,634	6,458	3,542	3,688	3,790
Adjusted Interest Coverage Ratio	2.5x	2.0x	2.8x	2.7x	2.1x	2.9x	1.8x	1.2x	1.7x	1.5x	0.5x	0.8x
FFO / Net Debt	12.9%	10.4%	10.8%	14.6%	11.2%	11.7%	10.3%	8.8%	10.6%	6.4%	6.2%	6.5%
RCF / Net Debt	6.4%	10.4%	6.7%	10.6%	7.2%	7.8%	6.5%	7.9%	8.3%	6.4%	6.2%	6.5%
Net Debt / Regulated Asset Base	67.1%	65.6%	66.4%	61.2%	62.5%	62.7%	68.3%	69.7%	62.9%	60.0%	61.4%	58.7%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End.
Source: Moody's Financial Metrics TM

Exhibit 17
United Utilities Water Limited
Moody's-adjusted net debt breakdown

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Total Debt	8,120	8,241	9,029	8,716	8,371
Leases	40	41	0	0	0
Non-Standard Adjustments	(465)	(478)	(618)	(407)	0
Moody's Adjusted Total Debt	7,695	7,803	8,411	8,309	8,371
Cash & Cash Equivalents	(500)	(326)	(502)	(649)	(182)
Moody's Adjusted Net Debt	7,195	7,477	7,910	7,660	8,189

All figures are calculated using Moody's estimates and standard adjustments. Non-standard adjustments relate primarily to the removal of derivatives held in fair value hedge relationships or as cross currency hedges. Adjustment is only made, where material.
Source: Moody's Financial Metrics TM

Exhibit 18
United Utilities Water Limited
Moody's-adjusted Funds From Operations (FFO) breakdown

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Funds from Operations (FFO)	793	799	816	826	850
Pensions	34	44	86	3	1
Leases	3	3	0	0	0
Capitalized Interest	(40)	(37)	(41)	0	0
Alignment FFO	(126)	(115)	(92)	(86)	(138)
Unusual Items - Cash Flow	(5)	(3)	(11)	0	(82)
Non-Standard Adjustments	308	291	263	54	256
Moody's Adjusted Funds from Operations (FFO)	965	982	1,022	797	887

All figures are calculated using Moody's estimates and standard adjustments. Non-standard adjustments relate primarily to accretion of index-linked debt and, prior to 2021, the reclassification of IRE expenditure.
Source: Moody's Financial Metrics TM

Exhibit 19
United Utilities Water Limited
Selected historical Moody's-adjusted financial data

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
INCOME STATEMENT					
Revenue	1,717	1,798	1,850	1,798	1,845
EBITDA	1,190	1,175	1,259	1,012	1,003
EBITDA margin %	69.3%	65.4%	68.1%	56.3%	54.4%
EBIT	669	619	650	608	603
EBIT margin %	39.0%	34.4%	35.1%	33.8%	32.7%
Interest Expense	291	252	266	195	379
BALANCE SHEET					
Cash & Cash Equivalents	500	326	502	649	182
Total Assets	12,265	12,513	13,095	13,123	13,944
Total Liabilities	9,900	10,122	11,060	10,776	11,781
CASH FLOW					
Funds from Operations (FFO)	965	982	1,022	797	887
Cash Flow From Operations (CFO)	989	1,018	1,030	944	870
Dividends	317	376	513		339
Retained Cash Flow (RCF)	648	606	509	797	548
Capital Expenditures	(855)	(797)	(781)	(635)	(628)
Free Cash Flow (FCF)	(183)	(154)	(264)	310	(97)
INTEREST COVERAGE					
EBITDA / Interest Expense	4.1x	4.7x	4.7x	5.2x	2.6x
Adjusted Interest Coverage Ratio	2.9x	2.9x	2.5x	2.0x	2.8x
LEVERAGE					
Debt / EBITDA	6.5x	6.6x	6.7x	8.2x	8.3x
Net Debt / EBITDA	6.0x	6.4x	6.3x	7.6x	8.2x
Debt / Book Capitalization	69.1%	69.0%	71.1%	69.0%	66.4%
Regulated Asset Base (RAB)	11,089	11,465	11,791	11,681	12,336
Net Debt / Regulated Asset Base	64.9%	65.2%	67.1%	65.6%	66.4%
FFO / Net Debt	13.4%	13.1%	12.9%	10.4%	10.8%
RCF / Net Debt	9.0%	8.1%	6.4%	10.4%	6.7%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics TM

Endnotes

1 Please see: https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2021

2 Policy on water and wastewater services is devolved to the regions, and the Welsh Government is responsible for companies operating in Wales.

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