

# United Utilities Water Limited

The affirmations and Stable Outlooks reflect Fitch Ratings' expectation that United Utilities Water Limited's (UUW) and United Utilities PLC's (UU) financial profiles will remain commensurate with ratings for the price control period ending in March 2025 (AMP7), supported by UUW's fast-track status in AMP7.

Ofwat's total expenditure (totex) allowance increased from draft determinations by GBP234 million, reducing the probability of overspending against its totex allowance. The rating also takes into account UUW's strong record of outperforming the cost of debt allowance due to the low cost of debt embedded in the company's debt structure.

UU is a holding company that owns UUW, the regulated monopoly water and sewage service provider for north-west England with a lower net gearing than UU, and several subsidiaries, mainly in the UK. UUW is the most important operating company of UU, and United Utilities Water Finance PLC (UUWF) is the debt-raising vehicle of UUW.

## Key Rating Drivers

**Challenging Price Control Ahead:** Ofwat has announced a significant cut to the allowed weighted average cost of capital (WACC) to 1.96% (real, long-term RPI of 3%) from 3.7% (2.8%) for AMP7. The lower return will put pressure on UU's cash flow and interest-cover metrics. The regulator has also set tougher cost and performance targets. UUW's mid-ranking regulatory performance over AMP7 is not likely to lead Outcome Delivery Incentive (ODI) rewards.

**AMP7 Credit Ratios Within Guidelines:** Based on our assessment of the final determination, we expect UUW's net debt/regulatory capital value (RCV) to decrease to about 64.7% by end-AMP7, leaving sufficient headroom under our negative sensitivity of 67%. We also expect average cash and nominal post-maintenance interest coverage ratios (PMICR) at about 2.0x and 2.2x, respectively, over AMP7. Both credit metrics are commensurate with our rating sensitivities.

In addition, we assume that group treasury arrangements will continue to be in place and therefore expect UU's net gearing to be lower than UUW's over AMP7.

**Transparent Financial Policy:** Management have stated their commitment to targeting gearing of 55%-65% over AMP7 for UU and to maintain a senior unsecured debt rating of at least 'A-' for UUW. Fitch anticipates that the group may limit dividends over the next 24 months in response to the pandemic-driven market weakness.

If dividends at UU are above our expectations this could be negative for the rating, as the net gearing at UU could approach our negative sensitivity of 63%. Our forecasts do not assume dividends in the financial year to end-March 2021 (FY21) for UUW. If we assume dividend distributions unchanged at 4% regulatory equity (including additional outperformance dividends in FY24/25), it would result in the forecast gearing approaching our negative sensitivity.

**Totex Performance Neutral:** In Ofwat's final determination, UU's wholesale totex allowance for AMP7 is GBP5.3 billion, a GBP267 million increase from the draft determination, which placed the utility in a better position to meet Ofwat's cost-efficiency challenge. However, despite its improved position, we do not expect any totex under/outperformance over AMP7 due to the pandemic-driven market conditions, which may impede an acceleration in its capex plan, and the challenges in achieving ODI rewards.

## Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB+	Stable	Affirmed 11 Sep 20
Senior unsecured	A-		Affirmed 11 Sep 20

[Click here for full list of ratings](#)

## Applicable Criteria

[Corporates Notching and Recovery Ratings Criteria \(October 2019\)](#)

[Corporate Rating Criteria \(May 2020\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(August 2020\)](#)

## Related Research

[What Investors Want to Know: UK Water in AMP7 \(September 2020\)](#)

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**Mid-Ranking Performer:** While U UW demonstrated average operational performance through AMP6. Ofwat's revised overall assessment of efficiency and effectiveness of service delivery, U UW is placed as a mid-ranking performer.

We forecast no ODI penalties/rewards for AMP7, which also factors in Ofwat's progressively challenging targets. This is driven by its second-to-third quartile performance in water-quality contacts, internal sewer flooding, supply interruptions and leakage for which we forecast penalties. However, we expect this to be offset by hydraulic flood-risk resilience and other bespoke ODIs.

**Moderate Revenue Impact from Pandemic:** We expect a moderate impact from the coronavirus to U UW's revenue as lower non-household (NHH) consumption will likely be partially offset by an increase in household (HH) consumption. We expect revenue collection to suffer from lockdown, with a reduction in revenue in FY21, before fully recovering in FY23-FY24. We also expect deferred revenue (from FY20) from retailers to be repaid in FY21.

We forecast a modest retailer credit loss and HH bad debt increases over FY21. We will continue to monitor the impact of coronavirus on the financial profile.

**ODI Holiday Expected:** Ofwat confirmed in a public statement that during the coronavirus crisis water companies' priority remains essential service delivery. Should they miss their ODI targets due to the crisis, the need for ex-post adjustments will be considered when Ofwat performs an in-the-round assessment as part of its reconciliation process.

Due to lockdown restrictions, companies find it difficult to read customer meters and have experienced an increase in sewer flooding. Based on this early reassurance, Fitch did not assume any additional coronavirus-related ODI penalties for U UW.

## Financial Summary

U UW (GBPm)	Mar 18	Mar 19	Mar 20	Mar 21F	Mar 22F
Gross revenue	1,717	1,798	1,850	1,780	1,781
Operating EBITDAR margin (%)	59.4	56.6	62.7	56.8	57.4
Net Debt to RCV (%)	63.9	64.2	66.4	65.0	64.0
Cash PMICR (x)	3.1	3.1	3.3	1.9	2.2
Nominal PMICR (x)	2.9	3.0	3.2	2.0	2.4

F - Forecast

Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

U UW is one of the regulated monopoly providers of water and wastewater services in England and Wales. Its ratings reflect adequate credit metrics and improving regulatory and operational performance. U UW was one of only three companies in the sector to achieve fast-track status and received its early draft determination in April 2019, which, in our view, provides more clarity around its business and financial profile than its Fitch-rated peers'.

The closest peer is Wessex Water Services Limited (BBB/Stable). U UW's rating sensitivities are tighter than Wessex Water's, reflecting U UW's one-notch-higher rating. Additionally, the 'A-' senior unsecured rating benefits from a one-notch uplift from the Issuer Default Rating due to regulated cash flows, which in our view would warrant above-average creditor recoveries upon default. U UW's rating continues to be aligned with the rating of the operating company, U UW, given the group's treasury arrangements and our expectations that U UW's leverage will continue to be lower than that of the operating company.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A sustainable reduction in UUW's gearing to below 62%;
- Cash PMICR above 1.9x and nominal PMICR above 2.0x at UUW on a sustained basis; and
- Top-quartile regulatory performance.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Gearing above 67% at UUW, which could have an impact on both UUW's and UU's ratings;
- Cash PMICR below 1.6x and nominal PMICR below 1.8x at UUW on a sustained basis;
- Further adverse regulatory decisions that may materially impact cash flow generation; and
- An ambitious dividend policy for AMP7 leading to an increase in group gearing with a resulting impact on UU's and UUW's financial metrics.
- Additional debt-raising by UU, which could be negative for its ratings or changes to the group treasury arrangements leading to UU's net gearing increasing above 63%

## Liquidity and Debt Structure

**Adequate Liquidity:** As of end-FY20, UUW had cash and cash equivalents of GBP502 million along with GBP566 million of undrawn committed borrowing facilities against short-term debt of about GBP794 million. This funding position provides sufficient financial resources for operating requirements, debt maturities and dividends for the next 24 months.

## ESG Considerations

UUW has an ESG Relevance Score of '3' for EWT Water & Wastewater Management. The score was revised to '3' from '4' due to our assumptions of no ODI penalties/rewards over AMP7.

UUW has an ESG Relevance Score of '4' for EIM Exposure to Environmental Impacts due to the risk of exposure to severe weather events which could have a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies).

For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## Liquidity and Debt Maturity Scenario with No Refinancing

### United Utilities Water Limited – Liquidity Analysis

(GBPm)	2021F	2022F
<b>Available liquidity</b>		
Beginning cash balance	502	73
Rating case FCF after acquisitions and divestitures	365	167
<b>Total available liquidity (A)</b>	<b>867</b>	<b>240</b>
<b>Liquidity uses</b>		
Debt maturities	-794	-499
<b>Total liquidity uses (B)</b>	<b>-794</b>	<b>-499</b>
<b>Liquidity calculation</b>		
Ending cash balance (A+B)	73	-259
Revolver availability	566	566
<b>Ending liquidity</b>	<b>494</b>	<b>306</b>
Liquidity score (x)	1.8	1.6

F – Forecast

Source: Fitch Ratings, Fitch Solutions, U UW

Scheduled debt maturities (GBPm)	Original 31 March 2020
2021	794
2022	499
2023	115
2024	0
2025	611
Thereafter	7,010
<b>Total</b>	<b>9,029</b>

Source: Fitch Ratings, Fitch Solutions, U UW

## Key Assumptions

- Ofwat's final determinations financial model used as a main information source
- Allowed wholesale WACC of 1.92% (RPI-based) and 2.92% (CPIH-based) in real terms, excluding retail margins until FY25
- 50% of the RCV is RPI-linked and another 50% plus capital additions is CPIH-linked, starting from FY21
- RPI of 1.4% in FY21, gradually increasing to 2.93% by FY25; CPI of 0.6% in FY21, gradually increasing to 1.95% by FY25
- Allowed net totex of GBP5.8 billion (wholesale and retail) in real terms (net of grant and contributions) for AMP7
- Deferred revenue repayment due to coronavirus impact in FY21
- Revenue shortfall in FY21 due to reduced volumes from coronavirus impact, fully repaid in FY23 and FY24
- Increase in bad debts for NHH and HH in FY21 due to coronavirus impact
- No totex outperformance during AMP7
- No ODI rewards in AMP7
- Weighted average pay-as-you-go rate of 60% in AMP7
- Weighted average run-off rate of 5.3% in AMP7
- Unregulated EBITDA of about GBP4 million per year during AMP7
- Retail EBITDA around GBP20 million per year during AMP7
- Average cost of debt of about 3.2% during AMP7
- Average of 50% index-linked debt during AMP7
- Average dividends per year of about GBP200 million during AMP7

## Financial Data

(GBPm)	Historical			Forecast	
	Mar 18	Mar 19	Mar 20	Mar 21F	Mar 22F
<b>Summary income statement</b>					
Gross revenue	1,717	1,798	1,850	1,780	1,781
Revenue growth (%)	2.2	4.7	2.9	-3.8	0.4
Operating EBITDA (before income from associates)	1,015	1,014	1,160	1,011	1,021
Operating EBITDA margin (%)	59.2	56.4	62.7	56.8	57.4
Operating EBITDAR	1,019	1,018	1,160	1,011	1,021
Operating EBITDAR margin (%)	59.4	56.6	62.7	56.8	57.4
Operating EBIT	647	636	693	562	572
Operating EBIT margin (%)	37.7	35.3	37.5	31.6	32.1
Gross interest expense	-250	-193	-318	-223	-231
Pre-tax income (including associate income/loss)	377	364	327	299	301
<b>Summary balance sheet</b>					
Readily available cash and equivalents	500	326	502	502	502
Total debt with equity credit	7,665	7,792	8,395	8,090	7,993
Total adjusted debt with equity credit	7,697	7,825	8,395	8,090	7,993
Net debt	7,165	7,466	7,894	7,589	7,491
<b>Summary cash flow statement</b>					
Operating EBITDA	1,015	1,014	1,160	1,011	1,021
Cash interest paid	-151	-147	-159	-171	-161
Cash tax	-36	-28	-61	-60	-60
Dividends received less dividends paid to minorities (inflow/(out)flow)	0	0	0	0	0
Other items before FFO	-41	-45	-134	0	0
Funds flow from operations	793	799	816	780	800
FFO margin (%)	46.2	44.5	44.1	43.8	44.9
Change in working capital	30	17	6	28	-19
Cash flow from operations (Fitch defined)	823	817	822	808	781
Total non-operating/non-recurring cash flow	0	0	0		
Capital expenditure	-703	-619	-636		
Capital intensity (capex/revenue) (%)	41.0	34.4	34.4		
Common dividends	-317	-376	-513		
Free cash flow	-197	-178	-327		
Net acquisitions and divestitures	0	0	0		
Other investing and financing cash flow items	-13	4	2	-17	-16
Net debt proceeds	513	0	501	-340	-151
Net equity proceeds	0	0	0	0	0
Total change in cash	303	-174	175	0	0
<b>Leverage ratios</b>					
Total net debt with equity credit/operating EBITDA (x)	7.1	7.4	6.8	7.5	7.3
Total adjusted debt/operating EBITDAR (x)	7.6	7.7	7.2	8.0	7.8
Total adjusted net debt/operating EBITDAR (x)	7.1	7.4	6.8	7.5	7.3
Total debt with equity credit/operating EBITDA (x)	7.6	7.7	7.2	8.0	7.8
FFO adjusted net leverage (x)	7.6	7.9	8.2	8.0	7.8
FFO net leverage (x)	7.6	7.9	8.2	8.0	7.8
Net debt to regulatory capital value (%)	63.9	64.2	66.4	65.0	64.0
<b>Calculations for forecast publication</b>					
Capex, dividends, acquisitions and other items before FCF	-1,020	-995	-1,149	-451	-614
Free cash flow after acquisitions and divestitures	-197	-178	-327	357	167
Free cash flow margin (after net acquisitions) (%)	-11.5	-9.9	-17.7	20.1	9.4
<b>Coverage ratios</b>					
Cash post maintenance interest coverage ratio (x)	3.1	3.1	3.3	1.9	2.2
Nominal post maintenance interest coverage ratio (x)	2.9	3.0	3.2	2.0	2.4
Operating EBITDAR/interest paid + rents (x)	6.6	6.7	7.3	5.9	6.3
Operating EBITDA/interest paid (x)	6.7	6.9	7.3	5.9	6.3
<b>Additional metrics</b>					
CFO-capex/total debt with equity credit (%)	1.6	2.5	2.2	4.4	4.1
CFO-capex/total net debt with equity credit (%)	1.7	2.7	2.4	4.7	4.4

Source: Fitch Ratings, Fitch Solutions

### How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

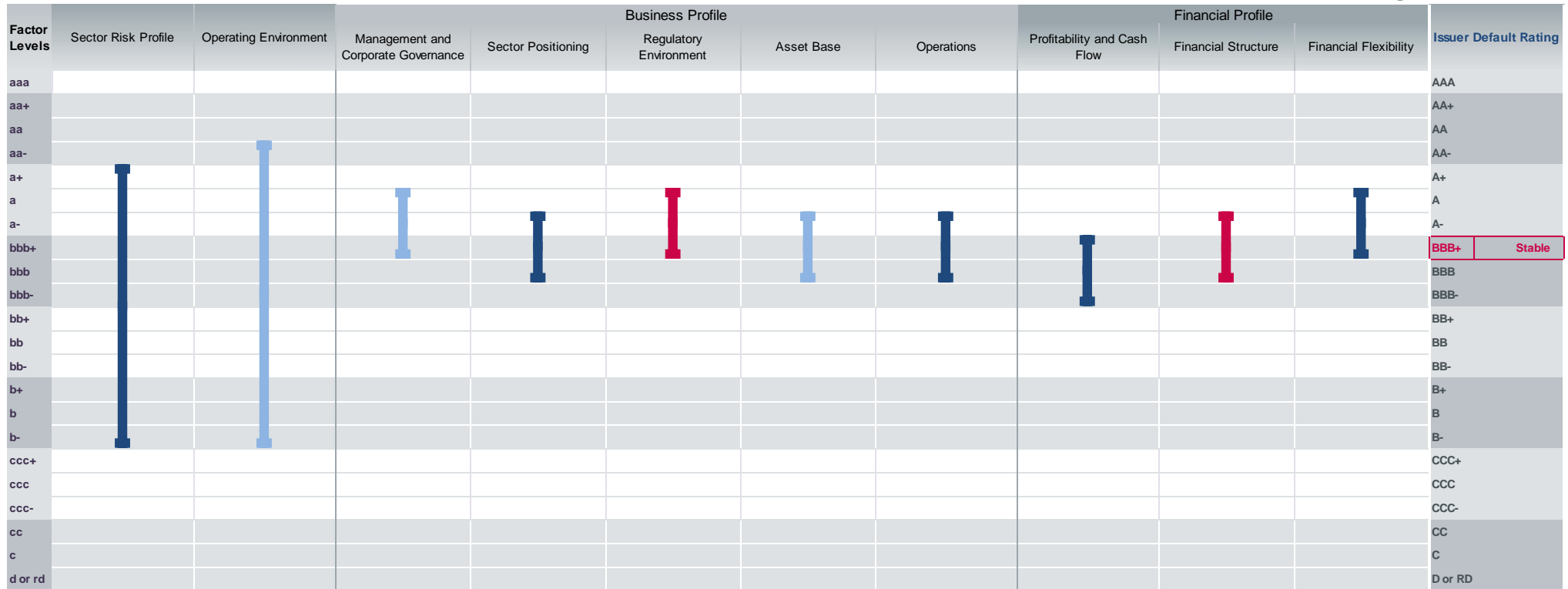
## Ratings Navigator

## United Utilities Water Limited

ESG Relevance:



## Corporates Ratings Navigator EMEA Regulated Networks



### Bar Chart Legend:

Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

#### Operating Environment

aa	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

#### Sector Positioning

a	Operation Type	bbb	Local or regional monopoly asset owners, regional monopoly asset operators.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

#### Asset Base

a	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
a-	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb+	Asset Quality and Residual Life	bbb	Mid-range asset quality not affecting opex and capex requirements compared with peers. The residual life of regulatory assets is average.
bbb			
bbb-			

#### Profitability and Cash Flow

a-	Return on Capital	bbb	Return on capital comparable with the regulatory benchmark.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profit in line with utility peers.
bbb	Investment Cycle	bbb	Investment cycle position and dividend policy contributing to negative free cash flow. Moderate flexibility in smoothing capex plans.
bbb-			
bb+			

#### Financial Flexibility

a+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a	Liquidity	a	Very comfortable liquidity; no need to use external funding in the next 12 months even under a severe stress scenario. Well spread debt maturity schedule. Diversified sources of funding.
a-	FFO Interest Coverage	a	4.5x
bbb+	FX Exposure	aa	No material FX mismatch.
bbb	Dividend Cover		n.a.

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

#### Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bbb			

#### Regulatory Environment

a+	Independence, Transparency, Predictability	a	Transparent frameworks with strong track record and multi-year predictable tariffs set by independent regulators; little political risk.
a	Licensing, Ring-Fencing, Concessioning	a	Licensing includes effective ring-fencing provisions with creditworthiness requirements; limited concession renew at risk.
a-	Cost and Investment Recovery	a	Tariff setting with challenge mechanisms that may marginally limit cost and investment recovery, with little regulatory lag.
bbb+	Volume and Price Risk	a	High insulation from price and volume risk, little revenue under-recovery.
bbb			

#### Operations

a	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a-	Counterparty Risk	bbb	Medium counterparty risk; medium collection rates for water suppliers. Some exposure to cyclical industries and/or customers.
bbb+			
bbb			
bbb-			

#### Financial Structure

a	FFO Leverage		n.a.
a-	FFO Net Leverage		n.a.
bbb+	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	bbb	70%
bbb	Cash PMCR	a	2.2x
bbb-	Nominal PMCR	a	2.5x

#### Credit-Relevant ESG Derivation

	key driver	0 issues	1 issues	Overall ESG
United Utilities Water Limited has 1 ESG rating driver and 11 ESG potential rating drivers				5
Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	driver	1	issues	4
Energy and fuel use in operations; entities' financial targets for losses/shrinkage				
Water usage in operations; water utilities' financial targets for water quality, leakage and usage	potential driver	11	issues	3
Impact of waste including pollution incidents; discharge compliance; sludge disposal				
Product affordability and access	not a rating driver	1	issues	2
Quality and safety of products and services; data security		1	issues	1

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.



### Credit-Relevant ESG Derivation

United Utilities Water Limited has 1 ESG rating driver and 11 ESG potential rating drivers

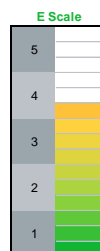
- ➔ United Utilities Water Limited has exposure to extreme weather events which, in combination with other factors, impacts the rating.
- ➔ United Utilities Water Limited has exposure to energy regulatory risk but this has very low impact on the rating.
- ➔ United Utilities Water Limited has exposure to water management risk but this has very low impact on the rating.
- ➔ United Utilities Water Limited has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ United Utilities Water Limited has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ United Utilities Water Limited has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale	
key driver	0	issues	5		
driver	1	issues	4		
potential driver	11	issues	3		
not a rating driver	1	issues	2		
	1	issues	1		

### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	3	Water usage in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
Exposure to Environmental Impacts	4	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	Operations; Profitability and Cash Flow; Financial Flexibility



#### How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

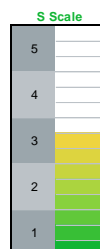
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

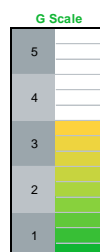
### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow



### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

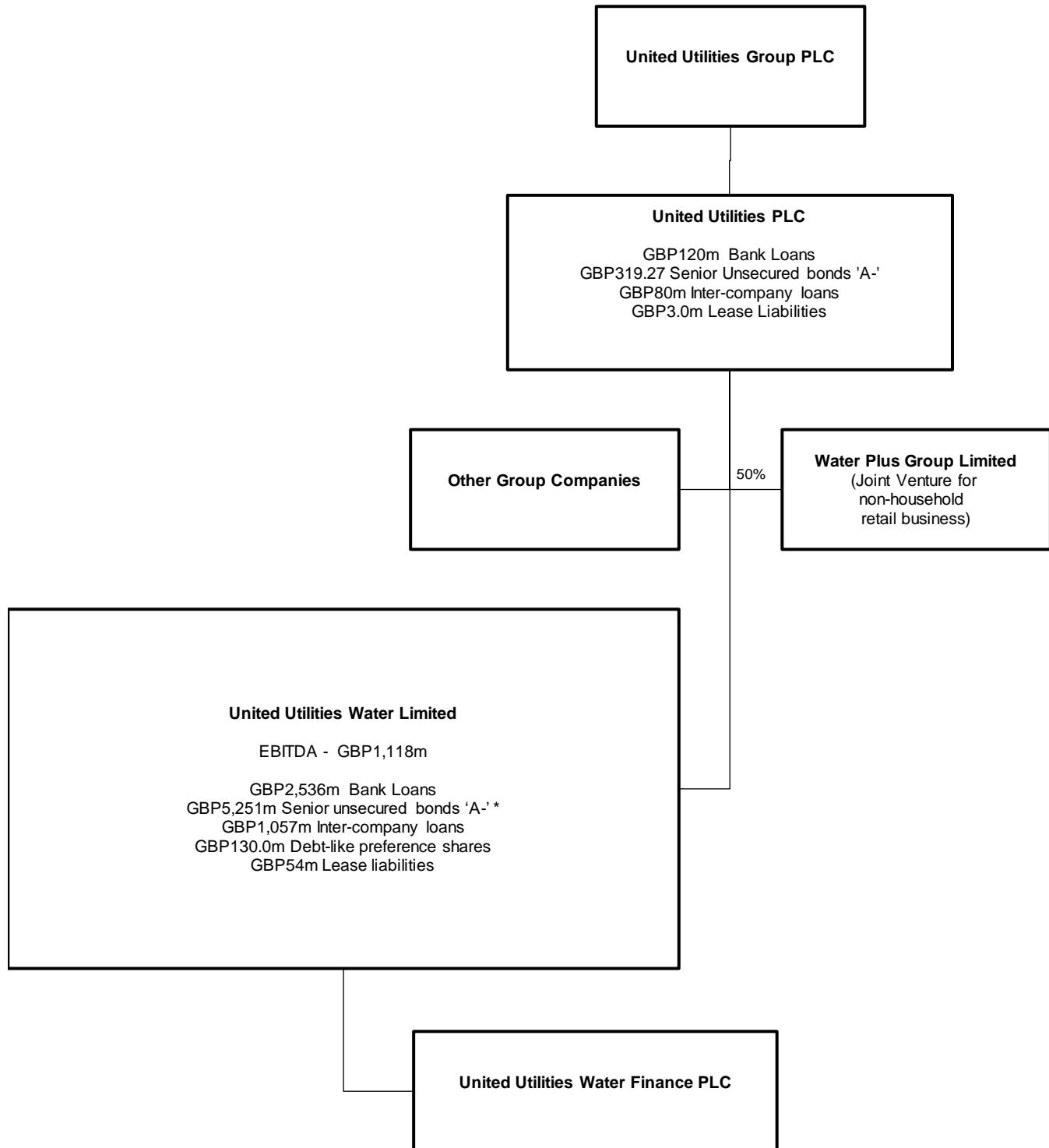


### CREDIT-RELEVANT ESG SCALE

#### How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

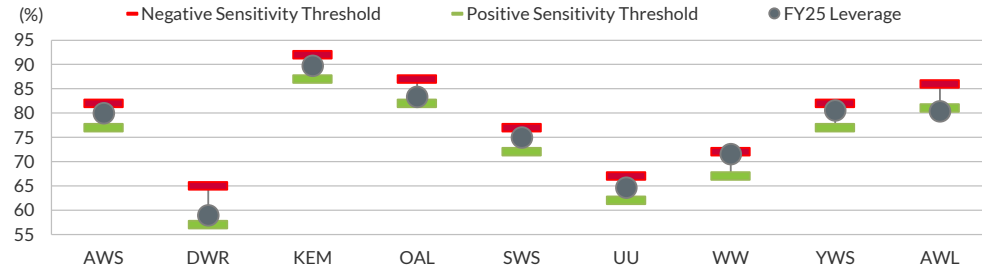
Simplified Group Structure Diagram



\* Senior unsecured bonds issued by UUG and UUG Finance PLC (guaranteed by UUG).  
 Source: Fitch Ratings, Fitch Solutions, UUG, As at 31 March 2020.

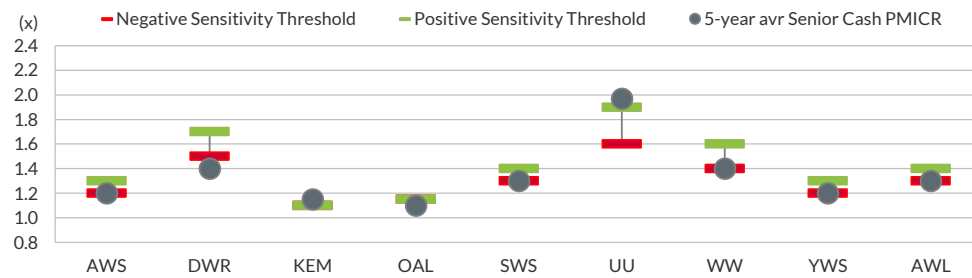
## Peer Financial Summary

### Rating Headroom by Gearing (FY25)



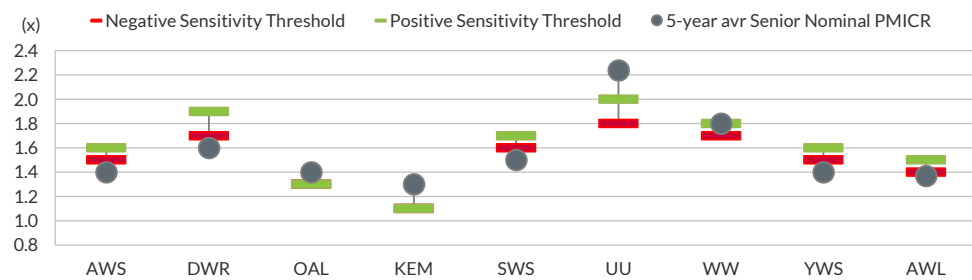
Ratios for AWS, DWR, YWS and AWL reflect total net senior debt  
Source: Fitch Ratings, Fitch Solutions and Company Reports

### Rating Headroom by Cash PMICR (5 Year Average)



Ratios for AWS, DWR, YWS and AWL reflect total senior cash interest  
Source: Fitch Ratings, Fitch Solutions and Company Reports

### Rating Headroom by Nominal PMICR (5 Year Average)



Ratios for AWS, DWR, YWS and AWL reflect total senior interest  
Source: Fitch Ratings, Fitch Solutions and Company Reports

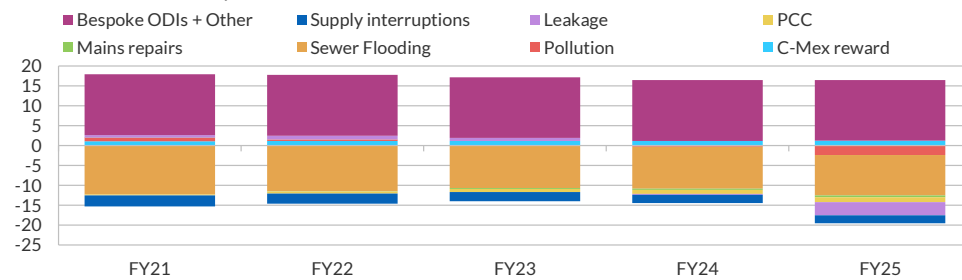
## Key

AWS	Anglian Water Services
DWR	Dwr-Cymru (Financing) UK Ltd
KEM	Kemble Water Finance Limited
OAL	Osprey Acquisition Limited
SWS	Southern Water Services
UU	United Utilities Water Limited
WW	Wessex Water Services Limited
YWS	Yorkshire Water Services
TWUL	Thames Water Utilities Limited
AWL	Affinity Water Limited

Source: Fitch Ratings

## Common ODI Rewards and Penalties

Fitch's forecast for each year of AMP7 (GBPm)



Source: Fitch Ratings

## Reconciliation of Key Financial Metrics

Reconciliation of Key Financial Metrics for United Utilities Water Limited	
(GBPm)	31 Mar 20
Interest-bearing loans and borrowings (reported)	9,029
- Derivatives adjustments	594
- Intercompany liability	40
- Cash and equivalents	502
<b>= Net debt</b>	<b>7,894</b>
+ Pension deficit not funded by customers	0.0
<b>= Pension adjusted net debt (a)</b>	<b>7,894</b>
<b>Economic regulatory asset value (b)</b>	<b>11,886</b>
<b>Net debt/RAV (%)</b>	<b>66.4</b>
<b>Pension adjusted net debt/regulatory asset value (a/b) x 100</b>	
Operating EBITDA	1,156
- Regulatory Depreciation	-517
- Taxation paid	-61
- Pensions	-81
<b>Post maintenance cash flow = EBITDA - regulatory depreciation - tax - pensions (c)</b>	<b>497</b>
<b>Consolidated cash interest (d) (includes GBP29.6m of capitalised interest costs)</b>	<b>149</b>
<b>Post-maintenance interest cover ratio (x)</b>	<b>3.3</b>
<b>Post-maintenance cash flow/cash interest c/d</b>	
RCV Indexation	299
<b>Nominal Post Maintenance Cash Flow = Post Maintenance Cash Flow + RCV Indexation (e)</b>	<b>796</b>
Net Debt Indexation	101
Total senior unsecured interest = Cash Interest + Net Debt Indexation (f)	250
<b>Nominal PMICR (x)</b>	<b>3.2</b>
<b>Nominal Post Maintenance Cash Flow/Total senior unsecured interest e/f</b>	

Source: Fitch Ratings based on company accounts and investor reports

Reconciliation of Key Financial Metrics for United Utilities PLC	
(GBPm)	31 Mar 20
Interest-bearing loans and borrowings	7,769
- Cash and equivalents	-528
<b>= Adjusted Net debt</b>	<b>7,241</b>
+ Pension deficit not funded by customers	0.0
<b>= Pension adjusted net debt (a)</b>	<b>7,241</b>
<b>Economic regulatory asset value (b)</b>	<b>11,886</b>
<b>Net debt/RAV (%)</b>	<b>60.9</b>
<b>Pension adjusted net debt/regulatory asset value (a/b) x 100</b>	

Source: Fitch Ratings based on company accounts and investor reports

## Fitch Adjustment and Reconciliation Table

### Fitch Adjustments and Reconciliation Table for United Utilities Water Limited

(GBPm)	Notes and Formulas	Reported Values	Sum of Adjustments	CORP - Lease Treatment	Other Adjustments	Adjusted Values
31 March 2020						
<b>Income Statement Summary</b>						
Revenue		1,850				1,850
Operating EBITDAR		1,107	52	0	53	1,159
Operating EBITDAR After Associates and Minorities	(a)	1,107	52	0	53	1,159
Operating Lease Expense	(b)	0	3	3		3
Operating EBITDA	(c)	1,107	49	-3	53	1,156
Operating EBITDA After Associates and Minorities	(d) = (a-b)	1,107	49	-3	53	1,156
Operating EBIT	(e)	627	65	-2	67	692
<b>Debt and Cash Summary</b>						
Total Debt with Equity Credit	(f)	9,029	-474		-474	8,555
Lease-Equivalent Debt	(g)	0	25	25		25
Other Off-Balance-Sheet Debt	(h)	0				0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	9,029	-449	25	-474	8,580
Readily Available Cash and Equivalents	(j)	502				502
Not Readily Available Cash and Equivalents		0				0
<b>Cash Flow Summary</b>						
Operating EBITDA After Associates and Minorities	(d) = (a-b)	1,107	49	-3	53	1,156
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	10				10
Interest (Paid)	(m)	-159				-159
Cash Tax (Paid)		-61				-61
Other Items Before FFO		-81	-53		-53	-134
Funds from Operations (FFO)	(n)	816	-3	-3	0	812
Change in Working Capital (Fitch-Defined)		6				6
Cash Flow from Operations (CFO)	(o)	822	-3	-3	0	819
Non-Operating/Nonrecurring Cash Flow		0				0
Capital (Expenditures)	(p)	-671				-671
Common Dividends (Paid)		-513				-513
Free Cash Flow (FCF)		-362	-3	-3	0	-365
<b>Gross Leverage (x)</b>						
Total Adjusted Debt/Operating EBITDAR <sup>a</sup>	(i/a)	8.2				7.4
FFO Adjusted Leverage	(i)/(n-m-l-k+b)	9.4				8.9
FFO Leverage	(i-g)/(n-m-l-k)	9.4				8.9
Total Debt with Equity Credit/Operating EBITDA <sup>a</sup>	(i-g)/d	8.2				7.4
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	1.7%				1.7%
<b>Net Leverage (x)</b>						
Total Adjusted Net Debt/Operating EBITDAR <sup>a</sup>	(i-j)/a	7.7				7.0
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	8.8				8.4
FFO Net Leverage	(i-g-j)/(n-m-l-k)	8.8				8.4
Total Net Debt with Equity Credit/Operating EBITDA <sup>a</sup>	(i-g-j)/d	7.7				7.0
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	1.8%				1.8%
<b>Coverage (x)</b>						
Operating EBITDA/(Interest Paid + Lease Expense) <sup>a</sup>	a/(-m+b)	7.0				7.2
Operating EBITDA/Interest Paid <sup>a</sup>	d/(-m)	7.0				7.3
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	6.1				6.0
FFO Interest Coverage	(n-l-m-k)/(-m-k)	6.1				6.1

<sup>a</sup>EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, United Utilities Water Limited

Fitch Financial Adjustments – Debt Summary for United Utilities Water Limited

(GBPm)	Reported Values	Sum of Adjustments	CORP - Lease Treatment	Other Adjustments	Adjusted Values
31 March 2020					
<b>Debt Structure Details</b>					
+ Senior Unsecured Term Loans	2,536				2,536
+ Senior Unsecured Notes	5,251				5,251
+ Other Unsecured Debt	184				184
+ Intercompany Debt	1,057				1,057
<b>+ Total Unsecured Debt</b>	<b>9,029</b>				<b>9,029</b>
+ Net B/S Derivatives (Assets)/Liabilities Hedging Principal Borrow	0	-474		-474	-474
<b>Total Debt with Equity Credit</b>	<b>9,029</b>	<b>-474</b>		<b>-474</b>	<b>8,555</b>
Lease-Equivalent Debt	0	25	25		25
<b>Total Adjusted Debt with Equity Credit</b>	<b>9,029</b>	<b>-449</b>	<b>25</b>	<b>-474</b>	<b>8,580</b>

B/S – Balance sheet.

Source: Fitch Ratings, Fitch Solutions, United Utilities Water Limited

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