MOODY'S
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CREDIT OPINION
27 February 2019

Update

Rate this Research

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

Update following fast-tracked business plan and rating affirmation

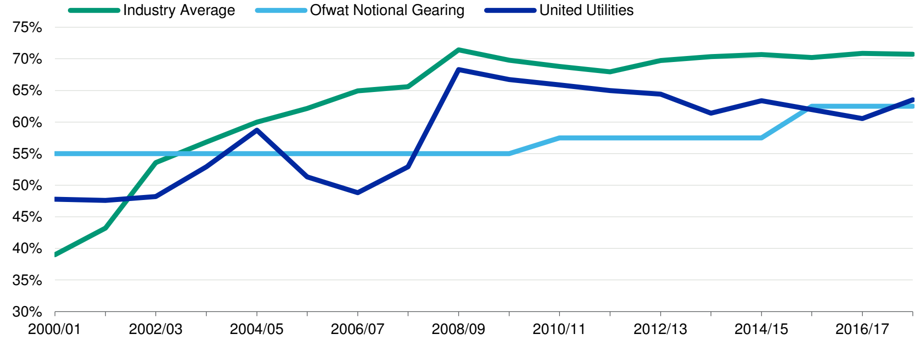
Summary

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.

On 31 January 2019, Ofwat, the economic regulator for water in England and Wales, categorised the company's business plan for the 2020-25 period as fast-track, which means that it will be accepted with minimal intervention and that UUW will receive an early draft determination, now expected in April 2019, and a financial reward of £22 million. We affirmed the companies' ratings following this decision.

We expect UU to maintain its current financial policy of keeping net debt below 65% of regulatory capital value (RCV) in the next regulatory period. The group will also continue to benefit from relatively low interest costs and a high proportion of inflation-linked debt, which reduces cash interest costs. Although UU Water will not receive its final price determination until December 2019, we expect UU to be able to maintain an adjusted interest coverage ratio (AICR) above 1.7x if it delivers in line with its business plan.

Exhibit 1
UUW's gearing remains below the sector average and broadly in line with the regulator's assumptions



Gearing ratios are as reported by operating companies to Ofwat and do not reflect Moody's standard adjustments.
Sources: Companies' performance reports, Ofwat, 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

- Significant cut in allowed returns from April 2020, which will weaken interest coverage ratios, although this is offset by UU's low cost of embedded debt
- Changes to regulations (aimed at increasing competition in certain parts of the value chain), which may reduce cash flow stability and create financial pressure for the sector
- More demanding efficiency and performance targets, which will likely increase cash flow volatility in the next price control period
- Parent company UU's structural subordination to its operating company's cash flow

Rating outlook

The outlook on the ratings is stable, reflecting our expectation that the group 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

- Net debt/RCV 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

- Final determinations for the 2020-25 period incorporating a lower allowed return than proposed in the methodology decision and not offset by management action, if required, to maintain interest coverage above 1.7x at UUW and UU Group
- 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
- A change in corporate strategy towards higher-risk non-regulated activities
- 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
- Unforeseen funding difficulties

Key Indicators

Exhibit 2
Key indicators
United Utilities Water Limited

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	2019-proj.	2020-proj.
Adjusted Interest Coverage Ratio	2.4x	2.4x	2.5x	2.6x	2.9x	2.6x	2.5x
Net Debt / Regulated Asset Base	64.4%	61.5%	62.1%	62.7%	64.9%	63.0%	63.3%
FFO / Net Debt	14.1%	14.4%	13.7%	13.4%	13.4%	13.0%	12.8%
RCF / Net Debt	11.6%	11.5%	10.8%	9.9%	9.0%	9.0%	8.8%

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. Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics

Exhibit 3
Key indicators
United Utilities PLC

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	2019-proj.	2020-proj.
Adjusted Interest Coverage Ratio	2.7x	2.6x	2.5x	2.7x	3.1x	2.6x	2.5x
Net Debt / Regulated Asset Base	56.9%	56.9%	58.6%	59.8%	61.9%	62.0%	62.1%
FFO / Net Debt	16.0%	16.0%	14.7%	14.4%	14.4%	14.0%	13.8%
RCF / Net Debt	11.8%	11.6%	10.5%	10.2%	10.5%	10.2%	10.0%

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. Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics

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 £11.0 billion as of 31 March 2018. UU Group is one of the three publicly listed water and sewerage groups and had a market capitalisation of around £5.6 billion as of February 2019.

Detailed credit considerations

Transparent regulatory regime with certainty around cash flow through March 2020

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, Ofwat.

Ofwat published the price determination for the 2015-20 period (AMP6) in December 2014. Along with its peers, UUW's final determination included an allowed return of 3.6% per annum on the wholesale RCV and a net retail margin of 1% for household retail activities. The overall allowed return, which for a notional company is around 3.74% per annum (vanilla, real), is significantly lower than the 5.1% per annum return for the previous period, reflecting a low interest rate environment. In addition, Ofwat assumed that UUW would earn a net retail margin of 2.5% in its competitive non-household retail activities

In AMP6, Ofwat changed the way it set tariffs for water companies in England and Wales. In particular, tariffs were set to reflect separate price controls for retail and wholesale activities, increased customer involvement in companies' business planning and focus on long-term outcomes rather than short-term outputs, more tailored Outcome Delivery Incentives (ODIs), and a totex (total expenditure) cost assessment. The introduction of separate price controls for retail and wholesale services was intended to facilitate retail competition for non-household customers following the opening of the market in April 2017. We view the changes introduced for AMP6 as being largely neutral for the UK water sector as a whole.

Fast-tracking of business plan improves visibility through March 2025

In September 2018, UUW submitted its business plan for the 2020-25 period (AMP7). UUW requested £5.4 billion in totex allowances (excluding retail, in 2017/18 prices), which we estimate is an 8% reduction compared with AMP6. The company also requested a balanced set of performance incentives, with a potential range of ±2% of Return on Regulatory Equity (RoRE) or ±£410 million. The business plan proposes a 15% reduction in leakage and a 33% reduction in interruptions.

Exhibit 4

Evolution of the allowed regulatory return

All figures expressed in real terms

	PR19 Final Methodology (Nominal)	PR19 Final Methodology (Real, CPIH = 2%)	PR19 Final Methodology (Real, RPI = 3%)	*PR14: 2015-2020 (Real, RPI =3%)*	PR14: 2015-2020 (Real, RPI =2.8%)
Long-term deflator		2.00%	3.00%	*3.00%*	2.80%
Cost of embedded debt	4.64%	2.58%	1.59%	*2.45%*	2.65%
Cost of new debt	3.40%	1.37%	0.38%	*1.80%*	2.00%
Ratio of embedded to total debt	70%	70%	70%	*75%*	75%
Issuance and liquidity costs	0.10%	0.10%	0.10%	*0.10%*	0.10%
Overall cost of debt	**4.36%**	**2.32%**	**1.33%**	***2.39%***	**2.59%**
Risk-free rate	2.10%	0.10%	-0.88%	*1.05%*	1.25%
Equity risk premium	6.50%	6.37%	6.31%	*5.49%*	5.50%
Total market return	8.60%	6.47%	5.44%	*6.54%*	6.75%
Equity beta	0.77	0.77	0.77	*0.8*	0.8
Overall cost of equity	**7.13%**	**5.03%**	**4.01%**	***5.44%***	**5.65%**
Notional Gearing	60%	60%	60%	*62.50%*	62.50%
Appointee WACC (vanilla)	**5.47%**	**3.40%**	**2.40%**	***3.53%***	**3.74%**
Retail margin	0.10%	0.10%	0.10%	*0.14%*	0.14%
Wholesale WACC (vanilla)	**5.37%**	**3.30%**	**2.30%**	***3.39%***	**3.60%**

Illustrates the proposed midpoint for a nominal return, derived from its various components and deflated into a real return, using a 2% and 3% deflator for the Consumer Price Index adjusted for housing costs (CPIH) and Retail Prices Index (RPI), respectively. The latter is also compared with the current period's RPI-linked real return. The wholesale weighted average cost of capital (WACC) is the appointee WACC minus the retail margin.

Sources: Ofwat, Moody's Investors Service

UUW's business plan was based on the 2.3% wholesale allowed return (in Retail Prices Index [RPI] real terms) proposed by Ofwat in its final methodology, published in December 2017, compared with 3.6% in the current period. This significant cut reflects Ofwat's assumption that the current low interest rate environment will persist. Furthermore, efficiency challenges will increase, particularly for average performers, which could strain the companies' cash flow. Ofwat will reconsider the allowed return at the time of final determinations in December 2019, reflecting market conditions closer to that time.

While companies will benefit from the low interest rate environment over time as they raise new debt, those with debt tenors beyond that assumed by the regulator will be exposed because allowed returns will converge to market rates, unless historical funding costs have been below average. UU's average cost of debt is among the lowest in the sector, and it has relatively shorter debt maturities and modest gearing levels compared with its peers. As a result, we believe UUW to be less exposed than its peers to a lower allowed return.

On 31 January 2019, Ofwat announced that UUW's business plan had been categorised as fast-track, which means that its business plan will be accepted with minimal intervention and that the company will receive an early draft determination, now expected in April 2019, and a financial reward of £22 million.

Although UUW will not receive its final price determination until December 2019, the company's business plan and the limited changes to cost allowances and ODIs required by the fast-tracking decision give us confidence that UU will be able to maintain its AICR above 1.7x if it delivers operational and cost performance as set out in its business plan. This is in line with our guidance for the current ratings, although with less headroom than in recent years. The companies' cash flow and AICRs will be stronger if UUW can reduce its total expenditure to meet Ofwat's efficiency challenge, which we estimate to be around £160 million over the period (in 2017-18 prices), or if UUW can improve operational performance to meet Ofwat's more stretching targets, particularly for internal sewer flooding, supply interruptions and leakage.

Transition to CPIH increases cash flow but introduces mismatch with index-linked debt

In AMP7, Ofwat will inflate companies' revenue with the Consumer Price Index including owner occupiers' housing costs (CPIH, the national statistical office's headline measure for inflation since March 2017) instead of the RPI. Similarly, the RCV, on which the allowed return is calculated, will be indexed:

» by RPI for 50% of the RCV as of 31 March 2020

» by CPIH for 50% of the RCV on 31 March 2020 and all subsequent additions to the RCV

Assuming a differential between RPI and CPIH of around 100 basis points and an initial 50:50 split of the return on RCV, the blended RPI-CPIH cash return would be around 2.8%-2.9%, based on Ofwat's final methodology decision. This change to the indexation of companies' revenue and RCV will increase cash flow over the medium term, offsetting the reduction in underlying allowed returns.

However, the additional short-term cash flow will come at the expense of RCV growth and future cash flow. A full transition to CPIH behond 2025 could also create a mismatch between UU's RCV growth and its remaining RPI-linked debt. Almost half of UUW's debt is currently linked to RPI inflation, although this is likely to decline over time as debt matures. Although UU was among the first to issue CPI-linked debt, this currently represents only around 2% of its total debt.

Other changes in AMP7 provide evidence of increased regulatory risk

AMP7 will include new, separate price controls for bioresources (comprising the treatment and disposal of sewage sludge) and water resource management.

Ofwat has also required all companies, including UUW, to share perceived outperformance resulting from gearing that is above 70% of RCV and to clearly justify their dividends in the context of operational performance. These measures primarily penalise highly leveraged firms, curbing their earnings in an already tough regulatory environment. We do not expect UUW to be affected, given the company's lower gearing, which we expect to remain close to the regulator's notional gearing level of 60%.

However, in our view, Ofwat's late changes to its methodology to introduce the high gearing penalty and further oversight of dividends, evidenced increasing regulatory risk and we subsequently revised our scoring for the stability and predictability of the regulatory regime to Aa from Aaa (please see Regulated Water Utilities - UK: Regulator's proposals undermine the stability and predictability of the regime, May 2018). In this context of modestly increased business risk, we have also tightened our ratio guidance for companies.

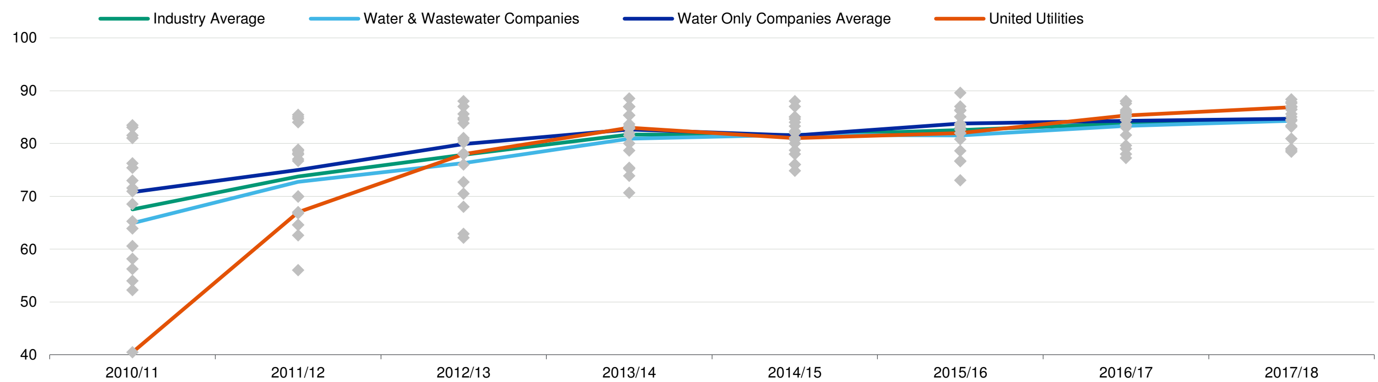
Improved performance supported solid returns in first three years of AMP6

Operational performance remains a key area of management focus. UUW has significantly improved its performance under the customer service incentive mechanism, the SIM (which takes into account customer surveys as well as the number of complaints handled), since it was first implemented. In the most recent round, the company ranked sixth overall across the sector, its highest position to date.

Exhibit 5

Strong improvement in customer service performance maintained

SIM score



Sources: Companies' performance reports, Ofwat, Moody's Investors Service

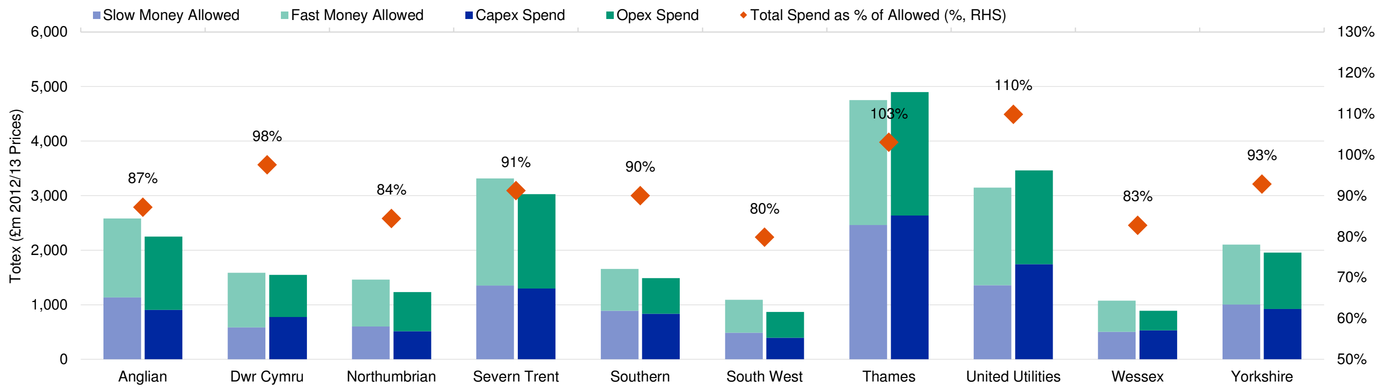
Over the first three years of the current period, UUW generally performed in line with or slightly ahead of the majority of its key performance commitments, agreed between the company and its customers during the business planning process for the 2014 price review. The cumulative net reward over first the three years is £2.2 million. This is lower than the £9.2 million recorded after the first two years, largely because of a single large burst that resulted in an £8 million penalty for a reliable water service index and a £6.0 million penalty to average minutes lost per property. The reduction was partially offset by UUW's performance on private sewers, where it earned a reward of £7.4 million, bringing its total to £22 million for this particular measure. Overall, the company is forecasting to earn up to £30 million in net reward over the entire price control period.

While the water industry experienced challenging conditions during the freeze-thaw event last winter, Ofwat considers UUW to have performed well and to have largely met its customers' expectations during this period. The generally solid operational performance has allowed UUW to earn a return on its RCV of 5.62% in 2017/18 (5.44% in 2016/17), above the regulator's 3.74% allowance (including the retail margins) for the current regulatory period.

UUW's final determination for AMP6 included a £5.3 billion allowance for wholesale totex, which was only around £190 million lower than the company's submission in response to the draft determination. Nevertheless, this represented a significant efficiency challenge because UUW had reduced its planned wholesale totex by around £370 million in its response, primarily linked to proposed efficiencies (around £90 million of the reduction relate to specific projects, for example, under the national environment programme).

UUW continued to accelerate its investment programme in order to benefit from earlier performance improvements. The company remains one of only two among its peers that has spent in excess of its allowance over the first three years of the current regulatory period. Nevertheless, UUW expects to beat the original total expenditure allowances by around £100 million over the period and has pledged to share its outperformance through £250 million in additional investments in network resilience.

Exhibit 6
UUW accelerated its investments over the first three years, while most of its peers have seen a slower start on their capital spending programme



Sources: Companies' performance reports, Ofwat, Moody's Investors Service

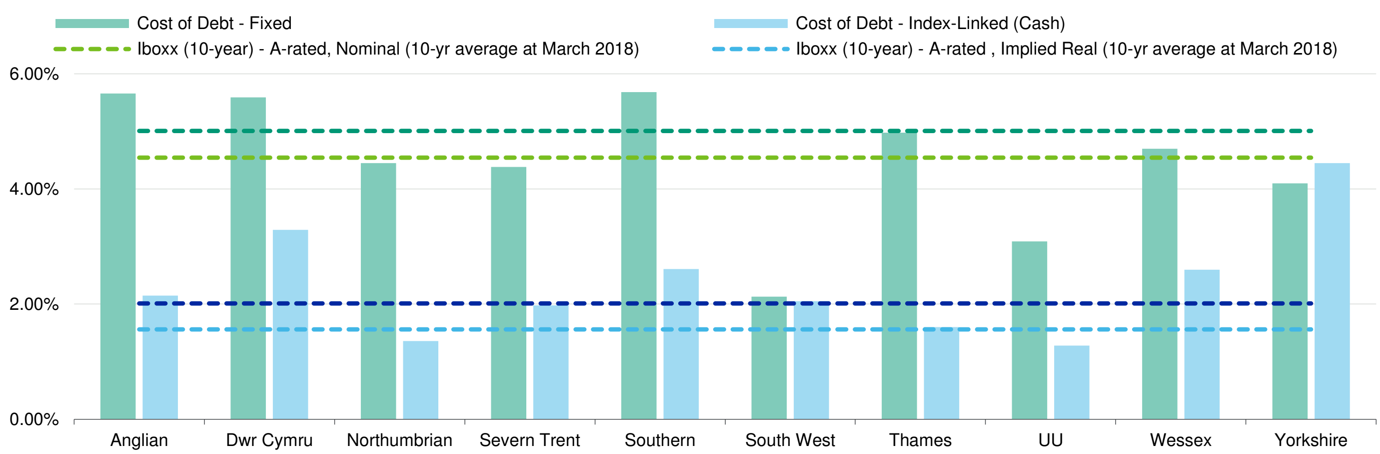
UUW's RCV is expected to grow by around 2% in real terms over the 2015-20 period. With relatively limited real RCV growth, the investment programme, while sizeable, should require limited external funding. The group will face refinancing requirements of around £2.5 billion over the period.

Significant financial headroom, given modest leverage and low funding costs

We expect that UU will maintain its balanced financial policy, with net debt/RCV below 65% over the remainder of AMP6, taking into account the company's published gearing target as well as its current dividend policy of setting growth in line with RPI.

We further anticipate that UU will maintain a similar financial policy in AMP7, and estimate that this will be achievable with a continuation of the current dividend policy. We note, however, that the ultimate group parent company, United Utilities Group PLC, is yet to announce its dividend policy for the 2020-25 period. We believe the UU group will be able to continue exhibiting strong financial metrics, benefiting from the group's interest rate management strategy to fix debt service over a 10-year rolling forward horizon and a high proportion of index-linked debt within the capital structure (around half of consolidated group debt).

Exhibit 7
UUW exhibits the lowest cost of funding among its peers



Sources: Companies' performance reports, Ofwat, 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 2018, the group had cash and short-term deposits of around £510 million and medium-term committed bank facilities of around £475 million (after deducting short-term debt). As of March 2018, the group had raised around £2.2 billion of its total £2.5 billion funding requirements for the five-year regulatory period as well as available headroom to cover its projected financing needs through to 2019/20.

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 8

Debt structure at United Utilities Group

Free Float

United Utilities Group PLC

United Utilities PLC
Senior Unsecured: Baa1 STA

Senior Unsecured – Baa1

USD350m	Bonds 5.375%	due Feb 2019
USD400m	Notes 6.875%	due Aug 2028

£7bn EMTN Programme
Senior Unsecured MTN Issuance - (P)Baa1

Unrated Debt*

GBP117m	Short-term Loans

United Utilities Water Limited
LT Issuer Rating: A3 STA

£7bn EMTN Programme
Senior Unsecured MTN Issuance - (P)A3

MTNS Issuances - Senior Unsecured – A3

EUR500m	MTNS 4.25%	due Jan 2020	GBP50m	IL MTNS RPI+1.397%	due Feb 2046
GBP375m	MTNS 5.75%	due Mar 2022	GBP50m	IL MTNS RPI+1.7937%	due May 2049
GBP300m	MTNS 5.625%	due Dec 2027	GBP100m	IL MTNS RPI+1.847%	due Jul 2056
GBP50m	IL MTNS RPI+3.375%	due Dec 2032	GBP100m	IL MTNS RPI+1.815%	due Jul 2056
GBP200m	MTNS 5%	due Feb 2035	GBP100m	IL MTNS RPI+1.662%	due Aug 2056
GBP100m	IL MTNS RPI+1.9799%	due Oct 2035	GBP50m	IL MTNS RPI+1.5865%	due Aug 2056
GBP35m	IL MTNS RPI+1.66%	due Nov 2037	GBP25m	IL MTNS RPI+1.591%	due Sept 2056
GBP70m	IL MTNS RPI+2.4%	due Jul 2039	GBP50m	IL MTNS RPI+1.556%	due Oct 2056
GBP100m	IL MTNS RPI+1.7829%	due Dec 2040	GBP35m	IL MTNS RPI+1.3805%	due Nov 2056
GBP50m	IL MTNS RPI+1.3258%	due Jan 2041	GBP50m	IL MTNS RPI+1.435%	due Nov 2056
GBP100m	IL MTNS RPI+1.5802	due Mar 2041	GBP100m	IL MTNS RPI+1.585%	due Jul 2057
GBP20m	IL MTNS RPI+1.5366%	due Apr 2043	GBP50m	IL MTNS RPI+1.702%	due Nov 2057

Unrated Debt*

GBP1,059m	IL EIB RPI Loans
GBP638m	EIB Loans
GBP300m	IL RPI Loans
GBP128m	Other Loans
GBP45m	Short-term Loans
JPY10bn	Dual Currency Loan

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

£7bn EMTN Programme
Backed Senior Unsecured MTN Issuance - (P)A3

MTNS Issuances – Backed Senior Unsecured – A3

GBP350m	MTNS 2%	due Feb 2025	GBP20m	IL MTNS CPI+0.245%	due Dec 2031
GBP25m	IL MTNS RPI+0.013%	due Apr 2025	EUR28m	MTNS 1.707%	due Oct 2032
HKD739m	MTNS 2.92%	due Feb 2026	EUR26m	MTNS 1.653%	due Dec 2031
EUR52m	MTNS 1.129%	due Apr 2027	EUR30m	MTNS 1.7%	due Jan 2033
HKD830m	MTNS 2.37%	due Oct 2027	GBP27m	IL MTNS RPI+0.01%	due Sept 2036
GBP20m	IL MTNS RPI+0.01%	due Sept 2028	GBP29m	IL MTNS RPI+0.01%	due Dec 2036
GBP35m	IL MTNS RPI+0.178%	due Apr 2030	GBP20m	IL MTNS CPI+0.379%	due Dec 2036
EUR30m	MTNS 2.058%	due Oct 2030	GBP60m	IL MTNS CPI+0.093%	due Feb 2037
EUR30m	MTNS 1.641%	due Jun 2031	GBP32m	IL MTNS CPI+0.359%	due Oct 2048
HKD600m	MTNS 2.9%	due Jun 2031	GBP33m	IL MTNS CPI+0.387%	due Oct 2057
GBP38m	IL MTNS RPI+0.01%	due Dec 2031			

*as at 31 March 2018

Rated debt as of September 2018; unrated debt as of 31 March 2018.
Source: Company reports, Moody's Investors Service

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 also take into account the debt at the wider UU group, when assessing the quantitative factors. The methodology grid results in an indicative factor outcome of A2, based on historical metrics and over the next 18 months. Our lower assigned rating reflects the reducing returns and tighter headroom in the next regulatory period.

The below grid 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.

Exhibit 9
Rating factors

Regulated Water Utilities Industry Grid [1][2]	Current FY 31/03/2018		Moody's 12-18 Month Forward View As of Feb 2019 [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	A	A	A	A
e) Scale and Complexity of Capital Programme & Asset Condition Risk	Baa	Baa	Baa	Baa
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)	2.7x	A	2.5x - 2.8x	A
b) Net Debt / Regulated Asset Base (3 Year Avg)	63.3%	Baa	59% - 64%	Baa
c) FFO / Net Debt (3 Year Avg)	13.5%	Baa	12% - 15%	Baa
d) RCF / Net Debt (3 Year Avg)	9.9%	Baa	8% - 11%	Baa
Rating:				
Indicated Rating from Grid Factors 1-3		A3		A3
Rating Lift	**0.5**	**0.5**	**0.5**	**0.5**
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned				A3/Baa1

Note: (1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 31/03/2018. (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

Ratings

Exhibit 10

Category	Moody's Rating
UNITED UTILITIES WATER LIMITED	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	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 11
Peer comparison

in GBP millions	United Utilities Water Limited A3 Stable			Dwr Cymru Cyfyngedig A2 Negative			Wessex Water Services Finance PLC A3 Negative		
	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-16	FYE Mar-17	FYE Mar-18
Revenue	1,692	1,680	1,717	743	744	757	521	525	541
EBITDA	1,084	1,136	1,190	495	377	527	339	334	340
Regulated Asset Base	10,333	10,665	11,089	4,989	5,222	5,471	2,843	2,978	3,142
Total Debt	6,619	6,886	7,695	2,952	3,024	3,388	2,098	2,208	2,183
Cash & Cash Equiv.	204	197	500	135	101	289	95	104	36
EBITDA Margin %	64.1%	67.6%	69.3%	66.6%	50.6%	69.6%	65.1%	63.5%	62.8%
Adjusted Interest Coverage Ratio	2.5x	2.6x	2.9x	1.5x	1.5x	1.4x	2.1x	2.0x	2.0x
Net Debt / RAB	62.1%	62.7%	64.9%	56.5%	56.0%	56.7%	70.4%	70.7%	68.3%
FFO / Net Debt	13.7%	13.4%	13.4%	12.1%	10.6%	9.9%	12.2%	11.7%	11.8%
RCF / Net Debt	10.8%	9.9%	9.0%	12.1%	10.6%	9.9%	7.8%	7.4%	7.5%

Source: Moody's Financial Metrics

Exhibit 12
United Utilities Water Limited
Moody's-adjusted net debt breakdown

in GBP millions	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17	FYE Mar-18
As Reported Net Debt	**6,437.3**	**6,739.3**	**6,985.8**	**7,267.3**	**7,620.3**
Pensions	145.6	0.0	0.0	0.0	0.0
Operating Leases	42.0	44.0	48.0	42.0	40.0
Non-Standard Adjustments	-389.9	-536.5	-619.1	-619.8	-464.9
Moody's Adjusted Net Debt	**6,235.0**	**6,246.8**	**6,414.7**	**6,689.5**	**7,195.4**

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.
Source: Moody's Financial Metrics

Exhibit 13
United Utilities Water Limited
Moody's-adjusted Funds From Operations (FFO) breakdown

in GBP millions	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17	FYE Mar-18
As Reported FFO	**778.4**	**807.3**	**724.6**	**743.6**	**792.5**
Pensions	8.6	17.8	27.3	34.2	33.5
Operating Leases	2.8	3.1	3.3	2.8	2.5
Align FFO	-6.2	-101.4	-61.2	-91.8	-126.4
Unusual Items	-152.0	-9.4	-5.7	-8.0	-5.4
Non-Standard Adjustments	247.6	182.0	188.8	212.7	267.9
Moody's Adjusted FFO	**879.2**	**899.5**	**877.1**	**893.5**	**964.6**

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

Exhibit 14

United Utilities Water Limited

Select historical Moody's-adjusted financial data

in GBP millions	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17	FYE Mar-18
INCOME STATEMENT					
Revenue	1,672	1,700	1,692	1,680	1,717
EBITDA	933	1,057	1,084	1,136	1,190
EBITDA Margin %	55.8%	62.2%	64.1%	67.6%	69.3%
EBIT	435	561	555	625	669
EBIT Margin %	26.0%	33.0%	32.8%	37.2%	39.0%
Interest Expense	274	239	214	250	291
BALANCE SHEET					
Cash & Cash Equivalents	3	180	204	197	500
Total Assets	10,035	10,685	11,194	11,588	12,265
Total Liabilities	8,343	8,745	8,949	9,265	9,900
CASH FLOW					
Funds From Operations (FFO)	879	900	877	893	965
FFO / Net Debt	14.1%	14.4%	13.7%	13.4%	13.4%
Capital Expenditures	851	858	825	806	815
Dividends	153	181	186	230	317
Retain Cash Flow (RCF)	726	719	691	664	648
RCF / Net Debt	11.6%	11.5%	10.8%	9.9%	9.0%
Free Cash Flow (FCF)	-85	-115	-135	-89	-183
FCF / Net Debt	-1.4%	-1.8%	-2.1%	-1.3%	-2.5%
INTEREST COVERAGE					
EBITDA/Interest Expense (exc. Indexation)	3.4x	4.4x	5.1x	4.6x	4.1x
Adjusted Interest Coverage Ratio	2.4x	2.4x	2.5x	2.6x	2.9x
LEVERAGE					
Debt / EBITDA	6.7x	6.1x	6.1x	6.1x	6.5x
Net Debt / EBITDA	6.7x	5.9x	5.9x	5.9x	6.0x
Debt / Book Capitalization	69.5%	67.8%	66.8%	67.4%	69.1%
Regulated Asset Base	9,679	10,152	10,333	10,665	11,089
Net Debt / Regulated Asset Base	64.4%	61.5%	62.1%	62.7%	64.9%

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

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