MOODY'S RATINGS

CREDIT OPINION
14 June 2024

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 following group results publication for FY2023/24

Summary

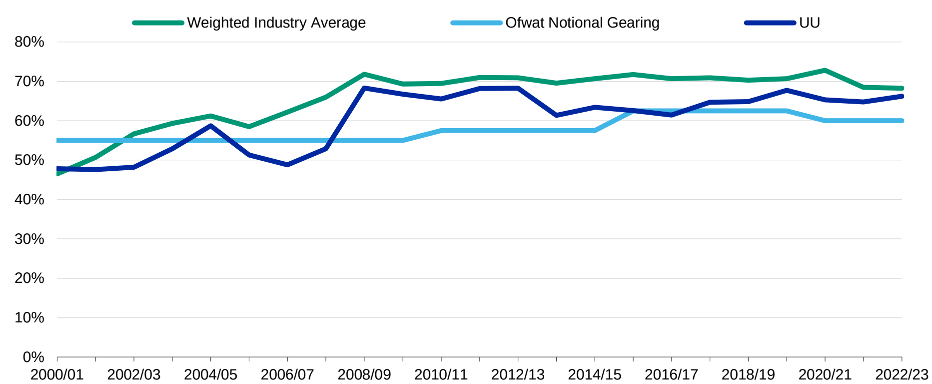
The credit quality of United Utilities Water Limited (UU Water, A3 stable) is supported by its low business risk as the monopoly provider of essential water and sewerage services in the North West of England, relatively stable and predictable cash flow generation under a well-established and transparent regulatory framework, and its moderate gearing. UU Water'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.

Modest gearing reflects a financial and dividend policy that maintains consolidated group net debt to regulatory capital value (RCV) in the range of 55-65%.

Exhibit 1

UU Water's regulatory gearing has consistently ranged in the low- to mid-60s in percentage terms for the past 15 years

Regulatory gearing ratios as reported by companies to Ofwat



Average gearing as reported, and not reflective of Moody's standard adjustments. Operating company gearing also does not consider any benefit from intercompany receivables as part of cash pooling within the wider group.
Source: Companies' performance reports, Ofwat, Moody's Ratings

The group also benefits from relatively low interest costs and a high proportion of inflation-linked debt, which reduces cash interest paid. However, in line with the sector, UU Water as well as the consolidated group faced significant inflationary pressure over the last two financial years, which led to a material fall in the adjusted interest coverage ratio (AICR).

To support its performance against regulatory targets in the current regulatory period as well as prepare for the next period, UU Water has significantly accelerated its investment programme. Due to true-up adjustments for such additional spend as well as cost of new debt raised during the period and an overall reset of cost and return allowances, we expect interest coverage to improve from April 2025.

Credit strengths

» Stable cash flow generated from the provision of monopoly water and wastewater services under a well-established, transparent and predictable regulatory regime

» Moderate financial leverage, providing significant financial flexibility

» Solid operational performance resulting in net rewards over the current regulatory period

Credit challenges

» Weaker interest coverage during period of high inflation and rising interest cost

» More demanding efficiency and performance targets in AMP8 could increase cash flow volatility

» UU Water 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

» Negative public perception of the sector, which may increase pressure on governments and regulators to change established frameworks

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

Rating outlook

The outlook is stable, reflecting that despite currently weaker interest coverage, we forecast average AICR over the AMP7 period to remain above 1.7x and gearing below 65%. These metrics remain 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 upgraded 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 UU Water and United Utilities Group PLC. In considering a possible rating upgrade, we will take into account any potential risks associated with the upcoming regulatory determination for the AMP8 period or wider strategic policy evolution for the water sector, given the sizeable infrastructure investment needs.

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 risk profile, particularly net debt/RCV persistently above 65% or adjusted interest coverage below 1.7x.Furthermore, the ratings could also be downgraded 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 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 UU Water and UU PLC

	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24 E	Mar-25 (proj.)
Adjusted Interest Coverage Ratio	3.2x	2.7x	2.2x	3.0x	1.4x	1.4x	1.4x-1.6x
Net Debt / Regulated Asset Base	61.4%	61.2%	62.5%	62.7%	60.3%	61.6%	60%-62%
FFO / Net Debt	14.4%	14.6%	11.2%	11.7%	9.3%	8.9%	9%-11%
RCF / Net Debt	10.5%	10.6%	7.2%	7.8%	5.5%	5.2%	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

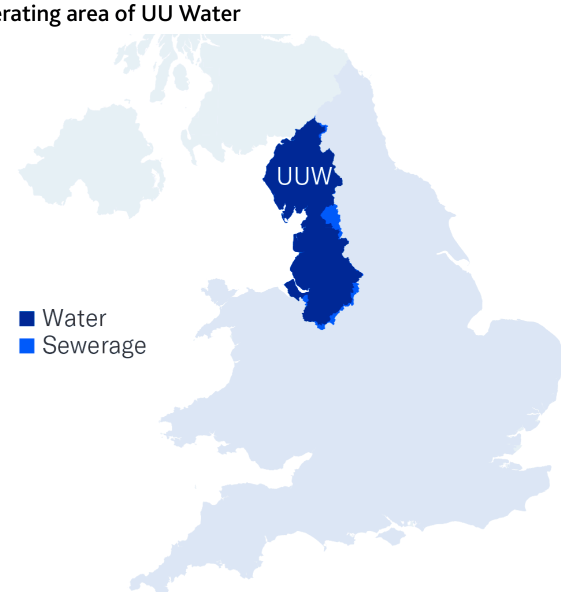
Source: Moody's Financial Metrics TM

Profile

UU Water is the main operating subsidiary of United Utilities PLC (UU), an intermediate holding company under United Utilities Group PLC (UU Group). UU Water is the second largest of 10 water and sewerage companies in England and Wales, with an RCV of almost £14 billion as of 31 March 2024. UU Group is one of the three publicly listed water and sewerage groups and had a market capitalisation of around £7.1 billion as of 14 June 2024.

Exhibit 3

Operating area of UU Water



Source: Moody's Ratings

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	£14 billion (March 2024)

Source: Ofwat, Moody's Ratings

Detailed credit considerations

Transparent regulatory regime but price review increases risks

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, in December 2022, 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.

While "early view" equity returns may appear low in the context of rising cost of debt, Ofwat has committed to consider the latest market evidence when it sets the allowed return in its final determinations, expected in December 2024. Based on current market data we estimate that the allowed return could rise to 3.6%-3.9% if the regulator maintains the same methodology.

A rise in allowed cash returns would be credit positive, particularly in the context of likely rising investment needs and associated funding requirements in a higher interest rate environment. In AMP8 business plans, the industry has proposed a near doubling of total expenditure (totex) compared with the current period, and indicated that investment will remain high for 25 years in response to tighter environmental regulation and pressure on water resources from climate change and population growth.

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'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.

Modest leverage and low funding costs support credit quality

We expect that UU and UU Water will maintain a balanced financial policy, with consolidated UU Group net debt/RCV below 65%. This takes into account the company's published gearing target and existing dividend policy, with dividends growing in line with CPIH inflation, as well as its AMP8 business plan proposals, indicating a continuation of moderate gearing.

We also expect that the group's financing costs will remain among the lowest in the sector, reflecting both its lower than sector average gearing and low average interest rate. In March 2024, the UU Group's average cash interest cost was around 2%, supported by the high proportion of index-linked debt within the company's capital structure: of around £10.1 billion gross debt outstanding, around £3.4 billion were RPI-linked at an average real rate of 1.4% and £1.3 billion were linked to CPI or CPIH at an average real rate of -0.6%.

We believe UU Water 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. The average rate for the group's ca. 46% fixed rate debt portion is in the range of 2.7-3.1% for the remainder of AMP7.

Macro-economic conditions increase volatility of key credit metrics

Although it has recently fallen back, inflation rose sharply in the UK from the start of 2021. Prolonged high inflation tends to be positive for UK water companies, but increases in revenue may lag rises in costs, creating short-term pressure on cash flow. For example, customer bills for FY2022/23 were based on CPIH inflation, which was just 4.6% as at November 2021, but elements of UU Water's cost base, particularly energy, materials and chemicals, reflect the significantly higher rate of inflation experienced during the following year. CPIH rose to 9.6% in October 2022 and remained elevated throughout most of FY2023/24 but fell to 3% in April 2024.

Power costs increased year-on-year by 31% and 26% in FY2022/23 and FY2023/24, respectively (with mitigating effects from a rolling hedging strategy and 20-25% self-generation). Cost for materials had also increased sharply in FY2022/23, but have since stabilised. 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 39% and 15% of the group's net debt at March 2024 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 operational performance rewards despite tough commitments

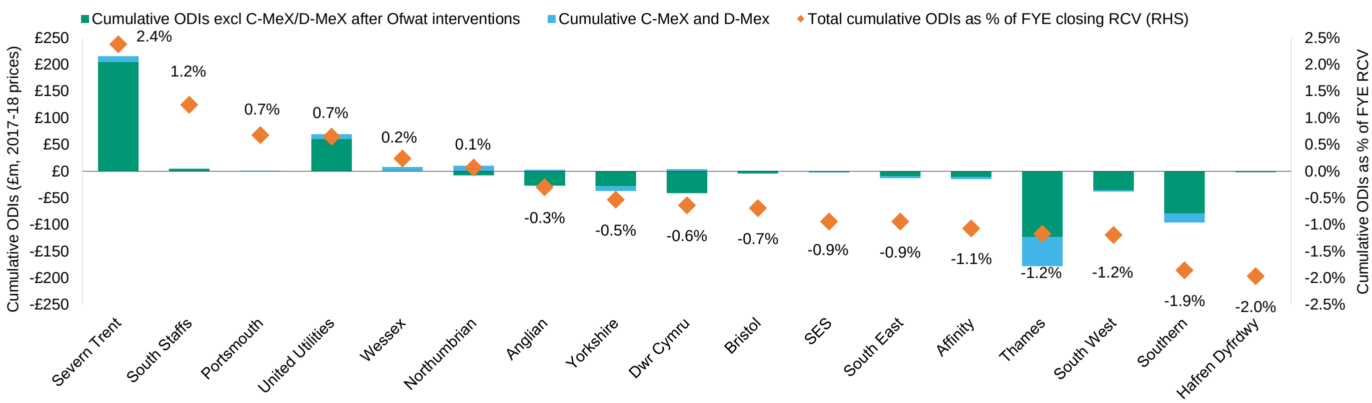
Operational performance commitments in the current period are materially tougher than in the previous price control period. UU Water's most challenging performance commitment is for internal sewer flooding, where sewage enters a customer's property.

However, due to its AMP7 determination being fast-tracked (which earned it a separate reward), UU Water 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, UU Water achieved aggregate net rewards of just under £70 million (in 2017/18 prices) over the first three years of the period and expects to earn approximately £34 million for FY2023/24, with a target of at least similar levels set for the final year of the period.

Exhibit 5

UU Water generated among the highest cumulative net rewards during AMP7 to date

Cumulative Outcome Delivery Incentives (ODIs) FY2020/21 - FY2022/23 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, UU Water has significantly improved its performance under Ofwat's customer service incentive mechanism. As part of the above incentive income, UU Water accumulated £9.2 million of aggregate rewards for its performance under customer (C-Mex) and developer (D-Mex) service measures in the first three years of AMP7 and was also ranked the top water and sewerage company for customer service in the latest UK customer satisfaction index.

Pollution investigations ongoing, but UU Water 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. (Baa3 negative), 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 UU Water than for some of its peers. The company has achieved a three or four star ranking, defined as a good company or industry leading, respectively, in the EA's annual environmental performance assessment for the English Water companies since 2011 and believes is on track to achieve a four star rating for 2023, with the EA expected to publish its latest performance assessment in July this year.[1]

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. UU Water 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 its 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 EA recorded 403,171 number of spills in England. UU Water forecasts its share of the £10 billion AMP8 investment to be around £3.1 billion, of which £1.4 billion have already been pre-approved by Ofwat as part of transition expenditure between periods, and £177 million will still be spend within AMP7 (see further below).

Accelerated spending in AMP7 to prepare for sizeable investment growth in AMP8

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.

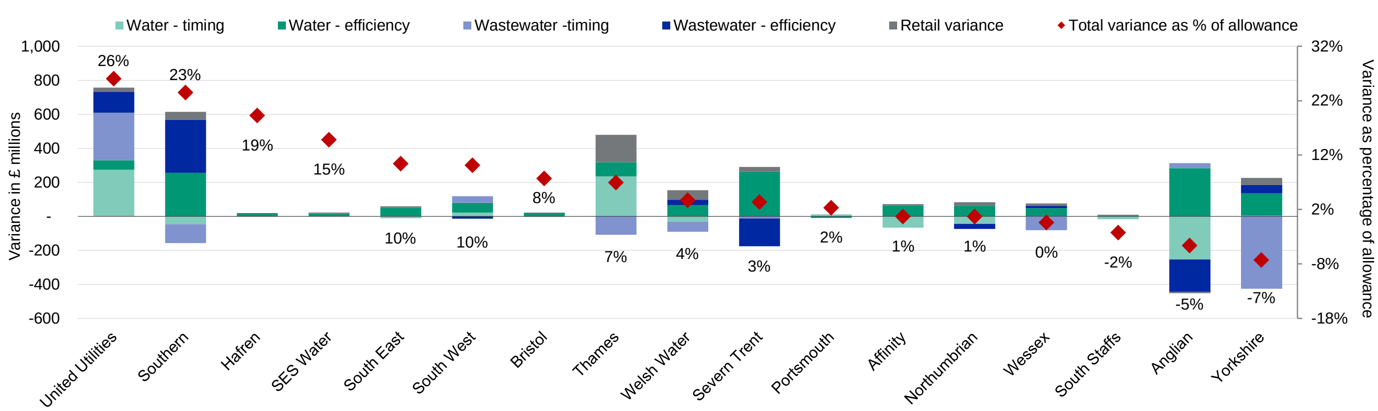
Ofwat also allowed £57 million for preparatory work relating to the Manchester and Pennines resilience scheme (now called the Haweswater Aqueduct Resilience Programme), which is considered for delivery by a third party under the new direct procurement for customers (DPC) framework (see highlight box 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.

To facilitate performance improvements and put the company in a position where it can earn ODI rewards, UU Water was one of the few companies that significantly accelerated investment and has overspend its allowance to date.

Exhibit 6

UU Water has significantly accelerated its capital programme over AMP7

Cumulative totex variance over AMP7 to date, all amounts in 2017/18 prices)



Source: Ofwat's summary performance report sector data, 2022/23

Subsequent to its AMP7 final determination, UU Water 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 June 2023, Ofwat announced its final decision in relation to accelerated infrastructure investments proposed by the sector. Of 33 approved schemes, equivalent to around £500 million of investment over the 2023-25 period and just under £2.2 billion in aggregate (all in 2020/21 prices), UU Water received the lion's share, responsible for just under 40% of the amounts approved for the remainder of the current regulatory period as well as approximately 68% of the total investments. The vast majority of UU Water'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.[3]

In aggregate, the above £765 million additional and accelerated investments as well as the £195 million approved transition expenditure until 2025 are equivalent to approximately 17% of UU Water's wholesale totex allowance for the period.

For AMP8, UU Water's updated business plan includes total expenditure of almost £14 billion (in 2022/23 prices), a more than 100% increase compared with AMP7 levels. Enhancement expenditure, which aims to improve services and is largely driven by new statutory requirements to reduce pollution as well as the environmental impact of water abstraction, accounts for £7.6 billion (in 2022/23 prices), more than seven times the AMP7 enhancement. If confirmed by Ofwat in its 2024 determination, this would lead to an almost 40% real growth in RCV compared with a real RCV decline in the current period based on the AMP7 final determinations.

We understand that UU Water is at an advanced stage of preparing its supply chain capabilities, and we expect the company to be able to manage the step up in AMP8 capital investment, also in the context of the ramp-up in the investment programme over the final years of this regulatory period. During FY2023/24, the UU Group incurred capital spending of £736 million (net of grants and contributions) and guided to £0.85-1.1 billion for the final year of AMP7, including £400 million of AMP8 investment, brought forward to reduce storm overflows and improve environmental performance around Windermere. This compares with average annual capital spend of around £2 billion (in outturn prices) forecast for AMP8 under the updated business plan.

Large projects 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).

UU Water'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 UU Water's region, supplying 570Ml per day 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 kilometres of single line tunnel sections and 47 kilometres 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 – UU Water 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. UU Water expects to announce the successful bidder in late 2024 and commence construction works in 2025.[4]

Construction risk will be largely passed on to the construction counterparties of the DPC provider, but UU Water may carry responsibility for certain risks or cost overruns. Under Ofwat's guidance for DPC arrangements, we expect risks, which UU Water will have to bear under the DPC contractual agreements but are outside of its control, would be passed on to customers. While any material unmitigated risk that was retained by the company could adversely reflect credit quality, we currently assume that any such retained construction risk would be adequately compensated under the regulatory regime.

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.

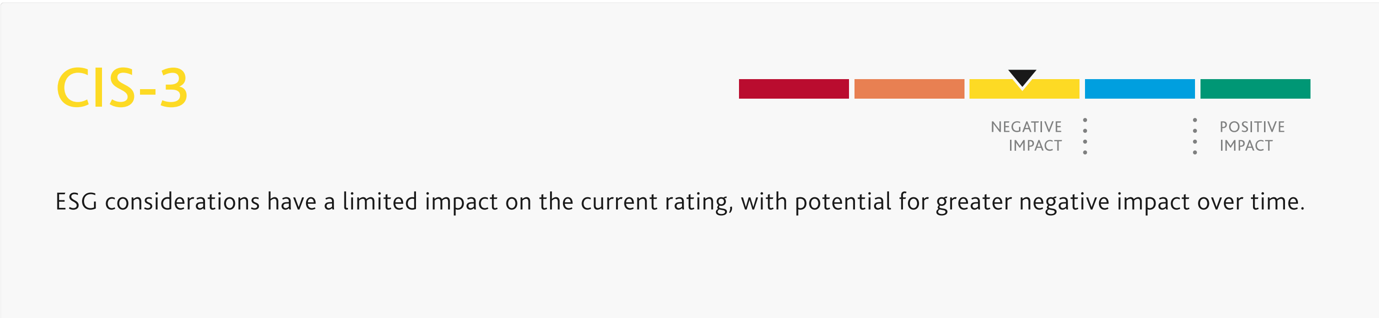
Once a new tunnel section becomes available for use, a lease liability and corresponding right of use asset would be recognised on UU Water's balance sheet, and the lease liability would be included in UU Water's and the consolidated group's net debt position. However, the asset would not become part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

In assessing UU Water'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 UU Water'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 UU Water'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 UU Water and the UU Group with respect to Moody's ratio guidance.

ESG considerations

United Utilities Water Limited's ESG credit impact score is CIS-3

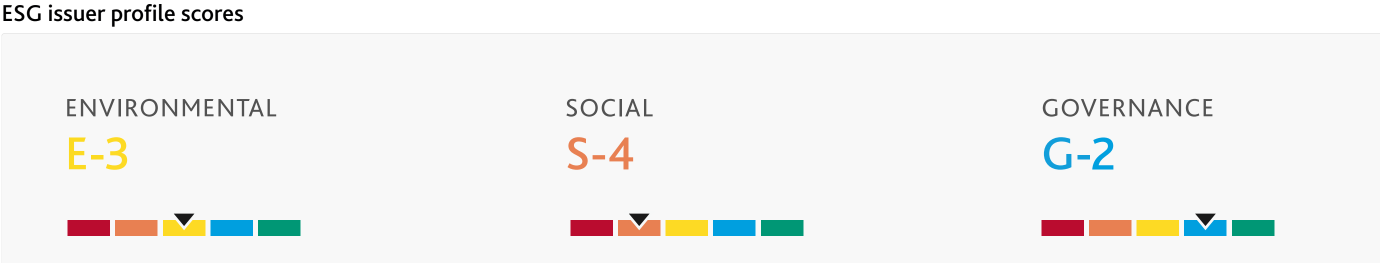
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

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 8
ESG issuer profile scores



Source: Moody's Ratings

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 a three-star rating (good company) in the Environment Agency's 2022 environmental performance report.

Social

UU Water's **S-4** score reflects elevated risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. While the risk is common to all regulated utilities, it is particularly acute for UK water companies, with public perception at an all-time low and heightened scrutiny over operational performance and dividend payments. Materially growing investment requirements to improve environmental performance and increase drought resilience will require bills to rise, exacerbating affordability concerns. The risks associated with societal trends and responsible production are balanced by UU Water's solid 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.

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 2024, the group had cash and short-term deposits of around £1.4 billion, with a further £350 million net proceeds received from funding raised in May 2024, and undrawn amounts under medium-term committed bank facilities of around £800 million. The currently available liquidity is sufficient to cover the group's overall requirements until at least March 2026.

Structural considerations

The current A3 rating for UU Water 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 UU Water and Baa1-rated UU reflects the structural subordination of holding company debt relative to the operating company debt.

Exhibit 9

Debt structure at United Utilities Group

Debt list as at 31 March 2024, including £350 million issuance in May 2024

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

GBP10bn EMTN Programme – (P)A3

Rated EMTN Issuances – A3

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

Unrated Debt (as of 31 March 2024)

GBP370m	RPI EIB Loans
GBP200m	RPI Loans
GBP100m	CPI Loans
GBP403m	Non-IL EIB Loans
GBP38m	Short-term Loans
JPY10bn	Dual Currency Loan
GBP509m	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	EUR26m	1.653% MTN	due Dec 2032
GBP25m	RPI+0.013% IL MTN	due Apr 2025	EUR30m	1.7% MTN	due Jan 2033
HKD320m	2.867% MTN	due Jan 2026	GBP350m	2.0% MTN *	due Jul 2033
HKD739m	2.92% MTN	due Feb 2026	EUR650m	3.75% MTN	due May 2034
EUR52m	1.129% MTN	due Apr 2027	GBP400m	5.75% MTN	due June 2036
HKD830m	2.37% MTN	due Oct 2027	GBP27m	RPI+0.01% IL MTN *	due Sep 2036
GBP20m	RPI+0.01% IL MTN	due Sep 2028	GBP29m	RPI+0.01% IL MTN *	due Dec 2036
GBP100m	1.43%	due Oct 2028	GBP20m	CPI+0.379% IL MTN	due Dec 2036
GBP300m	0.875% *	due Oct 2029	GBP60m	CPI+0.093% IL MTN	due Feb 2037
GBP35m	RPI+0.178% IL MTN	due Apr 2030	JPY8.5bn	1.45% MTN	due Dec 2037
JPY11bn	0.175% MTN	due Aug 2030	GBP325m	1.75% MTN	due Feb 2038
EUR30m	2.058% MTN	due Oct 2030	GBP300m	5.125%	due Oct 2038
GBP425m	2.625% MTN *	due Feb 2031	GBP125m	CPIH+0.01% IL MTN	due Jul 2040
EUR30m	1.641% MTN	due Jun 2031	GBP300m	1.875% MTN	due Jun 2042
HKD600m	2.9% MTN	due Jun 2031	GBP250m	5.25% MTN	due Jan 2046
USD35m	1.474% MTN	due Aug 2031	GBP32m	CPI+0.359% IL MTN	due Oct 2048
GBP38m	RPI+0.01% IL MTN *	due Dec 2031	GBP350m	5.75% MTN	due May 2051
GBP20m	CPI+0.245% IL MTN	due Dec 2031	GBP33m	CPI+0.387% IL MTN	due Oct 2057
EUR28m	1.707% MTN	due Oct 2032			

* Fully or partially swapped to CPI/CPIH

A portion of the £450 million bond, issued by United Utilities Water Finance PLC and due in February 2025, has been prepaid, and the outstanding amount reduced to around £340 million.
Source: Company reports, Moody's Ratings

Rating methodology and scorecard factors

Our assessment of UU Water's and UU's credit quality is based on our Regulated Water Utilities rating methodology. The below scores represent the positioning of UU Water, 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 UU Water 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 to the operating company, while the Baa1 rating of UU reflects structural subordination of creditors at the holding company.

Exhibit 10

Rating Methodology Scorecard

United Utilities Water Limited

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2023		Moody's 12-18 Month Forward View As of June 2024 [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	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)	2.1x	Baa	1.4x - 1.6x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	65.8%	Baa	65% - 67%	Baa
c) FFO / Net Debt (3 Year Avg)	9.8%	Ba	8% - 10%	Ba
d) RCF / Net Debt (3 Year Avg)	6.6%	Baa	5% - 7%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Baa1		Baa1
Notch Lift		0.5		0.5
a) Scorecard-Indicated Outcome		A3		A3
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 31/03/2023. (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 Ratings, Moody's Financial Metrics TM

Exhibit 11

Rating Methodology Scorecard

United Utilities PLC

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2023		Moody's 12-18 Month Forward View As of June 2024 [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	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)	2.1x	Baa	1.4x - 1.6x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	62.5%	Baa	61% - 63%	Baa
c) FFO / Net Debt (3 Year Avg)	10.4%	Baa	9% - 11%	Baa
d) RCF / Net Debt (3 Year Avg)	6.6%	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 31/03/2023. (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 Ratings, Moody's Financial Metrics TM

Ratings

Exhibit 12

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 Ratings

Appendix

Exhibit 13
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			Northumbrian Water Ltd. Baa1 Stable		
(in GBP million)	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23
Revenue	1,798	1,845	1,816	1,808	1,863	1,824	1,700	1,809	1,966	758	780	850
EBITDA	1,012	1,003	859	1,029	1,034	885	1,047	935	941	330	313	335
Regulated Asset Base (RAB)	11,681	12,336	13,414	11,681	12,336	13,414	9,514	10,261	11,325	4,264	4,613	5,161
Total Debt	8,309	8,371	9,025	8,047	7,980	8,435	6,647	6,536	7,351	3,095	3,233	3,629
Net Debt	7,660	8,189	8,787	7,303	7,739	8,095	6,634	6,458	7,342	3,067	3,173	3,483
Adjusted Interest Coverage Ratio	2.0x	2.9x	1.4x	2.2x	3.0x	1.4x	1.2x	1.7x	1.2x	1.2x	1.2x	0.8x
FFO / Net Debt	10.4%	10.8%	8.4%	11.2%	11.7%	9.3%	8.8%	10.6%	8.8%	7.3%	7.3%	6.7%
RCF / Net Debt	10.4%	6.7%	3.2%	7.2%	7.8%	5.5%	7.9%	8.3%	3.0%	7.3%	-3.4%	3.5%
Net Debt / Regulated Asset Base	65.6%	66.4%	65.5%	62.5%	62.7%	60.3%	69.7%	62.9%	64.8%	71.9%	68.8%	67.5%

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

Exhibit 14
United Utilities Water Limited
Moody's-adjusted net debt breakdown

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
As Reported Total Debt	8,241	9,029	8,716	8,371	9,025
Leases	41	0	0	0	0
Non-Standard Public Adjustments	(478)	(618)	(407)	0	0
Moody's Adjusted Total Debt	7,803	8,411	8,309	8,371	9,025
Cash & Cash Equivalents	(326)	(502)	(649)	(182)	(238)
Moody's Adjusted Net Debt	7,477	7,910	7,660	8,189	8,787

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 15
United Utilities Water Limited
Moody's-adjusted Funds From Operations (FFO) breakdown

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
As Reported Funds from Operations (FFO)	799	816	826	850	755
Pensions	44	86	3	1	3
Leases	3	0	0	0	0
Capitalized Interest	(37)	(41)	0	0	0
Alignment FFO	(115)	(92)	(86)	(138)	(539)
Unusual Items - Cash Flow	(3)	(11)	0	(82)	0
Non-Standard Public Adjustments	291	263	54	256	520
Moody's Adjusted Funds from Operations (FFO)	982	1,022	797	887	738

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 16

United Utilities Water Limited

Selected historical Moody's-adjusted financial data

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
INCOME STATEMENT					
Revenue	1,798	1,850	1,798	1,845	1,816
EBITDA	1,175	1,259	1,012	1,003	859
EBITDA margin %	65.4%	68.1%	56.3%	54.4%	47.3%
EBIT	619	650	608	603	453
EBIT margin %	34.4%	35.1%	33.8%	32.7%	24.9%
Interest Expense	252	266	195	379	653
BALANCE SHEET					
Cash & Cash Equivalents	326	502	649	182	238
Total Assets	12,513	13,095	13,123	13,944	14,044
Total Liabilities	10,122	11,060	10,776	11,781	12,517
CASH FLOW					
Funds from Operations (FFO)	982	1,022	797	887	738
Cash Flow From Operations (CFO)	1,018	1,030	944	870	794
Dividends	376	513		339	454
Retained Cash Flow (RCF)	606	509	797	548	284
Capital Expenditures	(797)	(781)	(635)	(628)	(689)
Free Cash Flow (FCF)	(154)	(264)	310	(97)	(349)
INTEREST COVERAGE					
EBITDA / Interest Expense	4.7x	4.7x	5.2x	2.6x	1.3x
Adjusted Interest Coverage Ratio	2.9x	2.5x	2.0x	2.9x	1.4x
LEVERAGE					
Debt / EBITDA	6.6x	6.7x	8.2x	8.3x	10.5x
Net Debt / EBITDA	6.4x	6.3x	7.6x	8.2x	10.2x
Debt / Book Capitalization	69.0%	71.1%	69.0%	66.4%	72.1%
Regulated Asset Base (RAB)	11,465	11,791	11,681	12,336	13,414
Net Debt / Regulated Asset Base	65.2%	67.1%	65.6%	66.4%	65.5%
FFO / Net Debt	13.1%	12.9%	10.4%	10.8%	8.4%
RCF / Net Debt	8.1%	6.4%	10.4%	6.7%	3.2%

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-2022

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

3 Ofwat noted that it had identified a further 35 schemes, totalling potentially £371 million of investment, in the 2023-25 period and £1.3 billion in total, that companies can progress through the 2024 price review (PR24) transition expenditure programme at their own risk.

4 https://harpinformation.co.uk/

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