MOODY'S INVESTORS SERVICE

CREDIT OPINION
5 May 2022

Update

Send Your Feedback

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.

Contacts

Stefanie Voelz +44.20.7772.5555
VP-Sr Credit Officer
stefanie.voelz@moodys.com

Paul Oreckin +44.20.7772.1158
Associate Analyst
paul.oreckin@moodys.com

Neil Griffiths-Lambeth +44.20.7772.5543
Associate Managing Director
neil.griffiths-lambeth@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

United Utilities Water Limited/United Utilities PLC

Regular update reflecting reported performance YTD 2021/22

Summary

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

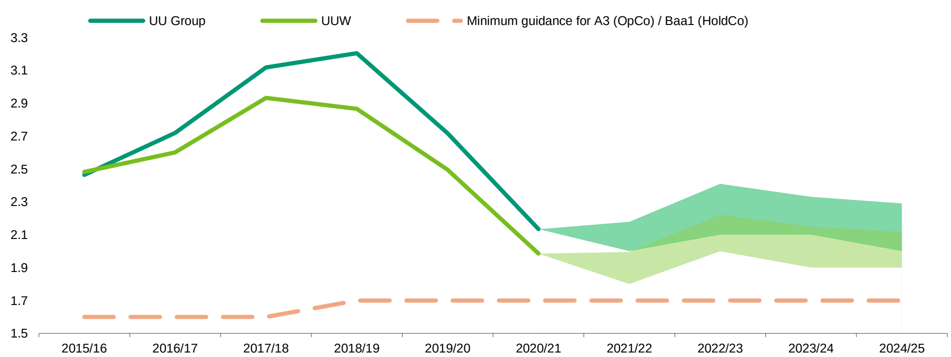
UUW received a fast-tracked determination for the 2020-25 regulatory period (AMP7), which means that its plans were accepted with minimal regulatory intervention and the company achieved a reward of £24 million. With its acceptance of the determination, the company announced plans to grow its dividend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

The group will also continue to benefit from relatively low interest costs and a high proportion of inflation-linked debt, which reduces cash interest paid. We expect UUW as well as the consolidated group 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

We expect UUW's as well as the UU Group's consolidated adjusted interest coverage ratios to remain above guidance during the remainder of AMP7

Forecast represents Moody's view and not that of the issuers



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

Credit strengths

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

» Well-established, transparent and predictable regulatory regime

» Moderate financial leverage, providing significant financial flexibility

Credit challenges

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

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

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

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

Rating outlook

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

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Key Indicators

United Utilities Water Limited
Key credit metrics over the last 5 years and forecast for the remainder of AMP7

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	AMP7 forecast
Adjusted Interest Coverage Ratio	2.6x	2.9x	2.9x	2.5x	2.0x	2.0x-2.2x
Net Debt / Regulated Asset Base	62.7%	64.9%	65.2%	67.1%	65.6%	62%-67%
FFO / Net Debt	13.4%	13.4%	13.1%	12.9%	12.6%	10%-11%
RCF / Net Debt	9.9%	9.0%	8.1%	6.4%	12.6%	8%-9%

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.
Source: Moody's Financial Metrics TM

United Utilities PLC
Key credit metrics over the last 5 years and forecast for the remainder of AMP7

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	AMP7 forecast
Adjusted Interest Coverage Ratio	2.6x	3.0x	3.1x	2.6x	2.1x	2.1x-2.3x
Net Debt / Regulated Asset Base	60.3%	62.4%	62.0%	61.9%	63.2%	60%-65%
FFO / Net Debt	14.0%	14.1%	14.1%	14.2%	13.2%	11%-12%
RCF / Net Debt	10.0%	10.2%	10.2%	10.3%	9.2%	7%-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.
Source: Moody's Financial Metrics TM

United Utilities Group PLC
Key credit metrics over the last 5 years and forecast for the remainder of AMP7

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	AMP7 forecast
Adjusted Interest Coverage Ratio	2.7x	3.1x	3.2x	2.7x	2.1x	2.1x-2.3x
Net Debt / Regulated Asset Base	59.8%	61.9%	61.4%	61.2%	62.5%	60%-65%
FFO / Net Debt	14.4%	14.4%	14.4%	14.6%	13.5%	12%-13%
RCF / Net Debt	10.2%	10.5%	10.5%	10.6%	9.5%	8%-9%

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.
Source: Moody's Financial Metrics TM

Profile

United Utilities Water Limited (UUW) is the main operating subsidiary of United Utilities PLC (UU), an intermediate holding company under United Utilities Group PLC (UU Group). UUW is the second largest of 10 water and sewerage companies in England and Wales, with an RCV of £11.7 billion as of 31 March 2021. UU Group is one of the three publicly listed water and sewerage groups and had a market capitalisation of around £7.65 billion as of 5 May 2022.

Detailed credit considerations

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

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

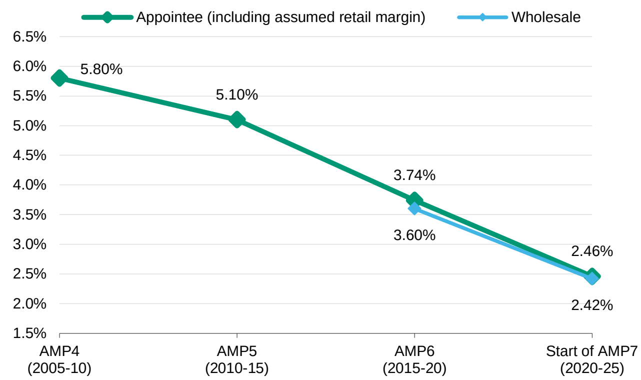
Ofwat has, to date, reset price limits every five years and published its final determination for the 2020-25 period, known as AMP7, in December 2019.

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

Exhibit 5

Significant cut in allowed returns, despite lower inflation index

Real (cash) allowed returns

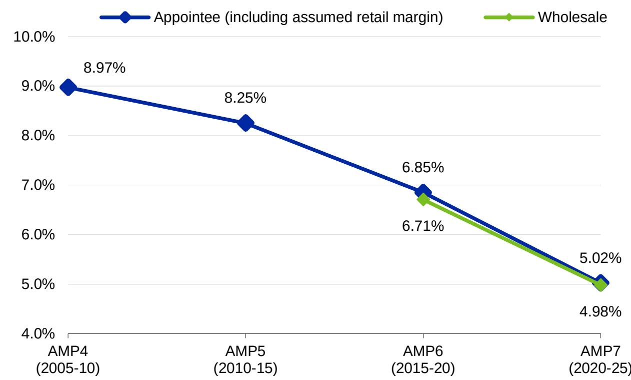


Since PR14, Ofwat has separated retail activities from the wholesale services.
Source: Ofwat

Exhibit 6

Unprecedented cut in nominal allowed returns

Nominal (total) returns including forecast inflation of RCV



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

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

The final determination also confirmed companies' commitment to accept the regulator's proposals under the 'Putting the Sector Back in Balance' consultation, which included (1) a sharing mechanism of perceived financing outperformance from high gearing; and (2) increased transparency around dividend and executive pay policies. [1] After four of UUW's peers rejected their determination, the Competition and Markets Authority (CMA), the UK's regulatory appeals body, said in its summary final determination in March 2021 that there was insufficient evidence of a financial benefit from higher gearing and that it doubted that Ofwat's proposed mechanism was the right tool to address higher gearing within the sector. The CMA's ruling does not apply directly to any company that did not appeal Ofwat's determination, but based on UUW's financial policy of maintaining gearing in the range of 55-65%, the company will not be affected by the high gearing penalty.

Effective move to CPIH indexation aids cash flow, but will not improve AICR

While we expect Ofwat to eventually adopt CPIH as its sole inflation benchmark, the regulator has chosen to retain an element of RPI indexation in AMP7. As mentioned, 50% of RCV at 31 March 2020 will remain indexed to RPI over the period, while the remainder, together with additions to the RCV over AMP7, will be linked to CPIH.

UUW argued, and Ofwat accepted, that its customers would prefer an immediate full transition to CPIH, which would mean higher revenues but lower RCV growth over the AMP7 period. Rather than increasing the allowed return, Ofwat chose to achieve an equivalent result by increasing the RCV run-off rate by approximately 1% during AMP7. The regulator adopted a similar approach for Severn Trent Water (Baa1 stable).

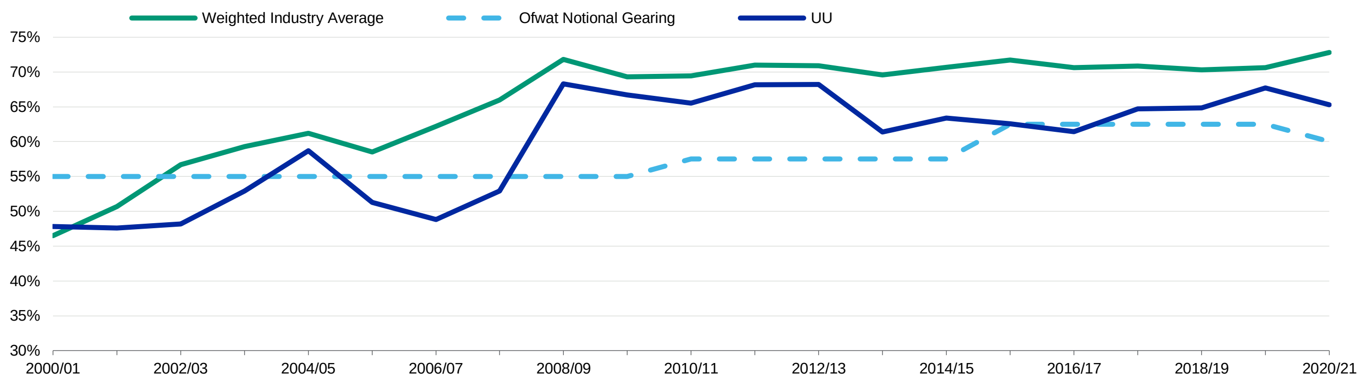
A higher run-off rate will increase the company's cash flow from operations compared to other companies, improving liquidity, but we do not view the change as fundamentally improving credit quality because RCV growth, and therefore future returns and cash flow, will be reduced. To maintain comparability with other water companies during AMP7, we will continue to deduct the full amount of the RCV run-off when calculating our AICR.

Significant financial headroom, given modest leverage and low funding costs

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

Exhibit 7

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



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

We also expect that UUW's financing costs will remain among the lowest in the sector during the current regulatory period, reflecting both its low leverage and low average interest rate. In the first year of AMP7, UUW's weighted average nominal interest rate of 2.06% was around 1% below the industry average, with even lower cash interest cost of 1.43% supported by the high proportion of index-linked debt within the company's capital structure.

We believe UUW and the UU group will be able to continue exhibiting strong financial metrics, 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.

Tougher performance commitments could result in ODI penalties but net rewards were achieved in the first year of AMP7

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

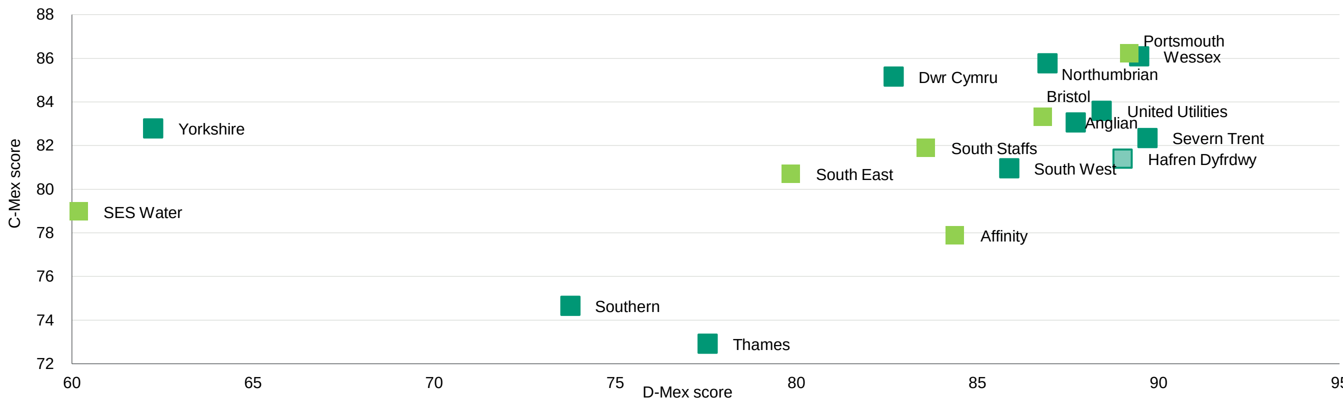
Based on the company's business plan submissions, we estimated that if UUW performed at the levels assumed in its plan, the company would incur cumulative penalties of £120 million (2017-18 prices) across AMP7. However, basing our estimate on expected business plan performance is conservative as UUW has had early sight of the most stretching targets and has reinvested £100 million of AMP6 outperformance into the business during 2019-20 to improve performance levels. It also continued to advance investments during 2020-21. Reflecting its continued focus on service improvements, UUW achieved £20.5 million (in 2017/18 prices) of net rewards in FY2020-21, meeting the majority of its performance commitments, and expects to accumulate a total of £150 million of net rewards over AMP7.

Most notably, over the past two regulatory periods, UUW has significantly improved its performance under Ofwat's customer service incentive mechanism (SIM). In the first year of AMP7, UUW ranked 5th in the sector for both the new C-Mex and D-Mex scores which respectively measure the level of service provided to customers (replacing SIM) and developers. As a result, UUW will receive £3.1 million of associated rewards (included in the overall net rewards mentioned above).

Exhibit 8

UUW ranked among the best performers in the sector for customer service in the first year of AMP7

FY 2020-21 C-MeX and D-MeX results



Dark green squares are WaSCs (Hafren Dyfrdwy being fully owned by Severn Trent Water) and light green squares are WoCs.
Source: Companies' annual performance reports

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

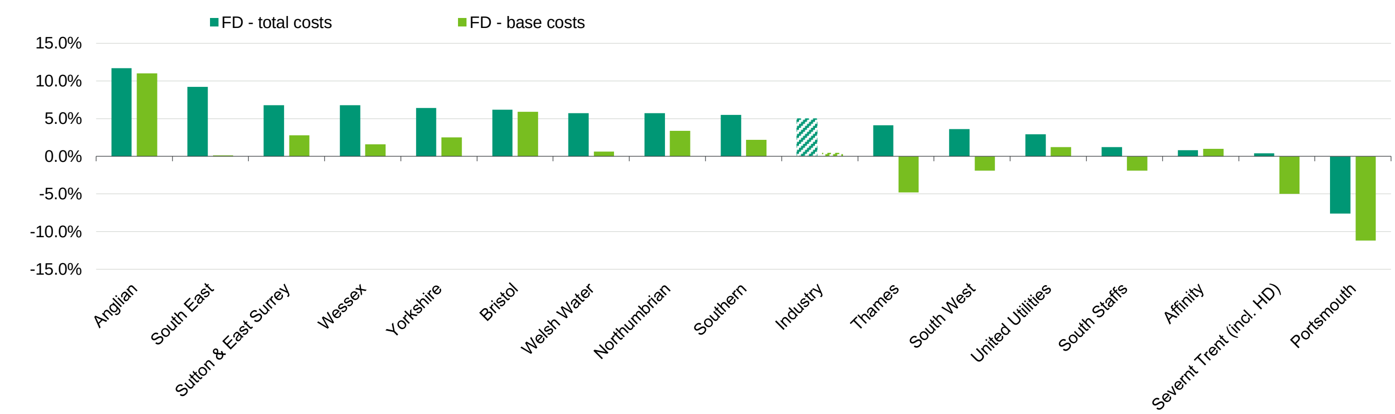
Over AMP6, UUW delivered £100 million totex outperformance against its output requirements and, as previously reported, pledged to share its outperformance through additional investments – including in network resilience – to prepare the business for AMP7. These additional investments included high frequency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

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

Exhibit 9

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

Cost efficiency challenge at final determination (FD)



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

UUW submitted four totex cost adjustment claims worth £244 million in its representations. In the company's final determination, Ofwat rejected three of these claims but continued to allow £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). Outside of totex, Ofwat allowed 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.

Subsequent to its AMP7 final determination, UUW received regulatory approvals for extensions to its investment programme of around £150 million, and a further £65 million in relation to Green Recovery proposals. In addition, management elected to spend a further £150 million on dynamic network management and other projects intended to drive ODI performance, which the company expects to be fully remunerated through regulatory mechanisms. Overall, management is confident that it will deliver its AMP7 totex scope within the regulatory allowances.

Large project considered for DPC framework

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

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

The existing aqueduct is the largest potable water aqueduct by capacity and length in England and Wales. It is a key strategic asset to ensure water supply within UUW's region, supplying 570Ml/d to Manchester, Cumbria, the Pennines and Lancashire across 19 offtakes. For comparison, during the financial year ending March 2020, UUW's distribution input was 1,791 Ml/d, so the existing aqueduct accounts for roughly one third of the company's total distribution input.

The asset consists of ca. 52 km of single line tunnel sections and 47 km of pressured single- and multi-line siphons. The existing aqueduct was completed post-World War 2, built between 70-90 years ago during a period of material and skill shortages, and – given the age and condition of the asset – UUW has identified material resilience risks, in particular with the tunnel sections.

The company and Ofwat are currently assessing the viability and potential benefit for customers of a DPC solution for the currently estimated ca. £1 billion investment required to replace the 52 km of tunnelling. This evaluation is still in progress and further details on the regulatory mechanisms, for example the Allowed Revenue Direction, under which UUW will recover DPC-related costs from its customers, are yet to be finalised.

Subject to Ofwat's approval of the DPC business case, UUW expects to tender the HARP project in 2022, with contract award in 2023. Completion of the HARP project is unlikely before the later years of the 2025-30 regulatory period at the earliest.

Likely accounting treatment and considerations around calculation of key ratios

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

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

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

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 30 September 2021, the group had cash and short-term deposits of around £656 million and undrawn amount under medium-term committed bank facilities of around £650 million, which more than covers the company's ca. £661 million current borrowings at the half year. In total over 2020-25, the group expects to raise around £2.4 billion to cover refinancing and incremental debt to support its investment programme, of which £1.1 billion had already been raised as of September 2021.

Structural considerations

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

Exhibit 10

Debt structure at United Utilities Group

Free Float

United Utilities Group PLC

United Utilities PLC
Senior Unsecured: Baa1 STA

GBP7bn EMTN Programme – (P)Baa1

Senior Unsecured – Baa1

USD400m	6.875% Notes	due Aug 2028

United Utilities Water Limited
LT Issuer Rating: A3 STA

GBP7bn EMTN Programme – (P)A3

Rated EMTN Issuances – A3

GBP375m	5.75% MTN	due Mar 2022
GBP300m	5.625% MTN	due Dec 2027
GBP50m	RPI+3.375% IL MTN	due Dec 2032
GBP200m	5% MTN	due Feb 2035
GBP100m	RPI+1.9799% IL MTN	due Oct 2035
GBP35m	RPI+1.66% IL MTN	due Nov 2037
GBP70m	RPI+2.4% IL MTN	due Jul 2039
GBP100m	RPI+1.7829% IL MTN	due Dec 2040
GBP50m	RPI+1.3258% IL MTN	due Jan 2041
GBP100m	RPI+1.5802% IL MTN	due Mar 2042
GBP20m	RPI+1.5366% IL MTN	due Apr 2043
GBP50m	RPI+1.397% IL MTN	due Feb 2046
GBP50m	RPI+1.7937% IL MTN	due May 2049
GBP100m	RPI+1.847% IL MTN	due Jul 2056
GBP100m	RPI+1.815% IL MTN	due Jul 2056
GBP100m	RPI+1.662% IL MTN	due Aug 2056
GBP50m	RPI+1.5865% IL MTN	due Aug 2056
GBP25m	RPI+1.591% IL MTN	due Sep 2056
GBP50m	RPI+1.556% IL MTN	due Oct 2056
GBP35m	RPI+1.3805% IL MTN	due Nov 2056
GBP50m	RPI+1.435% IL MTN	due Nov 2056
GBP100m	RPI+1.585% IL MTN	due Jul 2057
GBP50m	RPI+1.702% IL MTN	due Nov 2057

Unrated Debt (as of 30 Sept 2021)

GBP493m	RPI EIB Loans
GBP300m	RPI Loans
GBP100m	CPI Loans
GBP509m	Non-IL EIB Loans
GBP51m	Short-term Loans
JPY10bn	Dual Currency Loan
GBP126m	Other Loans

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

GBP7bn EMTN Programme – (P)A3

Rated EMTN Issuances – A3

GBP450m	2.0% MTN	due Feb 2025
GBP25m	RPI+0.013% IL MTN	due Apr 2025
HKD320m	2.867% MTN	due Jan 2026
HKD739m	2.92% MTN	due Feb 2026
EUR52m	1.129% MTN	due Apr 2027
HKD830m	2.37% MTN	due Oct 2027
GBP20m	RPI+0.01% IL MTN	due Sep 2028
GBP300m	0.875%	due Oct 2029
GBP35m	RPI+0.178% IL MTN	due Apr 2030
EUR30m	2.058% MTN	due Oct 2030
JPY11bn	0.175% MTN	due Aug 2030
GBP425m	2.625% MTN	due Feb 2031
EUR30m	1.641% MTN	due Jun 2031
HKD600m	2.9% MTN	due Jun 2031
USD35m	1.474% MTN	due Aug 2031
GBP38m	RPI+0.01% IL MTN swapped to CPI	due Dec 2031
GBP20m	CPI+0.245% IL MTN	due Dec 2031
EUR28m	1.707% MTN	due Oct 2032
EUR26m	1.653% MTN	due Dec 2032
EUR30m	1.7% MTN	due Jan 2033
GBP350m	2.0% MTN	due Jul 2033
GBP27m	RPI+0.01% IL MTN	due Sep 2036
GBP29m	RPI+0.01% IL MTN	due Dec 2036
GBP20m	CPI+0.379% IL MTN	due Dec 2036
GBP60m	CPI+0.093% IL MTN	due Feb 2037
GBP250m	1.75% MTN	due Feb 2038
GBP125m	CPIH+0.01% IL MTN	due Jul 2040
GBP300m	1.875% MTN	due Jun 2042
GBP32m	CPI+0.359% IL MTN	due Oct 2048
GBP33m	CPI+0.387% IL MTN	due Oct 2057

Debt list as of September 2021

Source: Company reports, Moody's Investors Service

ESG considerations

UU's ESG Credit Impact Scores are Moderately Negative CIS-3

Exhibit 11
ESG Credit Impact Score

CIS-3
Moderately Negative

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

Source: Moody's Investors Service

The ESG Credit Impact Score for United Utilities PLC (UU) and its subsidiary United Utilities Water Limited (UU Water) is moderately negative (**CIS-3**), reflecting moderate environmental and social as well as low governance risks. The overall credit impact score also recognises mitigating factors, in particular the regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost. However, as investment needs continue to grow to tackle climate change and population growth, the resulting increase in regulated assets and their remuneration will have to continue to be supported by the regulatory tariff framework in order to avoid negative credit implications in the future.

Exhibit 12
ESG Issuer Profile Scores

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

Source: Moody's Investors Service

Environmental

UU's moderate environmental risk (**E-3** issuer profile score) primarily reflects the company's moderate risk exposure to water management and natural capital, which both also take into account the effects of water pollution. According to an analysis by the UK government's Environment Agency (EA), overall water supply in England will need to increase by around 25% between 2025 and 2050. This exposure is most acute in southeast England. The west of the country including UU Water is part of the Water Resources West region. The region will require an additional 640 million litres a day by 2050 (roughly 13% of current distribution input), but has some excess water available and – with further efficiency measures – could free up more water for cross-regional transfer. As a wastewater company, UU Water is also exposed to the risk of pollution and associated fines. In November 2021, the UK government's Environment Agency and water regulator Ofwat launched investigations into wastewater treatment works, with companies more at risk of greater penalties than in the past. However, UU Water is among the stronger performers, achieving the highest four-star rating in the Environment Agency's 2020 environmental performance report.

Social

UU Water's social risk is moderately negative (**S-3**), reflecting the risk, common to all regulated utilities, that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. While water companies and regulators have sought to address criticism over operational performance, bills and dividend payments, the opposition UK Labour Party has argued for nationalisation. The risks associated with societal trends and responsible production are balanced by neutral effects from health and safety, human capital and customer relationships, with UU Water being a solid performer in the sector.

Governance

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

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

Rating methodology and scorecard factors

Our assessment of UUW's and UU's credit quality is based on our Regulated Water Utilities rating methodology, published in June 2018. The below scores represent the positioning of UUW, which generates almost all of the underlying group's operating profit, against the qualitative factors, but in assessing the company's credit quality we also take into account the debt at the wider UU group. The methodology scorecard 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 scorecard includes 0.5 notches of uplift from regulatory ring-fencing provisions, which UUW benefits from as part of its licence. However, such uplift does not apply to the holding company within the group. The consolidated credit quality of the wider group is reflected within the A3 rating assigned at the operating company, while the Baa1 at UU PLC reflect structural subordination of creditors at the holding company.

Exhibit 13

Rating Methodology Scorecard

United Utilities Water Limited

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2021		Moody's 12-18 Month Forward View As of April 2022 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	2.5x	Baa	2.0x - 2.2x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	66.0%	Baa	62% - 67%	Baa
c) FFO / Net Debt (3 Year Avg)	12.9%	Baa	11% - 12%	Baa
d) RCF / Net Debt (3 Year Avg)	9.0%	Baa	8% - 9%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		A3		A3
Notch Lift		0.5		0.5
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned				A3

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 31/03/2021. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics TM

Exhibit 14

Rating Methodology Scorecard

United Utilities PLC

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2021		Moody's 12-18 Month Forward View As ofApril 2022 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	2.6x	A	2.1x - 2.3x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	62.4%	Baa	60% - 64%	Baa
c) FFO / Net Debt (3 Year Avg)	13.8%	Baa	12% - 13%	Baa
d) RCF / Net Debt (3 Year Avg)	9.9%	Baa	8% - 9%	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 31/03/2021. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics TM

Ratings

Exhibit 15

Category	Moody's Rating
UNITED UTILITIES WATER LIMITED	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
PARENT: UNITED UTILITIES PLC	
Outlook	Stable
Senior Unsecured	Baa1
UNITED UTILITIES WATER FINANCE PLC	
Outlook	Stable
Bkd Senior Unsecured	A3

Source: Moody's Investors Service

Appendix

Exhibit 16
United Utilities Water Limited
Peer Comparison

	United Utilities Water Limited A3 Stable			Severn Trent Water Limited Baa1 Stable			Wessex Water Services Finance plc Baa1 Stable			Northumbrian Water Ltd. Baa1 Stable			Dwr Cymru Cyfyngedig A3 Stable		
(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21
Revenue	1,798	1,850	1,798	1,673	1,715	1,700	548	552	515	869	900	758	782	780	778
EBITDA	1,175	1,167	1,228	1,146	1,118	1,047	341	330	297	471	507	337	427	408	423
Regulated Asset Base (RAB)	11,465	11,791	11,681	9,349	9,412	9,514	3,264	3,206	3,324	4,368	4,224	4,252	5,673	5,905	6,010
Total Debt	7,803	8,411	8,309	6,378	6,447	6,647	2,243	2,352	2,766	2,992	3,073	3,095	3,811	4,157	3,845
Net Debt	7,477	7,910	7,660	6,365	6,432	6,634	2,243	2,310	2,407	2,987	3,011	3,067	3,310	3,489	3,624
Adjusted Interest Coverage Ratio	2.9x	2.5x	2.0x	2.2x	1.9x	1.4x	1.8x	1.6x	1.4x	1.9x	2.0x	1.5x	1.5x	1.5x	0.6x
FFO / Net Debt	13.1%	12.9%	12.6%	13.5%	13.3%	11.6%	11.2%	10.3%	8.6%	10.8%	12.2%	7.9%	9.4%	9.3%	8.5%
RCF / Net Debt	8.1%	6.4%	12.6%	10.0%	9.5%	10.6%	7.2%	6.5%	6.2%	6.5%	10.0%	7.9%	9.4%	9.3%	8.5%
Net Debt / Regulated Asset Base	65.2%	67.1%	65.6%	68.1%	68.3%	69.7%	68.7%	72.1%	72.4%	68.4%	71.3%	72.1%	58.3%	59.1%	60.3%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR = Ratings under Review, where UPG = for upgrade and DNG = for downgrade. * Ratios sown for Wessex Water Services Finance Plc represent the consolidated profile of Wessex Water Services Limited, which guarantees all the rated debt.
Source: Moody's Financial Metrics TM

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

(in GBP million)	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
As Reported Total Debt	7,190	7,464	8,120	8,241	9,029	8,716
Leases	48	42	40	41	0	0
Non-Standard Adjustments	(619)	(620)	(465)	(478)	(618)	(407)
Moody's Adjusted Total Debt	6,619	6,886	7,695	7,803	8,411	8,309
Cash & Cash Equivalents	(204)	(197)	(500)	(326)	(502)	(649)
Moody's Adjusted Net Debt	6,415	6,690	7,195	7,477	7,910	7,660

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 TM

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

(in GBP million)	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
As Reported Funds from Operations (FFO)	725	744	793	799	816	826
Pensions	27	34	34	44	86	3
Leases	3	3	3	3	0	0
Capitalized Interest	(21)	(29)	(40)	(37)	(41)	0
Alignment FFO	(61)	(92)	(126)	(115)	(92)	(86)
Unusual Items - Cash Flow	(6)	(8)	(5)	(3)	(11)	0
Non-Standard Adjustments	210	242	308	291	263	219
Moody's Adjusted Funds from Operations (FFO)	877	893	965	982	1,022	962

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 TM

Exhibit 19

United Utilities Water Limited

Selected historical Moody's-adjusted financial data

(in GBP million)	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
INCOME STATEMENT						
Revenue	1,692	1,680	1,717	1,798	1,850	1,798
EBITDA	1,084	1,136	1,190	1,175	1,167	1,228
EBITDA margin %	64.1%	67.6%	69.3%	65.4%	63.1%	68.3%
EBIT	555	625	669	619	557	659
EBIT margin %	32.8%	37.2%	39.0%	34.4%	30.1%	36.7%
Interest Expense	214	250	291	252	266	195
BALANCE SHEET						
Cash & Cash Equivalents	204	197	500	326	502	649
Total Assets	11,194	11,588	12,265	12,513	13,095	13,309
Total Liabilities	8,949	9,265	9,900	10,122	11,060	10,962
CASH FLOW						
Funds from Operations (FFO)	877	893	965	982	1,022	962
Cash Flow From Operations (CFO)	876	977	989	1,018	1,030	1,109
Dividends	186	230	317	376	513	
Retained Cash Flow (RCF)	691	664	648	606	509	962
Capital Expenditures	(825)	(836)	(855)	(797)	(781)	(799)
Free Cash Flow (FCF)	(135)	(89)	(183)	(154)	(264)	310
INTEREST COVERAGE						
EBITDA / Interest Expense	5.1x	4.6x	4.1x	4.7x	4.4x	6.3x
Adjusted Interest Coverage Ratio	2.5x	2.6x	2.9x	2.9x	2.5x	2.0x
LEVERAGE						
Debt / EBITDA	6.1x	6.1x	6.5x	6.6x	7.2x	6.8x
Net Debt / EBITDA	5.9x	5.9x	6.0x	6.4x	6.8x	6.2x
Debt / Book Capitalization	66.8%	67.4%	69.1%	69.0%	71.1%	69.0%
Regulated Asset Base (RAB)	10,333	10,665	11,089	11,465	11,791	11,681
Net Debt / Regulated Asset Base	62.1%	62.7%	64.9%	65.2%	67.1%	65.6%
FFO / Net Debt	13.7%	13.4%	13.4%	13.1%	12.9%	12.6%
RCF / Net Debt	10.8%	9.9%	9.0%	8.1%	6.4%	12.6%

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics TM

Endnotes

1 The 'Putting the sector back in balance' measures marked a change in direction for the regulator, in our view, in response to political and public pressure and evidenced a modest deterioration in the stability and predictability of the regime. The regulator has long maintained that capital structure is a matter for shareholders but, with the new measures, will exert greater influence. Accordingly, in May 2018, we revised the scoring for the stability and predictability of the regulatory regime under our rating methodology for Regulated Water Utilities to Aa from Aaa. At the same time we modestly tightened our ratio guidance.

REPORT NUMBER 1322088

MOODY'S
INVESTORS SERVICE