

CREDIT OPINION

7 February 2025

Update



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RATINGS

United Utilities Water Limited

Domicile	United Kingdom
Long Term Rating	Baa1
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 ratings downgrade

Summary

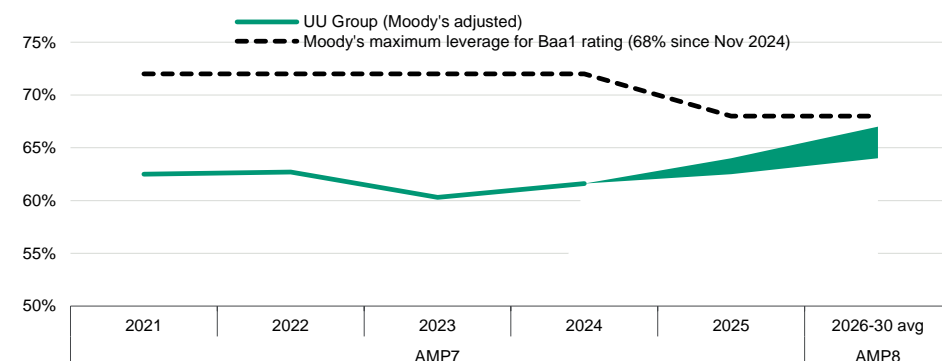
The credit quality of [United Utilities Water Limited](#) (UU Water, Baa1 stable) is supported by (1) its position as a monopoly provider of essential water and sewerage in the North West of England; (2) its track record of solid operational performance, particularly on outcome delivery incentives (ODIs); and (3) its moderate leverage, reflected in net debt to regulatory capital value (RCV) only slightly above regulatory assumptions for both UU Water and its ultimate parent, United Utilities Group PLC (UU).

Credit quality is constrained by a deterioration of the UK water sector's business risk and our expectation that UU's leverage will rise slightly in the upcoming regulatory period (AMP8, running from 1 April 2025 to 31 March 2030) as UU Water's executes its sizeable investment programme and the group pays material dividends. UU Water's intermediate parent [United Utilities PLC](#) (UU Plc, Baa2 stable) has a weaker credit quality than UU Water as a result of its creditors' structural subordination (though the company has a net cash position).

On 29 January 2025, we [downgraded UU Water's ratings to Baa1, and those of UU PLC to Baa2, and changed the outlook on all entities to stable from negative](#) following UU's decision to accept Ofwat's final determination for UU Water for AMP8 as well as it published target gearing and dividend policy for the period. This reflected our forecast that UU would maintain net debt / RCV in the mid 60s in percentage terms and an average adjusted interest coverage [AICR] of 2.1x in AMP8 under our projection of operational performance broadly in line with the regulatory settlement.

Exhibit 1

We expect that UU's net debt / RCVs will rise slightly in AMP8



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. The company's financial year ends 31 March. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Ratings

Credit strengths

- » Monopoly position for the provision of water and wastewater services, in North West England, operating under a well-established and transparent regulatory regime
- » Moderate leverage, as measured by net debt to RCV, that we expect will be maintained in AMP8
- » Track record of solid operational performance, particularly on ODIs with rewards earned boosting operating cash flow
- » Low interest costs, compared to both peers and regulatory assumptions

Credit challenges

- » Deterioration in the sector's business risk profile amid growing public, political and regulatory scrutiny
- » Sizeable investment programme of UU Water in AMP8, coupled with UU's material planned dividends distributions, will increase leverage (albeit modestly)
- » 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

Rating outlook

The stable rating outlook reflects our expectation that UU will be able maintain headroom to minimum ratio guidance for the current ratings even with a modest level of operational underperformance against the regulatory determination.

Factors that could lead to an upgrade

Given UU's financial and dividend policy framework and UU Water's sizeable investment programme, an upgrade is not expected over the medium term. However, the ratings could be upgraded if financial metrics were to improve such that both UU Water and UU appeared likely to achieve net debt to RCV sustainably below 60% and an AICR consistently above 1.8x.

Factors that could lead to a downgrade

Downward rating pressure would arise if net debt / RCV was expected to be persistently above 68% (after factoring in timing differences) or the AICR persistently below 1.6x.

Furthermore, the ratings could also be downgraded upon (1) 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 (2) unforeseen funding difficulties.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

United Utilities Group PLC

Consolidated group metrics drives rating positioning of UU Water and UU PLC

	2020	2021	2022	2023	2024	2025F	AMP8 average
Adjusted Interest Coverage Ratio	2.7x	2.2x	3.0x	1.4x	1.4x	1.4x - 1.6x	2.0x - 2.2x
Net Debt / Regulated Asset Base	61.2%	62.5%	62.7%	60.3%	61.6%	63% - 64%	64% - 67%
FFO / Net Debt	14.6%	11.2%	11.7%	9.3%	8.9%	8% - 9%	9% - 10%
RCF / Net Debt	10.6%	7.2%	7.8%	5.5%	5.2%	6% - 7%	8% - 9%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. UU Water's financial year ends on 31 March. Moody's forecasts 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™

Profile

UU Water is the main operating subsidiary of UU PLC, an intermediate holding company under UU. 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 is one of the three publicly listed water and sewerage groups and had a market capitalisation of around £6.7 billion as of 27 January 2025.

Exhibit 3

Operating area of UU Water



Source: Moody's Ratings

Exhibit 4

Price control overview

GB Water	
Regulator	Ofwat
Term of price control	Five years: AMP7 (to March 2025); AMP8 (April 2025 - Mar 2030)
Allowed return (appointee, vanilla CPIH-real)	2.96% AMP7; 4.03% AMP8
Regulatory Capital Value	£14 billion (March 2024)

Source: Ofwat, Moody's Ratings

Detailed credit considerations

Deterioration in the sector's business risk profile amid growing public, political and regulatory scrutiny

There has been a material and sustained weakening of credit quality for nearly all UK water companies amid continued public scrutiny and heightened political and regulatory focus. Across the sector, previous decisions, such as prioritising affordability and shareholder distributions, have contributed to underinvestment and exacerbated the sector's exposure to changing weather patterns, population growth and shifting expectations. Regulatory targets have become more demanding and penalties for those that fall short have continued to rise. With widespread investigations ongoing, fines for UK water companies breaching environmental legislation are likely to increase further.

In addition, the perception that the water sector is “broken” has prompted a [government-initiated strategic review](#), which aims to improve the regulatory environment and create a stable backdrop to attract investment. However, the review results in greater short-term uncertainty for the sector until it is completed and any potentially credit positive recommendations are successfully implemented.

Given the above considerations, [we have changed our assessment of the stability and predictability of the regulatory environment for the UK water sector under our rating methodology to A from Aa](#).

We believe that the predictability and supportiveness of the regime has reduced despite the final determination for the next regulatory period resulting in a more positive outcome for the sector than the draft determination. This assessment reflects a continuing trend of negative public perception resulting in more regulatory powers, an increased focus on enforcement action, demanding targets, greater penalties for operational underperformance and growing regulatory complexity that, in turn, result in higher cash flow volatility and leaner returns. All of these factors are leading to an environment that is less supportive of the water utilities' operations and, therefore, credit negative.

Regulatory determination for AMP8 offers some scope for outperformance, mainly on financing

On 19 December 2024, Ofwat published its final determination for AMP8. We expect UU Water to perform at least in line with the regulatory settlement after Ofwat made material changes to its draft decision which removed the significant downside skew for UU Water, and the sector more widely, on both regulatory cost allowances (total expenditure, totex) and outcome delivery incentives (ODIs) - see [Ofwat's draft determination increases sector risk](#), August 2024, for more information.

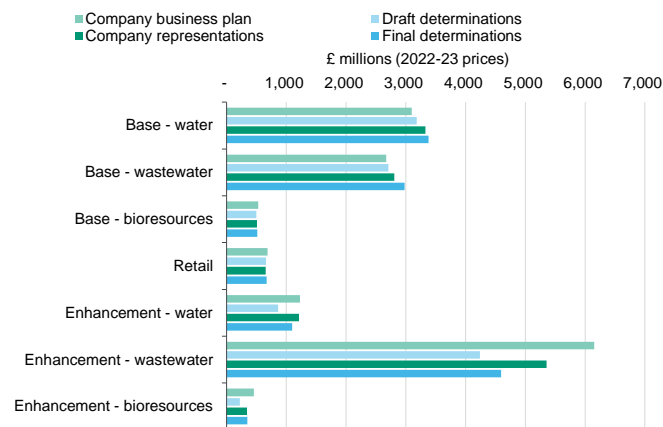
Final totex allowances are around 5% below the company's resubmission

UU Water's totex allowances in AMP8 are £13.3 billion (in 2022-23 prices, post frontier shift and real price effects), 5.1% below the company's revised request, and includes only a very small amount (£175 million) of contingent allowances (“gated schemes”) after Ofwat accepted UU Water's representation to remove its largest schemes from the gated process. The latter accounted for around a third of the £2.4 billion increase in UU Water's up-front totex allowance between draft and final determination and is credit positive because it removes the risk of UU Water not being remunerated in-period for this expenditure, which would otherwise increase the size of the step-up in leverage during AMP8 from executing the company's investment programme.

Over half (55%) of UU Water's totex allowances (£7.4 billion) pertain to base expenditure (business as usual activities). This is 2.5% more than UU Water requested (and 19% more the company's allowance for the current regulatory period), reflecting (1) Ofwat's assessment of UU Water's starting cost efficiency on wastewater network; and (2) sector-wide adjustments that Ofwat made to three cost items (over £0.27 billion, from draft determinations, across energy costs and business rates as well as a new adjustment for network reinforcement £0.11 billion) that increased base allowances. Business rates is subject to 10% cost sharing whilst energy costs and network reinforcement are subject to end of period true ups. UU Water will be able to keep 50% of any totex outperformance on base expenditure outside of these three items (plus abstraction charges and discharge consents which are subject to 25% cost sharing).

Exhibit 5

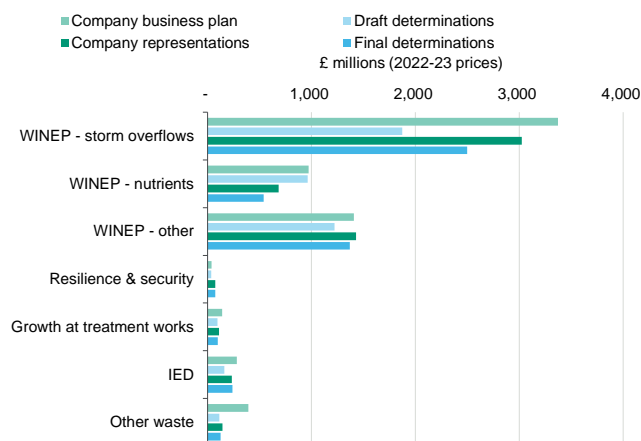
UU Water received an uplift to its base totex request
Breakdown of UU Water's totex in AMP8 by activity



All figures before frontier shift and real price effects
 Source: Ofwat, UU Water, Moody's Ratings

Exhibit 6

Storm overflows and nutrients account for the majority of the cut to UU Water's requested wastewater enhancement allowance
Breakdown of UU Water's wastewater enhancement totex in AMP8 by activity



All figures before frontier shift and real price effects
 Source: Ofwat, UU Water, Moody's Ratings

UU Water received a 13% cut in enhancement expenditure allowances compared to its revised request (Ofwat allowed £5.9 billion out of £6.8 billion), though allowances are several times higher than in the current period. The much smaller gap compared to the draft determination (32%) reflects a downward revision in the company's ask and over £0.7 billion of additional allowances. The majority of the upheld disallowances relate to storm overflows (£0.53 billion) and nutrients (£0.15 billion). We expect that through optimisation of its investment plan, including realising totex efficiencies, UU Water will be able to deliver out-turn enhancement expenditure close to regulatory allowances (the company is exposed to either 25% or 40% of any out- or under-performance on the vast majority of enhancement expenditure).

Although UU Water's final totex allowances will be materially higher than in the current regulatory period, we believe that the company will be able to deliver the required step-up in investment levels. This reflects that since its final determination for AMP7 UU Water has delivered over £1 billion (in 2017-18 prices) of additional investments in the current AMP, around 20% of its original wholesale totex allowance for the period, and taken steps to ensure it has the requisite supply chain capabilities. The cost of the additional investments will be recovered through regulatory mechanisms, i.e. through a sizeable upwards adjustments to UU's RCV at the end of the current AMP, but has led to the company reporting material overspend against regulatory allowances during the current period.

The Haweswater Aqueduct Resilience Programme (HARP) project, which plays a key role in UU Water's resilience strategy given the aqueduct provides around one third of the company's total distribution input, will be provided by a third party under the new direct procurement for customers (DPC) framework (see highlight box below) with UU receiving £57 million (in 2017-18 prices) for preparatory works in the current AMP and £25 million (in 2022-23 prices) in AMP8.

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 Haweswater Aqueduct Resilience Programme (HARP) project is one of the first investment projects to be considered under the DPC framework (Ofwat issued the DPC designation in December 2021).

The original aqueduct, completed in the 1950s, 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 a third of the water supplies to the region and serving 2.5 million people. Six tunnel sections along the 110km aqueduct route will be replaced, ensuring a resilient supply of quality drinking water for future generations.

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.

In January 2025, UU announced STRABAG Equitix Consortium, following a competitive tender process, as the preferred bidder to form the Competitively Appointed Provider (CAP). The estimated construction cost is around £2.5-2.9 billion. The contract for the HARP project will be awarded in the first half of calendar 2025 with construction works commencing shortly thereafter.

Construction risk will be largely passed on to the construction counterparties of the DPC provider. However, UU Water may carry responsibility for certain risks for activities within its control. 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 affect 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 as long as it is owned and maintained by a project SPV under the DPC framework.

Based on the current project timetable, it is expected that all the tunnel sections will be put into operational use over the course of AMP9 (which will run from 1 April 2030 to 31 March 2035). As such, the associated lease liability and right of use asset will increase with each additional tunnel put into operational use, peak when all tunnels are operational, and then decline in subsequent regulatory periods.

In assessing UU Water's and the wider UU Group's financial risk profile, we envisage to add the reported IFRS16 lease asset or liability¹ 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 and the size of the project relative to the company's RCV at the time of lease recognition, this approach may result in a modest loss of financial flexibility for UU Water and the UU Group with respect to our ratio guidance.

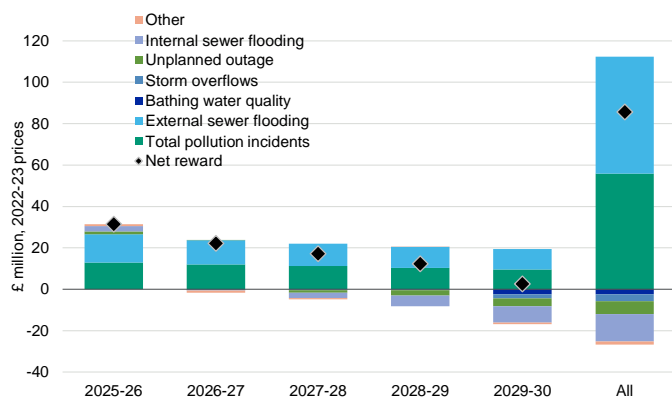
Our prevailing ratio guidance will continue to reflect the key drivers of UU's credit quality. These include, but are not limited to, the sector's business risk profile, UUW's operational performance and developments with the HARP project (both pre- and post it being recognised on UU's balance sheet).

Operational performance in line with UU Water's plan will lead to net rewards on ODIs, though these will be smaller than in the current period

Following the favourable changes to the calibration of performance targets (or outcome delivery incentives [ODIs]) between draft and final determination, we expect UU Water to earn around £90 million (in 2022-23 prices) of net rewards over the regulatory period if it performs in line with its final regulatory submission. As rewards earned (and penalties accrued) are paid with a two year lag, this will modestly boost operating cash flow in the final three years of the control.

Exhibit 7

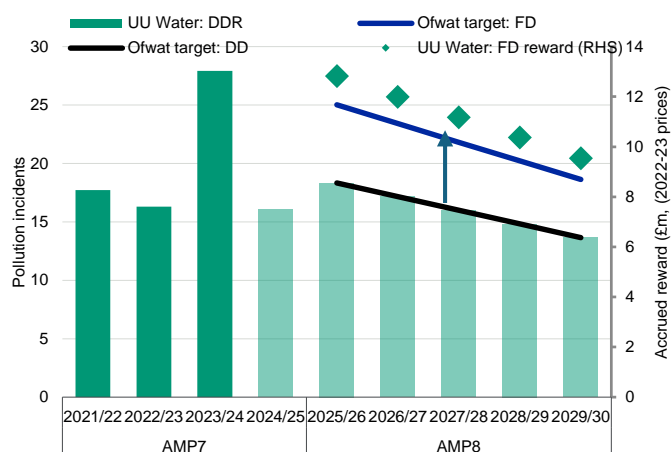
UU Water's performance commitment on pollution incidents is expected to be the largest contributor to ODI rewards in AMP8
Earn rewards/accrued penalty by performance commitment under UU's Water regulatory submission



Source: Ofwat, UU Water, Moody's Ratings

Exhibit 8

Delivering AMP7 performance will lead to sizeable rewards on pollution incidents after relaxation of regulatory targets
Earn rewards on total pollution incidents



Source: Ofwat, UU Water, Moody's Ratings

The final calibration of UU Water's ODIs includes, compared to the draft determination, less demanding regulatory targets on over 40% of UU Water's performance commitments and lower incentive rates on 16 performance commitments. Around 90% of UU Water's performance commitments carrying a financial incentive either have a collar and/or an underperformance deadband. These changes improve the expected reward and also reduce downside risk with further downside protection at the sector level provided, if operational performance is significantly below targets - most likely due to material adverse weather in a given year, through a new regulatory measure for AMP8, the "out-turn adjustment mechanism".

While most changes on ODIs were sector-wide, Ofwat's acceptance of UU Water's representations on how certain regulatory targets are set, including for internal sewer flooding and bathing water quality where it will take account of company-specific factors (e.g. inherent differences between service territories), have significantly reduced downside risk for the company.

UU Water's operating cash flow will be boosted by in the first two years of AMP8 by net rewards earned in the final two years of the current regulatory period (which are expected to total at least £70 million in 2017-18 prices), primarily from company-specific ODIs.

Allowed returns are over one percentage point higher than in the current regulatory period

The final determination includes an allowed return of 3.97% (CPIH-deflated) for the wholesale activities, which is over one percentage point higher than the current regulatory period (2.92%) and 31 basis points higher than the draft determination. It is lower than the company's representation (4.19%) reflecting that Ofwat set a lower allowed equity return (5.1% as compared to 5.65%).

Exhibit 9

UU Water's wholesale WACC is nearly 4% in AMP8

Components of allowed return (real, CPIH-stripped)

	PR19 (AMP7)	PR24 (AMP8)		
	Final Determination (Dec-19)	Draft Determination (DD) (July 24)	UU DD Representation ² (Aug-24)	Final Determination (Dec-24)
Notional gearing	60%	55%	55%	55%
Existing debt	2.42%	2.46%	2.41%	2.77%
New debt	0.53%	3.36%	3.64%	3.74%
Existing: new debt ratio	80%	74%	70%	76%
Explicit debt issuance cost	0.10%	0.15%	0.22%	0.15%
Cost of debt (pre-tax)	2.14%	2.84%	2.99%	3.15%
Cost of equity (post-tax)	4.19%	4.80%	5.65%	5.10%
Appointee WACC (vanilla)	2.96%	3.72%	4.19%	4.03%
Retail Margin	0.04%	0.06%	0.09%	0.06%
Wholesale WACC (vanilla)	2.92%	3.66%	4.10%	3.97%
Cash return (appointee)	2.46%	3.72%	4.19%	4.03%

Note: The "cash" return in PR19 was lower than the CPIH-stripped allowed return because 50% of the opening RCV was linked to the RPI measure of inflation. [1] Four companies received a higher return in PR19 following an appeal to the Competition and Markets Authority. [2] Company specific adjustments applied to several small water-only companies in both PR19 and PR24.

Source: Ofwat, Moody's Ratings

While the higher interest rate environment will absorb some of the benefit to operating cash flow, the 30 basis point uplift to the benchmark used to set the regulatory cost of new debt allowance means that we consider UU is well placed to deliver financing outperforming on new debt in AMP8. The UU Group has delivered significant financing outperformance in the current period, in part due to its low average cash interest costs both compared to peers and regulatory assumptions (around 2%, post derivatives, as of March 2024 at the UU level). The UU group's well-spread debt maturity profile means that it has locked-in sizeable outperformance on embedded debt in AMP8.

UU Group's leverage will slightly increase, from modest levels, as UU Water executes its investment programme under the group's unchanged dividend policy

On 29 January 2025, UU published its target gearing and dividend policy for AMP8. UU announced its intention to continue to target group leverage (expressed as consolidated net debt / RCV under the company's definition) in a range of 55% - 65%, which is unchanged from AMP7. The group also announced its decision to grow its dividend in AMP8 in line with the regulatory measure of inflation (CPIH).

In the current AMP, UU's reported consolidated gearing has been in the middle of its published range - 60% as of September 2024 - and slightly higher on a Moody's adjusted basis. This difference reflects that UU, like listed sector peers, include future RCV true-ups in their measure of RCV while Ofwat only formally recognise these at the end of the AMP (through the so-called 'midnight adjustment').

UU Water's sizeable investment program for AMP8, which will lead to real annual RCV growth of around 5% over the period, coupled with the group's material planned dividends under its unchanged dividend policy, will result in group leverage, as measured by net debt / RCV, rising modestly - to the mid 60s in percentage terms on a Moody's-adjusted basis with operational performance in line with the final determination. We estimate that cumulative dividends over AMP8 will be nearly £1.9 billion (assuming average CPIH of 2.5%), slightly below 10% of average closing RCV over the period.

UU Group's net debt / RCV has been around 2-3 percentage points lower than that of UU Water in recent years due to the holding company having a net cash position. We expect this differential to reduce, and disappear before the end of AMP8, if UU Water pays a dividend equal in line with Ofwat's maximum guidance for its financeability assessment (4% of regulatory equity).

We expect that UU will maintain an average adjusted interest coverage ratio (AICR) of 2.1x over the AMP, well above minimum guidance for the new rating levels of 1.6x. This reflects that interest coverage metrics will be supported by the company's continued low interest costs, compared to both peers and regulatory assumptions, and, at the start of the new regulatory period, by the receipt of sizeable performance rewards earned in the current regulatory period but that are paid with a two year lag.

Pollution investigations ongoing, but UU Water currently not in focus

In [November 2021](#), the UK government's Environment Agency (EA) launched an investigation into more than 2,000 sewage treatment works across all wastewater companies in England, "after new checks led to water companies admitting that they could be releasing unpermitted sewage discharges into rivers and watercourses." At the same time, Ofwat commenced a parallel investigation into sewage discharges from wastewater treatment works.

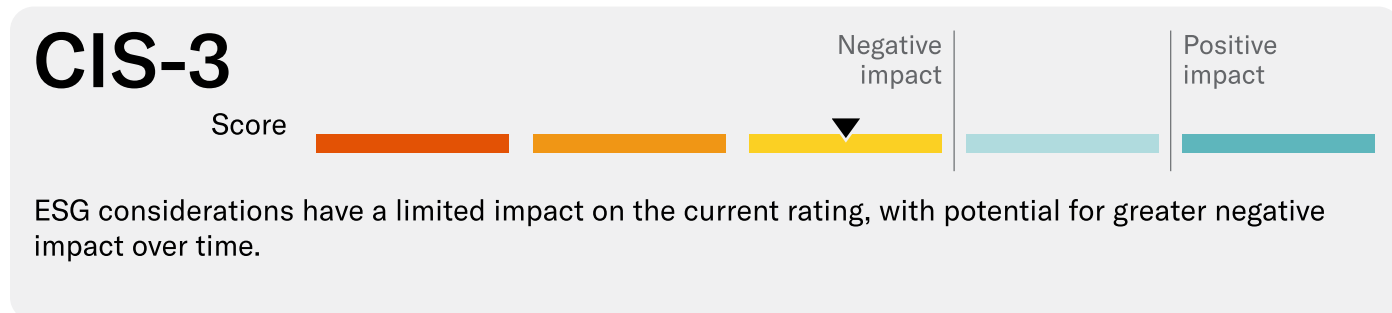
In [November 2022](#), Ofwat stated that it had opened enforcement cases against six companies and, in July 2024, the regulator confirmed that all wastewater companies in England and Wales are now subject to open enforcement activities. [Three companies received provisional fines totalling £168 million](#) on 6 August 2024 and we expect further penalty proposals to be issued over the coming months.

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 returned to a four star rating in the EA's most recent assessment.²

ESG considerations

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

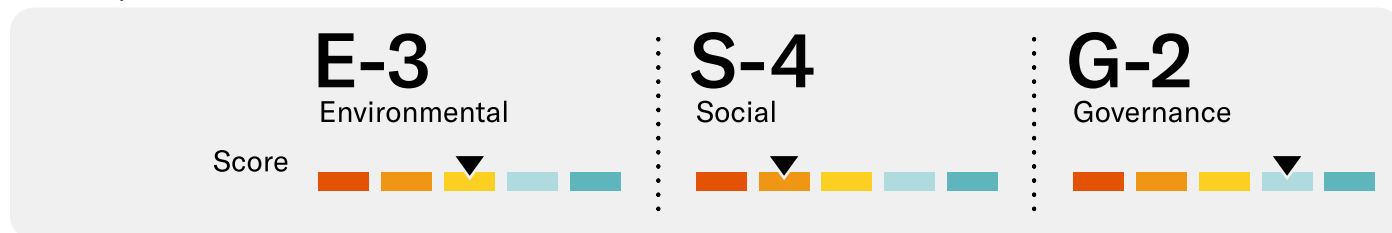
Exhibit 10
ESG credit impact score



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 11
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. The Water Resources West region, which includes UU Water's service territory, 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 strongest performers, achieving the maximum (four star) rating (industry leading) in the Environment Agency's 2023 environmental performance report, published in July 2024.

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 Moody's.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

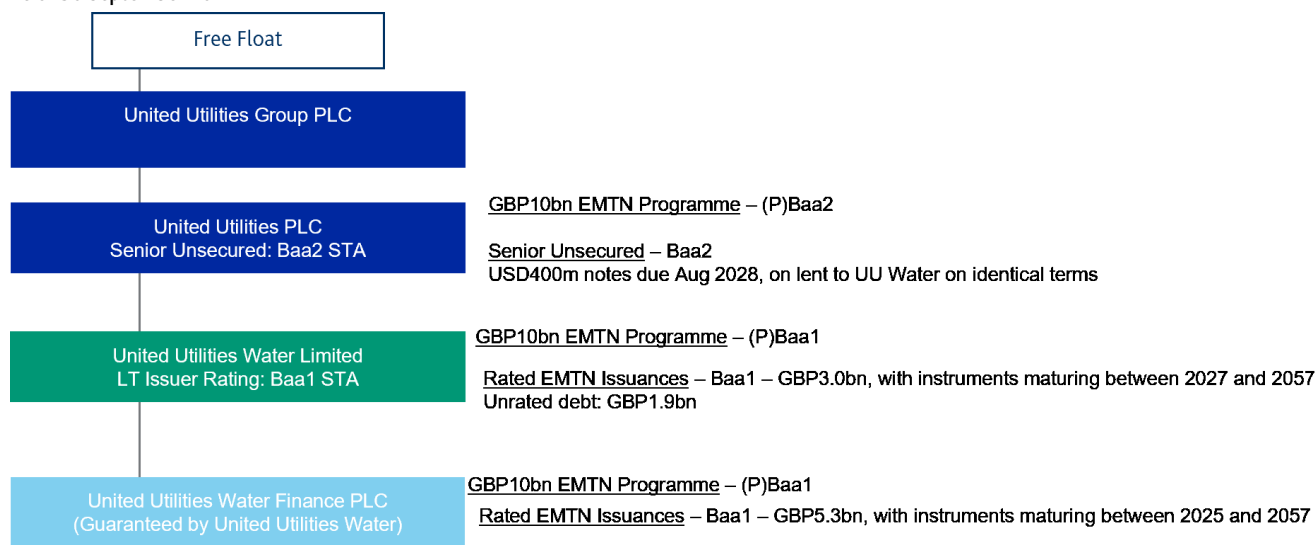
The UU Group demonstrates a solid liquidity profile, underpinned by the stable and predictable cash flow generated by its regulated utility activity. As of 30 September 2024, the group had cash and short-term deposits of around £1.8 billion, with a further £106 million of net proceeds received from funding raised in October 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 Baa1 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 Baa1-rated UU Water and Baa2-rated UU reflects the structural subordination of holding company debt relative to the operating company debt.

Exhibit 12

Debt structure at United Utilities Group As of 30 September 2024



The £68 million of lease liabilities and £10 million of book overdrafts have not been allocated to group entities.

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 Baa1 rating assigned to the operating company, while the Baa2 rating of UU reflects structural subordination of creditors at the holding company.

Exhibit 13

Rating factors

United Utilities Water Limited

Regulated Water Utilities Industry Scorecard	Current FY Mar-24		Moody's 12-18 Months Forward View	
	Measure	Score	Measure	Score
Factor 1 : Business Profile(50%)				
a) Stability and Predictability of Regulatory Environment	A	A	A	A
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	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)	1.7x	Baa	1.5x - 2.3x	Ba/Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	65.9%	Baa	65% - 66%	Baa
c) FFO / Net Debt (3 Year Avg)	9.0%	Ba	8% - 10%	Ba/Baa
d) RCF / Net Debt (3 Year Avg)	5.3%	Ba	7% - 9%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Baa2		Baa2/Baa1
Notch Lift		0.5		0.5
a) Scorecard-Indicated Outcome		Baa1		Baa2/A3
b) Actual Rating Assigned				Baa1

All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 14

Rating factors

United Utilities PLC

Regulated Water Utilities Industry Scorecard	Current FY Mar-24		Moody's 12-18 Months Forward View	
	Measure	Score	Measure	Score
Factor 1 : Business Profile(50%)				
a) Stability and Predictability of Regulatory Environment	A	A	A	A
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	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)	1.7x	Baa	1.5x - 2.3x	Ba/Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	62.2%	Baa	63% - 64%	Baa
c) FFO / Net Debt (3 Year Avg)	9.6%	Ba	8% - 10%	Ba/Baa
d) RCF / Net Debt (3 Year Avg)	5.8%	Ba	7% - 9%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Baa2		Baa2/Baa1
Notch Lift		0		0
a) Scorecard-Indicated Outcome		Baa2		Baa2/Baa1
b) Actual Rating Assigned				Baa2

All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial MetricsTM and Moody's Ratings forecasts

Ratings

Exhibit 15

Category	Moody's Rating
UNITED UTILITIES WATER LIMITED	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Fgn Curr	Baa1
Senior Unsecured -Dom Curr	Baa1
PARENT: UNITED UTILITIES PLC	
Outlook	Stable
Senior Unsecured	Baa2
UNITED UTILITIES WATER FINANCE PLC	
Outlook	Stable
Bkd Senior Unsecured	Baa1

Source: Moody's Ratings

Appendix

Exhibit 16

United Utilities Water Limited
Peer Comparison

(in £ millions)	United Utilities Water Limited Baa1 Stable			United Utilities PLC Baa2 Stable			Severn Trent Water Limited Baa1 Stable			Northumbrian Water Ltd. Baa1 Negative		
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	
	Mar-22	Mar-23	Mar-24	Mar-22	Mar-23	Mar-24	Mar-22	Mar-23	Mar-24	Mar-22	Mar-23	Mar-24
Revenue	1,845	1,799	1,948	1,863	1,804	1,950	1,809	1,966	2,122	780	861	919
EBITDA	1,003	859	935	1,039	925	1,051	935	901	892	302	345	385
Regulated Asset Base (RAB)	12,336	13,414	13,969	12,336	13,414	13,969	10,261	11,325	11,899	4,613	5,161	5,509
Total Debt	8,371	9,025	10,451	8,064	8,528	10,107	6,536	7,351	7,980	3,233	3,857	4,098
Net Debt	8,189	8,787	9,195	7,823	8,188	8,708	6,458	7,342	7,554	3,173	3,701	4,048
Adjusted Interest Coverage Ratio	2.9x	1.4x	1.2x	3.0x	1.3x	1.3x	1.7x	1.2x	1.0x	1.4x	0.8x	0.7x
FFO / Net Debt	10.8%	8.4%	8.0%	11.4%	9.0%	8.5%	10.6%	8.8%	8.2%	7.7%	5.9%	5.7%
RCF / Net Debt	6.7%	3.2%	6.0%	7.6%	5.3%	4.8%	8.3%	3.0%	4.2%	-3.0%	2.9%	4.1%
Net Debt / Regulated Asset Base	66.4%	65.5%	65.8%	63.4%	61.0%	62.3%	62.9%	64.8%	63.5%	68.8%	71.7%	73.5%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics TM

Exhibit 17

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

(in £ millions)	2020	2021	2022	2023	2024
As Reported Total Debt	9,029	8,716	8,371	9,025	10,451
Leases	0	0	0	0	0
Non-Standard Public Adjustments	(618)	(407)	0	0	0
Moody's Adjusted Total Debt	8,411	8,309	8,371	9,025	10,451
Cash & Cash Equivalents	(502)	(649)	(182)	(238)	(1,256)
Moody's Adjusted Net Debt	7,910	7,660	8,189	8,787	9,195

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. UU Water's financial year ends on 31 March.

Non-standard adjustments relate primarily to the removal of derivatives held in fair value hedge relationships or as cross currency hedges. Adjustment is only made, where material.

Source: Moody's Financial Metrics TM

Exhibit 18

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

(in £ millions)	2020	2021	2022	2023	2024
As Reported Funds from Operations (FFO)	816	826	850	755	778
Pensions	86	3	1	3	6
Leases	0	0	0	0	0
Capitalized Interest	(41)	0	0	0	0
Alignment FFO	(92)	(86)	(138)	(539)	(296)
Unusual Items - Cash Flow	(11)	0	(82)	0	0
Non-Standard Public Adjustments	263	54	256	520	252
Moody's Adjusted Funds from Operations (FFO)	1,022	797	887	738	739

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. UU Water's financial year ends on 31 March.

Non-standard adjustments relate primarily to accretion of index-linked debt and, prior to 2021, the reclassification of IRE expenditure.

Source: Moody's Financial Metrics TM

Exhibit 19

United Utilities Water Limited

Selected historical Moody's-adjusted financial data

(in £ millions)	2020	2021	2022	2023	2024
INCOME STATEMENT					
Revenue	1,850	1,798	1,845	1,799	1,948
EBITDA	1,259	1,012	1,003	859	935
EBITDA margin %	68.1%	56.3%	54.4%	47.7%	48.0%
EBIT	650	608	603	453	513
EBIT margin %	35.1%	33.8%	32.7%	25.2%	26.3%
Interest Expense	266	195	379	653	481
BALANCE SHEET					
Cash & Cash Equivalents	502	649	182	238	1,256
Total Assets	13,095	13,123	13,944	14,044	15,276
Total Liabilities	11,060	10,776	11,781	12,517	13,997
CASH FLOW					
Funds from Operations (FFO)	1,022	797	887	738	739
Cash Flow From Operations (CFO)	1,030	944	870	794	744
Dividends	513		339	454	189
Retained Cash Flow (RCF)	509	797	548	284	550
Capital Expenditures	(781)	(635)	(628)	(689)	(737)
Free Cash Flow (FCF)	(264)	310	(97)	(349)	(182)
INTEREST COVERAGE					
EBITDA / Interest Expense	4.7x	5.2x	2.6x	1.3x	1.9x
Adjusted Interest Coverage Ratio	2.5x	2.0x	2.9x	1.4x	1.2x
LEVERAGE					
Debt / EBITDA	6.7x	8.2x	8.3x	10.5x	11.2x
Net Debt / EBITDA	6.3x	7.6x	8.2x	10.2x	9.8x
Debt / Book Capitalization	71.1%	69.0%	66.4%	72.1%	76.8%
Regulated Asset Base (RAB)	11,791	11,681	12,336	13,414	13,969
Net Debt / Regulated Asset Base	67.1%	65.6%	66.4%	65.5%	65.8%
FFO / Net Debt	12.9%	10.4%	10.8%	8.4%	8.0%
RCF / Net Debt	6.4%	10.4%	6.7%	3.2%	6.0%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. UU Water's financial year ends on 31 March.

Source: Moody's Financial Metrics TM

Endnotes

- 1 Assuming a typical project finance structure with project gearing of around 90%, the difference between these two approaches is likely to be minimal.
- 2 Please see: <https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2023>

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