Implenia: Bar raised for 2025

Investment grade bonds

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- Implenia made further operational progress in 2024, showing resilience in a demanding market environment. It expects profitability to grow, guiding for a higher EBIT of about CHF 140mn in 2025 (up from CHF 130mn in 2024) and an EBIT margin of above 4.5% in the medium term (2024: 3.7%).
- We upgrade Implenia by one notch to BBB- and return our issuer credit outlook to Stable (from Improving), acknowledging the business transformation over the past years and giving advance credit to expected sustainable positive free cash flow generation going forward.
- Implenia's bonds trade broadly in line with those of other issuers in, or perceived to be in, the crossover space. The prospect for substantial spread tightening is limited, but we see its CHF 3% 2028 bond as appealing for hold-to-maturity investors. Implenia may turn to the bond market to refinance its 2025 note due in November, in our view.

Implenia

Sector	Industrial
Country	Switzerland
Moody's	n.a.
S&P	n.a.

CIO credit risk flags

Senior unsecured

<2y	2-5y	5-10y	>10y

Issuer credit view	BBB-, Stable
Issuer valuation view	n.a.

Source: UBS, rating agencies, as of 18 March 2025. Please refer to the end of the report for an explanation of CIO risk/valuation views.

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Issuer credit view

Swiss-domiciled construction and related services company Implenia achieved a solid operating performance in 2024 in a challenging market environment, successfully navigating around any potholes. It remains constructive for the coming years, guiding for a higher EBIT of about CHF 140mn in 2025 (up from CHF 130mn in 2024) and an EBIT margin of above 4.5% in the medium term (2024: 3.7%), underpinned by a high and good quality order book, according to the company.

We lift our rating for Implenia by one notch to BBB- (from BB+) and revert the issuer credit outlook back to Stable (from Improving), acknowledging the company's operational progress over the past years, with no further substantial project impairments booked lately. The latter confirms the effectiveness of the stated strict application of the value assurance framework when it acquires new projects. Further underpinned by its shift to a more "asset-light" approach, Implenia achieved a total equity ratio of 21.2% at end-2024 (up from a low 10.3% in 2020). We welcome this strengthened equity buffer—a prerequisite for the rating upgrade—in view of the higher risks inherent in construction relative to other industries (e.g., seasonality/cyclicality, thin margins, severe [pricing] competition, and contract risks) and the company's increased focus on larger, technically more complex projects. Implenia strives for an equity ratio of 25% in the medium term, with further upside from continued operational progress, its development portfolio, as well as expected dividend payments of its participation in Ina Invest (respectively Cham Swiss Properties if proposed merger goes ahead). While not quite there yet in 2024, we expect Implenia to deliver on its promise for sustainably positive full-year free cash flow generation going forward, allowing it to de-lever the balance sheet in coming years.

Figure 1 - Bonds outstanding

Currency	ISIN	Issuer name	Coupon	Maturity	CIO valuation view	CIO issuer credit view	Bond rating (MDY / S&P)	YTM	Ind. off. price
CHF	CH1145096173	Implenia AG	2.000%	26.11.2025	fair	BBB-, Stable	n.a. / n.a.	1.2%	100.6
CHF	CH0316994661	Implenia AG	1.000%	20.03.2026	fair	BBB-, Stable	n.a. / n.a.	1.4%	100.2
CHF	CH1344316687	Implenia AG	3.000%	17.05.2028	Top list / fair	BBB-, Stable	n.a. / n.a.	1.6%	104.0

Source: UBS, as of 18 March 2025 9:30am CET

Having completed its transformation (2019-22) and trimmed itself fit for growth (2023-24), Implenia is now setting its sights on a "new horizon" from 2025 onward, benefitting from a better business mix. The company envisions becoming an integrated, leading multinational provider of construction and real estate services. The group's intact business prospects in its core activities (with the global megatrends of population growth, urbanization and investments into transport and energy infrastructure, alongside industry shifts toward sustainability, industrialization, and digitalization) underpin our credit assessment.

Downside risks include exposure to national building and construction cycles and low operating margins, which leave little room for error. Negative rating pressure may arise from a large and unanticipated operational setback, sizable project impairments or higher leverage. Having just been upgraded, we see further rating upside as limited for the moment, hinging on strategic project wins in higher-margin specialized segments, sustained improvements in profitability and cash flows, or a significant decrease in leverage, along with increased business diversification.

Investment case

Implenia's bonds trade broadly in line with those of other issuers in, or perceived to be in, the crossover space. Unless the company regains its investment grade composite credit rating and re-enters the SBI Swiss Bond Index, we currently see the prospect for substantial spread tightening as limited. That said, we continue to view its CHF 3% 2028 bond as appealing for hold-to-maturity investors. Valuations should remain supported by widespread retail ownership (and limited ability to short the bonds). Implenia could tap the bond market later this year to refinance its CHF 127mn 2025 note due in November—depending on the new issue premium offered, this could (temporarily) weigh on the performance of existing bonds.

Issuer description

Implenia is Switzerland's leading construction and related services company. Its integrated business model enables the company to manage a building project through the entire life cycle. Aside from having established a strong footprint in its home market, the firm is—in selected disciplines—active abroad. In 2024, it generated 51% of group revenue in Switzerland, 27% in Germany, 15% in Sweden and Norway, and 7% in other countries (i.e., France, Austria, and Italy).

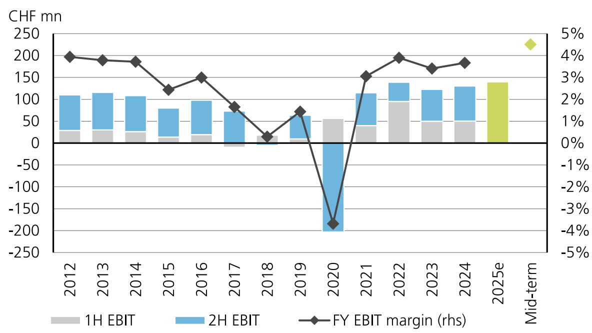
Activities are currently organized across four segments: 1) Real Estate (mainly encompassing its development activities, including the services provided to Ina Invest); 2) Buildings (i.e., general and total contracting for new buildings and refurbishments, and since May 2023, property management services provided by Wincasa); 3) Civil Engineering (e.g., tunnelling, road, railway and other civil/infrastructure construction, and special foundations); and 4) Specialties (niches such as wood construction, geotechnical engineering, pre-tensioning technology, facade engineering, building technology planning and construction site logistics).

The current divisional structure will be revised as of 1 April, with Real Estate to be merged into Buildings, and Specialties to be renamed Service Solutions, with the latter going forward including Wincasa (previously part of Buildings).

2024 EBIT guidance met, further profitability improvements in the works

Implenia reported group revenue of CHF 3.6bn for 2024, -1.0% in CHF but +0.1% FX-adjusted. The order book stood at CHF 6.8bn (end-2023: CHF 7.0bn) —"slightly lower but still high" according to Implenia. It emphasized the good quality of the book, with a solid risk and margin profile of the underlying projects, owing to the strict application of its value assurance framework. Indeed, over the past four years, Implenia didn't book any larger project impairments. It expects order intake to increase in 2025, pointing to the increasing number of building permit applications in Switzerland and the investments in major projects announced in Germany.

Figure 2 - Operating performance



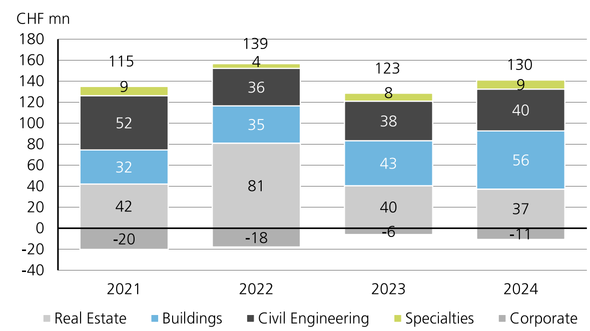
Source: Implenia, UBS, as of 31 December 2024

EBIT improved to CHF 130mn (or 3.7% of revenue) from CHF 123mn (3.4%) in 2023, meeting its earlier guidance. The transactional currency impact was minimal, with Implenia citing "natural hedging within local units." On a FX-adjusted basis, EBIT would have reached CHF 131mn in 2024.

A key driver was the substantial increase in income from associates and joint ventures (which we now also include above the line in our model), rising to CHF 47mn (from CHF 17mn in 2023). In more detail, CHF 51mn (2023: CHF 19mn) stem from working groups (generally referred to as ARGE [Arbeitsgemeinschaft]). We expect their share to continue increasing given Implenia's strategic shift toward larger, more complex projects. These are often managed with one or more ARGE partners to share the overall risk, use complementary competencies and pool resources. Conversely, Implenia's 41.1% participation in Ina Invest generated a loss of CHF -6mn (with Ina Invest posting a net attributable loss of CHF -15mn for 2024, driven by a one-time cost of CHF -35mn due to the early termination of the long-term framework and service agreement with Implenia—see below). Other associates accounted for CHF 3mn (2023: CHF 2mn).

Across divisions, in Real Estate, EBIT decreased to CHF 37mn (from CHF 40mn in 2023) on fewer project sales "due to the market situation," with Implenia looking to realize them at a more ideal time. This was partially mitigated by a one-time earnings contribution (CHF 16mn net P&L impact) from the amendment of the master agreement with Ina Invest following the latter's proposed merger with Cham Group. If approved by the shareholders of both companies at their respective general meetings on 31 March, their merger into Cham Swiss Properties would take place on 8 April, with Implenia expecting to end up with roughly 14% in the combined company. The other divisions grew profitably in 2024. Buildings posted an EBIT of CHF 56mn (2023: CHF 43mn), including CHF 17mn from Wincasa (or CHF 20mn before integration costs and purchase price amortization). Civil Engineering contributed CHF 40mn (2023: CHF 38mn), with a particularly good result in tunnelling across all countries, and Specialties CHF 9mn (up from CHF 8mn reported or CHF 5mn underlying in 2023).

Figure 3 - EBIT by segment



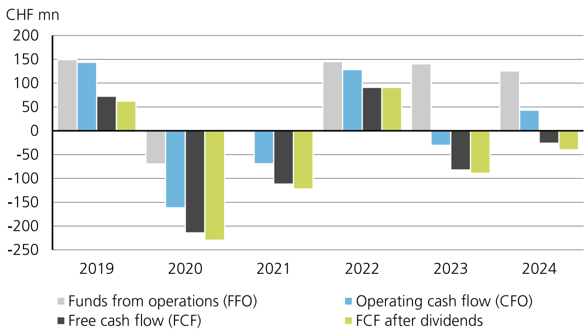
Source: Implenia, UBS, as of 31 December 2024

For 2025, Implenia guided for EBIT of about CHF 140mn, "based on strong operating business in a challenging market environment." We add that operating performance is usually weighted toward 2H when building activity is more intense, albeit to a lower degree than in the past given Wincasa (acquired on 4 May 2023). Further out, Implenia repeated its ambition for an EBIT margin of above 4.5% in the medium term (which we understand from the company means "by 2027"), based on sustained improvements in profitability of existing businesses (with it pointing to its value assurance approach in obtaining new projects, and operational excellence), its sector-oriented specializations (e.g., health care, research, transport and energy infrastructure), and an increased focus on developing new businesses along the value chain (e.g., backward/forward integration), coupled with small- to mid-size acquisitions such as the margin-accretive acquisition of Wincasa in 2023.

Investments into future earnings potential weigh on credit metrics

Despite a rebound in the second half-year and a year-over-year improvement, full-year operating cash flow was with CHF 43mn (up from CHF -30mn in 2023) somewhat lackluster, in our view. Implenia cited reduced customer prepayments amid lower orders in the Buildings division (with higher payments usually early in a project, i.e., front-loaded billing). This should reverse in 2025 as the company expects order intake to improve. Implenia also noted that it will receive the cash payment of CHF 31mn related to the contact adjustment with Ina Invest in 1H25.

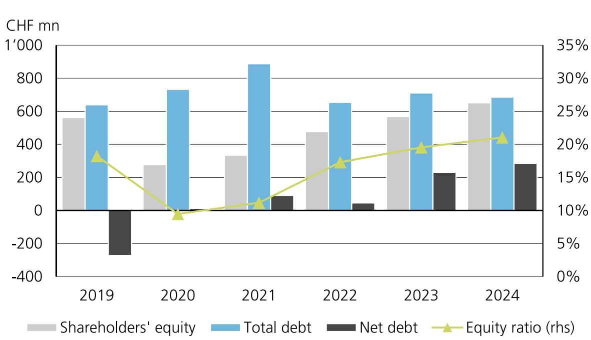
Figure 4 - Cash flow development



Source: Implenia, UBS, as of 31 December 2024

Capex increased to CHF 69mn (2023: CHF 52mn) but decreased to CHF 19mn (CHF 29mn) net of disposals. Implenia acquired land for CHF 65mn (or CHF 32mn net of disposals), which is about CHF 40mn higher than the five-year average, according to the company. It also paid the second tranche of CHF 72mn for Wincasa (net debt neutral). Consequently, free cash flow as defined by Implenia (cash flow from operating activities less cash flow from investing activities) amounted to CHF -54mn (or CHF 58mn excluding Wincasa and the above-average net investment in its land bank), compared to CHF -13mn (or CHF 102mn underlying) in the previous year. Looking ahead, Implenia anticipates sustainable positive full-year free cash flow driven by its profitable operating business.

Figure 5 - Capitalization and leverage



Source: Implenia, UBS, as of 31 December 2024

Net debt rose to CHF 285mn (or CHF 113mn excluding lease liabilities) from CHF 232mn (or CHF 50mn) at end-2023. This corresponds to net debt-to-EBITDA of 1.1x (2023: 1.0x).

Implenia aims to maintain "appropriate" minimum liquidity (cash on hand plus available confirmed credit lines), which we understand from management translates as "at least CHF 200mn." At end-2024, Implenia had cash on hand of CHF 402mn plus unused credit lines of CHF 340mn (including uncommitted bilateral loan agreements). Implenia has access to a CHF 650mn syndicated loan agreement running until December 2027, consisting of a CHF 100mn cash facility (tranche A), a CHF 450mn guarantee facility (tranche B), and a CHF 100mn cash and/or guarantee facility (tranche C). It also has numerous bilateral guarantee lines (important in the construction business) totaling nearly CHF 2.5bn, whereof CHF 1.5bn had been called at end-2024.

This compares to current financial liabilities of CHF 261mn, including a CHF 175mn senior bond due in November and a EUR 30mn Schuldschein (promissory note loan).

Implenia made further progress in improving the total equity ratio, one of our points of critique, with it reaching 21.2% (up from 19.8% at end-2023), meeting its target of at least 20%. The company repeated that it strives for an equity ratio of 25% in the medium term, with further upside from continued operational progress, its development portfolio ("land bank"; in the book with CHF 191mn at end-2024; market value assessed at CHF 297mn by appraiser Wüest Partner), as well as expected dividend payments of its participation in Ina Invest (respectively Cham Swiss Properties if proposed merger gets approved).

Figure 6 - Implenia's financial summary

Selected financials (CHF mn)	2018	2019	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024
Profit & loss											
Net sales	4'364.5	4'430.8	3'988.9	3'764.7	3'538.3	1'720.5	1'875.4	3'595.9	1'740.9	1'818.0	3'558.9
Gross profit	1'473.7	1'569.6	1'268.6	1'506.2	1'412.6	714.3	783.0	1'497.3	721.9	834.0	1'555.9
EBITDA	89.7	186.8	-4.9	224.8	233.1	99.4	127.0	226.4	107.2	140.7	247.9
EBIT	12.9	63.5	-146.8	114.8	138.9	49.9	72.7	122.6	50.5	80.0	130.5
Gross interest expense	9.5	15.6	14.5	15.5	19.4	7.8	8.2	16.0	11.2	8.9	20.1
Net interest expense	8.9	14.7	13.1	14.1	17.7	6.5	7.0	13.5	10.5	7.3	17.8
Net attr. profit	-5.1	29.7	-134.7	61.2	104.8	32.2	108.8	141.0	26.2	66.2	92.4
Balance sheet											
Cash & equivalents	913.2	912.3	720.0	796.9	609.0	230.4	478.8	478.8	343.1	402.0	402.0
Long-term debt	494.3	591.5	606.2	651.9	581.8	598.0	462.7	462.7	603.0	426.0	426.0
Total debt (TD)	516.0	639.8	732.8	888.5	654.5	728.0	710.9	710.9	809.8	686.6	686.6
Net debt	-397.2	-272.6	12.8	91.6	45.4	497.5	232.1	232.1	466.7	284.6	284.6
Equity (excl. minority interest)	560.3	562.7	278.7	334.0	476.2	494.2	568.3	568.3	593.8	652.3	652.3
Total assets	2'861.4	3'083.3	2'943.2	2'987.8	2'753.4	2'791.0	2'905.5	2'905.5	3'052.8	3'098.4	3'098.4
Cash flow											
Funds from operations (FFO)	9.9	149.4	-69.6	1.8	145.3	65.0	75.4	140.3	41.1	84.4	125.5
Cash flow from operations (CFO)	16.1	143.5	-161.5	-69.2	128.1	-348.2	317.8	-30.4	-170.8	213.9	43.2
Capital expenditures (PP&E)	75.1	71.0	52.6	42.7	37.1	19.5	32.1	51.6	30.5	38.5	69.0
Free cash flow (FCF)	-59.0	72.6	-214.1	-111.9	91.0	-367.7	285.7	-82.0	-201.3	175.4	-25.9
FCF after dividends	-97.3	62.1	-229.5	-122.1	90.9	-375.0	285.7	-89.4	-212.2	172.4	-39.9
Selected financial ratios											
Profitability											
Gross margin	33.8%	35.4%	31.8%	40.0%	39.9%	41.5%	41.8%	41.6%	41.5%	45.9%	43.7%
EBITDA margin	2.1%	4.2%	-0.1%	6.0%	6.6%	5.8%	6.8%	6.3%	6.2%	7.7%	7.0%
EBIT margin	0.3%	1.4%	-3.7%	3.1%	3.9%	2.9%	3.9%	3.4%	2.9%	4.4%	3.7%
Debt servicing / Repayment											
EBITDA / gross interest	9.5x	12.0x	neg.	14.5x	12.0x	12.7x	15.5x	14.1x	9.6x	15.8x	12.4x
EBITDA / net interest	10.0x	12.7x	neg.	16.0x	13.2x	15.4x	18.1x	16.8x	10.2x	19.4x	13.9x
EBIT / gross interest	1.4x	4.1x	neg.	7.4x	7.2x	6.4x	8.9x	7.7x	4.5x	9.0x	6.5x
EBIT / net interest	1.4x	4.3x	neg.	8.1x	7.9x	7.7x	10.4x	9.1x	4.8x	11.0x	7.3x
TD / EBITDA	5.8x	3.4x	neg.	4.0x	2.8x			3.1x			2.8x
Net debt / EBITDA	neg.	neg.	neg.	0.4x	0.2x			1.0x			1.1x
FFO / TD	1.9%	23.3%	neg.	0.2%	22.2%			19.7%			18.3%
FFO / net debt	neg.	neg.	neg.	2.0%	319.8%			60.5%			44.1%
FCF / TD	neg.	11.3%	neg.	neg.	13.9%			neg.			neg.
FCF / net debt	14.9%	neg.	neg.	neg.	200.2%			neg.			neg.
Leverage / Capital structure											
Long-term debt as % of capital	46.9%	51.2%	68.5%	66.1%	55.0%	54.8%	44.9%	44.9%	50.4%	39.5%	39.5%
TD as % of capital	47.9%	53.2%	72.4%	72.7%	57.9%	59.6%	55.6%	55.6%	57.7%	51.3%	51.3%
Net debt as % of capital	neg.	neg.	4.4%	21.5%	8.7%	50.2%	29.0%	29.0%	44.0%	30.4%	30.4%
Cash as % of balance sheet	31.9%	29.6%	24.5%	26.7%	22.1%	8.3%	16.5%	16.5%	11.2%	13.0%	13.0%
TD as % of balance sheet	18.0%	20.7%	24.9%	29.7%	23.8%	26.1%	24.5%	24.5%	26.5%	22.2%	22.2%
Equity as % of balance sheet	19.6%	18.2%	9.5%	11.2%	17.3%	17.7%	19.6%	19.6%	19.5%	21.1%	21.1%
Tangible net worth	252.3	258.3	12.1	80.6	235.6	73.3	149.7	149.7	170.5	216.8	216.8
Adjusted ratios											
EBIT / gross interest	5.3x	5.6x	1.4x	4.9x	7.0x			7.5x			6.5x
EBITDA / gross interest	8.9x	13.3x	8.5x	12.0x	11.8x			14.0x			12.4x
TD / EBITDA	3.4x	3.2x	6.1x	4.8x	2.9x			3.2x			2.8x
Net debt / EBITDA	neg.	neg.	0.3x	0.6x	0.2x			1.1x			1.1x
FFO / net debt	neg.	neg.	neg.	1.7%	264.7%			58.3%			44.1%
FCF / net debt	19.2%	neg.	neg.	neg.	165.7%			neg.			neg.
TD as % of capital	58.1%	53.9%	73.0%	73.0%	58.2%			55.9%			51.3%
Net debt as % of capital	neg.	neg.	10.8%	24.2%	10.3%			29.7%			30.4%

Source: Implenia, UBS, as of 31 December 2024

12 month rating history

ISSUER_LEGAL_NAME	ISSUER_NAME	PREVIOUS_ISSUER_VALUATION_VIEW	ISIN	PREVIOUS_BOND_RECO
IMPLENIA AG	IMPLENIA		CH1344316687	Fair (2024-09-04)
IMPLENIA AG	IMPLENIA		CH1344316687	Attractive (2024-10-15)

UBS CIO risk views

Credit risk flags

CIO attaches a credit risk flag to the instruments under its coverage. Credit risk is assessed based on the remaining tenor and / or instrument type. The flag indicates the likelihood that a holder of the instrument will not receive a coupon or principal payment when it comes due. For subordinated and hybrid instruments, which are usually callable and have a remote or no fixed maturity date, we apply one uniform credit risk flag per issuer and instrument type. The idea is to reflect the possibility of contractual trigger events or regulatory intervention occurring. Either can impose losses on bondholders regardless of the remaining term of the instrument or a specific issuer default event. Credit risk flags only indicate our view of the riskiness of a particular instrument. Credit risk flags should not be seen as recommendations to buy, hold or sell. In fact, any combination of risk flags and relative value recommendations is possible.

Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

UBS credit rating

The UBS credit rating reflects our view of the creditworthiness of a company (consistent with our risk flags) and represents a long-term (senior) debt rating. The symbols are similar to those of rating agencies but UBS credit ratings solely reflect UBS's opinion, and are distinct from evaluations assigned by rating agencies. The UBS credit rating is not a recommendation to buy, hold or sell a particular bond, nor is it reflective of market pricing and/or market sentiment. All combinations of a credit rating and relative valuation recommendations are possible.

Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
Improving: We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.
Stable: We do not expect the credit profile of the issuer to change meaningfully.
Deteriorating: We expect the credit profile of the issuer to deteriorate, to an extent that may result in downgrades by rating agencies.
Note that the credit views in this report are those of UBS Financial Services and may differ from those of other parts of UBS regarding the same issuer.

UBS CIO valuation views

Relative value bond recommendations

Our relative value bond recommendations are based on an average investment horizon of six to 12 months. They reflect our assessment of a bond's attractiveness relative to comparable instruments under CIO coverage. Comparable instruments typically exhibit similar credit quality, are denominated in the same currency, and belong to the same segment of the bond market.
Views on a particular instrument can change within the six- to 12-month time frame, and those that apply to one instrument do not necessarily apply to others of the same issuer. Views on a particular instrument may be withdrawn if it does not have a sizeable basket of comparable instruments under CIO coverage.

Attractive Bonds seen as “attractive” are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer’s credit profile not fully reflected in the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

Fair Bonds seen as "fair" are expected to produce a total return broadly in line with the average return of comparable instruments.

Expensive Bonds seen as "expensive" are expected to earn a total return that is less than the average return of comparable instruments. Our recommendation can stem from a negative view on the issuer’s credit profile not fully reflected in the price, unduly tight risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

Sell recommendations

Sell A Sell recommendation is assigned when the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations.

For Credit Suisse clients

Please note that Credit Suisse channels might temporarily display a different rating terminology when referencing UBS CIO bond recommendations.

While terminology might differ due to technical limitations, the definitions of the UBS valuation methodology apply.

UBS bond recommendation	Credit Suisse channels
Attractive	Buy
Fair	Neutral
Expensive	*no equivalent in CS channels*
Sell	Sell

For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com.

Issuer valuation views
In addition to the relative value bond recommendations, CIO provides issuer valuation views for selected issuers from developed countries. Large, frequent issuers often provide a relatively consistent bond curve in their main issuing currencies. A general valuation view on them provides useful guidance when constructing a bond portfolio or assessing new issues. Issuer valuation views cannot simply be broken down to the instrument level. Any combination of our credit risk flags and issuer valuation views is generally possible. Issuer views do not restrict CIO from having different valuation views on individual bonds.
Preferred list: Bonds of issuers on our Preferred list are generally expected to offer a more attractive relative valuation than those of similarly rated peers.
Core list: Bonds of issuers on our Core list are generally expected to generate total returns in line with those of similarly rated peers. Core issuers offer relatively liquid bond curves and comparatively stable credit profiles.
Avoid list: Bonds of issuers on our Avoid list are generally expected to offer a less attractive relative valuation than those of similarly rated peers. The decision to include an issuer on the Avoid list reflects, in most cases, relative value considerations, which can but do not have to be based on an expected deterioration in credit quality. As long as we have not issued a Sell recommendation existing positions may be held.

For details please see "Understanding bonds: A guide to CIO's credit offering", published 16 April 2021.

Statement of Risk
Fixed income - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit

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<table>
<tr><th colspan="5">Issuer / bond rating definitions</th></tr>
<tr><th></th><th></th><th>S&P</th><th>Moody's</th><th>Definition</th></tr>
<tr><td rowspan="9">Credit /
bond* rating</td><td rowspan="4">Investment grade</td><td>AAA</td><td>Aaa</td><td>Issuer / bonds have exceptionally strong credit quality. AAA is the best credit quality.</td></tr>
<tr><td>AA+
AA
AA-</td><td>Aa1
Aa2
Aa3</td><td>Issuer / bonds have very strong credit quality.</td></tr>
<tr><td>A+
A
A-</td><td>A1
A2
A3</td><td>Issuer / bonds have high credit quality.</td></tr>
<tr><td>BBB+
BBB
BBB-</td><td>Baa1
Baa2
Baa3</td><td>Issuer / bonds have adequate credit quality. This is the lowest Investment Grade category.</td></tr>
<tr><td rowspan="5">Non-investment grade</td><td>BB+
BB
BB-</td><td>Ba1
Ba2
Ba3</td><td>Issuer / bonds have weak credit quality. This is the highest Speculative Grade category.</td></tr>
<tr><td>B+
B
B-</td><td>B1
B2
B3</td><td>Issuer / bonds have very weak credit quality.</td></tr>
<tr><td>CCC+
CCC
CCC-</td><td>Caa1
Caa2
Caa3</td><td>Issuer / bonds have extremely weak credit quality.</td></tr>
<tr><td>CC
C</td><td>Ca</td><td>Issuer / bonds have very high risk of default.</td></tr>
<tr><td>D</td><td>C</td><td>Obligor failed to make payment on one or more of its financial commitments. This is the lowest quality of the Speculative Grade category.</td></tr>
<tr><td rowspan="6">Rating outlook</td><td colspan="3">Positive</td><td>A positive rating outlook means that a credit rating upgrade is possible within the next 12 months.</td></tr>
<tr><td colspan="3">Stable</td><td>A stable rating outlook means that no credit rating change is expected within the next 12 months.</td></tr>
<tr><td colspan="3">Negative</td><td>A negative rating outlook means that a credit rating downgrade is possible within the next 12 months.</td></tr>
<tr><td colspan="3">Watch</td><td>Rating is under review and there is an increased likelihood of rating change(s). The direction is currently unclear.</td></tr>
<tr><td colspan="3">Watch+</td><td>Rating is under review and there is an increased likelihood of rating upgrade(s).</td></tr>
<tr><td colspan="3">Watch-</td><td>Rating is under review and there is an increased likelihood of rating downgrade(s).</td></tr>
<tr><td colspan="5">* Bond ratings may differ from issuer credit ratings due to credit enhancements, guarantees or subordination to senior liabilities.</td></tr>
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