



An analysis of the target credit rating for the H8 price control

June 2025



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Important notice

This Report has been prepared by KPMG LLP ('KPMG', 'we' or 'our') for Heathrow Airport Ltd ('HAL') on the basis of an engagement contract dated 11th April 2025 between HAL and KPMG (the "Engagement Contract").

HAL commissioned this work to assist in their considerations regarding the Civil Aviation Authority's (The CAA) financeability assessment for the H8 period, specifically relating to assessing the appropriate target credit rating. The scope of work is included in Appendix 1 of this Report. HAL should note that our findings do not constitute recommendations as to whether or not HAL should proceed with any particular course of action.

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Scope and structure of this report

Heathrow Airport Limited (HAL) has engaged KPMG to analyse the benefits of targeting various long-term credit rating levels for the operating company, in each case considering the implications for the business, its shareholders and consumers.

This report assesses how plausible target ratings in the A and BBB range would influence the cost at which HAL would be able to raise new debt. It also considers whether targeting a given rating would allow HAL to access capital on reasonable terms even in scenarios where operational underperformance, increases in capital expenditure or more demanding rating agency thresholds mean the rating falls below the target. These considerations are important for HAL and its customers because the cost of debt is a key driver of HAL's allowable revenue, and because confidence that debt can be raised on reasonable terms will be vital to delivering critical investment programmes, including capacity expansion.

This report focuses primarily on the credit ratings that would be assigned to HAL if it were financed in line with the notional capital structure. This is the starting point for assessing whether HAL has submitted a "financeable" business plan and whether the CAA's determination satisfies its financeability duty. Separately, the report considers how this notional target would translate to HAL's actual financing structure.

The report is structured as follows:

- First, it summarises HAL's credit ratings, highlighting significant aspects of the ratings derivation, and provides estimated thresholds applicable to HAL if it were financed in line with the notional capital structure.
- Second, it considers how each rating level would affect the operating company's cost of new debt, considering evidence from the public bond markets and the impact of regulatory constraints on banks acting as both lenders and swap counterparties. These impacts were analysed under both current market conditions and a range of hypothetical future market conditions.
- Third, it considers the ratings of other airports and regulated infrastructure companies, and the ratings targeted by their regulators, to assess how various target ratings would affect HAL's ability to compete successfully for limited infrastructure capital under alternate capex scenarios.
- Fourth, it considers HAL's financial resilience under each of the potential ratings, in particular its ability to absorb plausible adverse operational scenarios, increases in capital expenditure, or plausible changes in rating agency thresholds while maintaining a minimally acceptable credit rating.
- Finally, it summarises the available evidence and recommends a target credit rating on the basis of notional and actual capital structures.

1. Heathrow’s ratings and rating agency methodologies

Heathrow Airport Limited – HAL’s operating company – raises Class A and B debt through Heathrow Funding Limited. Operating company debt is raised within a covenanted financing structure, with all lenders acceding to a common terms agreement¹. For simplicity, this report refers to these throughout as ratings of HAL. Given the common terms agreement, unrated instruments can be assumed to carry the same rating as public bonds of the same class.

Heathrow Funding Limited also issues bonds guaranteed by Assured Guaranty, and Heathrow Finance plc (a holding company outside of the ringfenced group) issues structurally subordinated debt. Both of these ratings are outside the scope of this analysis.

Credit ratings are forward-looking opinions about the creditworthiness of a debt issuer (an issuer rating) or specific classes of financial obligation (an issue rating). Ratings issued by Fitch Ratings (Fitch) and S&P Global Ratings (S&P) primarily reflect the agencies’ opinion of default risk.² HAL’s current ratings are set out in Table 1 below. HAL’s Standalone Credit Profile (SACP) at S&P, which reflects the credit quality of each class of debt before the benefit of covenants and other structural features, is also noted in the table.

Table 1: Heathrow Airport Limited current credit ratings

Rating agency	Rating Type	Class A (Senior Secured)	Class B (Junior Secured)
S&P	Issue rating	BBB+ stable	BBB- stable
	Standalone Credit Profile	bbb	bbb-
Fitch	Issue rating	A- stable	BBB stable

Source: Fitch and S&P reports as of 1 June 2025.

Although these ratings are forward-looking, they do not consider potential changes in capital structure or business strategy. In particular, both S&P and Fitch exclude the third runway project from their rating analysis because the scope and timing of the project is uncertain. The potential impact of increases in capital expenditure on ratings is considered in section 4, Financial resilience.

S&P and Fitch place significant weight on HAL’s covenanted financing structure in deriving their ratings. This report focuses primarily on the credit ratings that would be assigned to HAL if it were financed in line with the notional capital structure – that is, a corporate rather than project-like structure with a single class of debt (“Notional HAL”). The impact of protective regulatory features (often referred to as the “regulatory ringfence”) on the rating are considered, but not that of the covenanted financing structure. Separately, the report considers how this notional target would translate to HAL’s actual financing structure.

S&P

S&P rates HAL under its Corporate Methodology³ and its criteria for Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses⁴. Under its criteria, S&P assesses HAL’s Business Risk Profile as “excellent”.

As result of its financing structure, which includes features designed to increase cash flow certainty for debtholders, S&P rates HAL’s Class A debt one notch above the Standalone Credit Profile of bbb. Including this uplift, S&P requires FFO/debt of 7-8% for the current BBB+ Class A rating.

¹ HAL Common Terms Agreement, available [here](#)

² This report does not consider Moody’s because it does not rate Heathrow Airport Ltd and the CAA do not consider it when assessing financeability.

³ S&P (2024) Corporate Methodology, available [here](#)

⁴ S&P (2016) Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses, available [here](#)

For the purpose of analysing Notional HAL, this report adjusts S&P's thresholds to exclude the benefit of the actual financial structure. However, this report assumes that S&P will apply less-demanding thresholds to HAL than other major airports (see Table 13 on page 20) because of its excellent competitive position and benign regulatory framework; these thresholds may be adjusted if S&P perceives increased risk from the H8 determination or the expansion programme.

Table 2: FFO/debt thresholds by S&P rating category

Rating	Actual HAL Class A	Notional HAL
A-	>8%	>9%*
BBB+	7-8%	8-9%*
BBB	6-7%*	7-8%*
BBB-	5-6%*	6-7%*

Source: S&P reports

* KPMG estimates based on extrapolation or interpolation of published rating thresholds.

Fitch

Fitch rates HAL under its Infrastructure & Project Finance Rating Criteria⁵ and its Transportation Infrastructure Rating Criteria⁶.

As a result of HAL's covenanted financing structure, Fitch applies thresholds for financial metrics that are positioned between those applicable to project finance-like and corporate-like infrastructure issuers. Fitch requires net debt/EBITDA of 7.0-8.0x for the current A- Class A rating; this compares to its standard guidance of 8.0-9.0x for a project-finance-like structure or 4.0-4.5x for a pure corporate structure, in each case before adjustments for infrastructure development and renewal risk. Fitch's criteria for designating an issuer as project-like or corporate-like are set out in Appendix 2: Fitch definition of project finance like issuers.

For the purpose of analysing Notional HAL, this report considers the thresholds that Fitch would apply to a corporate-like airport with volume, price and infrastructure development and renewal risk consistent with its most recent scoring of HAL. Notably, this assumes a 0.2x increase in debt capacity to reflect HAL's "stronger" score on Infrastructure Development and Renewal, the maximum uplift allowed under Fitch's methodology⁷.

Table 3 shows that Fitch applies significantly more demanding thresholds for a corporate-like airport than for HAL's current structure: a differential of more than four rating notches. This can be illustrated by comparing HAL's Class A thresholds with those of Aeroports de Paris (ADP), a corporate-like airport that Fitch assess as having similar key rating drivers: Fitch requires ADP to maintain net debt/EBITDA of 4.5-5.0x for a BBB+ rating⁸, whereas it allows HAL to maintain net debt/EBITDA of 7.0-8.0x for an A- rating.

Table 3: Net debt/EBITDA thresholds by Fitch rating category

Rating	Actual Class A	Corporate airport with stronger volume risk ⁹	Notional HAL ¹⁰
A	<7.0x	<4.0x	<4.2x*
A-	7-8x	4.0-4.5x*	4.2-4.7x*
BBB+	8-9x*	4.5-5.0x*	4.7-5.2x*
BBB	>9x*	5.0-5.5x	5.2-5.7x*
BBB-		5.5-6.0x*	5.7-6.2x*

Source: Fitch reports and Transport Infrastructure Rating Criteria

* KPMG estimates based on extrapolation or interpolation of published rating thresholds.

⁵ Fitch (2025) Infrastructure & Project Finance Rating Criteria, available [here](#)

⁶ Fitch (2025) Transportation Infrastructure Rating Criteria, available [here](#)

⁷ Ibid. Appendix D

⁸ Fitch (2025) Fitch Affirms Aeroports de Paris at 'BBB+', Outlook Stable, available [here](#)

⁹ Based on standard thresholds for a corporate-like airport with stronger volume risk, midrange price risk and midrange infrastructure development/renewal risk

¹⁰ Based on standard corporate thresholds increased by the maximum 0.2x adjustment for airports with strong infrastructure development/renewal risk

2. Relationship between credit rating and cost of debt

Credit ratings reflect the rating agencies' forward-looking opinions of credit risk. Over long periods of time, weaker ratings are strongly associated with higher default rates. For example, BBB issuers have been ca. 35% more likely to default than BBB+ issuers over the subsequent ten years based on S&P's ratings¹¹, and ca. 65% more likely based on Fitch's¹². Given this relationship, lenders and derivative counterparties generally require a lower return for taking on exposures to higher-rated issuers.

Table 4: Cumulative default rates by rating level and time horizon, all corporate issuers

	S&P (1981-2024)			Fitch (1990-2024)		
	1 year	5 year	10 year	1 year	5 year	10 year
A	0.05%	0.39%	1.13%	0.06%	0.59%	1.60%
A-	0.05%	0.42%	1.07%	0.06%	0.36%	1.26%
BBB+	0.09%	0.79%	1.83%	0.08%	0.54%	1.44%
BBB	0.13%	1.09%	2.50%	0.07%	1.05%	2.37%
BBB-	0.21%	2.40%	4.50%	0.20%	1.72%	3.39%

Sources: S&P (2025), *Default, Transition, and Recovery: 2024 Annual Global Corporate Default And Rating Transition Study*; Fitch (2025) *2024 Transition and Default Studies*.

This section considers (1) the cost of long-term debt in ordinary market conditions, (2) the cost of long-term debt in stressed market conditions, and (3) the cost of regulatory capital for lending banks and swap counterparties.

Cost of long-term debt in ordinary market conditions

The relationship between credit ratings and yields to maturity on outstanding bonds can be tested by comparing the average G-spreads¹³ for bonds issued by UK non-financial corporates in HAL's main currencies¹⁴ for which data is available from Bloomberg.

The dataset indicates that between March 2007 and March 2025, the average spread was 25bps between A- and BBB+ and 33bps between BBB+ and BBB. Over the past five years, the average spread has been 27bps for each rating notch.

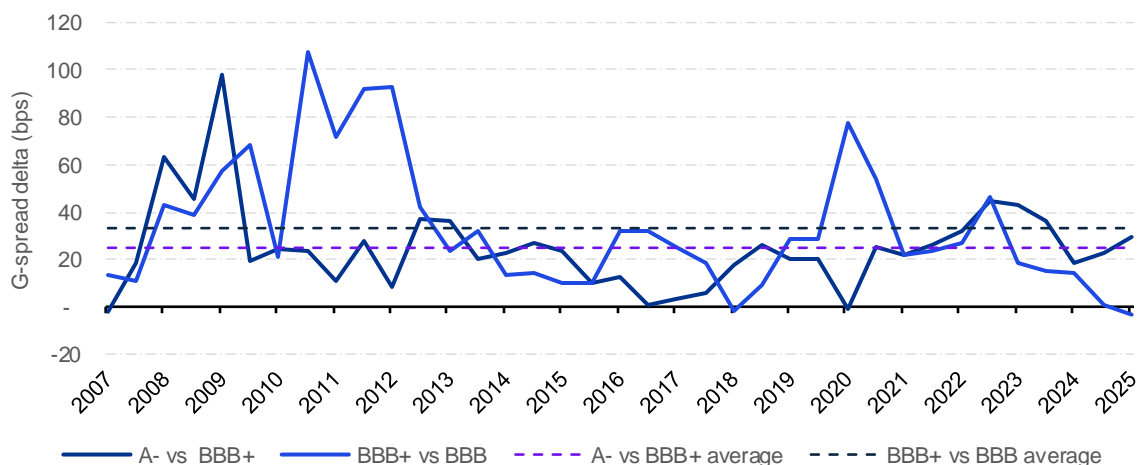
¹¹ S&P (2025) *Default, Transition, and Recovery: 2024 Annual Global Corporate Default And Rating Transition Study*, available [here](#)

¹² Fitch (2025) *2024 Transition and Default Studies*, available [here](#)

¹³ G-spread refers to the delta between the YTM of a bond and the yield on a maturity matched government bond.

¹⁴ Pound Sterling, Euro, US Dollar, Canadian Dollar and Swiss Franc

Figure 1: Historical one-notch G-spread delta



Source: KPMG analysis of Bloomberg data

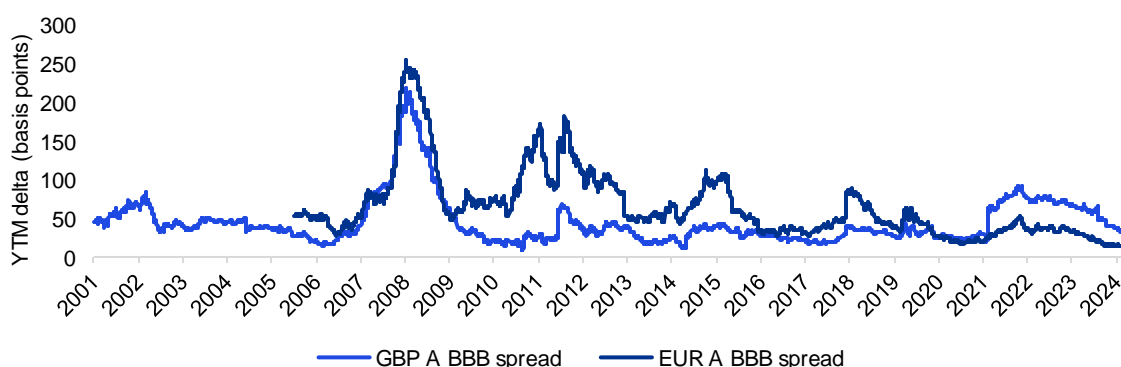
Table 5: Historical one-notch G-spread deltas (bps)

	Long-term spread (Mar 07 to Mar 25)			Last 5 years spread (Mar 2020 to Mar 25)		
	Median	Max	Min	Median	Max	Min
A- to BBB+ G-spread delta	25	98	(2)	27	44	(1)
BBB+ to BBB G-spread delta	33	108	(3)	27	77	(3)

Source: KPMG analysis of Bloomberg data

As a cross-check, yield to maturity on the iBoxx non-financials A 10+ and BBB 10+ indexes can be compared¹⁵. As these indexes aggregate all ratings with the A category (including all instruments rated A+, A and A-) and BBB category (BBB+, BBB and BBB-), respectively, they are not direct comparators for HAL’s potential A-, BBB+ or BBB issuance. However, the iBoxx indices provide a daily data series and therefore serve as a robust secondary estimate. Between April 2020 to March 2025, the average spread was 51bps between the A and BBB GBP indexes and 30bps between the EUR indexes.

Figure 2: iBoxx A-BBB spread



Source: iBoxx Non-financial 10+ from Refinitiv

¹⁵ Refinitiv data from January 2002 to April 2025.

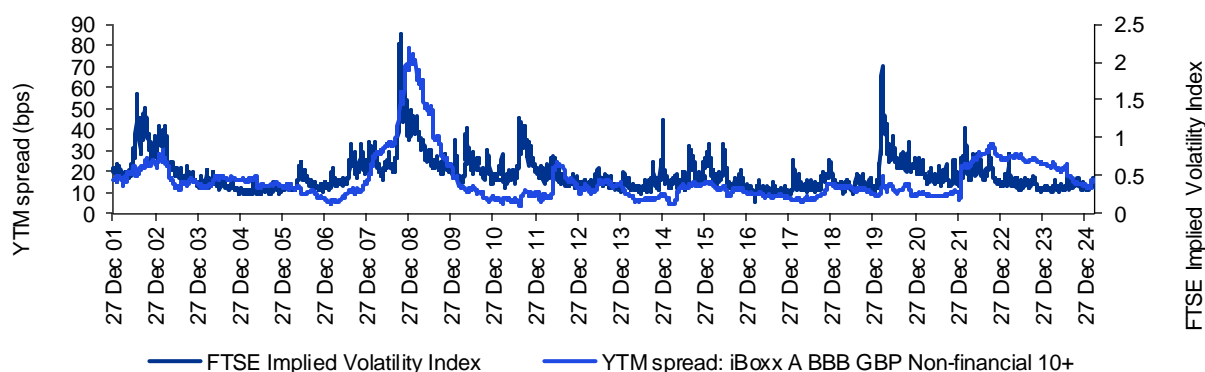
Given the long-term relationship between yield on traded instruments and yield at issue, targeting a BBB+ rating could reduce HAL's cost of new debt by 25-35bps relative to a BBB rating under typical market conditions, and targeting an A- rating could reduce HAL's borrowing costs by a further 25-30bps.

Cost of long-term debt in stressed market conditions

The preceding analysis shows persistent differences in the cost of long-term debt between rating levels, but also highlights that these differences are not constant over time. Given HAL's large capital programme and limited discretion to defer or cancel investment expenditure, an important consideration for the target credit rating is the potential cost of raising debt during periods of market uncertainty or stress.

Figure 3 displays the YTM spread between A and BBB iBoxx GBP non-financial 10+ indices relative to the FTSE Implied Volatility Index (IVI)¹⁶. The figure shows a positive relationship between the YTM spread and IVI, indicating that the differential increases significantly during periods of economic volatility. The relationship is supported by a statistically significant¹⁷ positive correlation of 0.53 between the YTM spread and the IVI, indicating that uncertain economic and market conditions increase the relative attractiveness of higher-rated issuers. S&P analysis has found a similar relationship between spreads and economic stress in the United States¹⁸.

Figure 3: iBoxx GBP A-BBB yield spread vs FTSE Implied Volatility Index



Source: FTSE IVI vs iBoxx Non-financials 10+ A / BBB YTM spread from Refinitiv

An increase in differentials between rating levels is also visible in the detailed analysis of bonds rated A-, BBB+ and BBB during identified periods of economic disruption. The spread between BBB+ and BBB bonds, in particular, widened to 77bps during the EU debt crisis and 66bps during the coronavirus pandemic.¹⁹

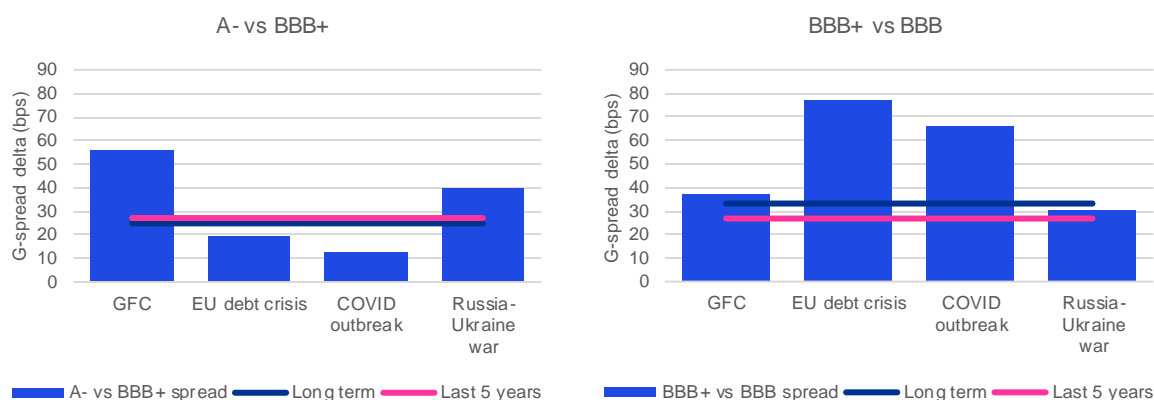
¹⁶ The IVI, as a measure of UK equity volatility akin to the US VIX index, provides a proxy for economic uncertainty.

¹⁷ Statistically significant to $p < 0.001$

¹⁸ S&P (2024) The Cost of a Notch, available [here](#)

¹⁹ Time periods defined as 01 July 2011 to 01 July 2012 and 31 March 2020 to 31 March 2021 respectively. The EU debt crisis dates refer explicitly to eurozone financial instability distinctive of the global financial crisis spanning 2007 to 2009.

Figure 4: One-notch G-spread deltas during notable historical economic downturns



Source: KPMG analysis of Bloomberg bond data

HAL may need to raise debt during a period of economic uncertainty, and in such an environment a BBB+ rating could reduce HAL’s cost of new debt by up to 75bps relative to a BBB rating, based on recent historical examples. Targeting an A- rating could reduce HAL’s borrowing costs by up to 55bps.

Cost of capital for bank counterparties

An important consideration in setting HAL’s target credit rating is the impact this rating will have on the capital banks must hold when transacting with the company as lenders or derivative counterparties, and consequently the cost to HAL.

Under the UK Capital Requirements Regulation (UK CRR), which implements the Basel III framework, banks are required to hold regulatory capital against loans and derivatives, with the amount of capital influenced by the borrower or counterparty’s credit rating. Banks following the Basel III Standardised Approach apply a 50% risk weight to exposures to corporates in the A range (Counterparty Credit Quality Step 2) and a 100% risk weight to corporate counterparties in the BBB range (CQS 3)²⁰. The effect of this is that banks must hold twice as much capital – typically made up of costly CET1 and AT1 instruments – against a BBB exposure.

Table 6 provides an indicative cost of capital for a UK bank with exposures to an A-rated or BBB-rated HAL. Based on plausible assumptions for the cost of capital, minimum capital requirements under Basel III, and including the 75% infrastructure support factor that currently reduces capital requirements for loans to infrastructure companies, this indicates that a bank’s cost of capital could be more than 40bps higher when transacting with HAL at a BBB+ rating than at an A- rating. Based on UK banks’ actual capital structures, which include a larger layer of core equity, the differential rises to 70bps.

²⁰ European Commission, Capital Requirements Regulation (EU) No. 575/2013, Article 122, available [here](#)

Table 6: Indicative cost of bank capital for exposures to A and BBB issuers

	Regulatory minimum capital	UK bank average capital, Q4/2024 ²¹	Assumed cost ²²
Loss-absorbing capacity as % of exposure			
Core Equity Tier 1 (CET1)	9.0%	15.9%	
Additional Tier 1 (AT1)	1.5%	2.4%	
Total Tier 1	10.5%	18.3%	
Tier 2	2.0%	2.9%	
MREL-eligible senior debt (estimate) ²³	11.0%	11.0%	
Total loss-absorbing capacity	23.5%	32.2%	
Exposure to A-rated counterparty			
Risk weight (CQS 2)	50%	50%	
Infrastructure support factor	75%	75%	
Risk-weighted assets as % of exposure:			
CET1	3.4%	6.0%	13.0%
AT1	0.6%	0.9%	8.8%
Tier 2	0.8%	1.1%	7.4%
MREL-eligible senior debt	4.1%	4.1%	6.5%
Wholesale/deposits	91.2%	87.9%	4.5%
Average weighted cost (% of exposure)	4.9%	5.2%	
Exposure to BBB-rated counterparty			
Risk weight (CQS 3)	100%	100%	
Infrastructure support factor	75%	75%	
Risk-weighted assets as % of exposure:			
CET1	6.8%	11.9%	13.0%
AT1	1.1%	1.8%	8.8%
Tier 2	1.5%	2.2%	7.4%
MREL-eligible senior debt	8.3%	8.3%	6.5%
Wholesale/deposits	82.4%	75.9%	4.5%
Average weighted cost (% of exposure)	5.3%	5.8%	
Difference in cost, A vs BBB	0.4%	0.7%	

Sources: Bank of England, KPMG, Bloomberg

When a bank incurs a higher capital charge to transact with HAL, including as a result of a lower credit rating, it is likely to pass that cost on through wider credit spreads on loans and less favourable terms on swaps. This is particularly significant for currency swaps, which attract high capital requirements because they involve exchanging principals in different currencies and banks are exposed to significant counterparty risk at maturity.

Currently, most large banks do not directly apply the Basel III Standardised Approach, instead using confidential internal models to assess risk weights. However, Basel 3.1 reforms taking effect from January 2027 in the UK will introduce an "output floor" such that risk-weighted assets cannot fall below 72.5% of the level calculated using the standardised approach. The UK will also remove the

²¹ Bank of England (2025) Banking sector regulatory capital - 2024 Q4, available [here](#)

²² Cost of AT1 and Tier 2 reflect average yield to maturity of GBP-denominated instruments issued by UK banks as of 1 June 2025. Cost of wholesale funds reflects SONIA as of 1 June 2025. Cost of equity and MREL-eligible senior debt are KPMG assumptions based on equity research.

²³ KPMG assumption based on Bank of England (2025) minimum requirements for own funds and eligible liabilities, Table A, available [here](#)

infrastructure support factor from January 2027, although the impact on regulatory capital will be offset by new mechanisms.

Under Basel III standardised approach, risk weights do not change within a broad rating category, so the cost of regulatory capital is the same for counterparties rated BBB and BBB+, with a cliff-edge at A-. However, the potential for rating transition may influence the terms that banks offer to HAL even within a broad rating category. For example, on average 17% of corporate issuers rated BBB+ by Fitch are upgraded to A- or above within a five-year period, but only 5% of those rated BBB. Conversely, 5% of issuers rated BBB+ but 9% of those rated BBB are downgraded to BB+ or lower within five years²⁴. Particularly when pricing long-dated instruments, banks are likely to consider the risk that their capital requirements may change over time.

Targeting a BBB+ on a notionally-financed basis also gives HAL the option to achieve an A- rating on certain instruments by establishing a common terms agreement and intercreditor framework that supports structurally senior debt, thereby achieving some of the pricing benefits outlined above. In the UK infrastructure sector, whole business securitisations are often used to secure an A-range senior rating.

Targeting an A- rating for HAL's senior class of debt could reduce the cost of loans and swaps by 70bps relative to a rating in the BBB range. A rating of BBB+ for Notional HAL may also support favourable pricing of loans and swaps if the terms of HAL's actual financing structure enable the most senior class of debt to be notched up to A-.

²⁴ Fitch (2025) 2024 Transition and Default Studies

3. Competition for capital

Credit ratings affect the availability of debt capital as well as its pricing. This is especially important for HAL, already one of the UK's largest debt issuers, as it embarks on a large capital programme in H8 and subsequent periods. A strong rating broadens the investor base, supports larger issuance volumes, and helps safeguard market access even during periods of stress.

H8 is expected to involve significantly higher capital expenditure for HAL than H7, which was defined by recovery rather than significant investment. This will occur in an environment of intensifying competition for infrastructure capital, both domestically and internationally. Almost all regulated infrastructure sectors in the UK are expected to see a significant increase in capex requirements in the next regulatory periods. In energy, the transition to Net Zero will require electricity network to invest heavily to upgrade the grid; for example, National Grid Electricity Transmission – the largest electricity transmission network – is forecasting up to £35 billion of capital investment over the 2026-31 period²⁵. In water, major upgrades to both water and sewerage infrastructure as well as the construction of the first new reservoirs in decades will require record amounts of funding.

As a result of this growth and associated debt issuance, there is a significant risk that sector concentration limits will require institutional investors to ration capital to infrastructure, particularly in the UK.

In this context, it is notable that UK gas transmission, electricity transmission, and electricity distribution industries all have average credit ratings of BBB+, with gas distribution between BBB+ and BBB split. A rating of BBB+ or above this level would place HAL in the mainstream of UK infrastructure issuers.

Table 7: UK regulated utilities estimated capital expenditure in H8 equivalent

UK sector	Totex (£bn, 2023/24 prices)	Weighted average (actual) credit rating ²⁶	Range of credit rating
Water ²⁷	109	BBB ²⁸	BB+ to BBB+
Gas distribution ²⁹	19	BBB+	BBB to BBB+
Gas transmission ³⁰	5	BBB+	BBB+
Electricity transmission ³¹	77	BBB+	BBB+ to A-
Electricity distribution ³²	27	BBB+	BBB to A-
Total	237		

Source: S&P, Fitch, Moody's, KPMG analysis

In contrast, a BBB target would make HAL, like the UK water sector, a negative outlier. According to a survey by the Global Infrastructure Investor Association (GIIA) conducted in November 2024, European regulated water, concentrated in the UK, was the least attractive sector for infrastructure investors globally, while European airports were also viewed as less attractive than other sectors³³.

²⁵ National Grid, RII0-T3 Business plan, December 2024. Available [here](#)

²⁶ Weighted by RAV. Where the average credit rating sits between two ratings, it has been rounded to the nearest rating. These should therefore be considered as indicative only.

²⁷ Ofwat PR24 final determinations: Expenditure allowances, Feb 2025, page 2; available [here](#)

²⁸ The lower average credit rating in water reflects recent sector wide downgrades by all three rating agencies.

²⁹ Gas distribution RII0-GD3 business plans (including non-controllable costs)

³⁰ National Gas RII0-GT3 business plan, Dec 2024, page 13; available [here](#)

³¹ Electricity transmission RII03-T3 business plans (including uncertainty mechanisms)

³² Ofgem RII0-ED2 Final Determinations, Overview Document, Nov 2022, page 25; available [here](#)

³³ Global Infrastructure Investor Association (2025) Infrastructure Pulse Survey Q4 2024, available [here](#)

Figure 5: GIIA survey results

What is your / your fund(s) outlook for overall infrastructure opportunities for your fund(s) in the following sectors in the next 12 months? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



Source: GIIA

Investors are likely to benchmark HAL against other major European airports, which often benefit from government ownership and are generally rated at BBB+ or above by S&P and Fitch. Of the major airport groups, only Aeroporti di Roma (ADR) is rated below BBB+, because it is constrained by the credit quality of its owner, Mundys SpA.

Table 8: Credit ratings of major European airports as of May 2025

	Zurich	Schiphol	daa	Aena	Avinor	ADP	Gatwick (Class A)	BAC	MAG	ADR
S&P	A+	A	A		A	A-	BBB+			BBB-
Fitch				A		BBB+	BBB+	BBB+	BBB+	BBB-

Source: S&P and Fitch reports as of 17 May 2025

Regulatory precedent on credit ratings

Investors and lenders will compare any credit rating target set by HAL or the CAA to precedents in other regulated sectors. In UK and Ireland, regulators have broadly interpreted their financeability duty to mean that licensees should target a 'strong' or 'comfortable' investment grade rating, which has generally resulted in an explicit or implicit target credit rating of BBB+ on a notionally-financed basis.

Table 9: Regulatory Precedents

Regulator	Financeability Target (most recent price control)	Notes
CAA (H7)	BBB+ ³⁴	The CAA targeted a BBB+ credit rating, which it considered “would allow the notional company to access a sufficient volume of debt finance at a reasonable cost” ³⁵ .
Ofwat ³⁶	BBB+	“Our financeability assessment targeted a [notional] credit rating two notches above the minimum investment grade (BBB+/Baa1). We considered this provides a reasonable level of headroom within the investment grade category that is sufficient for companies to cope with most cost shocks, and enables them to raise debt on reasonable terms. It was also consistent with companies’ own assessments of financeability in their business plans.”
Ofgem ³⁷	Leverage consistent with BBB+	Ofgem does not target a particular credit rating: “We do not currently consider there to be evidence of a need to target a particular credit metric levels across our assessment of financeability. We note that in their own work, credit rating agencies will not require all specific ‘target’ metrics to be met in every year, and instead take an in-the-round assessment of credit worthiness. We anticipate taking a similar approach.” However, in RIIO-3 Ofgem has proposed to set a dividend lock-up trigger at 75% of RAV, which is consistent with Moody’s maximum leverage for a Baa1 rating (equivalent to BBB+).
Ireland Aviation Authority ³⁸	BBB+	“...we noted in Section 6 that Dublin Airport would need to raise new debt to finance the full Capex programme, which we have assessed to be the interests of users. We set price caps aimed at enabling the airport to achieve financial ratios at least in line with a BBB+ credit rating”

The CAA’s assessment of financeability in H7 was qualified by noting that HAL’s expected capital expenditure for the price control was relatively low, because it represented a “recovery” price control and involved the deferral of expansion plans. It is likely that HAL’s capex will be significantly higher in H8, driven by a number of factors:

- **Increased “BAU” capex:**, the demand dynamics expected in H8 mean significant investment in terminals and other infrastructure will be necessary for HAL to remain competitive and meet the required service levels. In its response to the CAAs draft method statement, HAL noted that
 - Heathrow will hit capacity level during H8 and a major challenge ahead is rapidly mobilising capacity and infrastructure to meet resurgent demand.
 - This is a different challenge from the landscape in previous price control reviews, and the CAA must approach H8 with this context front and centre of their decision making.
 - As a capacity-constrained airport, as well as optimising use of current facilities, Heathrow will need to add new infrastructure to meet the demand of its customers – both current and future – enabling appropriate investment under all capacity scenarios.
 - **Heathrow Expansion:** In January 2025, the UK government supported the construction of a new runway at Heathrow and stated that the project could be delivered by 2035³⁹. Estimates of the cost of the third runway range significantly, however even lower end estimates would represent a funding requirement much higher than any price control to date.

Prior to the pandemic, the CAA consulted on financeability issues relating to the significant capex expected during Heathrow expansion. The CAA noted that a BBB rating would likely limit HAL’s ability to raise the requisite volume of financing, given the strong rating of peers with similar levels of capex. In particular, the CAA concluded that that an A- rating was generally observed where companies had

³⁴ During the price control process, a number of airlines argued that HAL could be financeable at a lower credit rating and noted that, in contrast to Water and Energy, HAL does not hold a licence condition to be rated investment grade. As part of its price review process, the CAA therefore considered the benefits of a lower notional credit rating. However, it concluded that a BBB (notional) credit rating ‘could make it difficult to raise the amount of debt required’. This was the case despite the expectation that capex in H7 would be less than prior price controls and significantly less than originally expected in an expansion setting.

³⁵ Economic regulation of Heathrow Airport Limited: H7 Final Decision Section 3: Financial issues and implementation, the CAA, March 2023 available [here](#)

³⁶ PR24 final determinations: Aligning risk and return appendix, Ofwat, December 2024; available [here](#)

³⁷ RIIO-3 Sector Specific Methodology Decision – Finance Annex, Ofgem, July 2024; available [here](#)

³⁸ Ireland Aviation Authority, Decision on an Interim Review of the 2019 Determination in relation to 2023-2026, December 2022. Available [here](#)

³⁹ See, for example, *Heathrow’s third runway can be built in 10 years*, Reeves says, BBC News, January 2025; available [here](#)

high requirements for foreign currency debt (like HAL) or a strong BBB+ where a strong local currency (USD) debt demand existed. The CAA then noted:

While there are BBB examples, most issuers have at least one single A category rating. Where some issuers are rated below single A they generally have much larger domestic markets, have previously held higher ratings, have lower debt issuance requirements or at least have more financial flexibility in their capital expenditure plans than HAL. It also important to note that in order to access international markets at scale and avoid foreign currency risk, HAL will need to execute a very large volume of cross currency swaps for which capacity is higher with an A- rating than lower ratings⁴⁰

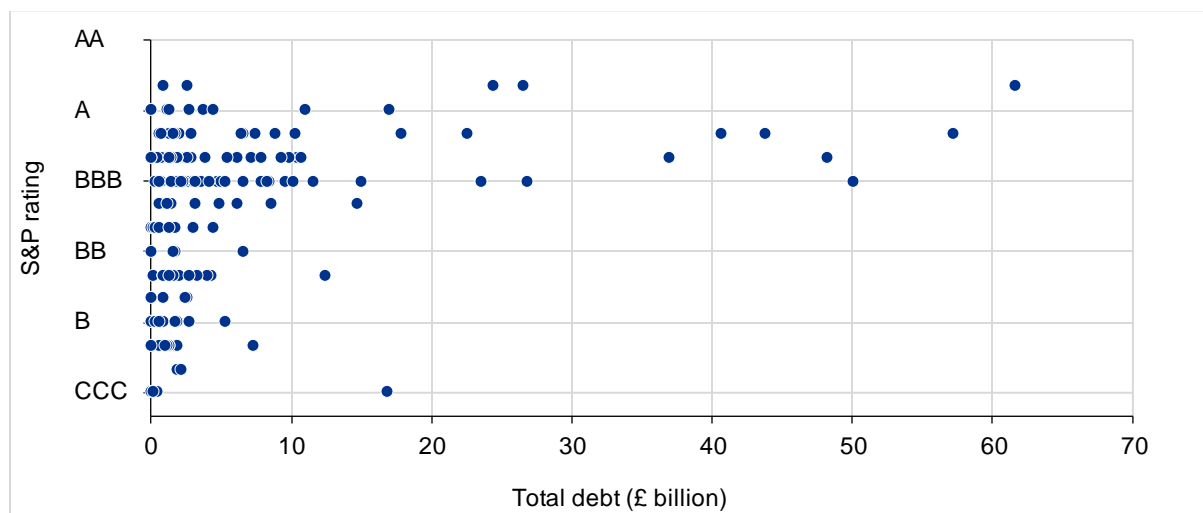
Although the CAA’s analysis referred to an A- target for the notional company, references to swaps imply that the analysis may refer to *actual* HAL.⁴¹ However, irrespective of the distinction between actual and notional, the CAA’s position that higher capex should be supported by a higher rating is clear and consistent with this Report. Further, the Competition Commission (CC) also recognised that additional capex was associated with higher rise in 2002, in that case identifying the construction of Terminal 5 as a factor warranting higher equity returns:

*The beta of 0.70 used by the CAA for Heathrow is similar to the most recent reported historical beta for BAA of 0.71. **The higher range for beta used by us... in part recognizes the special factors applying to large new capital projects such as T5.**⁴²*

Relationship with size of issuer

There is also evidence that larger UK debt issuers target and achieve higher credit ratings. While smaller debt issuers (those with outstanding debt less than £8 billion) exhibit a wide range of ratings, debt issuers over £20 billion consistently achieve ratings of BBB or higher, with a significant proportion in the range of A- to A+. This is likely to indicate that the benefit/cost relationship of maintaining a high rating increases with size. As HAL grows, its debt of £16 billion in 2024 is expected to rise beyond £20 billion, leading to increased competition for capital with highly rated GBP issuers.

Figure 6: Size and rating of UK debt issuers



Sources: CapitalIQ, KPMG

⁴⁰ CAP 1876, Economic regulation of Heathrow Airport Limited: further consultation on regulatory framework and financial issues, CAA, January 2020, available [here](#)
⁴¹ Introducing its assessment of target credit ratings, the CAA notes it "...will make an assumption about the credit rating a notional operator would require to efficiently issue the debt required in the H7 period". However, it then notes that it "...expect[s] HAL to be substantially reliant on the index linked swap market, substantially increasing its requirement for swap capacity." This is significant because CAA do not consider that the notional operator would issue swaps and excludes swaps from the notional cost of debt: "We have already observed that the presence of inflation swaps, for example, can complicate the forecasting of HAL's cost of debt. Our approach [of excluding index-linked swaps] avoids these issues."
⁴² BAA plc: a report on the economic regulation of the London airports companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd), The Competition Commission, November 2002. See Chapter 4, Financial performance and cost of capital, available [here](#)

Targeting BBB+ on a notionally-financed basis would be consistent with other UK regulated companies, within (although at the low end of) the range of comparable airports, and in line with targets set by other regulators and the CAA in previous decisions. Targeting a lower rating than these precedents could adversely affect HAL's ability to raise capital in an increasingly competitive market.

4. Financial resilience

A further consideration in setting HAL's target credit rating is its financial resilience, as measured by its ability to absorb plausible downside operational scenarios, increases in capital expenditure or changes in rating agency thresholds while maintaining an acceptable credit rating.

Although HAL's licence does not specify a minimum credit rating, a speculative grade rating – that is, below BBB- – would generally be considered unacceptable for an owner of core infrastructure even for short periods. This analysis therefore considers minimum credit ratios consistent with a BBB- rating to represent a floor that should not be breached by Notional HAL even in severe downside scenarios.

Based on the thresholds set out in Heathrow's ratings and rating agency methodologies, above, this implies a minimum FFO/debt of 6% from S&P and maximum net debt/EBITDA of 6.2x from Fitch, based on current rating thresholds and assuming a notional capital structure with no credit-enhancing features.

Resilience to downside operational scenarios

To assess resilience, a "reverse stress test" has been undertaken to assess the maximum revenue shortfall or debt increase that could be absorbed within this constraint, based on a simplified model of H8. This analysis consisted of the following steps:

- Calculated revenue sufficient for Notional HAL to achieve the midpoint of S&P's FFO/debt range for each potential target rating (7.5% for BBB, 8.5% for BBB+ or 9.5% for A-) and the midpoint of Fitch's net debt/EBITDA range for each potential target rating (5.5x for BBB, 5.0x for BBB+ and 4.5x for A-)
- Calculated the reduction in revenue or increase in net debt that would reduce FFO/debt or increase net debt/EBITDA to the critical BBB- threshold for Notional HAL (6% and 6.2x, respectively)

Table 10 shows that, if HAL were to target a BBB rating from S&P, a revenue shortfall of 5-6% from forecast levels would lead to credit metrics consistent with a rating below investment grade from S&P. Alternatively, an increase in net debt of £2.0 billion – resulting, for example, from cumulative capex overspend – by the end of H8 would lead to speculative grade metrics. A BBB+ or A- target would provide significantly greater headroom to absorb such shocks.

Table 10: Headroom to S&P rating thresholds

	2027	2028	2029	2030	2031
FFO headroom to BB+ as percentage of revenue					
From A- target	12%	12%	13%	13%	13%
From BBB+ target	9%	9%	9%	9%	9%
From BBB target	5%	5%	6%	6%	6%
Net debt headroom to BB+ (£ billion)					
From A- target	3.5	3.7	3.7	3.8	4.0
From BBB+ target	2.7	2.8	2.8	2.9	3.1
From BBB target	1.7	1.8	1.8	1.9	2.0

Source: KPMG analysis

Similarly, an 8% revenue reduction or £1.5 billion over-spend would drive metrics to speculative-grade levels from a mid-BBB starting point at Fitch.

Table 11: Headroom to Fitch rating thresholds

	2027	2028	2029	2030	2031
EBITDA headroom to BB+ as percentage of revenue					
From A- target	19%	20%	21%	21%	21%
From BBB+ target	13%	14%	14%	14%	15%
From BBB target	8%	8%	8%	8%	8%
Net debt headroom to BB+ (£ billion)					
From A- target	3.3	3.4	3.3	3.5	3.6
From BBB+ target	2.3	2.4	2.4	2.5	2.6
From BBB target	1.4	1.5	1.4	1.5	1.5

Source: KPMG analysis

Headroom, particularly on net debt, becomes a more sensitive consideration during times of high capex. Empirical analysis indicates that it is common in infrastructure for projects to significantly overspend related to the expected cost. Increases in capex can lead to weaker FFO/debt even if the spend is added to the RAB, because the cost of financing the capex reduces FFO and increases immediately debt while the return on RAB and depreciation take time to flow through.

A target credit rating of at least BBB+ may provide acceptable headroom for HAL to absorb revenue shortfalls and capex overspend while retaining an investment grade rating. However, ratings headroom will need to be assessed carefully based on HAL's actual risk exposures in H8.

Resilience to downside rating scenarios

Rating thresholds vary significantly between airports and can change over time, particularly as characteristics of the business evolve. HAL's target rating should ensure that plausible changes in rating thresholds can be absorbed while remaining at or above the BBB- floor.

This is particularly relevant in context of potential expansion, which could weaken rating agencies' perception of competitive position and business risk. In April 2025, S&P stated that HAL's expansion programme could weaken its credit profile because it may "require a further increase in Heathrow's aeronautical charges" which could in turn "lead to a weakening of Heathrow's competitive position relative to other European hubs and other London airports"⁴³.

Rating agencies may also revise their assessment of regulatory frameworks, leading to changes in rating thresholds. All three rating agencies did so for UK water companies in the course of Ofwat's 2024 price review, leading to significantly reduced debt capacity for the notional company and tighter thresholds to maintain Ofwat's BBB+ target rating. In 2022, S&P noted that it would consider whether it needed to downgrade HAL's competitive position if the CAAs final decision was not considered suitably supportive, indicating that an improperly calibrated price control would directly impact both notional and actual HAL's ability to achieve and maintain a given rating⁴⁴.

If expansion or other factors cause S&P to revise its estimate of HAL's competitive position (and consequently its Business Risk Profile) from "excellent" to "strong", HAL's "anchor" rating at any level of FFO/debt would fall mechanically by two notches, as set out in Table 12. Because S&P's rating committees can assign a Standalone Credit Profile (SACP) no more than one notch above the anchor rating, this would imply a downgrade of HAL's SACP of 1-2 notches.

⁴³ S&P (2025) Heathrow's Expansion Could Impair Its Credit Profile, available [here](#)

⁴⁴ In "Heathrow Funding Remain On Credit Watch Negative, S&P note that it "could revise our assessment of Heathrow's competitive position if we came to believe that the WACC was not attractive enough to incentivize investments during H7". See link [here](#)

Table 12: S&P anchor rating by FFO/debt

FFO/debt	Financial Risk Profile	Business Risk Profile assessment	
		Excellent	Strong
>13%	Intermediate	a+/a	a-/bbb+
9-13%	Significant	a-	bbb
6-9%	Aggressive	bbb	bb+
<6%	Highly leveraged	bbb-/bb+	bb

Source: S&P

Note: Based on Low Volatility table

Table 13 shows S&P’s current rating thresholds for Heathrow’s Class A SACP and those of comparable airports, which confirms that HAL’s current thresholds are unusually benign, reflecting its excellent competitive position and independent regulatory framework. HAL can currently achieve a SACP of bbb+ with FFO/debt above 8%, while Schiphol would require 9%, Avinor 16% and Gatwick 16%. If S&P’s perception of Heathrow’s risk were to change, this differential is likely to narrow.

Where companies have persistently higher capital expenditure, S&P may consider supplemental ratios that deduct capex, including Free Operating Cash Flow (FOCF) and Discretionary Cash Flow (DCF) to debt. For example, negative FOCF is currently a constraint on S&P’s rating of daa PLC.⁴⁵

Table 13: S&P FFO/debt thresholds for European airports by Standalone Credit Profile

	Heathrow	Schiphol	ADP	daa	Avinor	Gatwick	ADR	Zurich
Business Risk Profile	Excellent	Excellent	Strong	Strong	Strong	Strong	Strong	Strong
SACP	bbb*	bbb+	a-	a-	bbb	bbb	a-	a
a								25-35%
a-			13-18%	>20%			15-20%	
bbb+		9-12%						
bbb	7-8%				11-16%	10-16%		

* Class A. Source: S&P reports as of 17 May 2025

Fitch’s rating thresholds applicable to Notional HAL could also change as a result of a significant increase in capital expenditure. Fitch’s current rating derivation credits HAL with a “stronger” positioning on the infrastructure development/renewal factor, noting that “capacity growth of terminals and runways can be achieved with focused incremental projects” and that “growth capex is mostly uncommitted and flexible.”⁴⁶ HAL’s score on this driver would change to “weaker” if Fitch determined that the company had a large capital improvement programme that would be predominantly funded with external debt, and in this circumstance Fitch could reduce Notional HAL’s debt capacity by up to 0.4x EBITDA.⁴⁷ This is equivalent to nearly one rating notch.

⁴⁵ S&P (2024) Airport Operator daa PLC Upgraded to ‘A’ On Expected Strong Operational and Financial Performance; Outlook Stable, available [here](#)

⁴⁶ Fitch (2024), Rating Report: Heathrow Funding Limited and Heathrow Finance plc, available [here](#)

⁴⁷ “A predominantly internally funded capex plan with a pre-funded major maintenance reserve account or access to legally committed external funding typical results in a ‘Stronger’ assessment. Some reliance on external funding to cover capex needs may assert a ‘Midrange’ assessment. Conversely, a CIP predominantly funded with external debt to be secured would typically underpin a ‘Weaker’ assessment.”

Table 14: Fitch indicative rating by net debt/EBTIDA.

Infrastructure Development and Renewal score			
Net debt/EBITDA	Stronger	Neutral	Weaker
4.0x	A	A	A-
4.2x	A	A-	A-
4.4x	A-	A-	BBB+
4.6x	A-	BBB+	BBB+
4.8x	BBB+	BBB+	BBB
5.0x	BBB+	BBB	BBB
5.2x	BBB	BBB	BBB
5.4x	BBB	BBB	BBB-
5.6x	BBB	BBB-	BBB-
5.8x	BBB-	BBB-	BB+
6.0x	BBB-	BB+	BB+

Source: S&P Transportation Infrastructure Rating Criteria, KPMG analysis

Note: Based on typical leverage thresholds for corporate-like infrastructure issuers with "stronger" volume risk and midrange price and debt structure risk. Thresholds for "stronger" and "weaker" infrastructure development/renewal scores estimated based on maximum 0.2x leverage adjustment.

A target credit rating of at least BBB+ based on the agencies' current approach would allow HAL to absorb severe but plausible changes in rating agency thresholds while retaining an investment grade rating.

5. Conclusion

This report has carried out quantitative and qualitative analysis to inform the optimal credit rating for HAL on a notionally-financed basis, in particular considering circumstances where the scale of HAL's capital programme could influence the optimal level.

The analysis found that

- Targeting a BBB+ rating could reduce HAL's cost of new debt by 25-35bps relative to a BBB rating under typical market conditions. Targeting an A- rating could reduce HAL's borrowing costs by a further 25-30bps.
- During periods of economic uncertainty, targeting a BBB+ rating could reduce HAL's cost of new debt by 75bps relative to a BBB rating and targeting an A- rating could reduce HAL's borrowing costs by a further 55bps.
- Targeting an A- rating on HAL's senior class of debt would reduce the cost of loans and swaps by more than 70bps relative to a rating in the BBB range. A notional rating of BBB+ may support more favourable pricing of loans and swaps, including interest rate swaps, if an intercreditor agreement allows for notching up of the most senior class of debt.
- Targeting BBB+ on a notionally-financed basis would be consistent with other UK regulated companies, comparable airports, and targets set by other regulators and the CAA in previous decisions.
- A stronger credit rating will provide more headroom to absorb revenue shortfalls, capex overspend and changes in rating agency thresholds.

The impact of lower borrowing costs from targeting a higher rating will depend on the magnitude of debt issuance during H8. In a base case scenario where £1 billion is issued in each year, a 45bps difference between BBB+ and BBB spreads would affect interest expense by an average of £13.5 million annually over the period, rising to £22.5 million by the end of the period. In stressed market conditions, where the BBB+/BBB gap widens to 80bps, annual savings would be significantly larger, as much as £24 million on average (£40 million by the end of the period), if sustained.

Incremental interest reductions from achieving an A- rating are significantly smaller, approximately £4.5 million on average and £7.5 million by the end of the period.

Table 15: Sensitivity of interest expense to rating differentials

Annual issuance	Average year in H8			End of period		
	A- vs BBB+	BBB+ vs BBB	BBB+ vs BBB, market stress	A- vs BBB+	BBB+ vs BBB	BBB+ vs BBB, market stress
	0.15%	0.45%	0.80%	0.15%	0.45%	0.80%
£500m	£2.3	£6.8	£12.0	£3.8	£11.3	£20.0
£1,000m	4.5	13.5	24.0	7.5	22.5	40.0
£1,500m	6.8	20.3	36.0	11.3	33.8	60.0
£2,000m	9.0	27.0	48.0	15.0	45.0	80.0

Source: KPMG analysis

A target credit rating relies on judgements about future market conditions, the likelihood of significant revenue declines, capex overspends or rating threshold changes, the ability and willingness of shareholders to provide support in downside scenarios, and other considerations. However, **the balance of evidence considered in this report suggests that a notional target of BBB+** would achieve reasonable borrowing costs under normal market conditions, resilience in periods of economic uncertainty, good access to capital and reasonable headroom to absorb downside scenarios. Based on our estimates of rating thresholds currently applicable to Notional HAL, this would require the notional company to achieve FFO/debt of at least 8% and net debt/EBITDA no greater than 5.2x, assuming no increase in business risk or hardening of rating agency views. A more

conservative target of FFO/debt of at least 9% and net debt/EBITDA no greater than 5.0x would align with the rating agency's standard thresholds for corporate airports.

Given HAL's current financing structure, this target would be consistent with an **actual target of A-**, which would provide greater resilience and reduce the cost of capital for derivative counterparties.

A higher target credit rating of A- for Notional HAL may be optimal if capital expenditure and debt issuance are larger than currently anticipated, because the interest savings from adopting a higher credit rating scale linearly with debt issuance.

Appendix 1: Scope of work

Analyse the costs and benefits of HAL targeting⁴⁸ a range of different credit ratings between BBB and A- and assess the implications for the business, shareholders and consumers, based on the following steps:

- Collect contemporaneous market data on debt pricing at the different credit rating levels from LSEG/ Bloomberg / Refinitiv and calculate the implied pricing differential
- Collect historical data to assess whether the observed pricing differentials are sustained across different market conditions (such as Covid-19, economic downturns) and assess the implications for financial resilience
- Analyse the available headroom (measured as revenue reduction or cost increase) for maintaining a minimum investment grade rating at different target rating levels
- Based on rating agency methodologies applied to HAL, consider which rating(s) would provide an efficient balance of cost/benefits and would indicate HAL remains financeable as investment increases above current levels (£1-1.5bn p/a)
- Comment qualitatively on the potential implications of the increase in demand for infrastructure capital for HAL in attracting capital. This will consider a range of sources including business plan data, annual reports, and financial publications (e.g. rating agency documentation)
- Provide a qualitative assessment of debt market capacity at various rating levels based on public sources of data
- Assess the impact of different rating levels on the terms under which counterparties would transact with HAL in the derivative market, based on market research into regulatory requirements, pricing, and collateral differentials
- Consider the trade-off between a weaker credit rating and higher required equity return and assess the effect of different target ratings on the overall allowed cost of capital based on rating agency methodologies

⁴⁸ Targeting' in this context is deemed to mean the appropriate rating which HAL seeks to achieve to best meet financeability requirements

Appendix 2: Fitch definition of project finance like issuers

Table 16: Fitch Decision Table⁴⁹

	Project Finance Issuers	Corporate-Like Infrastructure Issuers
Factor 1 – Ability to re-leverage	Covenant limiting additional indebtedness, for example, a leverage-based limit	No or very loose limitations on additional indebtedness – no leverage-based covenant, or a leverage-based covenant not set at meaningful levels (i.e. set at very high levels)
	Requirement for lender approval in order to issue additional debt/increase leverage	No requirement for lender approval in order to issue additional debt/increase leverage
	Ratings test to issue additional debt/increase leverage	No ratings test required to issue additional debt/increase leverage, or ratings test allows rating to be below the current rating level
	Default or dividend lock-up set at a meaningful level	No default or dividend lock-up or covenants set at a very loose level
Factor 2 – Ability to make acquisitions	Clear and stringent restrictions on acquisitions	No or very loose restrictions on acquisitions
Factor 3 – Ring-fencing	Comprehensive and strong ring fencing of assets	No ring-fencing of assets
Factor 4 – Security package	Comprehensive and strong security package	No or limited security package/weak negative pledge
Factor 5 – Other structural features may act as an indicator of PF or infrastructure company debt structure	Fully amortising debt structure/no refinancing risk	Significant and concentrated maturities or debt amortisation longer than assets/concession life
	Exhaustive and robust covenant package (e.g. such as reporting requirements, maintenance minimum requirements, hedging requirements)	No or very limited covenant package
	Dedicated debt service liquidity	No liquidity line, committed corporate-style liquidity line supporting interest payment, no DSRA or dedicated issuer level liquidity

Note: When and if the combination of factors at the table above does not clearly suggest whether the entity is a Project Finance or a corporate-like infrastructure issuer, Fitch may consider adjusting its metrics guidance to capture the hybrid nature of the entity in question. Project finance-like entities include US municipal issuers or US public transportation enterprise.

Fitch defines issuers as corporate-like infrastructure issuers if any of the following are present:

- a) Ability to re-leverage with minimal limitations;
- b) Material M&A risk, without controls or limitations;
- c) No ring-fencing; and
- d) No security package (by definition corporate unsecured).

⁴⁹ Fitch (2025), Transportation Infrastructure Rating Criteria, Appendix E