

# RWE AG

The affirmation of the ratings on 26 March 2020 reflected RWE AG's expansion in the renewables business, improved credit profile due to the quasi-regulated character of the company's new business and greater visibility over conventional generation provided by the coal exit agreement. The main long-term risk relates to high capex for further development of wind and photovoltaic (PV) generation. In the medium term, RWE could be disrupted by a severe decrease in electricity demand.

## Key Rating Drivers

**Asset Swap Approved:** An asset swap between RWE and E.ON SE (BBB+/Stable) was approved by the EU Commission in 3Q19. As part of the transaction, RWE acquired renewables generation fleets of E.ON and innogy SE (BBB+/Stable) as well as a 16.7% stake in E.ON along with some smaller assets such as minority stakes in Austrian utility KELAG and in RWE nuclear power plants AKW Gundremmingen and Emsland.

The on-boarding of E.ON's renewables and minority stakes has been completed, whereas integration of innogy's renewables should be finalised in mid-2020.

**Large Renewables Fleet:** The asset swap has allowed RWE to expand its renewables fleet by 8.7GW to 9.9GW at end-2019 on a pro-rata basis. The company has also acquired 2.7GW of under-construction renewables capacity as well as a portfolio of more than 20GW of renewables capacity at various stages of development. The acquired wind and PV capacity is mostly in Germany, the UK and the US and about 70% benefits from support mechanisms and with an average remaining tenor of 11 years.

Expansion in the renewables business is positive for RWE's credit profile as it contributes to earnings stability and lowers the company's carbon footprint.

**Changed Business Mix:** Fitch Ratings forecasts the share of wind and PV generation in RWE's EBITDA at about 60% over 2020-2022. Contribution from both the hydro/biomass/gas and coal/nuclear divisions should be close to 20% each.

We see some risk for the supply & trading division coming under pressure due to high volatility and declines in commodities markets triggered by the coronavirus outbreak. The pandemic will also result in lower demand for electricity, especially in a prolonged recession. However, we do not anticipate a material impact on RWE's generation business due to RWE's good position in the merit order and hedged position.

**Coal Exit Agreement:** In January 2020, the German government agreed with public and private stakeholders on the timing and method of the lignite phase-out. Lignite plant operators will receive a fixed compensation of EUR4.35 billion in total over 15 years for the early capacity phase-out. Compensations for hard-coal capacity are not fixed, but utilities will be allowed to tender for shutdowns ahead of schedule from 2020 until 2026, in return for compensation payments. For the following years Fitch deems compensations unlikely.

**Improved Visibility for Lignite:** RWE will begin phasing out lignite from 2020. It will receive EUR2.6 billion of compensation payments over 15 years, which will cover most of the EUR3.5 billion of associated additional costs. This is supportive of RWE's credit profile as it eliminates uncertainty and increases visibility around the future performance of lignite operations.

## Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 26 Mar 20
Senior Unsecured	BBB		Affirmed 26 Mar 20
Sub-ordinated	BB+		Affirmed 26 Mar 20
Short-Term IDR	F2		Affirmed 26 Mar 20

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## Applicable Criteria and Related Research

- [Corporate Rating Criteria \(March 2020\)](#)
- [Corporates Notching and Recovery Ratings Criteria \(October 2019\)](#)
- [Corporate Hybrids Treatment and Notching Criteria \(November 2019\)](#)
- [Short-Term Ratings Criteria \(March 2020\)](#)

## Analysts

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**New Strategy:** In its March 2020 updated strategy, RWE aims to further expand in wind and PV generation to more than 13GW in 2022 (from 8.7GW in 2019), build-out of batteries and green power commercialisation. Coal-fired generation (12.7GW at end-2019) will be gradually phased out by 2038 with interim targets of below 10GW in 2023 and 4.3GW in 2030. Implementation of the strategy will be capex-intensive, but RWE intends to keep leverage at a moderate maximum 3x net debt-to-core EBITDA.

We deem the transition to greener fuel mix as positive for the business profile and compliant with the EU's decarbonisation policy and climate-neutrality goal for 2050.

**Consolidated Approach:** Due to the asset swap, Fitch has returned to analysing RWE on a consolidated basis (effective from 2019), versus its previous approach in 2016-2018, when RWE's stake in innogy was treated as a financial investment, accounted for with an equity method and assigned to cover RWE's nuclear provisions.

This implies the application of a nuclear- and lease-adjusted funds from operations (FFO) net leverage as rating guideline from 2019, taking into account gross nuclear provisions and adjusting FFO for the nuclear provision utilisation.

**E.ON Stake Adds Financial Flexibility:** RWE's stake in E.ON, together with compensation payments from the government for the coal phase-out, has been assigned to cover mining provisions. The current value of the E.ON stake (EUR3.5 billion) and the compensation payments (EUR2.6 billion) exceed mining provision (EUR4.6 billion) contributing to RWE's financial flexibility.

**Revised Leverage Guidelines:** RWE's new business structure focusing on renewables (with 70% benefiting from support schemes), a new strategy and greater visibility over the lignite business due to the coal exit agreement has led us to relax our rating sensitivities for FFO adjusted net leverage to 2.5x-3.5x. Our rating case forecasts FFO adjusted net leverage at an average 2.9x over 2020-2022, leaving the company with significant rating headroom or scope for an upgrade should RWE outperform in its strategy delivery.

**ESG Influence:** ESG issues affect the ratings primarily through a high share of coal in RWE's generation fuel mix. This leads to lower debt capacity for the current rating given that more restrictive environment policies create long-term, downward pressure on earnings and trigger additional capex for energy transition. However, RWE has notably reduced its carbon footprint and is on a decarbonisation path with the CO2 neutrality goal set for 2040.

## Financial Summary

(EURm)	Dec 18 <sup>a</sup>	Dec 19	Dec 20F	Dec 21F	Dec 22F
Operating EBITDA (before income from associates)	813	2,440	2,411	3,233	3,008
Funds flow from operations	449	1,679	2,160	2,504	2,395
Free cash flow	3,312	-3,850	-2,511	-2,470	-2,160
FFO fixed-charge coverage (x)	2.1	5.7	11.0	12.4	11.4
FFO adjusted net leverage (x)	-6.4	-0.5	0.3	1.0	1.3
Nuclear and lease adjusted FFO net leverage (x)	n.a.	2.8	2.7	2.9	3.0

<sup>a</sup> Figures for 2018 represent RWE's stand-alone profile (innogy SE treated as a financial investment)  
Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

RWE is a generation-focused utility with a large conventional fleet, but due to the acquisition of the renewables portfolio from E.ON and innogy most of RWE's EBITDA will originate from renewables. This makes RWE comparable to Orsted A/S (BBB+/Stable), which, however, has a higher debt capacity due to a greater proportion of renewables to conventional capacity.

Due to expansion in renewables, RWE's business profile will evolve towards that of other generation-focused utilities with a high share of renewables in the portfolio such as Enel S.p.A. (A-/Stable), Iberdrola, S.A. (BBB+/Stable) or Statkraft AS (BBB+/Stable).

The lack of regulated distribution or transmission business makes RWE's credit profile weaker than that of German peer Energie Baden-Wuerttemberg AG (EnBW; BBB+/Stable). RWE's credit profile is stronger than Fortum Oyj's (BBB/Negative) due to Fortum's acquisition of Uniper SE. Similarly to EnBW and E.ON, RWE is responsible for near- and medium-term nuclear decommissioning provisions, which affect the financial profiles of these companies and increase their credit risk.

## Navigator Peer Comparison

Issuer	Business profile										Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility			
EDP	BBB-/Pos	a-	a-	bbb	bbb	bbb	a-	bbb	bbb-	bbb-			
ENEAS.A	BBB/Sta	a-	bbb+	bbb	bbb	bbb	bb	bbb	a	bbb+			
Enel S.p.A.	A-/Sta	a-	a-	a	bbb+	bbb	a	a-	bbb+	a-			
Energie Baden-Wuerttemberg AG (EnBW)	BBB+/Sta	aa-	a	bbb+	bbb	bbb+	a-	bbb+	bbb+	bbb+			
ERG S.p.A.	BBB+/Sta	bbb+	a-	bb	bbb-	bbb-	bbb+	bbb-	bbb+	a			
Fortum Oyj	BBB/Neg	aa-	a-	bbb-	a	bbb	bbb+	bbb	bbb	bbb			
Iberdrola, S.A.	BBB+/Sta	a	a-	a	bbb	bbb	a-	bbb	bbb	bbb			
Orsted A/S	BBB+/Sta	aa	a-	bbb+	a	bbb	bbb+	bbb-	a	bbb			
PGE Polska Grupa Energetyczna S.A.	BBB+/Sta	a	a-	bbb	bbb	bbb+	bb	bbb	a	bbb			
RWE AG	BBB/Sta	aa	a-	bbb	bbb	bbb	bbb	bbb-	a	a-			
Statkraft AS	BBB+/Sta	aa	a-	bbb-	a-	bbb	a-	bbb-	bbb	bbb			

Source: Fitch Ratings. Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Issuer	Business profile										Financial profile		
	Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility		
EDP	BBB-/Pos	3.0	3.0	1.0	1.0	1.0	3.0	1.0	0.0	0.0			
ENEAS.A	BBB/Sta	2.0	1.0	0.0	0.0	0.0	-3.0	0.0	3.0	1.0			
Enel S.p.A.	A-/Sta	0.0	0.0	1.0	-1.0	-2.0	1.0	0.0	-1.0	0.0			
Energie Baden-Wuerttemberg AG (EnBW)	BBB+/Sta	4.0	2.0	0.0	-1.0	0.0	1.0	0.0	0.0	0.0			
ERG S.p.A.	BBB-/Sta	2.0	3.0	-2.0	0.0	0.0	2.0	0.0	2.0	4.0			
Fortum Oyj	BBB/Neg	5.0	2.0	-1.0	3.0	0.0	1.0	0.0	0.0	1.0			
Iberdrola, S.A.	BBB+/Sta	2.0	1.0	2.0	-1.0	-1.0	1.0	-1.0	-1.0	0.0			
Orsted A/S	BBB+/Sta	5.0	1.0	0.0	2.0	-1.0	0.0	-2.0	2.0	-1.0			
PGE Polska Grupa Energetyczna S.A.	BBB+/Sta	2.0	1.0	-1.0	-1.0	0.0	-4.0	-1.0	2.0	0.0			
RWE AG	BBB/Sta	6.0	2.0	0.0	0.0	0.0	0.0	-1.0	3.0	2.0			
Statkraft AS	BBB+/Sta	5.0	1.0	-2.0	1.0	-1.0	1.0	-2.0	-1.0	0.0			

Source: Fitch Ratings. Legend: Worse positioned than IDR (Red), In line with IDR (Blue), Better positioned than IDR (Light Blue)

## Rating Sensitivities

### Factors That May, Individually or Collectively, Lead to Positive Rating Action/ Upgrade

- Nuclear- and lease-adjusted FFO net leverage below 2.5x on a sustained basis
- No material adverse changes to generation volumes or trading activities
- A disciplined investment strategy backed by a conservative financial strategy
- A sustainably favourable power commodity market environment leading to significantly higher-than- expected earnings

### Factors That May, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

- Nuclear- and lease-adjusted FFO net leverage above 3.5x on a sustained basis
- Economic downturn resulting in prolonged fall in demand for electricity
- Negative FCF through the cycle
- Minimum cash balance consistently below EUR2 billion

## Liquidity and Debt Structure

**Healthy Liquidity:** At end-2019, RWE's readily available cash was EUR6 billion. Additionally, it had EUR5 billion of committed and undrawn credit facilities. This line consists of two tranches with extension options (A: EUR3 billion, tenor 5+1+1, at lender's discretion; B: EUR2 billion, tenor 2+1+1, at borrower's discretion). RWE successfully exercised the first extension option on tranche A in March 2020.

Short-term financial liabilities at end-2019 were EUR1.8 billion. Fitch calculates FCF for 2020 at a negative EUR1.3 billion due to high capex.

As per our rating case, RWE has healthy liquidity, sufficient for the whole rating horizon.

## ESG Considerations

RWE has ESG credit relevance scores of '4' in categories Emissions from Operations and Fuel Use to Generate Energy. The remaining ESG credit relevance scores are no higher than '3', which means they are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## Liquidity and Debt Maturity Scenario with No Refinancing

Available liquidity (EURm)	2020F	2021F	2022F	2023F
Beginning cash balance	6,001	2,335	-36	-1,305
Rating case FCF after acquisitions and divestitures	-1,318	-2,030	-927	-394
<b>Total available liquidity (A)</b>	<b>4,683</b>	<b>306</b>	<b>-963</b>	<b>-1,699</b>
<b>Liquidity uses</b>				
Debt maturities	-2,348 <sup>a</sup>	-342	-342	-342
<b>Total liquidity uses (B)</b>	<b>-2,348</b>	<b>-342</b>	<b>-342</b>	<b>-342</b>
<b>Liquidity calculation</b>				
Ending cash balance (A+B)	2,335	-36	-1,305	-2,041
Revolver availability	5,000	3,000	3,000	3,000
<b>Ending liquidity</b>	<b>7,335</b>	<b>2,964</b>	<b>1,695</b>	<b>959</b>
<b>Liquidity score</b>	<b>4.1</b>	<b>9.7</b>	<b>6.0</b>	<b>3.8</b>

Source: Fitch Ratings, Fitch Solutions, RWE

Scheduled debt maturities	Original
Statement date	31 December 2019
2020 <sup>a</sup>	2,348
2021	342
2022	342
2023	342
2024	342
Thereafter	916
<b>Total</b>	<b>4,632</b>

Source: Fitch Ratings

<sup>a</sup> Debt maturity in 2020 includes EUR400 million of short-term collateral for trading activities

## Key Assumptions

### Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Close to fully hedged position in generation in electricity, coal and CO2 prices, delaying the effect of current price fluctuations, but at the same time providing for stable results with average EBITDA at about EUR2.9 billion and 60% contribution of renewables until 2022
- Capex at EUR10 billion over 2020-2022, co-financed from disposal proceeds
- Dividends at about EUR0.5 billion a year for 2020-2022

## Financial Data

(EURm)	Historical			Forecast		
	Dec 17 <sup>a</sup>	Dec 18 <sup>a</sup>	Dec 19	Dec 20F	Dec 21F	Dec 22F
<b>Summary income statement</b>						
Gross revenue	15,522	12,288	13,125	14,019	14,974	15,994
Revenue growth (%)	-20.0	-20.8	6.8	6.8	6.8	6.8
Operating EBITDA (before income from associates)	1,355	813	2,440	2,411	3,233	3,008
Operating EBITDA margin (%)	8.7	6.6	18.6	17.2	21.6	18.8
Operating EBITDAR	1,383	861	2,527	2,518	3,340	3,123
Operating EBITDAR margin (%)	8.9	7.0	19.3	18.0	22.3	19.5
Operating EBIT	779	167	1,303	1,015	1,755	1,486
Operating EBIT margin (%)	5.0	1.4	9.9	7.2	11.7	9.3
Gross interest expense	-280	-152	-232	-96	-99	-104
Pretax income (including associate income/loss)	914	305	-752	2,018	1,691	1,235
<b>Summary balance sheet</b>						
Readily available cash and equivalents	5,502	6,820	6,001	4,893	3,810	3,192
Total debt with equity credit	3,230	2,890	4,352	4,785	5,406	5,432
Total adjusted debt with equity credit	3,454	3,274	5,048	5,641	6,262	6,352
Net debt	-2,273	-3,930	-1,649	-108	1,596	2,240
<b>Summary cash flow statement</b>						
Operating EBITDA	1,355	813	2,440	2,411	3,233	3,008
Cash interest paid	-322	-211	-232	-96	-99	-104
Cash tax	-152	-63	136	24	-129	-168
Dividends received less dividends paid to minorities (inflow/(out)flow)	681	703	-130	209	149	135
Other items before FFO	-480	-951	-720	-523	-815	-602
Funds flow from operations	1,240	449	1,679	2,160	2,504	2,395
FFO margin (%)	8.0	3.7	12.8	15.4	16.7	15.0
Change in working capital	100	493	-1,080	1,053	196	-1,179
Cash flow from operations (Fitch defined)	1,340	942	599	3,213	2,700	1,216
Total non-operating/non-recurring cash flow	-5,100	3,777	-2,252			
Capital expenditure	-442	-485	-1,767			
Capital intensity (capex/revenue) (%)	2.8	3.9	13.5			
Common dividends	-5	-922	-430			
Free cash flow	-4,207	3,312	-3,850			
Net acquisitions and divestitures	205	42	691			
Other investing and financing cash flow items	3,668	-3,006	2,391	-237	-83	21
Net debt proceeds	0	0	809	433	621	26
Net equity proceeds	0	0	-60	14	408	262
Total change in cash	-334	348	-19	-1,108	-1,084	-618
<b>Calculations for forecast publication</b>						
Capex, dividends, acquisitions and other items before FCF	-5,342	2,412	-3,758	-4,531	-4,730	-2,143
Free cash flow after acquisitions and divestitures	-4,002	3,354	-3,159	-1,318	-2,030	-927
Free cash flow margin (after net acquisitions) (%)	-25.8	27.3	-24.1	-9.4	-13.6	-5.8
<b>Coverage ratios</b>						
FFO interest coverage (x)	4.4	2.4	7.4	22.1	24.7	22.9
FFO fixed-charge coverage (x)	4.1	2.1	5.7	11.0	12.4	11.4
Operating EBITDAR/interest paid + rents (x)	5.9	6.0	7.5	13.4	17.0	14.9
Operating EBITDA/interest paid (x)	6.3	7.2	10.0	27.3	34.3	30.4
<b>Leverage ratios</b>						
Total adjusted debt/operating EBITDAR (x)	1.7	2.1	2.1	2.1	1.8	1.9
Total adjusted net debt/operating EBITDAR (x)	-1.0	-2.3	-0.4	0.3	0.7	1.0
Total debt with equity credit/operating EBITDA (x)	1.6	1.9	1.9	1.8	1.6	1.7
FFO adjusted leverage (x)	2.4	6.0	2.8	2.5	2.5	2.6
FFO adjusted net leverage (x)	-1.4	-6.4	-0.5	0.3	1.0	1.3
Nuclear- and lease-adjusted FFO net leverage (x)	n.a.	n.a.	2.8	2.7	2.9	3.0

<sup>a</sup> Figures for 2017-2018 represent RWE's stand-alone profile (innogy SE treated as a financial investment).

Source: Fitch Ratings, Fitch Solutions

### How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

## Ratings Navigator

FitchRatings

RWE AG

ESG Relevance:



Corporates Ratings Navigator  
EMEA Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Business Profile				Financial Profile			Issuer Default Rating
			Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	
aaa										AAA
aa+										AA+
aa										AA
aa-										AA-
a+										A+
a										A
a-										A-
bbb+										BBB+
bbb										BBB
bbb-										BBB-
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b+										B+
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b-										B-
ccc+										CCC+
ccc										CCC
ccc-										CCC-
cc										CC
c										C
d or rd										D or RD

### Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

### Position and Cash Flow Profile

a-	Market Presence and Integration	bbb	Top-tier position in at least one market. Partially integrated (typically including generation, distribution and supply).
bbb+	Earnings from Regulated Network Assets	b	Minimal EBITDA comes from high-quality regulated networks or quasi-regulated assets.
bbb	Quasi-Regulated Earnings	a	Over 20% of EBITDA comes from quasi-regulated assets in markets or from long-term contracted sales with creditworthy counterparties.
bbb-			
bb+			

### Market Trends and Risks

a-	Fundamental Market Trends	bb	Markets with structural challenges.
bbb+	Generation and Supply Positioning	a	Strong position in the merit order; effective hedging; flexible fuel procurement. Generation balanced with strong position in supply and services.
bbb	Customer Base and Counterparty Risk	a	Economy of area served provides structurally stable background; low counterparty risk; high collection rates for supply operations.
bbb-			
bb+			

### Profitability and Cash Flow

bbb+	Free Cashflow	bb	Structurally negative FCF across the investment cycle.
bbb	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb-			
bb+			
bb			

### Financial Flexibility

a+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
a-	FFO Fixed Charge Cover	a	5.0x
bbb+	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bbb			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

### Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb+	Financial Transparency	a	High-quality and timely financial reporting.
bbb			

### Regulation

a-	Regulatory Framework and Policy Risk	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
bbb+	Cost Recovery and Risk Exposure	bbb	Tariff setting that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag, price and volume risk.
bbb			
bbb-			
bb+			

### Asset Base and Operations

a-	Asset Quality	bbb	Mid-range asset quality not likely to affect opex and capex requirements compared with peers.
bbb+	Asset Diversity	a	High diversification by geography, generation source, supplied product; multi-jurisdictional utility or regional multi-utility.
bbb	Carbon Exposure	bb	Energy production largely deriving from thermal sources; high carbon exposure (<600gCO2/kWh).
bbb-			
bb+			

### Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	3.5x
a+	Lease Adjusted FFO Net Leverage	a	3.0x
a			
a-			
bbb+			

### Credit-Relevant ESG Derivation

				Overall ESG
RWE AG has 2 ESG rating drivers and 10 ESG potential rating drivers				
key driver	0	issues	5	
driver	2	issues	4	
potential driver	10	issues	3	
not a rating driver	2	issues	2	
	0	issues	1	

- Emissions from operations
- Fuel use to generate energy
- Impact of waste from operations
- Plants' and networks' exposure to extreme weather
- Product affordability and access
- Quality and safety of products and services; data security

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.



### Credit-Relevant ESG Derivation

RWE AG has 2 ESG rating drivers and 10 ESG potential rating drivers

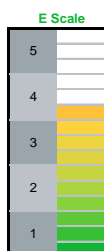
- ➔ RWE AG has exposure to emissions regulatory risk which, in combination with other factors, impacts the rating.
- ➔ RWE AG has exposure to energy productivity risk which, in combination with other factors, impacts the rating.
- ➔ RWE AG has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ RWE AG has exposure to extreme weather events but this has very low impact on the rating.
- ➔ RWE AG has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ RWE AG has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale
key driver	0	issues	5	
driver	2	issues	4	
potential driver	10	issues	3	
not a rating driver	2	issues	2	
	0	issues	1	

### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	4	Emissions from operations	Asset Base and Operations; Profitability and Cash Flow
Energy Management	4	Fuel use to generate energy	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants; effluent management	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability and Cash Flow
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability and Cash Flow



#### How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

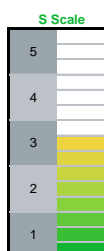
The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The **Credit-Relevant ESG Derivation** table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

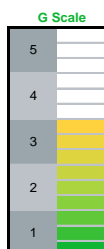
### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulation
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability and Cash Flow



### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

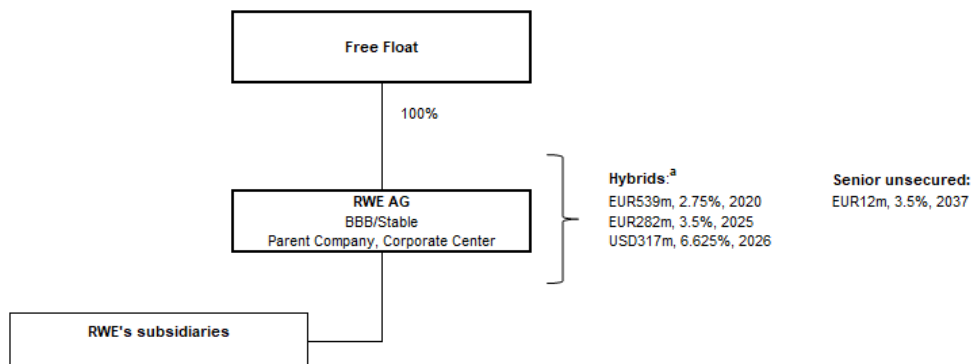


### CREDIT-RELEVANT ESG SCALE

#### How relevant are E, S and G issues to the overall credit rating?

5		Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4		Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3		Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2		Irrelevant to the entity rating but relevant to the sector.
1		Irrelevant to the entity rating and irrelevant to the sector.

## Simplified Group Structure Diagram



<sup>a</sup> For hybrids the first call date is presented.

Source: Fitch Ratings, Fitch Solutions, RWE. Group and debt structure at date.

## Peer Financial Summary

Company	IDR	Financial statement date	Operating EBITDA (EURm)	Funds flow from operations (EURm)	Free cash flow (EURm)	FFO fixed-charge coverage (x)	FFO adjusted net leverage (x)
RWE AG	BBB						
	BBB	2019	2,440	1,679	-3,850	5.7	-0.5
	BBB	2018	813	449	3,312	2.1	-6.4
	BBB	2017	1,355	1,240	-4,207	4.1	-1.4
Energie Baden-Wuerttemberg AG (EnBW)	BBB+						
	A-	2018	2,084	1,339	-685	4.9	2.8
	A-	2017	1,927	1,612	-3,034	3.4	2.2
	A-	2016	1,607	1,504	-88	4.2	2.0
Enel S.p.A.	A-						
	BBB+	2018	16,158	10,059	-487	4.7	4.0
	BBB+	2017	15,555	10,338	-1,399	4.9	3.5
	BBB+	2016	15,174	8,305	-1,160	3.6	3.9
Iberdrola, S.A.	BBB+						
	BBB+	2018	9,349	7,300	79	6.6	4.4
	BBB+	2017	7,319	5,141	-1,990	5.3	5.8
	BBB+	2016	7,934	5,701	-61	5.2	4.6
EDP - Energias de Portugal, S.A.	BBB-						
	BBB-	2018	3,287	2,278	-198	4.0	4.8
	BBB-	2017	3,523	1,943	-1,184	3.0	5.3
	BBB-	2016	3,698	2,138	315	3.1	5.5
Orsted A/S	BBB+						
	BBB+	2018	1,810	1,319	-1,201	4.1	1.2
	BBB+	2017	1,601	968	-2,729	3.2	1.6
	BBB+	2016	1,877	1,503	-622	4.3	1.5
Statkraft AS	BBB+						
	BBB+	2018	1,928	1,730	381	13.5	0.8
	BBB+	2017	1,553	914	139	6.6	2.7
	BBB+	2016	1,317	1,090	303	6.9	2.9
Fortum Oyj	BBB						
	BBB	2018	1,524	1,474	-752	8.5	3.5
	BBB+	2017	1,275	911	-642	5.0	1.2
	BBB+	2016	1,015	723	-955	4.0	0.3
ERG S.p.A.	BBB-						
	BBB-	2018	491	389	59	5.9	3.0
		2017	473	392	272	6.4	2.8
		2016	455	340	182	5.0	3.6
PGE Polska Grupa Energetyczna S.A.	BBB+						
	BBB+	2018	1,505	1,246	-385	16.3	1.7
	BBB+	2017	1,792	1,560	368	21.0	1.1
	BBB+	2016	1,537	1,521	-507	30.4	0.8

Source: Fitch Ratings, Fitch Solutions

## Reconciliation of Key Financial Metrics

(EUR Millions, As reported)	31 Dec 19
<b>Income Statement Summary</b>	
Operating EBITDA	2,440
+ Recurring Dividends Paid to Non-controlling Interest	-130
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	2,310
+ Operating Lease Expense Treated as Capitalised (h)	87
= Operating EBITDAR after Associates and Minorities (j)	2,397
<b>Debt &amp; Cash Summary</b>	
Total Debt with Equity Credit (l)	4,352
+ Lease-Equivalent Debt	696
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	5,048
Readily Available Cash [Fitch-Defined]	3,192
+ Readily Available Marketable Securities [Fitch-Defined]	2,809
= Readily Available Cash & Equivalents (o)	6,001
Total Adjusted Net Debt (b)	-953
<b>Cash-Flow Summary</b>	
Preferred Dividends (Paid) (f)	0
Interest Received	185
+ Interest (Paid) (d)	-232
= Net Finance Charge (e)	-47
Funds From Operations [FFO] (c)	1,679
+ Change in Working Capital [Fitch-Defined]	-1,080
= Cash Flow from Operations [CFO] (n)	599
Capital Expenditures (m)	-1,767
Multiple applied to Capitalised Leases	8.0
<b>Gross Leverage</b>	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	2.1
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	2.8
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Leverage [x] ((l+p)/(c-e+h-f))	2.5
(Total Debt + Other Debt)/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	1.9
CFO-Capex/Total Debt with Equity Credit (%)	-26.8%
<b>Net Leverage</b>	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	-0.4
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	-0.5
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Net Leverage [x] ((l+p-o)/(c-e+h-f))	-1.0
Total Adjusted Net Debt/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	1.4
CFO-Capex/Total Net Debt with Equity Credit (%)	70.8%
<b>Coverage</b>	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	7.5
Op. EBITDA / Interest Paid* [x] (k/(-d))	10.0
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	5.7
(FFO + Net Finance Charge + Capit. Leases - Pref. Div. Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	7.4
(FFO + Net Finance Charge - Pref. Div. Paid) / (Gross Int. Paid - Pref. Div. Paid)	

\* EBITDA/R after Dividends to Associates and Minorities  
Source: Fitch Ratings, Fitch Solutions, RWE AG

## Fitch Adjustment Reconciliation

(EUR Millions, As reported)	Reported Values 31 Dec 19	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Hybrid Adjustment	Cash Adjustment	- CORP - non-public	CORP - Lease Treatment	Other Adjustment	Adjusted Values
<b>Income Statement Summary</b>									
Revenue	13,125	0							13,125
Operating EBITDAR	559	1,968				1,968			2,527
Operating EBITDAR after Associates and Minorities	559	1,838	-130			1,968			2,397
Operating Lease Expense	0	87					87		87
Operating EBITDA	559	1,881				1,968	-87		2,440
Operating EBITDA after Associates and Minorities	559	1,751	-130			1,968	-87		2,310
Operating EBIT	-639	1,942				1,968	-26		1,303
<b>Debt &amp; Cash Summary</b>									
Total Debt With Equity Credit	5,734	-1,382		-280			-1,102		4,352
Total Adjusted Debt With Equity Credit	5,734	-686		-280			-406		5,048
Lease-Equivalent Debt	0	696					696		696
Other Off-Balance Sheet Debt	0	0							0
Readily Available Cash & Equivalents	6,450	-449			-898			449	6,001
Not Readily Available Cash & Equivalents	0	0							0
<b>Cash-Flow Summary</b>									
Preferred Dividends (Paid)	0	0							0
Interest Received	185	0							185
Interest (Paid)	-258	26					26		-232
Funds From Operations [FFO]	1,809	-130	-130						1,679
Change in Working Capital [Fitch-Defined]	-2,786	1,706						1,706	-1,080
Cash Flow from Operations [CFO]	-977	1,576	-130					1,706	599
Non-Operating/Non-Recurring Cash Flow	-546	-1,706						-1,706	-2,252
Capital (Expenditures)	-1,767	0							-1,767
Common Dividends (Paid)	-430	0							-430
Free Cash Flow [FCF]	-3,720	-130	-130						-3,850
<b>Gross Leverage</b>									
Total Adjusted Debt / Op. EBITDAR* [x]	10.3								2.1
FFO Adjusted Leverage [x]	3.0								2.8
FFO Leverage [x]	3.0								2.5
Total Debt With Equity Credit / Op. EBITDA* [x]	10.3								1.9
CFO-Capex/Total Debt with Equity Credit (%)	-47.9%								-26.8%
<b>Net Leverage</b>									
Total Adjusted Net Debt / Op. EBITDAR* [x]	-1.3								(0.4)
FFO Adjusted Net Leverage [x]	-0.4								(0.5)
FFO Net Leverage [x]	-0.4								(1.0)
Total Net Debt / (CFO - Capex) [x]	0.3								1.4
CFO-Capex/Total Net Debt with Equity Credit (%)	383.2%								70.8%
<b>Coverage</b>									
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	2.2								7.5

Source: Fitch Ratings, Fitch Solutions, RWE AG

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