Fitch Ratings

Corporates
Utilities - Non US
Germany

RWE AG

The recent upgrade of the Long-Term Issuer Default Rating (IDR) of RWE AG to 'BBB+'/Stable reflected RWE's continuous expansion in renewable generation, which drives an EBITDA increase, is carbon-free and mostly quasi-regulated thanks to support mechanisms. It also reflected visibility of conventional generation provided by the coal exit agreement in Germany and the equity increase in 2020, as well as compensation for the accelerated nuclear phase-out in Germany agreed in 2021. Fitch Ratings believes these factors will drive RWE's leverage sustainably below the positive rating guideline for the previous rating.

The main long-term risk is a more aggressive than expected growth strategy, possibly with the revision of the target leverage of the company, or underperformance of the merchant business, which still represents around 50% of the EBITDA.

Key Rating Drivers

Large Renewables Fleet: RWE expanded its renewable generation fleet to 10.8GW at end-2020 (on a pro-rata basis) from 9.9GW at end-2019 and 1.2GW at end-2018. We expect the overall capacity (41GW at end-2020) to be largely unchanged over 2021-2024. However, the share of renewables should trend towards 50% by the mid-2020s (26% at end-2020) at the cost of lignite, hard coal and nuclear, which will have a positive impact on RWE's business profile.

High Contribution from Renewables: The already high contribution to EBITDA from renewables (2020: 48% from wind and solar), combined with RWE's plans of further expansion, have sustainably improved the company's business profile contributing to the upgrade. Including the hydro/biomass/gas division, the total contribution was 67%, while adding the supply and trading division (all forming core businesses as defined by RWE) makes a total contribution of 83%. EBITDA composition is therefore already skewed towards zero- or low-carbon generation, but actual generation volumes need to follow.

Non-Core Business to Diminish: RWE's non-core businesses (17% of 2020 EBITDA) is lignite, hard coal and nuclear generation. Lignite and nuclear generation are located in Germany and will be gradually phased out, with the final dates set by law as 2038 for lignite and 2022 for nuclear. The earlier shutdowns will generally be compensated, limiting financial losses from lost generation volumes and stranded assets.

Compensation for Coal: RWE will receive EUR2.6 billion of compensation for earlier closures of lignite-fired power plants, which will be paid in equal instalments over 15 years and cover most of the EUR3.5 billion of additional costs of the lignite phase-out. The mechanism is already implemented into German law, but is pending clearance from the EU for state aid rules.

Hard coal-fired assets will be able to participate in auctions to be compensated for shut-down. The first auction was in 2H20 and RWE won compensation for its last two hard coal-fired power plants in Germany, totalling 1.6GW, which stopped operations end of 2020.

Compensation for Nuclear: The German government has agreed to compensate nuclear power plant operators for lost electricity volumes and stranded investments due to the enforced nuclear phase-out decided after the 2011 Fukushima disaster. RWE should receive ca. EUR880 million. The settlement will conclude all pending legal disputes related to this topic, but it is pending implementation into German law and EU review for state aid rules.

Equity Increase: In 2020, RWE raised EUR2 billion in equity (share capital up by 10%), intending to accelerate growth in wind and solar power. We deem this as positive for RWE's credit profile

Ratings

Rating Type	Rating	Outlook	Last rating action
Long-Term IDR	BBB+	Stable	Upgrade 25 Mar 2021
Short-Term IDR	F1		Upgrade 25 Mar 2021
Senior Unsecured	BBB+		Upgrade 25 Mar 2021
Sub-ordinated	BBB-		Upgrade 25 Mar 2021

Click here for full list of ratings

Applicable Criteria

Corporate Rating Criteria (December 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (December 2020)

Corporate Hybrids Treatment and Notching Criteria (November 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

Western European Electricity Generation Companies: Peer Review (January 2021)

Compensation to German Nuclear Power Plants Positive; No Immediate Rating Impact (March 2021)

Rising CO2 Prices Increase Pressure on EU Coal-fired Generation (March 2021)

Analysts

Artur Galbarczyk
+48 22 338 6291
artur.galbarczyk@fitchratings.com

Jan Juergensen
+49 69 768076 175
jan.juergensen@fitchratings.com

as it provided non-debt funding for green investments and lowered our leverage expectations for 2021-2024.

Rising CO2 Prices: RWE remains exposed to CO2 pricing, due to material coal-fired generation (2020: 28% of generation volume). CO2 prices have been rising since 2018, reaching EUR45 a tonne in April 2021. However, the negative impact is mitigated by the company's progressive reorientation into renewable generation and the long-term hedging policy (CO2 prices are financially hedged until 2030). In our rating case, we assume coal's contribution to EBITDA to decrease to 3% over 2023-2024.

Low Leverage: Fitch applies nuclear-adjusted funds from operations (FFO) net leverage as a rating guideline for RWE, considering gross nuclear provisions and adjusting FFO for the nuclear provision utilisation, as due to the enforced phase-out the nuclear provisions will become due faster. We no longer capitalise leases and treat lease expenses as an operating expense.

We forecast nuclear-adjusted FFO net leverage to average 1.3x over 2021-2024. It should be close to zero in 2021, driven by large accumulated cash from the equity increase and compensation for the nuclear phase-out. The ratio increases to around 1.8x over 2023-2024 as we expect funds will be gradually spent. This is comfortably below the downgrade sensitivity of 2.5x. EBITDA should remain close to EUR3 billion, as renewables expansion compensates the drop in thermal contribution and our conservative assumptions on trading.

E.ON Stake Adds Flexibility: RWE has assigned its 15% stake in E.ON SE (BBB+/Stable), together with compensation from the government for the coal phase-out, to cover mining provisions. The value of the E.ON stake (around EUR3.5 billion) and the compensation (EUR2.6 billion) exceed the mining provision (EUR4.8 billion). This increases RWE's financial flexibility if it decides to divest the stake in full or in part.

Short-Term Disruptors: RWE managed the first year of the pandemic reasonably smoothly and did not encounter material problems in operations. There were only minor delays in commissioning new onshore and solar projects, mainly in the US. However, RWE's EBITDA in the onshore wind and solar division will be negatively affected in 2021 by around EUR0.4 billion due to the extreme cold in Texas in February and the need to buy the electricity that was already sold forward and could not be generated internally. We treat these losses as one-off and non-recurring.

Financial Summary

RWE AG

(EURm)	Dec 19	Dec 20	Dec 21F	Dec 22F
Operating EBITDA (before income from associates)	2,440	3,105	2,635	3,020
Funds flow from operations	1,679	3,102	2,541	2,157
Free cash flow after acquisitions and divestitures	-3,159	565	-1,230	-3,165
FFO interest coverage (x)	7.4	11.8	26.5	21.7
FFO net leverage (x)	-1.0	-1.9	-2.0	-1.3
Nuclear-adjusted FFO net leverage (x)	n.a.	0.2	0.4	1.3

F – Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

RWE is a generation-focused utility with a large conventional fleet. Due to the acquisition of the renewables portfolio from E.ON and innogy, and its organic expansion in this field, around half of RWE's EBITDA already originates from renewables.

RWE's business profile and debt capacity will likely evolve towards that of other generation-focused utilities with a high share of renewables in the portfolio such as Orsted A/S (BBB+/Stable), which has higher debt capacity due to a greater proportion of renewables, and Statkraft AS (BBB+/Stable).

The lack of regulated distribution or transmission business makes RWE's business profile weaker than that of German peer EnBW Baden-Wuerttemberg AG (BBB+/Stable), but its lower leverage means the credit profiles are aligned. RWE's credit profile is stronger than Fortum Oyj's (BBB/Negative) largely due to Fortum's acquisition of Uniper. Similar to EnBW and E.ON, RWE is responsible for near- and medium-term nuclear decommissioning provisions, which impact 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	Revenues Predictability	Market and Competitive Position	Asset Base and Operations	Counterparty and Commodity Exposure	Profitability	Financial Structure	Financial Flexibility
ERG S.p.A.	BBB-/Sta	bbb+	a-	bbb-	bbb+	bbb+	bbb	bbb	bbb-	a-
Fortum Oyj	BBB/Neg	aa-	a-	bbb-	bbb-	bbb	bbb	bbb+	bbb	bbb+
Orsted A/S	BBB+/Sta	aa	a-	bbb+	bbb+	a-	bbb+	bbb-	bbb	bbb+
RWE AG	BBB+/Sta	aa	a-	bbb-	bbb+	bbb	bbb+	bbb-	bbb+	a
Statkraft AS	BBB+/Sta	aa	a-	bb	bbb	a-	bbb-	a-	bbb	a-

Source: Fitch Ratings. Importance: Higher; Moderate; Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Revenues Predictability	Market and Competitive Position	Asset Base and Operations	Counterparty and Commodity Exposure	Profitability	Financial Structure	Financial Flexibility
ERG S.p.A.	BBB-/Sta	2.0	3.0	0.0	2.0	2.0	1.0	1.0	0.0	3.0
Fortum Oyj	BBB/Neg	5.0	2.0	-1.0	-1.0	0.0	0.0	1.0	0.0	1.0
Orsted A/S	BBB+/Sta	5.0	1.0	0.0	0.0	1.0	0.0	-2.0	-1.0	0.0
RWE AG	BBB+/Sta	5.0	1.0	-2.0	0.0	-1.0	0.0	-2.0	0.0	2.0
Statkraft AS	BBB+/Sta	5.0	1.0	-4.0	-1.0	1.0	-2.0	1.0	-1.0	1.0

Source: Fitch Ratings. Worse positioned than IDR; In line with IDR; Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

We currently do not anticipate an upgrade to the 'A' category. Upside is limited by RWE's business profile as an electricity generation utility with no networks, and coal among the main fuels over the rating horizon. However, signs of a quicker shift to renewables, e.g. over 50% capacity installed in renewables or over 75% contribution from quasi-regulated income to EBITDA, while keeping leverage low, could lead to positive rating action.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Deterioration of the business profile, e.g. due to delays in execution of investments in renewables, lower than expected profitability of new assets or economic downturn resulting in prolonged fall in demand for electricity
- Nuclear-adjusted FFO net leverage above 2.5x on a sustained basis
- Negative free cash flow (FCF) after acquisitions and divestitures through the cycle

Liquidity and Debt Structure

Healthy Liquidity: At end-2020, RWE's readily available cash stood at EUR9 billion, boosted by operating results and the equity increase. It also had EUR5 billion of committed and undrawn credit facilities.

Short-term financial liabilities at end-2020 amounted to EUR1.2 billion. Fitch calculates 2021 FCF after acquisitions, divestitures and other cash flow at negative EUR0.6 billion due to high capex.

As per our rating case, RWE has healthy liquidity, sufficient for the rating horizon until 2024.

ESG Considerations

RWE has ESG credit relevance scores of '4' in categories "GHG Emissions & Air Quality" and "Energy Management". ESG issues impact the ratings primarily through a high share of coal in RWE's generation fuel mix. This leads to lower debt capacity given that restrictive environment policies create downward pressure on earnings and trigger additional capex for energy transition. However, RWE has been reducing its carbon footprint and is on a decarbonisation path with the CO2 neutrality goal set for 2040. Nevertheless, these factors have a negative impact on the credit profile, and are relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or 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.

Liquidity and Debt Maturity Scenario with No Refinancing

RWE AG – Liquidity Analysis

Available liquidity (EURm)	2021F	2022F	2023F	2024F
Beginning cash balance	8,990	7,217	4,265	2,817
Rating-case FCF after acquisitions, divestitures and other cash flow	-612	-2,349	-1,430	-1,098
FCF	-1,989	-3,788	-2,384	-1,598
Net acquisitions & divestitures	759	623	306	500
Other investing and financing cash flow	618	816	648	0
Total available liquidity (A)	**8,378**	**4,868**	**2,836**	**1,718**
Liquidity uses				
Debt maturities	-1,161	-603	-19	0
Total liquidity uses (B)	**-1,161**	**-603**	**-19**	**0**
Liquidity calculation				
Ending cash balance (A+B)	7,217	4,265	2,817	1,718
Revolver availability	5,000	5,000	3,000	3,000
Ending liquidity	**12,217**	**9,265**	**5,817**	**4,718**
Liquidity score	**11.5**	**16.4**	**307.2**	**Not meaningful**

Source: Fitch Ratings, Fitch Solutions, RWE AG

Scheduled Debt Maturities	**Original**
Statement Date	**31 December 2020**
2021	1,161
2022	603
2023	19
2024	0
Thereafter	1,539
Total	3,322

Source: Fitch Ratings, Fitch Solutions, RWE AG

Key Assumptions

Fitch's Key Assumptions Within its Rating Case for the Issuer

- Close to fully hedged position in electricity, coal and CO2 prices providing for stable results with an average EBITDA at EUR2.8 billion and average contribution from wind and solar at 62% over 2021-2023
- Capex at EUR11 billion cumulatively over 2021-2023, co-financed from disposal proceeds (mainly minorities)
- Dividends at EUR0.6 billion a year for 2021-2023

Financial Data

RWE AG

	Historical			Forecast		
(EURm)	**Dec 18[a]**	**Dec 19**	**Dec 20**	**Dec 21**	**Dec 22**	**Dec 23**
Summary income statement						
Gross revenue	12,288	13,125	13,688	14,275	14,888	15,526
Revenue growth (%)	-20.8	6.8	4.3	4.3	4.3	4.3
Operating EBITDA (before income from associates)	813	2,440	3,105	2,635	3,020	2,635
Operating EBITDA margin (%)	6.6	18.6	22.7	18.5	20.3	17.0
Operating EBITDAR	861	2,527	3,235	2,769	3,158	2,791
Operating EBITDAR margin (%)	7.0	19.3	23.6	19.4	21.2	18.0
Operating EBIT	167	1,303	1,751	1,231	1,490	1,054
Operating EBIT margin (%)	1.4	9.9	12.8	8.6	10.0	6.8
Gross interest expense	-152	-232	-261	-93	-98	-98
Pretax income (including associate income/loss)	305	-752	1,196	2,104	1,094	801
Summary balance sheet						
Readily available cash and equivalents	6,820	6,001	8,990	9,432	6,480	5,677
Total debt with equity credit	2,890	4,352	3,194	4,376	3,773	4,399
Total adjusted debt with equity credit	3,274	5,048	4,234	5,448	4,877	5,647
Net debt	-3,930	-1,649	-5,796	-5,056	-2,707	-1,278
Summary cash flow statement						
Operating EBITDA	813	2,440	3,105	2,635	3,020	2,635
Cash interest paid	-211	-232	-261	-93	-98	-98
Cash tax	-63	136	122	140	-173	-202
Dividends received less dividends paid to minorities (inflow/(out)flow)	703	-130	-30	-24	56	50
Other items before FFO	-951	-720	-117	-280	-779	-744
Funds flow from operations	449	1,679	3,102	2,541	2,157	1,759
FFO margin (%)	3.7	12.8	22.7	17.8	14.5	11.3
Change in working capital	493	-1,080	362	307	-478	-366
Cash flow from operations (Fitch defined)	942	599	3,464	2,848	1,679	1,393
Total non-operating/non-recurring cash flow	3,777	-2,252	586			
Capital expenditure	-485	-1,767	-2,285			
Capital intensity (capex/revenue) (%)	3.9	13.5	16.7			
Common dividends	-922	-430	-492			
Free cash flow	3,312	-3,850	1,273			
Net acquisitions and divestitures	42	691	-708			
Other investing and financing cash flow items	-3,006	2,391	-1,274	618	816	648
Net debt proceeds	0	809	61	1,054	-603	626
Net equity proceeds	0	-60	2,230	0	0	0
Total change in cash	348	-19	1,582	442	-2,952	-804
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	-2.6	-0.7	-1.9	-1.9	-0.9	-0.5
Total adjusted debt/operating EBITDAR (x)	2.1	2.1	1.3	2.0	1.5	2.0
Total adjusted net debt/operating EBITDAR (x)	-2.3	-0.4	-1.5	-1.5	-0.5	0.0
Total debt with equity credit/operating EBITDA (x)	1.9	1.9	1.0	1.7	1.2	1.6
FFO adjusted leverage (x)	6.0	2.8	1.3	2.1	2.2	3.0
FFO adjusted net leverage (x)	-6.4	-0.5	-1.5	-1.5	-0.7	0.0
FFO leverage (x)	5.8	2.5	1.0	1.8	1.8	2.5
FFO net leverage (x)	-7.8	-1.0	-1.9	-2.0	-1.3	-0.7
Nuclear-adjusted FFO net leverage (x)	n.a.	n.a.	0.2	0.4	1.3	1.8
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	2,412	-3,758	-2,899	-4,078	-4,844	-3,471
Free cash flow after acquisitions and divestitures	3,354	-3,159	565	-1,230	-3,165	-2,078
Free cash flow margin (after net acquisitions) (%)	27.3	-24.1	4.1	-8.6	-21.3	-13.4
Coverage ratios						
FFO interest coverage (x)	2.4	7.4	11.8	26.5	21.7	17.8
FFO fixed-charge coverage (x)	2.1	5.7	8.2	11.5	9.6	7.5
Operating EBITDAR/interest paid + rents (x)	6.0	7.5	8.2	12.1	13.6	11.2
Operating EBITDA/interest paid (x)	7.2	10.0	11.8	28.0	31.5	27.4
Additional metrics						
CFO-capex/total debt with equity credit (%)	15.8	-26.8	36.9	-37.7	-48.9	-29.9
CFO-capex/total net debt with equity credit (%)	-11.6	70.8	-20.3	32.6	68.1	102.9

[a] Figures for 2018 represent RWE's standalone 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.

FitchRatings

Ratings Navigator

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■ (red)	Higher Importance	⇩	Negative
■ (dark blue)	Average Importance	⇳	Evolving
■ (light blue)	Lower Importance	□	Stable

FitchRatings

RWE AG

Corporates Ratings Navigator
Global Electricity Generation

Operating Environment

	Sub-Factor		Description
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 of 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+			

Management and Corporate Governance

	Sub-Factor		Description
a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective check 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			

Revenues Visibility

	Sub-Factor		Description
bbb+	Contracted Position	bb	Moderate visibility under PPAs or incentives with short to medium (3 years) term residual life, with manageable merchant risk. 50% to 80% contracted or incentivised.
bbb	Contract Renewal Risk	bb	Moderate re-contracting prospects with weaker contractual terms.
bbb-	System / Capacity Payments	bbb	Less transparent or shorter duration market pricing structures with some risk of political interference proving medium term price visibility for power generators.
bb+	Degree of Supply Integration	b	Minimal supply integration. Significant long or short generation position.
bb	Resource Predictability	bbb	Stable and predictable capacity factor.

Market Position

	Sub-Factor		Description
a	Supply/Demand Dynamics	bbb	Moderately favorable outlook for prices. Balanced reserve margin with capacity addition pace matching demand growth. Supply/Demand balance aided by regulatory system mechanism.
a-	Competitive Position	bbb	Efficient generation with recurrent merit dispatch.
bbb+	Relative Size and Scale	a	Large scale operations with diverse generation asset base or company supplies more than 50% of electricity to the systems where it operates or strong competitive position in a localized market
bbb			
bbb-			

Asset Base and Operations

	Sub-Factor		Description
a-	Asset Quality and Diversity	bbb	Good single asset quality or partial diversification by geography and/or generation source.
bbb+	Exposure to Environmental Regulations	bb	Significant exposure to environmental regulations. Energy production largely deriving from thermal sources; high carbon exposure.
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.
bbb-			
bb+			

Commodity Exposure

	Sub-Factor		Description
a	Counterparty Risk	bbb	Diversified, medium counterparty risk or weighted average credit quality of actual and potential off-takers is in line with 'BBB' rating. Single 'BBB' rated off-taker under well-structured PPA.
a-	Costs Pass-Through and Supply Mix	bbb	Limited exposure to changes in commodity costs with ability to pass cost changes to end users. Low variable costs and moderate flexibility/certain of supply.
bbb+	Hedging Strategy	a	Strong portfolio/cash flow smoothing effects from extensive contractual hedge.
bbb			
bbb-			

Profitability

	Sub-Factor		Description
bbb+	Free Cash Flow	bb	Structurally moderately negative FCF across the investment cycle.
bbb	Cash Flow Predictability	bbb	Stability and predictability cash flow in line with peers.
bbb-			
bb+			
bb			

Financial Structure

	Sub-Factor		Description
a	FFO Leverage	bbb	3.5x
a-	FFO Net Leverage	a	<1.0x
bbb+	Total Debt With Equity Credit/Operating EBITDA	bbb	3.3x
bbb			
bbb-			

Financial Flexibility

	Sub-Factor		Description
aa-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a+	Liquidity	a	Very comfortable liquidity. No need to use external funding in the next 12 months even under a severe stress scenario. Well spread debt maturity schedule. Diversified sources of funding.
a	FFO Interest Coverage	a	5.5x
a-	DSCR		n.a.
bbb+	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.

Credit-Relevant ESG Derivation

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

- Emissions from operations
- Fuel use to generate energy and serve load
- 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

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

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

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.

FitchRatings

RWE AG

Corporates Ratings Navigator
Global Electricity Generation

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
Energy Management	4	Fuel use to generate energy and serve load	Asset Base and Operations; Counterparty and Commodity Exposure; Profitability
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability

E Scale: 5, 4, 3, 2, 1

Social (S)

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

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance; Financial Structure
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; Counterparty and Commodity Exposure
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale: 5, 4, 3, 2, 1

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.

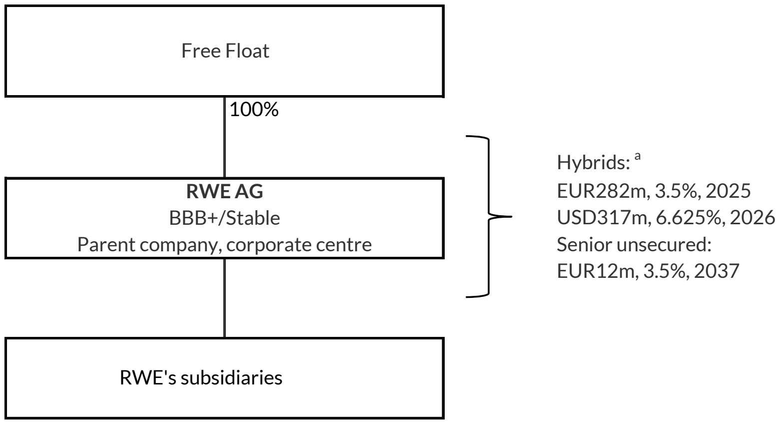
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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



[a] For hybrids, the first call date is shown.
Source: Fitch Ratings, Fitch Solutions, RWE, as of May 2021

Peer Financial Summary

Company	IDR	Financial statement date	Operating EBITDA (EURm)	Funds flow from operations (EURm)	FCF (EURm)	FFO interest coverage (x)	FFO net leverage (x)
RWE AG	BBB+						
	BBB	2020	3,105	3,102	1,273	11.8	-1.9
	BBB	2019	2,440	1,679	-3,850	7.4	-1.0
	BBB	2018	813	449	3,312	2.4	-7.8
Orsted A/S	BBB+						
	BBB+	2019	2,470	1,297	-2,051	4.7	2.0
	BBB+	2018	1,816	1,323	-1,205	5.2	0.8
	BBB+	2017	1,595	964	-2,718	4.0	1.0
Fortum Oyj	BBB						
	BBB	2019	1,745	1,669	213	10.3	2.8
	BBB	2018	1,524	1,474	-752	9.5	3.4
	BBB+	2017	1,275	911	-642	5.7	1.0
ERG S.p.A.	BBB-						
	BBB-	2019	504	398	168	7.4	3.1
	BBB-	2018	491	389	59	6.4	3.0
		2017	473	392	272	7.0	2.7
Statkraft AS	BBB+						
	BBB+	2019	1,879	1,045	-311	12.3	1.3
	BBB+	2018	1,819	1,632	360	15.8	0.7
	BBB+	2017	1,420	836	127	7.6	2.6
EDP - Energias de Portugal, S.A.	BBB-						
	BBB-	2019	3,621	2,411	-1,174	5.1	4.7
	BBB-	2018	3,287	2,278	-198	4.6	4.7
	BBB-	2017	3,523	1,943	-1,184	3.3	5.3

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Fitch Adjustments and Reconciliation Table for RWE AG

(EURm)	Notes and Formulas	Reported Values	Sum of Adjustments	Cash Adjustment	Hybrid Adjustment	CORP - Lease Treatment	Other Adjustments	Adjusted Values
31 December 2020								
Income Statement Summary								
Revenue		13,688						13,688
Operating EBITDAR		3,235						3,235
Operating EBITDAR After Associates and Minorities	(a)	3,205						3,205
Operating Lease Expense	(b)	0	130			130		130
Operating EBITDA	(c)	3,235	-130			-130		3,105
Operating EBITDA After Associates and Minorities	(d) = (a-b)	3,205	-130			-130		3,075
Operating EBIT	(e)	56	1,695			-35	1,730	1,751
Debt and Cash Summary								
Total Debt with Equity Credit	(f)	5,198	-2,004		128	-1,187	-945	3,194
Lease-Equivalent Debt	(g)	0	1,040			1,040		1,040
Other Off-Balance-Sheet Debt	(h)	0						0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	5,198	-964		128	-147	-945	4,234
Readily Available Cash and Equivalents	(j)	8,993	-3	-6			3	8,990
Not Readily Available Cash and Equivalents		0						0
Cash Flow Summary								
Operating EBITDA After Associates and Minorities	(d) = (a-b)	3,205	-130			-130		3,075
Preferred Dividends (Paid)	(k)	0						0
Interest Received	(l)	283						283
Interest (Paid)	(m)	-296	35			35		-261
Cash Tax (Paid)		122						122
Other Items Before FFO		794	-911				-911	-117
Funds from Operations (FFO)	(n)	4,108	-1,006			-95	-911	3,102
Change in Working Capital (Fitch-Defined)		-13	375				375	362
Cash Flow from Operations (CFO)	(o)	4,095	-631			-95	-536	3,464
Non-Operating/Nonrecurring Cash Flow		50	536				536	586
Capital (Expenditures)	(p)	-2,285						-2,285
Common Dividends (Paid)		-492						-492
Free Cash Flow (FCF)		1,368	-95			-95		1,273
Gross Leverage (x)								
Total Adjusted Debt/Operating EBITDAR[a]	(i/a)	1.6						1.3
FFO Adjusted Leverage	(i/(n-m-l-k+b))	1.3						1.3
FFO Leverage	(i-g)/(n-m-l-k)	1.3						1.0
Total Debt with Equity Credit/Operating EBITDA[a]	(i-g)/d	1.6						1.0
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	34.8%						36.9%
Net Leverage (x)								
Total Adjusted Net Debt/Operating EBITDAR[a]	(i-j)/a	(1.2)						(1.5)
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	(0.9)						(1.5)
FFO Net Leverage	(i-g-j)/(n-m-l-k)	(0.9)						(1.9)
Total Net Debt with Equity Credit/Operating EBITDA[a]	(i-g-j)/d	(1.2)						(1.9)
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-47.7%						-20.3%
Coverage (x)								
Operating EBITDA/(Interest Paid + Lease Expense)[a]	a/(-m+b)	10.8						8.2
Operating EBITDA/Interest Paid[a]	d/(-m)	10.8						11.8
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	13.9						8.2
FFO Interest Coverage	(n-l-m-k)/(-m-k)	13.9						11.8

[a]EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, RWE AG

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.