

10 JUN 2025

Fitch Rates RWE's Proposed Hybrid Notes 'BBB-(EXP)'

Fitch Ratings - Frankfurt am Main - 10 Jun 2025: Fitch Ratings has assigned RWE AG's (BBB+/Stable) proposed subordinated notes an expected rating of 'BBB-(EXP)'. The assignment of final rating is contingent on the receipt of final documents conforming to information received by Fitch.

The proposed hybrid notes would qualify for 50% equity credit, as interest payments on the notes can be deferred at the option of the issuer. Additionally, the notes' subordinated ranking provides loss absorption for RWE's more senior debt, as the notes rank senior only to junior obligations (which include subordinated notes due 2075 with a first call date in 2026) and equity instruments (ordinary shares and any other class of shares ranking pari passu with ordinary shares).

RWE's IDR and Stable Outlook reflect its strong business profile as a large generation company and with leverage within the rating sensitivities in our forecasts, although with limited headroom. The company will use the proceeds to finance and refinance new and existing green projects.

Key Rating Drivers

The proposed notes:

Rating Reflects Deep Subordination: The proposed hybrid notes are rated two notches below RWE's senior unsecured rating of 'BBB+', given their deep subordination and loss absorption features and, consequently, lower recovery prospects. The notes only rank senior to the claims of junior obligations and equity instruments.

Equity Treatment: The proposed notes will qualify for 50% equity credit as they meet Fitch Corporate Hybrids Treatment and Notching Criteria with regard to deep subordination, limited events of default, full discretion to defer coupons for at least five years and optional call dates. While these are equity-like characteristics, equity credit is limited to 50% due to the cumulative interest coupon, a feature that is more debt-like in nature.

Cumulative Coupon: The debt-like nature of the cumulative interest coupon deferrals results in 50% equity treatment and 50% debt treatment of the hybrid notes. Despite the 50% equity treatment, Fitch treats coupon payments as 100% interest. RWE will be obliged to make a mandatory settlement of arrears of interest under certain circumstances, including dividends payment.

Effective Maturity Date: While both hybrid tranches mature in 2055, we deem their effective maturity dates as 2035 and 2038, respectively, the date from which the issuer will no longer be subject to replacement language, which discloses RWE's intent to replace the instrument with the proceeds of a

similar instrument or with equity. Under Fitch's criteria, the equity credit of 50% would change to 0% five years before the effective maturity date.

RWE:

Earnings Normalising: Fitch-defined EBITDA was EUR5 billion in 2024, above our EUR4.6 billion forecast. The decrease of 33% from 2023 was due mainly to lower power prices. The company invested EUR9.4 billion and paid EUR0.7 billion dividends, which resulted in nuclear-adjusted funds from operations (FFO) net leverage of 1.9x, in line with our expectation. Its 1Q25 company-defined EBITDA was EUR1.3 billion, 23% lower than 1Q24, due to a lower contribution from supply and trading, offshore wind and flexible generation, partially offset by better onshore wind and solar performance. The company confirmed its guidance for 2025 adjusted EBITDA between EUR4.6-5.2bn.

Capex Reduced, Share Buyback Unchanged: In March 2025, RWE announced that it will reduce net cash investments by EUR10 billion over 2025-2030, compared with its previous plan, as it has established stricter investment criteria, especially in the US. This relates to uncommitted projects that RWE will not pursue due to changing market conditions. The share buyback plan amounts to EUR1.5 billion until 1H26, as announced in November 2024. The leverage trend will depend on the company's capital allocation in the next four years.

Resilient Business Profile: RWE derives a reasonable share of its EBITDA from quasi-regulated earnings (46% in 2024). We expect this share to rise further over the next four years, with the normalisation of energy prices and the expansion of renewables, which remains part of the company's strategy, despite reduced capex. RWE derives about 70% of its earnings from wind and solar under contracted support schemes, with a remaining tenor of 14 years on average. The company also benefits from capacity payments in the UK gas sector, which represent about 25% of its flexible generation division's earnings.

Peer Analysis

See Fitch Affirms RWE at 'BBB+'; Outlook Stable, dated 21 November 2024 on www.fitchratings.com

Key Assumptions

See Fitch Affirms RWE at 'BBB+'; Outlook Stable, dated 21 November 2024 on www.fitchratings.com

RATING SENSITIVITIES

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

- Deterioration of the business profile, for example, due to delays to investments in renewables, lower-than-expected profitability of new assets or persistently depressed electricity prices
- Nuclear-adjusted FFO net leverage above 2.5x on a sustained basis

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

- We do not anticipate an upgrade to the 'A' category. The upside is limited by RWE's business profile as an electricity generation utility with no networks and its sizeable thermal exposure. However, signs of a quicker shift to renewables, for example, with over 75% EBITDA contribution from quasi-regulated activities, while keeping leverage low, could lead to positive rating action

Liquidity and Debt Structure

At end-2024, RWE had EUR11.9 billion of cash and marketable securities and EUR10 billion committed undrawn revolving credit facilities split into three tranches, with maturities in April 2026 (EUR2 billion and EUR3 billion) and June 2027 (EUR5 billion). This should be sufficient to cover negative free cash flow and EUR1.7 billion debt maturities in 2025.

In addition, RWE's 15% stake in E.ON (about EUR4.5 billion) is a source of financial flexibility if it decides to divest the stake in full or in part.

Issuer Profile

RWE is a power generation and trading company. It is one of the largest utilities in Germany with operations in several other European markets and worldwide.

Date of Relevant Committee

20 November 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

RWE has an ESG Relevance Score of '4' for 'GHG Emissions & Air Quality' and 'Energy Management'. ESG issues affect the ratings primarily through the presence of coal in RWE's generation fuel mix. These factors have a negative impact on the credit profile and are relevant to the ratings in conjunction with other factors. However, RWE has been reducing its carbon footprint and is on a decarbonisation path with a CO2 neutrality goal set for 2040. The company has also agreed to exit coal in 2030.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and

materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
RWE AG			
• subordinated	BBB-(EXP)	Expected Rating	

RATINGS KEY OUTLOOK WATCH

POSITIVE	+	◆
NEGATIVE	-	◆

RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria - Effective from 12 November 2020 to 8 April 2025 \(pub.12 Nov 2020\)](#)

[Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 \(pub.21 Jun 2024\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

RWE AG EU Issued, UK Endorsed

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