

Rating Action: Moody's confirms RWE's Baa3/Ba2 ratings, stable outlook

17 May 2018

London, 17 May 2018 -- Moody's Investors Service (Moody's) has today confirmed the Baa3 issuer rating of RWE AG (RWE), and the Ba2 rating of its subordinated hybrid capital securities (the hybrids). The Prime-3 commercial paper ratings were also confirmed. The outlook on all the ratings is stable.

This rating action concludes the review process initiated on 14 March 2018 following the announcement that RWE had reached an agreement with E.ON SE (E.ON) over the sale of its 76.8% stake in innogy SE (innogy) as part of a wide-ranging exchange of assets.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The confirmation of the Baa3 rating takes account of a material reduction in RWE's net debt to EUR4.5 billion as of end-December 2017 on the back of the proceeds from nuclear fuel tax compensation, stronger performance from commercial asset optimization and implementation of cost cutting initiatives. It further reflects (1) the company's large and well-diversified generation portfolio; (2) a rather conservative financial policy with limited third party debt; and (3) the financial flexibility afforded by its 76.8% stake in innogy, which provides a fairly stable source of dividend income. The above factors mitigate the risks associated with RWE's volatile generation, supply and trading businesses, coupled with the expected decline in the company's EBITDA as a result of lower power prices, declining volumes in nuclear and lignite production, and tight margins on spread generation business, which are only partially mitigated by the company's efficiency programme, asset optimization and increasing share of capacity payments in the UK.

The rating confirmation further reflects Moody's expectation that the transaction with E.ON, which in principle assumes that RWE will acquire essentially all the renewable assets currently owned by E.ON and innogy and certain provisions, will transform RWE's profile, if concluded. RWE's generation fleet will become more diversified and its average carbon intensity will decrease. Whilst some 90% of the company's earnings will be derived from generation and supply and trading, the earnings mix will change. Renewables, which have lower risk than conventional generation, given their typically fixed tariffs and limited exposure to merchant power under contracts, will account for some 55-60% of RWE's EBITDA.

These positives are, however, balanced by the challenges that RWE's generation portfolio faces in the context of low and volatile wholesale power prices and further future policy impact on the company's coal and lignite generation fleet. RWE's credit quality will be further constrained by the relatively short remaining life of current earnings, either as a result of anticipated plant closures or fall in subsidies, compared with the long-term cash outflows associated with provisions, including nuclear and mining. In this context, Moody's has positively factored in RWE's commitment to a strong credit quality and the significant value of the company's financial investment portfolio, which will include the 16.67% stake in E.ON and certain other assets.

The complex asset swap transaction is subject to multiple antitrust clearances, at the national and EU levels with completion not expected before the end of 2019. The long execution period represents a risk. However, by acquiring the RWE's 76.8% stake in innogy, E.ON will gain control over innogy irrespective of the acceptance level of the public takeover offer by other innogy shareholders.

The Ba2 rating on the hybrid securities is two notches below the senior unsecured rating, which reflects the features of the hybrids that receive basket 'C' treatment (i.e. 50% equity or "hybrid equity credit" and 50% debt for financial leverage purposes).

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that as RWE's profile evolves, the company will exhibit a financial profile consistent with the Baa3 rating, namely funds from operations (FFO)/net debt in at least low twenties in percentage terms. This guidance will be considered in the context of the evolution of the company's strategy for renewables, national policies and the asset coverage for RWE's long-term provisions, which

includes the company's financial investment in E.ON. Should the business risk profile of RWE differ from what Moody's currently expects, the financial ratios guidance will be revisited accordingly.

WHAT COULD MOVE THE RATING UP/DOWN

Given the planned transaction and the uncertain outlook in RWE's core markets, positive pressure is unlikely to develop on the rating in the medium term. Any ratings upgrade is likely to require a significant reduction in business risk and an improvement in its financial risk profile. It is also likely to take account of a growing and successful track record for the business in its new shape.

Downward rating pressure could develop if it appeared unlikely that RWE will be able to exhibit a financial profile consistent with the guidance for the current rating. In the absence of the transaction, RWE's ratings could be downgraded if RWE were unable to maintain a financial profile such that its FFO/net debt was at least in the mid-teens to mid-twenties in percentage terms. This guidance factors in a significant presence of receivables from innogy and would not be appropriate once these have been settled. As such, Moody's may revisit the appropriateness of the current guidance should RWE's capital structure change.

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Unregulated Utilities and Unregulated Power Companies published in May 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Essen, Germany, RWE AG is a large power generator with reported standalone EBITDA of around EUR2 billion in 2017.

LIST OF AFFECTED RATINGS

Confirmations:

..Issuer: RWE AG

....LT Issuer Rating, Confirmed at Baa3

....Subordinate, Confirmed at Ba2

.... Commercial Paper, Confirmed at P-3

....Senior Unsecured MTN, Confirmed at (P)Baa3

.Other Short Term, Confirmed at (P)P-3

Outlook Actions:

..Issuer: RWE AG

....Outlook, Changed To Stable From Rating Under Review

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this

credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Joanna Fic
VP - Senior Credit Officer
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE

INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain

policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.