Rating Report
Corporación Acciona Energías Renovables S.A.

DBRS Morningstar
October 2022

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Ratings

Issuer	Debt	Rating Action	Rating	Trend
Corporación Acciona Energías Renovables S.A.	Issuer Rating	Confirmed	BBB (high)	Stable
Corporación Acciona Energías Renovables S.A.	Short-Term Issuer Rating	Confirmed	R-2 (high)	Stable
Acciona Energía Financiación Filiales, S.A.	Euro Medium Term Notes	Confirmed	BBB (high)	Stable

On 1 September 2022, DBRS Ratings GmbH (DBRS Morningstar) confirmed both the Issuer Rating and the Short-Term Issuer Rating on Corporación Acciona Energías Renovables S.A. (CAER or the Company) at BBB (high) and R-2 (high), respectively. DBRS Morningstar also confirmed the rating on Acciona Energía Financiación Filiales, S.A.'s Euro Medium Term Notes programme at BBB (high). All trends are Stable.

Over the last year, CAER reported growth across all business lines driven by the Spanish generation business, the International generation business, as well as supply activities on the back of very high generation prices especially in Spain. In the last 12 months (LTM) ended 30 June 2022, the Company reported record revenues, EBITDA, and EBIT of EUR 3,637 million, EUR 1,495 million, and EUR 1,097 million, respectively. This is a marked change in trajectory from the lower results of 2020, which were mainly affected by a decrease in energy supply sales because of the impact of the Coronavirus Disease (COVID-19) pandemic; a decrease in the average electricity sale prices; and, to a lesser extent, lower consolidated production. The major increase in Spanish power prices commenced in H1 2021, with the average price of EUR 58.6/megawatt hour (MWh), increasing to EUR 164.4/MWh in H2 2021, and further increasing to EUR 205.9/MWh in H1 2022.

While boosting earnings and cash flow generation, the very high generation prices also accelerated the payback of the regulatory net asset value associated with CAER's regulated activities in Spain. DBRS Morningstar expects regulated activities over the Company's revenues to decrease in the medium term. In 2021, regulated activities accounted for 54% and this proportion is expected to decline from 2022 onwards, falling to 20% by the end of 2024. This year, DBRS Morningstar continued to assess CAER under two methodologies: *Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry* and *Rating Companies in the Independent Power Producer Industry*. However, as the proportion of regulated EBITDA is expected to progressively decrease over time, DBRS Morningstar may consider a change in approach in the future.

DBRS Morningstar also notes that the Spanish government has launched a series of initiatives aimed at reducing the average electricity bill for consumers (e.g., a gas clawback), including changes to the current Spanish regulatory regime, thus increasing the regulatory risk perception. While these measures have a limited impact on CAER's earnings and cash flow generation over the forecast horizon in 2022–24, such impact is more than compensated by the very high energy prices in Spain. As a consequence of the Russia-Ukraine conflict, CAER also had to write off part of the value of some of the assets that are located in Ukraine; however, these assets represent only a small fraction of total production capacity.

In 2022, CAER expects to add about 540 MW in generation capacity. This is 290 MW less than initially planned because of the disruptions in the supply of photovoltaic (PV) modules to the U.S. market, which were severely aggravated by the Department of Commerce Anticircumvention filing and subsequent initiation of an enquiry. The Company expects capacity under construction at year end to remain at 2.1 gigawatts (GW), mainly in the U.S. and Australia. CAER has been proactively taking actions to contain disruptions/risks in Australia and Europe, securing and locking in logistics, equipment, supply, and contractors. While metal prices seem to have past their peaks, the price of polysilicon continues its strong escalation. Against this backdrop, CAER has secured the bulk of modules needed for the 1.3 GW of short-term ongoing projects in the U.S. The Company is also trying to optimise construction works and minimise the impact of limited module supply in H2 2022. It is noted that renewable energy capital expenditure (capex) costs in the market have increased by about 20% since before the pandemic, although capex inflation at CAER has been lower than the market. Against this backdrop, the amount to be spent on capex across the forecast horizon is lower than envisaged last year.

DBRS Morningstar notes that the stronger operating cash flow generation resulting from very high generation prices in Spain, coupled with some capex reduction especially in 2021 and 2023, has materially lowered the amount of debt to be raised to fund such investment activities. As a result, all key credit metrics are expected to materially strengthen over the forecast horizon and stay at a level that fully compensate (1) the expected decrease in the proportion of regulated EBITDA, (2) the heightened regulatory risk, and (3) the inflationary pressure and supply chain disruptions.

DBRS Morningstar considers a positive rating action in the medium term to be unlikely. However, DBRS Morningstar could take a negative rating action as a consequence of (1) significant project delays and cost overruns associated with CAER's aggressive expansion plan; (2) a heightening in regulatory risk; or (3) a decline in credit metrics to below DBRS Morningstar's required levels, for example with a cash flow-to-net debt below 35.0% and net debt-to-capital above 30.0% on a sustained basis and without the implementation of financial remedies.

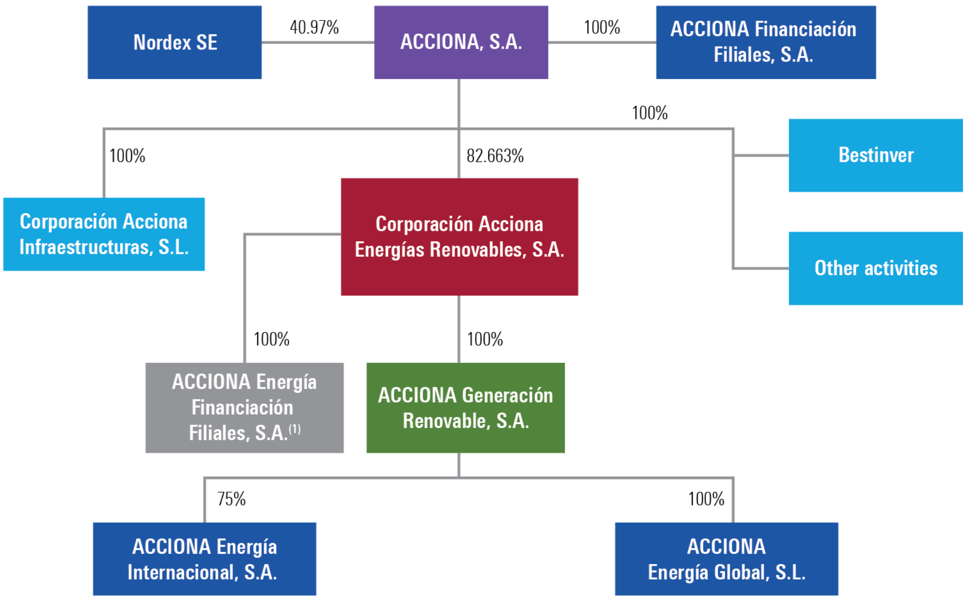
Financial Information

Corporación Acciona Energías Renovables S.A.	**LTM 30 Jun.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**
Key Credit Metrics	**2022**	**2021**	**2020**	**2019**	**2018**
Cash flow-to-net debt (%)(1) (2)	61.2	41.7	16.2	20.7	15.5
Net debt-to-EBITDA (times)(2) (3)	1.4	2.1	4.5	4.4	4.8
Adjusted EBITDA gross interest coverage (times)(3) (4)	12.0	7.6	3.5	3.4	3.2
Adjusted EBIT gross interest coverage (times)(3) (4)	8.8	4.9	2.1	1.9	1.7
Net debt-to-capital (%)(2)	26.4	30.1	57.0	58.6	59.1

(1) Operating cash flow excludes working capital movements.
(2) Net debt is calculated as gross debt (including lease adjustments and nonrecourse debt) minus nonoperating cash.
(3) EBITDA and EBIT include results from entities accounted with the equity method.
(4) Interest expense includes capitalised interests.

Issuer Description

CAER is a pure-play leader in the renewable energy sector with a fully integrated business model and high diversification across geographies and technologies, which include onshore wind, solar PV, hydraulic, concentrated solar power, biomass, and storage.



(1) Financing company: Debt is unconditionally and irrevocably guaranteed Corporación ACCIONA Energías Renovables, S.A. (EUR 2.5bn Syndicated Loan; Up to EUR 3.0bn EMTN; Up to EUR 2.0bn ECP)

Source: CAER, DBRS Morningstar.

CAER is a spin-off of Acciona, S.A. (Acciona or the Group; rated BBB with a Stable trend by DBRS Morningstar) which, following CAER's admission to trading on Spanish stock exchanges on 1 July 2021 and the full exercise of the green shoe allotments by 15 July 2021, retains a 82.663% stake in the Company. CAER formerly represented Acciona's fully owned energy division and accounted for approximately two-thirds of the Group's EBITDA. In turn, CAER is the holding company of Acciona Generación Renovables, S.A., which owns the majority of power generation assets in Spain and internationally, and Acciona Energía Financiación Filiales, S.A. (AEFF), which owns no assets and operates as CAER's main financing vehicle.

Since 2013, CAER primarily funded its projects through financing provided by Group companies (in particular by Acciona Financiacion Filiales, S.A. (AFF), Acciona's main financing vehicle), project finance arrangements and, to a lesser extent, debentures and other negotiable securities at the project level. Following the initial public offering (IPO), CAER will operate independently from its parent company from a financial point of view through the use of its EUR 2.5 billion syndicated debt facility and its up to EUR 3.0 billion euro medium-term note (EMTN) programme as well as its up to EUR 2.0 billion euro commercial paper (CP) programme, both guaranteed by CAER with terms and conditions mirroring those already issued by its parent company, Acciona, through AFF. In addition, in April 2022, the Company issued a 15-year private placement transaction of USD 200 million.

Rating Considerations

Strengths

1. Stable cash flow from regulated generation assets

CAER´s business risk profile is supported by its stable cash flows from regulated generation assets in Spain. While boosting earnings and cash flow generation, the very high generation prices also accelerated the payback of the regulatory net asset value associated with CAER's regulated activities in Spain. DBRS Morningstar expects regulated activities over the Company's revenues to decrease in the medium term. In 2021, regulated activities accounted for 54% and this proportion and is expected to decline from 2022 onwards, falling to 20% by the end of 2024. The regulatory regime in Spain has been stable since 2014, providing a reasonable return on capital investment and floor-price protection against the Spanish wholesale power price volatility. The current six-year regulatory period runs from 2020 to 2025. However, DBRS Morningstar notes that the Spanish government has launched a series of initiatives aimed at reducing the average electricity bill for consumers (e.g., a gas clawback), including changes to the current Spanish regulatory regime, thus increasing the regulatory risk perception. In addition, DBRS Morningstar notes that the European Commission has recently proposed to cap the profits of renewable energy generators, potentially increasing the regulatory risks for companies such as CAER.

2. International generation assets under long-term contracts

CAER's business risk profile is also supported by long-term contracts for its international generation assets, accounting for approximately 24% of the Company's revenues in 2021. Such contracts have an average remaining duration of approximately nine years with solid credit counterparties, mostly utilities and governmental organisations in 16 countries. Long-term contracts significantly mitigate the risk associated with power-price volatility. In addition, nonregulated renewable generation output in Spain is generally sold under shorter-term contracts of around 12 months, but the Spanish power market has lately shown an appetite for longer contract terms. For example, the Company has recently closed 2.3 TWh of long-term supply contracts in Spain starting in 2023-2024, mostly with a duration of 10 years.

3. Good geographic diversification

Most of CAER's assets are located in the European Union and Organisation for Economic Co-operation and Development countries with low to modest political risk. CAER's generating assets are well diversified geographically and regulatorily, which reduces the risk associated with any single jurisdiction or region. Future expansion in the 2021–24 period will be largely in the U.S., Australia, and Spain, and potentially Brazil. Expansion in Chile and Mexico is expected to slow down.

4. Solid credit metrics, strong liquidity, and good capital management policy

Under its base-case scenario, DBRS Morningstar looked at CAER's key credit metrics over the 2022–24 period. Differently from last year, DBRS Morningstar now expects that CAER's key credit metrics will materially strengthen in the short to medium term thanks to elevated cash flow generation on the back of very high generation prices as well as reduced capex. DBRS Morningstar considers that the reduced contribution from regulated activities is more than offset by material strengthening in the Company's key credit metrics, which continues to remain supportive of the assigned BBB (high) rating and Stable trend across the forecast horizon. DBRS Morningstar believes that CAER maintains a solid liquidity position and also notes that CAER has a flexible dividend policy to further preserve its liquidity. The Company's strategy is to maintain a strong financial profile to cope with inflation, rising interest rates, power-price volatility, and economic cyclicality as well as access to the debt and equity capital markets.

5. Strong operational expertise and good track records of power project development
CAER is one of the leading generation power operators and power project developers in the world. Historically, the Company has maintained high utilisation factors. CAER has an internal team equipped with strong experience and technical skills.

Challenges

1. Capex intensity and project development risk
CAER has an aggressive expansion plan to increase its total installed capacity to 20.0 GW by 2025 from 10.7 GW in 2020. This expansion plan requires substantial capex and external funding over the next few years and entails a certain degree of project development risk. In DBRS Morningstar's forecast, CAER's total capex is at around EUR 1.2 billion a year for 2022 and 2023. CAER expects that, as a pure-play leader in the renewable energy sector and as a publicly listed company, it will have access to a lower cost of capital—both in terms of debt and equity—to fund its pipeline independently from its parent company, Acciona. However, there is no assurance that CAER will be able to obtain external funds at reasonable terms and rates and the Company could be subject to project development risks, such as project delays and cost overruns.

2. Nonregulated generation assets are exposed to long-term price volatility
Until 2021, approximately 22% of the Company's revenues were uncontracted/nonregulated, half of which were covered by hedges and the other half exposed to merchant power prices. However, on the back of the high commodity price environment, CAER will increase the proportion of merchant exposure, especially in 2022 and 2023. The Company's long-term strategy remains unchanged, with a 80% target of long-term contracted production. In general, CAER manages this risk by implementing substantial hedges, mainly forward and short-term contracts; however, the risk remains when hedges and short-term contracts expire and the power prices in the new hedges and short-term contracts are lower. Generally, CAER's short-term contracts are usually around 12 months, with some contracts as long as 36 months. In the future, the nonregulated generation industry in Spain is expected to engage in longer contracts with industrial and commercial customers, which could mitigate CAER's exposure to long-term price volatility. The Company's has already been replacing a portion of maturing regulated volumes in Spain with 10-year PPA contracts.

3. Operational risk
Despite a strong track record, CAER is subject to operational risks, such as unplanned outages and operational disruptions. Currently, CAER has maintained a solid track record of operational efficiency and reliability. Nevertheless, any lengthy disruptions and unplanned outages in the future would negatively affect CAER's credit metrics.

4. Currency and interest risk

Because of CAER's international operations, a significant part of revenues is generated outside the euro and U.S. dollar currency markets, potentially leading to currency fluctuation risk. Furthermore, CAER's bank borrowings, particularly short-term borrowings, are subject to the risk of rising interest rates. The Company manages these risks by hedging currencies and interest rates, increasing debt-borrowing terms, and maintaining significant liquidity. While hedging is effective for a certain time, it only helps to reduce but not eliminate currency and interest rate risks.

5. Highly competitive

The Company's nonregulated renewable power operations are highly competitive. The competition for new projects and contract renewals is intense. To compete for longer-term contracts and renewals, CAER relies on its financial strength, operational and technological expertise, construction reputation, as well as knowledge of local laws and regulations. Intense competition could lead to lower contract prices and higher development costs.

Earnings and Outlook

Income Statements

	LTM 30 June	Year ended 31 December			
(EUR millions)	2022	2021	2020	2019	2018
Revenues	3,895	2,724	2,331	2,477	2,461
Cost of goods sold	(1,717)	(1,066)	(905)	(1,013)	(1,046)
Gross margin	**2,178**	**1,658**	**1,426**	**1,464**	**1,415**
Selling, general & administrative	(684)	(571)	(558)	(539)	(584)
EBITDA (1)	**1,495**	**1,086**	**868**	**925**	**831**
Depreciation	(398)	(376)	(348)	(412)	(384)
EBIT (1)	**1,097**	**710**	**521**	**513**	**447**
Financial income	12	16	4	10	8
Interest expense	(125)	(144)	(250)	(269)	(259)
Other income	(77)	(20)	54	31	45
Earnings Before Taxes	**907**	**562**	**328**	**285**	**241**
Tax expense	(264)	(170)	(98)	(71)	(88)
Minority Interest	(43)	(30)	(25)	(25)	(20)
Net income	**600**	**363**	**206**	**190**	**134**

(1) EBITDA and EBIT include results from entities accounted with the equity method.

Summary

- In 2021, CAER reported growth across all profit lines driven by both the Spanish and International generation businesses, despite generally weak output. Revenues (also including other revenue), increased by 16.9% to EUR 2,724 million compared with EUR 2,331 million in 2020. EBITDA and EBIT increased by 25.1% to EUR 1,086 million compared with EUR 868 million in 2020 and by 36.3% to EUR 710 million compared with EUR 521 million in 2020, respectively. EBITDA and EBIT include the results from entities accounted with the equity method earnings, which is similar to the amount of cash dividends that CAER receives from these investments. Financial performance in the LTM ended 30 June 2022 was very strong, with revenues, EBITDA, and EBIT of EUR 3,895 million, EUR 1,495 million, and EUR 1,097 million, respectively.
- In 2021, in Spain, profitability grew due to the hydro levy refund and faster payback of regulatory value, despite the high level of hedging in the wholesale portion of the business at prices that did not yet reflect the commodity spike. The International fleet captured high prices with the new

capacity that began operating in the U.S. in the State of Texas. The average generation price increased by 19.3% to EUR 75.5/MWh, up 27.2% in Spain and 12.1% internationally. In the LTM ended 30 June 2022, profitability was boosted by the higher commodity price environment, with the average generation price increasing by 70.2% to EUR 116.2/MWh. This is a marked change in trajectory from the lower results in 2020, which were mainly affected by a decrease in energy supply sales because of the impact of the coronavirus pandemic, a decrease in the average electricity sale prices and, to a lesser extent, lower consolidated production. DBRS Morningstar notes that CAER has activities in Ukraine, although the economic impact of the conflict is expected to be limited and manageable.

- Lower financial costs under the new post-IPO capital structure contributed notably to the strong bottom-line growth. In 2021, interest expense decreased to EUR 144 million compared with EUR 250 million in 2020. In the LTM ended 30 June 2022, interest expense was even lower at EUR 125 million.

Outlook

- DBRS Morningstar expects CAER's revenues, EBITDA, and EBIT to materially increase in 2022 and 2023 on the back of very high average generation prices, especially in Spain, as well as the Company's expansion plans. DBRS Morningstar also expects that CAER will continue to have access to competitive cost of capital to fund its pipeline independently from its parent company, despite a current macroeconomic environment characterised by increasing interest rates.
- DBRS Morningstar notes that the Spanish government's measures aimed at reducing the average electricity bill for consumers are creating uncertainty among market operators and will have an impact on the Company's profitability (limited in 2022 but more material in 2023), although this is more than offset by the benefits of a high commodity price environment. In addition, DBRS Morningstar notes that the Spanish Government has already implemented a windfall tax for utilities and a cap on gas prices for generation, and both the Spanish Government and the European Commission are proposing revenues taxes / caps to the profits of renewable energy generators.
- While nonregulated power generation in Spain and internationally is protected by long-term contracts and the use of hedges, regulated power generation in Spain is subject to a banding mechanism. The current and projected high generation prices, although boosting profitability, have been accelerating the payback of the regulatory net asset value associated with its regulated activities in Spain. As such, the proportion of revenues generated by the Company's regulated activities is expected to decrease to 20% of the total by 2024 from 54% of the total in 2021.

Cash Flow Profile

Cash Flow Statement

	LTM 30 June	Year ended 31 December			
(EUR millions)	**2022**	**2021**	**2020**	**2019**	**2018**
Net income	600	363	206	190	134
Depreciation and amortisation	433	376	348	412	384
Other noncash items	280	222	85	247	102
Cash flow from operations [1]	**1,314**	**961**	**638**	**849**	**620**
Capex	(866)	(721)	(493)	(452)	(491)
Dividend	(132)	(261)	(107)	(124)	(36)
Free cash flow (before working capital changes)	**315**	**(21)**	**38**	**273**	**94**
Other items from operating activities	(30)	(56)	(121)	38	(100)

	LTM 30 June	Year ended 31 December			
(EUR millions)	2022	2021	2020	2019	2018
Change in working capital	126	(40)	(110)	(191)	113
Net free cash flow	**411**	**(117)**	**(194)**	**120**	**107**
Acquisitions	0	0	0	0	0
Dispositions	60	30	2	1	899
Investments and other	(87)	(17)	(11)	(17)	(45)
Cash flow before financing	**384**	**(103)**	**(203)**	**104**	**961**
Net equity change	446	310	271	(93)	(941)
Net debt change	0	0	0	0	0
Other	(43)	(56)	117	76	37
Effects of foreign exchange	6	7	(13)	1	(0)
Change in cash	**793**	**157**	**172**	**87**	**57**

(1) As calculated by DBRS Morningstar.

Summary

- CAER's cash flow from operations mirrors the trend in EBITDA and has grown steadily to EUR 961 million in 2021 compared with EUR 638 million in 2020 and to EUR 1,314 million over the LTM ended 30 June 2022, recovering from the decline in 2020 caused by the coronavirus pandemic.
- The increase in capex to EUR 721 million in 2021 from EUR 493 million in 2020 and to EUR 866 million over the LTM ended June 2022 is mainly related to the construction of new generation assets in the five hubs of Australia, Chile, Mexico, the U.S., and Spain. Capex reflected expenditures on development and growth as part of CAER's aggressive capacity expansion plans.
- During the first half of 2022, 1,464 MW started construction. As of 30 June 2022, total capacity under construction amounted to 2,064 MW. The Company expects to add about 540 MW in 2022, 290 MW less than initially planned due to the disruptions in the supply of PV modules to the U.S. market that were severely aggravated by the Department of Commerce Anticircumvention's filing and subsequent initiation of an enquiry. CAER expects capacity under construction at year end to remain at 2.1 GW, mainly in the U.S. and Australia, with mechanical completion in H2 2022 of close to 450 MW and the start of construction of just over 500 MW.

Outlook

- In 2021, CAER announced an aggressive expansion plan to increase its total installed capacity to 20.0 GW by 2025 from 10.7 GW in 2020. This expansion plan requires substantial capex of EUR 7.8 billion and external funding over the next few years. By geography, capex will be deployed as follows: 27% in America, 27% in Australia, 18% in Spain, 1% in the rest of Europe, and 27% in other countries. By technology, capex will be deployed as follows: 62% in wind, 35% in solar PV, and 3% in development costs. As a mitigant, CAER indicated that it only invests when all the permits and right of use are obtained. Also, the Company expects to grow total installed capacity to 30 GW by 2030 from 20 GW in 2025.
- CAER is proactively taking actions to contain disruptions/risks in Australia & Europe via securing and locking in logistics, equipment, supply, and contractors. While metal prices seem to have past their peak, polysilicon continues its strong escalation. Against this backdrop, CAER has secured all the modules needed for the 1.3 GW of short-term ongoing projects in the U.S. The Company is also trying to optimise construction works to minimise the impact of limited module supply in H2 2022. DBRS Morningstar notes that renewable energy capex costs in the market have increased by about 20% since before the pandemic, although capex inflation at CAER is better than the market.
- DBRS Morningstar expects CAER to mainly fund its projects through cash flow from operations and incremental indebtedness, which will primarily be in the form of corporate debt that CAER's

financing subsidiary, AEFF, will incur in the banking and capital markets with the Company's guarantee that CAER then onlends to project companies. Over the forecast horizon in 2022–24, DBRS Morningstar notes that the stronger operating cash flow generation resulting from very high generation prices in Spain, coupled with some capex reduction especially in 2021 and 2023, has materially lowered the amount of debt expected to be raised over the same period to fund such investment activities. As a result, key credit metrics are expected to materially strengthen.

- The Company introduced a stable and flexible dividend policy to cope with regulatory changes, power-price volatility, and economic cyclicality. DBRS Morningstar believes that CAER's business strategy, risk management policy, and financing strategy will allow it to maintain a solid financial profile and credit metrics going forward.

Debt and Liquidity Profile

	LTM 30 June	Year ended 31 December			
(EUR millions)	2022	2021	2020	2019	2018
Capital Structure					
Short-term bank borrowings	52	88	192	140	246
Long-term bank borrowings	612	1,089	620	650	716
Short-term CP, debentures, and bonds	952	522	12	11	9
Long-term CP, debentures, and bonds	1,378	680	181	209	216
Short-term payable to group companies debt	0	1	1,339	1,386	1,524
Long-term payable to group companies debt	0	215	1,775	1,770	1,439
Short-term lease obligations	24	23	20	21	13
Long-term lease obligations	390	384	368	300	202
Gross Debt	**3,408**	**3,002**	**4,506**	**4,486**	**4,365**
Cash & Cash Equivalents	-1,360	-797	-664	-494	-458
Operating Cash	100	100	100	100	100
Net Debt	**2,148**	**2,304**	**3,942**	**4,092**	**4,007**
Total Equity	**6,001**	**5,354**	**2,980**	**2,891**	**2,773**
Consolidated Ratios (Includes Nonrecourse Project Debt)					
Cash flow-to-net debt (%)(1) (2)	61.2	41.7	16.2	20.7	15.5
Net debt-to-EBITDA (times)(2) (3)	1.4	2.1	4.5	4.4	4.8
Adjusted EBITDA gross interest coverage (times)(3) (4)	12.0	7.6	3.5	3.4	3.2
Adjusted EBIT gross interest coverage (times)(3) (4)	8.8	4.9	2.1	1.9	1.7
Net debt-to-capital (%)(2)	26.4	30.1	57.0	58.6	59.1

(1) Operating cash flow excluding working capital movements.
(2) Net debt is calculated as gross debt (including lease adjustments and nonrecourse debt) minus nonoperating cash.
(3) EBITDA and EBIT include results from entities accounted with the equity method.
(4) Interest expense includes capitalised interests.

Maturity Profile

As at 31 Dec. 2021 (EUR millions)	2022	2023	2024	2025	2026	>2026
Loans and borrowings	84	71	703	62	60	197
Debentures and other marketable securities	521	14	14	15	18	627
Total (1)	**606**	**85**	**717**	**77**	**78**	**823**

(1) It does not include lease obligations.

Summary

- CAER's industry is capital intensive and the Company needs to make significant investments to develop, construct, and subsequently operate its projects. CAER expects that, as a publicly listed company, it will now have access to a lower cost of capital—both in terms of debt and equity—to fund its pipeline independently from its parent company, Acciona.
- On 22 March 2021, as a preliminary step to CAER's IPO, the Company capitalised and registered EUR 1,859 million of noncurrent financial liabilities payable to group companies and associates that it held with AFF as retained earnings (intragroup capitalisation), which it then repaid in full. Following this transaction, CAER materially reduced its net debt-to-EBITDA ratio to 1.4 times (x) as of 30 June 2022 from 4.5x as of 31 December 2020, providing headroom to re-leverage the Company's balance sheet and support its growth strategy. The net debt-to-capital ratio materially strengthened to 26.4% as of 30 June 2022 from 57.0% as of 31 December 2020.
- In 2021, AEFF entered into a EUR 2.5 billion syndicated debt facility and launched an up to EUR 3.0 billion EMTN programme and an up to EUR 2.0 billion ECP programme—both guaranteed by CAER—through AEFF, with terms and conditions mirroring those of the programs already issued by the parent company, Acciona, through AFF. In 2021/2022, CAER issued two EUR 500 million green financing instruments under its EMTN programme and a separate U.S. private placement transaction for USD 200 million in April 2022.
- As of 30 June 2022, net debt amounted to EUR 2,148 million and is calculated as gross debt minus cash and cash equivalents/liquid financial assets plus approximately EUR 100 million of operating cash for each given year, as per DBRS Morningstar's calculations. DBRS Morningstar believes that CAER maintains a solid liquidity position, with cash and cash equivalents of EUR 1,170 million and liquid financial assets of EUR 190 million as of 30 June 2022.

Outlook

- DBRS Morningstar believes that CAER's debt maturity profile can be well serviced through cash and cash equivalents, cash generated from operations, and availability under its EUR 2.5 billion syndicated facility.
- DBRS Morningstar expects CAER to mainly fund its projects through higher-than-expected cash flow from operations on the back of the very high generation prices in Spain and partially through incremental indebtedness. Over the forecast horizon, the combination of higher-than-expected cash flows from operations coupled with lower capex requirements will materially strengthen all the Company's key financial metrics to levels not envisaged last year. CAER indicated that it will commit to maintaining a net debt-to-EBITDA ratio of less than 3.5x in the medium to long term.
- Nonrecourse project-level debt may be appropriate for certain projects because of their size, currency denomination, geography, or existence of partners. However, CAER envisages that the share of nonrecourse project debt as a proportion of total gross debt (as calculated by the Company) will fall over time to less than 10% by the end of 2025 from about 30% by the end of 2021. Equity offerings to fund short- to medium-term capital needs are included.
- All debt issued by Acciona and AFF will be nonrecourse to CAER and its subsidiaries and, similarly, all debt issued by AEFF will be nonrecourse to Acciona and AFF. Also, all EMTNs issued by AEFF will rank pari passu with AEFF's senior debt, including CP and bank loans.

Business Profile

- CAER is a leading global developer, owner, and operator in renewable generation assets. As of 30 June 2022, the Company owned had 11,212 MW of total installed capacity in 16 countries (more than half of which was in Spain). CAER's renewable generation assets consist of mostly wind, solar PV, and hydro as well as solar thermoelectric and biomass.
- DBRS Morningstar believes that CAER´s business risk is relatively low, reflecting cost-competitiveness and relatively stable cash flow from regulated generation assets in Spain and long-term power purchase agreements (PPAs) with its international generation assets.

EBITDA Breakdown by Geography

(EUR millions)	LTM June 2022	YE2021	YE2020	YE2019
Spain	1028	531	359	436
Rest of Europe	99	111	90	94
America	276	358	296	274
Australia	35	30	71	54
Other & adjustments	57	57	52	67
EBITDA	**1495**	**1087**	**868**	**925**

EBITDA Breakdown by Technology

(EUR millions)	LTM June 2021	YE2020	YE2019	YE2018
Wind	1225	891	699	766
Solar PV	61	89	85	63
Hydroelectric	191	96	50	47
Biomass and solar thermal	40	34	32	37
Other & adjustments	-22	-23	2	12
EBITDA	**1495**	**1087**	**868**	**925**

Regulated Generation Assets in Spain and Spanish Regulatory Regime

- Under the electricity sector reform that the Spanish government introduced during the 2012–14 period, the regulatory tariff system was replaced with a new remuneration model in 2013 (Law 24/2013 of the Energy Sector). Under this regulatory regime, regulated generation asset owners (such as CAER) are entitled to earn a "reasonable return" on their capital investments, which is based on the average yield of the 10-year Spanish government bond plus a spread. The Royal Decree-Law 9/2013 set this rate at the rate of return of Spanish 10-year Government Bonds plus 300 basis points. After a reduction in returns on capital investments from the tariff system in 2013, the first regulatory period from 2014 through 2019 provided a relatively stable framework for regulated generation assets.
- Following the six-year regulatory period ended in 2019, the new six-year regulatory period (2020–25) does not present any material changes from a credit perspective. Under the Royal Decree Law 17/2019, CAER's regulated rate of return (RROR) for renewable energy is reasonable at 7.09% through 2025. In addition, the Royal Decree Law 17/2019 allows CAER the option to maintain its RROR of 7.398% for the next two regulatory periods from 2020 through 2031, which provides strong visibility of earnings and cash flow for CAER's regulated generation assets in Spain. However, DBRS Morningstar also notes that the Spanish government has launched a series of initiatives aimed at reducing the average electricity bill for consumers (e.g., a gas clawback), including changes to the current Spanish regulatory regime, thus increasing the regulatory risk perception.

- Every three years, there is a review to make adjustments for revenues that are either more or less than the regulated revenues. In order to tackle the economic and social impact of the Russia / Ukraine conflict, an extraordinary review was applied from 1 January 2022. The following 2023-2025 period remains unchanged. The review also adjusts regulated revenues to take into account any change in the power-price expectations. This adjustment is to ensure that a standard facility will recover its investment costs (operating and capital) that cannot be recovered through electricity sales in the market. CAER is assured to at least earn the floor-protected power price and a fair return on its capital investment.
- Volume risk is very low because revenues are based on regulated output that the regulator designated for each standard facility in the year that the facility is commissioned. The mechanism for price adjustment is based on regulated output and the difference between the regulated caps and floors and the actual prices. Deficits from previous years are recovered by tariffs set by the system administration for each type of market participation. Excess earnings (or earnings shortfalls) will be recorded as a regulatory liability or as regulatory capital asset, which can be added to regulatory capital every three years to be recovered over the remaining useful life of the asset.

Nonregulated Generation in Spain (Short-Term Contracts/Hedges)

- Power generation from nonregulated renewable generation assets in Spain is exposed to power-price volatility. However, CAER sells its generation output under short-term contracts, which significantly mitigated this risk. Standard bilateral PPAs are approximately 12 months, but there is an evolving appetite in the Spanish power market for up to 10-year term contracts. Some contracts are secured under auctions while others are negotiated bilaterally.
- Although the exposure to price risk is higher than regulated power generation assets, CAER's Spanish nonregulated power generation assets can be mitigated with short-term hedges. Most counterparties are corporate clients, and large industrial customers. Power prices benefit from solid and rising market price in recent years.

International Generation Assets

- International generation assets are usually covered by long-term PPAs or regulatory feed-in-tariff contracts. The average remaining duration of long-term contracts is approximately nine years. Although these assets are subject to volume and operational risk, long-term contracts significantly reduce risk associated with power-price volatility. The remaining portion of the output is generally sold under short-term contracts and hedges with only a small portion of power output sold into the spot market.
- Long-term contracted international renewable generation assets are expected to continue to grow over the medium term, further diversifying the Company's generation portfolio from a geographical perspective. Counterparties are generally utilities, governmental organisations, and large commercial and industrial customers.

Application of Multiple Methodologies

CAER is engaged both in regulated generation activities in Spain and nonregulated activities in Spain and internationally. Over the medium term, the regulated generation business is expected to decrease to approximately 20% of revenues while the nonregulated/uncontracted business is expected to account for the remaining 80%. However, as a result of the current material sizes and contributions from both businesses, DBRS Morningstar applies the following two methodologies to assess the Company: (1) the *Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry* and (2) *Rating Companies in the Independent Power Producer Industry*.

Environmental, Social, Governance Considerations

Environmental

DBRS Morningstar considers the Environmental factor "Carbon and GHG Costs" to have a relevant effect, with a modestly positive impact on DBRS Morningstar's overlay analysis.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

Notes:

A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

If any factor is proposed to have a Significant Effect, this should be reflected in the Press Release.

if Applicable is N, then Effect must be N; if Applicable is Y, then Effect must be R or S.

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N**	Extent of the Effect on the ESG Factor on the Credit Analysis: None (N), Relevant (R) or Significant (S)*
Environmental	**Overall:**	**Y**	**R**
Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	**Y**	**R**
Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N
Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	**N**	**N**
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	**N**	**N**
Social	**Overall:**	**N**	**N**
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Human Capital and Human Rights:	N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	**N**	**N**
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	**N**	**N**
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	**N**	**N**
	Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
	Bribery, Corruption, and Political Risks:	**N**	**N**
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	**N**	**N**
Corporate / Transaction	Does the issuer's corporate structure limit appropriate board and audit independence?	**N**	**N**
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	**N**	**N**
	Corporate / Transaction Governance:	**N**	**N**
Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
	Institutional Strength, Governance, and Transparency:	N	N
	Consolidated ESG Criteria Output:	**Y**	**R**

Rating History

	Current	2021
Issuer Rating	BBB (high)	BBB (high)
Short-Term Issuer Rating	R-2 (high)	R-2 (high)
Euro Medium Term Notes	BBB (high)	BBB (high)

Previous Actions

- "DBRS Morningstar Assigns Provisional Issuer Rating of BBB (high), Stable Trend to Corporación Acciona Energías Renovables, S.A.", 26 August 2021.
- "DBRS Morningstar Finalizes Provisional Issuer Rating of BBB (high) with Stable Trend on Corporación Acciona Energías Renovables, S.A.", 26 August 2021.
- "DBRS Morningstar Assigns Ratings to Corporación Acciona Energías Renovables S.A. and Acciona Energía Financiación Filiales S.A.'s Euro Medium Term Note Programme", 3 September 2021.
- "DBRS Morningstar Confirms Ratings on Corporación Acciona Energías Renovables S.A. and Acciona Energía Financiación Filiales, S.A.", 1 September 2022.

Previous Report

- Corporación Acciona Energías Renovables S.A.: Rating Report, 14 October 2021.

Related Report

- Acciona, S.A.: Rating Report, 14 October 2022.

Notes:
All figures are in euros unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

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