

Utilities — Non US  
Poland  
Update

ENEA S.A.

Ratings

Foreign Currency Long-Term IDR	BBB
Local Currency Long-Term IDR	BBB
National Long-Term Rating	A(pol)

Outlooks

Foreign-Currency Long-Term Rating	Stable
Local-Currency Long-Term Rating	Stable
National Long-Term Rating	Stable

Financial Data

ENEA S.A. (PLN m)	31 Dec 2010	31 Dec 2009
Revenue	7,836.9	7,153.5
Operating EBITDAR	1,377.8	1,174.3
Operating EBITDAR/revenue (%)	17.6	16.4
Funds from operations	1,173.6	979.6
Capital expenditure	852.2	764.3
Free cash flow	124.0	-97.1
Cash and equivalents	3,008.7	2,651.8
Total debt	118.6	160.6
Total adjusted debt/operating EBITDAR (x)	0.1	0.1

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Related Research

Applicable Criteria

- [Corporate Rating Methodology \(August 2010\)](#)

Other Research

- [Rating EMEA Utilities — Sector Credit Factors \(May 2010\)](#)
- [Fitch Rates Poland's ENEA 'BBB'; Outlook Stable \(March 2011\)](#)
- [2011 Outlook: Central European Utilities \(December 2010\)](#)
- [PGE Polska Grupa Energetyczna S.A. \(February 2011\)](#)
- [TAURON Polska Energia S.A. \(May 2010\)](#)

Rating Rationale

**Firm Market Position Supports Ratings:** The ratings of ENEA S.A. (ENEA) reflect its vertically integrated operations in the Polish electricity market, including a strong position in electricity distribution (14% market share) and supply (16% market share), and a material position in power generation (8% of the country's generation output in 2009). ENEA is the third-largest player in the Polish electricity market, after PGE Polska Grupa Energetyczna S.A. ('BBB+' /Stable) and TAURON Polska Energia S.A. ('BBB' /Stable).

**Financial Profile Supported by High Cash Cushion:** ENEA's strong financial profile is supported by a cash position of PLN3bn compared with gross debt of PLN119m at end-2010. However, Fitch Ratings projects that due to new debt that ENEA plans to raise in 2012-2015 to co-fund its large capex plan, the group's net leverage (Fitch-adjusted net debt/EBITDA) will increase to about 2x-2.5x by end-2015. This leverage would still be commensurate with the current ratings and is largely in line with the projected medium-term leverage for other central European (CE) electric utilities rated by Fitch, who are also pursuing large capex plans.

**High Proportion of Regulated Business:** ENEA's creditworthiness benefits from a high contribution to EBITDA of regulated electricity distribution earnings (42% in 2010) compared with 20%-40% for other integrated utilities rated by Fitch in CE. This results in the group's cash flow having a lower exposure to power and fuel prices, supporting predictability of earnings.

**Suboptimal Generation Business:** The ratings are constrained by the group's limited generation fuel mix diversification, short position in generation and high generation asset concentration, which is unlikely to materially change by 2015. These result in a lower generation profit margin compared with CE peers rated by the agency.

**Carbon Dioxide Exposure and Access to Fuel:** ENEA has a smaller scale, less dominant market position and lower profitability in generation than its Polish and CE peers. It also has substantial exposure to carbon dioxide costs, which might result in an erosion of profits from the generation segment beyond 2012. Furthermore, ENEA's business profile is constrained because of a lack of access to own fuel sources, partly mitigated by long-term hard-coal supply agreements.

What Could Trigger a Rating Action

**Positive Drivers:** The upside potential for ENEA is rather limited. The ratings could be positively affected by progress on group integration and successful implementation of the capex plan, or the presence of a strong strategic investor that would transfer knowledge to ENEA and/or provide additional equity to co-fund investment.

**Negative Drivers:** Financial leverage beyond 2.5x — due, for example, to large debt-funded acquisitions or capex being substantially above the current plan — would be negative for the ratings.

Liquidity and Debt Structure

ENEA's liquidity was ample at end-2010, with PLN3bn of cash (of which PLN1.9bn proceeds from the IPO). The agency expects ENEA's limited external funding (PLN119m at end-2010) to increase after the company uses the cash proceeds from its IPO to fund capex, but Fitch also anticipates that liquidity will remain strong.

Peer Group	
Issuer	Country
<b>A-</b>	
CEZ, a.s.	Czech Republic
<b>BBB+</b>	
PGE Polska Grupa Energetyczna S.A.	Poland
<b>BBB</b>	
ENEA S.A.	Poland
Slovenske elektrarne, a.s.	Slovakia
TAURON Polska Energia S.A.	Poland

Issuer Rating History		
Date	LT IDR (FC)	Outlook/ Watch
14 Apr 11	BBB	Stable

**Snapshot Profile: Major Issuer-Specific Rating Factors and Trends**

Rating Factor	Status <sup>a</sup>	Trend
Operations	Average	Neutral
Market position	Average	Neutral
Finances	Strong	Worsening
Governance	Average	Neutral
Geography	Weak	Neutral

<sup>a</sup> Relative to peer group

## Immediate Peer Group – Comparative Analysis

### Sector Characteristics

#### Operating Risks

Vertically integrated European electric utilities are relatively stable businesses. Electricity distribution and transmission in transparent regulatory regimes benefit from high cash flow visibility and predictability. Power generation is a higher-risk and more volatile segment, due to its exposure to changes in fuel and electricity prices, and electricity demand. However, some business and financial risks in generation may be mitigated through hedging strategies.

#### Financial Risks

The financial profile of integrated utilities benefits from solid and stable cash flow generation. Negative free cash flow will remain common across the sector, due to large capex plans with limited short-term flexibility. Leading integrated utilities generally have good access to capital-market funding.

### Business Profile Characteristics of CE Energy Utilities Rated by Fitch

	CEZ	PGE	Tauron	SE	ENEA
Headroom within current rating level	Limited	Large	Large	Medium	Large
Vertical integration	Full (from mining to supply)	Full (from mining to supply)	Full (from mining to supply)	Low	Medium (from generation to supply)
Generation mix	42% nuclear, 45% lignite, 10% hard coal	68% lignite, 25% hard coal	93% hard coal	43% hydro, 32% nuclear and 25% coal	98% hard coal
Regulated business (EBITDA share)	19%	21%	41%	0%	42%
Free cash flow expectations	Negative	Negative	Negative	Negative	Negative

Source: Fitch

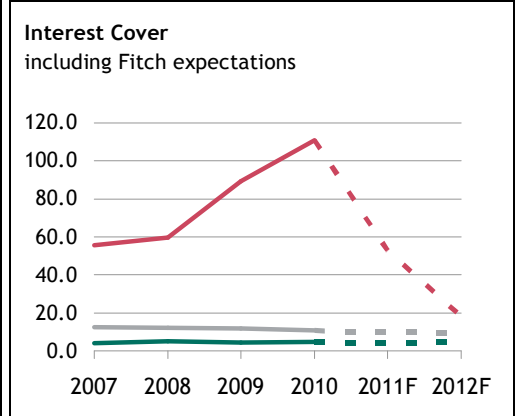
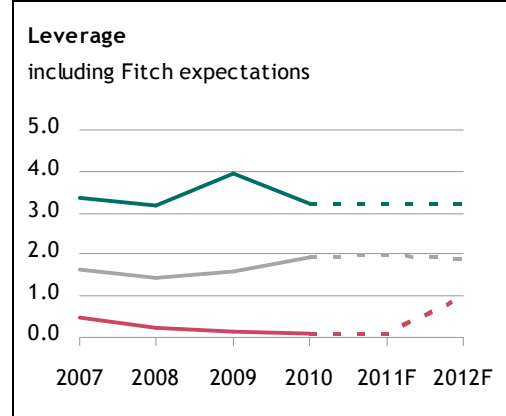
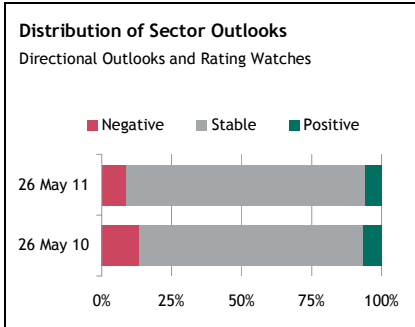
### Key Credit Characteristics

Large utilities with solid business profiles and strong to medium financial profiles generally command strong investment-grade ratings. Ratings depend both on business factors – including market presence, degree of vertical integration, generation mix and earnings diversification – and on financial factors such as financial policy, leverage, profit margins, capex plans and approach to M&A activity.

### Overview of Companies

- **CEZ, a.s.** (CEZ; ‘A-’/Stable), 69.4% owned by the Czech state, has a leading position and vertical integration in Czech power. It is the largest electric utility in CE. CEZ has a strong EBITDA margin, which is partly driven by its low-cost generation portfolio.
- **Slovenske Elektrarne, a.s.** (SE; ‘BBB’/Stable) is the dominant power producer in Slovakia, 66% owned by Italy’s Enel SpA (‘A-’/Stable). The company benefits from a good mix of generating sources, including nuclear (being expanded), hydro, gas and coal, but is less integrated than many of its peers.
- **TAURON Polska Energia S.A.** (Tauron; ‘BBB’/Stable), 30% owned by the Polish state, is the second-largest vertically integrated utility in Poland. It has a relatively large presence in distribution and supply, as opposed to generation. The company has limited generation fuel mix diversification (hard-coal-fired plants account for 93% of installed capacity).
- **PGE Polska Grupa Energetyczna S.A.** (PGE; ‘BBB+’/Stable), 69% owned by the Polish state, has a leading and vertically integrated position in Polish power, including dominance in generation. PGE’s main source of generation is lignite-fired plants, which benefit from relatively low production costs in Poland.

ENE S.A. — Utilities Median — Emerging BBB Cat Median — Source: Company data; Fitch.

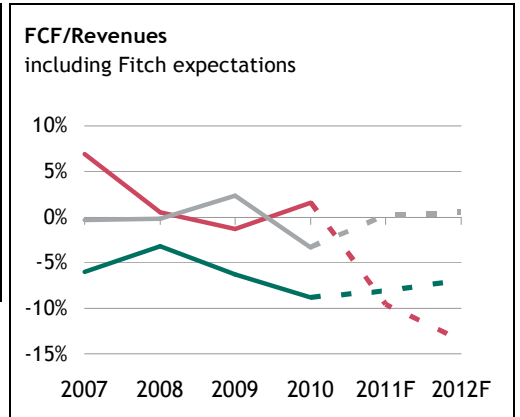


Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- no substantial changes in revenue due to stable operations;
- portion of EBITDA generated by regulated business to grow in medium term due to asset revaluation;
- capex plan implemented in line with ENEA's strategy until 2020;
- cash from IPO to be gradually used to co-fund the capex plan; and
- external debt to be raised in 2012-2015.

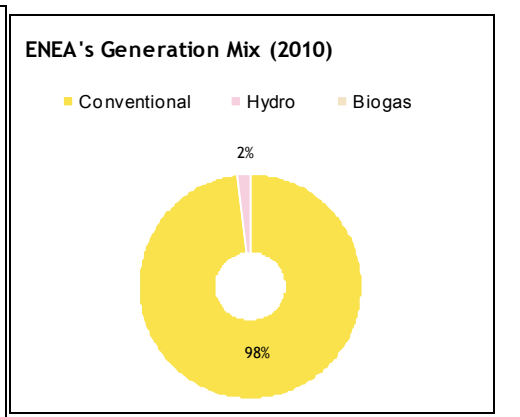
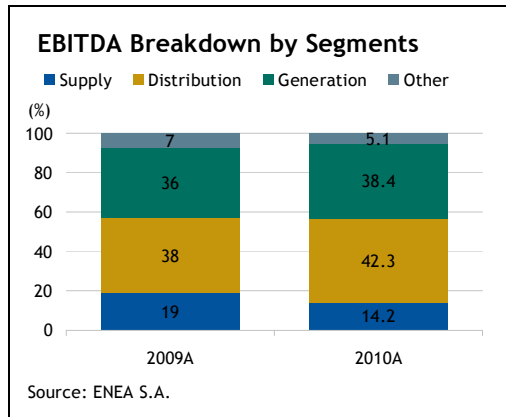
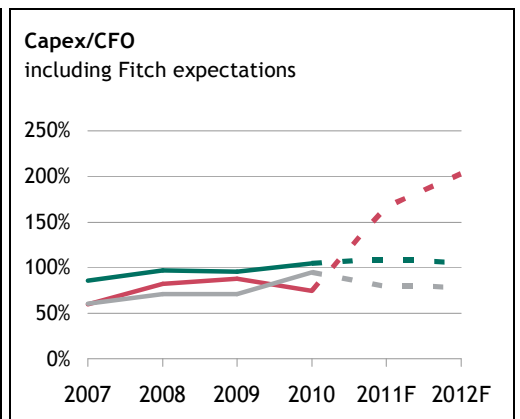
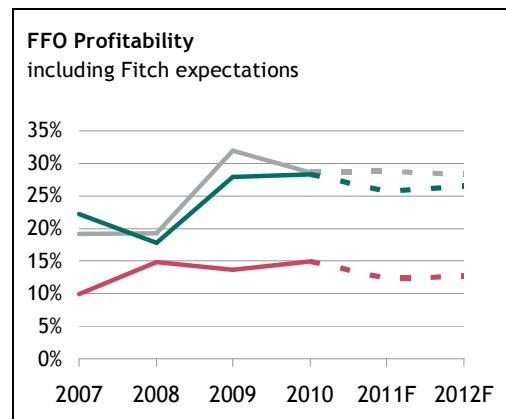
### Debt Maturities and Liquidity at YE10

Debt maturities	(PLNm)
2011	44.5
After 2011	74.1
Cash and equivalents	3,008.7
Undrawn committed facilities (Expiry)	100.0



### Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at [www.fitchratings.com](http://www.fitchratings.com).



## ENE S.A. FINANCIAL SUMMARY

	31 Dec 2010 PLN m Original	31 Dec 2009 PLN m Restated	31 Dec 2008 PLN m Original	31 Dec 2007 PLN m Original	31 Dec 2006 PLN m Original
<b>Profitability</b>					
Revenue	7,836.9	7,153.5	6,157.8	5,445.8	5,383.7
Revenue Growth (%)	9.6	16.2	13.1	1.2	16.7
Operating EBIT	725.1	513.0	260.6	83.5	244.2
Operating EBITDA	1,377.8	1,174.3	892.0	554.1	647.7
Operating EBITDA Margin (%)	17.6	16.4	14.5	10.2	12.0
FFO Return on Adjusted Capital (%)	11.8	10.4	10.1	7.8	17.6
Free Cash Flow Margin (%)	1.6	(1.4)	0.6	6.9	6.8
<b>Coverages (x)</b>					
FFO Gross Interest Coverage	193.4	81.3	56.4	59.5	180.7
Operating EBITDA/Gross Interest Expense	128.8	105.8	57.2	56.0	129.5
FFO Fixed Charge Coverage (inc. Rents)	193.4	81.3	56.4	59.5	180.7
FCF Debt-Service Coverage	2.6	(1.3)	0.7	4.9	12.0
Cash Flow from Operations/Capital Expenditures	1.3	1.1	1.2	1.7	2.2
<b>Debt Leverage of Cash Flow (x)</b>					
Total Debt with Equity Credit/Operating EBITDA	0.1	0.1	0.2	0.5	0.1
Total Debt Less Unrestricted Cash/Operating EBITDA	(2.1)	(2.1)	(2.7)	(1.2)	(0.5)
<b>Debt Leverage Including Rentals (x)</b>					
Rental Expense	0.0	0.0	0.0	0.0	0.0
Gross Lease Adjusted Debt/Operating EBITDAR	0.1	0.1	0.2	0.5	0.1
Gross Lease Adjusted Debt/FFO+Int+Rentals	0.1	0.2	0.2	0.5	0.1
FCF/Lease Adjusted Debt (%)	104.6	(60.5)	16.6	148.0	633.7
<b>Debt Leverage Including Leases and Pension Adjustment (x)</b>					
Pension and Lease Adjusted Debt / EBITDAR + Pension Cost	0.1	0.1	0.2	0.5	0.1
<b>Liquidity</b>					
(Free Cash Flow+Available Cash+Committed Facils)/(ST Debt + Interest) (%)	6,191.1	4,029.5	3,793.0	1,673.7	2,316.1
<b>Balance Sheet Summary</b>					
Cash and Equivalents (Unrestricted)	3,008.7	2,651.8	2,620.7	940.8	351.7
Restricted Cash and Equivalents	0.0	0.0	0.0	0.0	0.0
Short-Term Debt	44.5	51.2	53.5	69.5	26.7
Long-Term Senior Debt	74.1	109.4	154.3	184.8	31.1
Subordinated Debt	0.0	0.0	0.0	0.0	0.0
Equity Credit	0.0	0.0	0.0	0.0	0.0
Total Debt with Equity Credit	118.6	160.6	207.8	254.3	57.8
Off-Balance-Sheet Debt	0.0	0.0	0.0	0.0	0.0
Lease-Adjusted Debt	118.6	160.6	207.8	254.3	57.8
Fitch- identified Pension Deficit	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Debt	118.6	160.6	207.8	254.3	57.8
<b>Cash Flow Summary</b>					
Operating EBITDA	1,377.8	1,174.3	892.0	554.1	647.7
Gross Cash Interest Expense	(6.1)	(12.2)	(16.5)	(9.2)	(4.3)
Cash Tax	(199.2)	(111.6)	(126.1)	(130.0)	(20.4)
Associate Dividends	16.2	10.5	1.3	0.0	0.0
Other Items before FFO (incl. interest receivable)	(15.1)	(81.4)	162.6	123.6	149.8
<b>Funds from Operations</b>	<b>1,173.6</b>	<b>979.6</b>	<b>913.3</b>	<b>538.5</b>	<b>772.8</b>
Change in Working Capital	(29.7)	(109.3)	(146.6)	20.2	(4.8)
<b>Cash Flow from Operations</b>	<b>1,143.9</b>	<b>870.3</b>	<b>766.7</b>	<b>558.7</b>	<b>768.0</b>
Total Non-Operating/Non-Recurring Cash Flow	0.0	0.0	0.0	191.6	1.4
Capital Expenditures	(852.2)	(764.3)	(631.7)	(334.1)	(351.8)
Dividends Paid	(167.7)	(203.1)	(100.6)	(39.8)	(51.3)
<b>Free Cash Flow</b>	<b>124.0</b>	<b>(97.1)</b>	<b>34.4</b>	<b>376.4</b>	<b>366.3</b>
Net (Acquisitions)/Divestitures	0.0	0.0	(287.4)	360.3	(1.0)
Net Equity Proceeds/(Buyback)	0.0	22.5	1,922.8	0.0	0.0
Other Cash Flow Items	274.9	152.9	56.6	(344.1)	(3.8)
Total Change in Net Debt	398.9	78.3	1,726.4	392.6	361.5
<b>Working Capital</b>					
Accounts Receivable Days	43.0	43.5	44.3	44.9	41.5
Inventory Days	19.2	21.9	18.9	9.4	4.4
Accounts Payable Days	70.5	70.7	74.4	66.6	59.0

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