FitchRatings

Corporates

Utilities - Non US / Poland

ENEA S.A.

Update

Ratings

Foreign Currency

Long-Term IDR	BBB

Local Currency

Long-Term IDR	BBB

National

Long-Term Rating	A(pol)

Outlooks

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

Financial Data

ENEA S.A.

	31 Dec 13	31 Dec 12
Revenue (PLNm)	9,151	10,091
Operating EBITDA (PLNm)	1,670	1,589
Operating EBITDA margin (%)	18	16
Funds from operations (PLNm)	1,759	1,504
Free cash flow (PLNm)	-385	-710
FFO gross interest coverage (x)	209.2	22.1
FFO adjusted net leverage (x)	-0.5	-0.9

Related Research

2015 Outlook: EMEA Utilities (December 2014)

Central European Utilities: 2015 Outlook (December 2014)

Polish Utilities Intensify Capex (October 2014)

Fitch Affirms ENEA at 'BBB'; Outlook Stable (April 2014)

EMEA Utilities Sector Credit Factors Compendium (March 2014)
Rating EMEA Utilities (August 2012)

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Key Rating Drivers

Predictable Regulated Business: ENEA S.A.'s ratings benefit from the high share of predictable, regulated electricity distribution in EBITDA (50% in 2013, 59% in 9M14). Fitch Ratings expects the share of distribution in EBITDA to be around 50%-60% in the medium term.

Challenged Generation Business: We expect ENEA's generation business (31% of 2013 EBITDA, 37% in 9M14) to remain under cash-flow pressure in 2015-2016, mainly due to low wholesale electricity prices, despite a modest increase expected for 2015, and decreasing volumes of free carbon dioxide allowances allocated to the company.

Little Fuel Mix Diversification: ENEA's business profile is constrained by limited generation fuel mix diversification, with 96% of capacity based on coal, and high asset concentration with over 90% of generation capacity concentrated in the Kozienice coal-fired plant. As a result, ENEA has substantial exposure to carbon dioxide costs which is partially mitigated by the free carbon dioxide allowances being gradually phased out in 2013-2020.

Financial Leverage to Increase: ENEA's large capex plan for 2014-2018, mostly related to the construction of a new one gigawatt (GW) unit in the Kozienice plant and the distribution segment, will result in negative free cash flow in this period and considerable debt-funding requirements. Debt has already increased from PLN0.8bn at end-year 2013 to PLN2bn at end-September 2014, which moved ENEA from a net cash position to a slight net debt position (total debt less Fitch-calculated readily available cash) of PLN0.5bn at end-September 2014.

According to Fitch's projections FFO adjusted net leverage is likely to increase to about 3x in 2017-2018. We view net leverage of 3x as a maximum level for the current ratings.

Large Capex: ENEA's capex plan for 2014-2020 amounts to PLN20bn, of which PLN11.8bn relates to core capex for conventional power generation (including Kozienice expansion) and the distribution segment, while PLN7.7bn is allocated to additional investments in new projects in renewables and cogeneration. We understand that management has flexibility on the PLN7.7bn for additional investments, depending on cash-flow generation and the company's leverage. Our rating case projections assume capex of about PLN11bn in 2014-2018.

Rating Sensitivities

Capex Implementation and Leverage: Rating upside potential for ENEA is limited. However, future developments that could lead to positive rating action include successful implementation of the capex plan leading to a more diversified asset base without jeopardising the financial profile. Implementation of cost reductions could also be positive.

Future developments that could lead to negative rating action include an increase in FFO adjusted net leverage to above 3x on a sustained basis – for example, due to full implementation of the PLN20bn capex plan in a scenario of low operating cash flows.

Liquidity and Debt Structure

Strong Liquidity: ENEA's liquidity was strong at end-September 2014, with PLN1.6bn of Fitch-calculated readily available cash as well as PLN5.2bn of committed funding in form of two fully underwritten bond issue programmes and bank loans against short-term debt of PLN25m.

Peer Group Table (FY13)

IDR/Outlook	CEZ A−/Stable	PGE BBB+/Stable	ENEA BBB/Stable	ENERGA BBB/Stable	Tauron BBB/Stable
Main shareholder (stake)	Czech state (69.4%)	Polish state (61.89%)	Polish state (51.5%)	Polish state (51.52%)	Polish state (30.06%)
Business profile	Vertically integrated	Vertically integrated	Vertically integrated	Mostly distribution	Vertically integrated
Regulated EBITDA (%)	23	28	50	74	60
Generation capacity (GW)	15.8	12.8	3.2	1.3	5.4
Generation mix (%)	46 nuclear, 38 lignite, 8 hard coal	73 lignite, 22 hard coal	95 hard coal, 2 biomass	62 hard coal, 21 hydro, 14 biomass	92 hard coal, 4 biomass
Own coal/lignite mining	Yes (63% of needs)	Yes (73% of needs)	No	No	Yes (35% of needs)
FFO (EURm)	2,309	1,972	424	358	887
FFO fixed charge cover (x)	8.8	175.6	107.1	9.6	14.4
FFO adjusted net leverage (x)	2.3	-0.4	-0.5	1.8	1.4
Forecast financial data					
FFO adjusted net leverage 2014-16 (x)	2.6	1.0	1.8	2.5	2.4
Expected FCF in mid-term	Neutral	Strongly negative	Strongly negative	Negative	Negative

Source: Fitch

Peer Group

Issuer	Country
A−	
CEZ, a.s.	Czech Republic
BBB+	
PGE Polska Grupa Energetyczna S.A.	Poland
BBB	
ENEA S.A.	Poland
ENERGA S.A.	Poland
TAURON Polska Energia S.A.	Poland
BB+	
Bulgarian Energy Holding EAD	Bulgaria
EP Energy, a.s.	Czech Republic

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
6 Nov 14	BBB	Stable
30 Apr 14	BBB	Stable
12 Dec 13	BBB	Stable
4 Apr 13	BBB	Stable
1 Nov 12	BBB	Stable
5 Apr 12	BBB	Stable
14 Apr 11	BBB	Stable

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Central European (CE) electricity utilities have performed relatively predictably, despite their varying degrees of vertical integration. The regulated segments, such as electricity distribution, or the quasi-regulated segments, such as renewables or heat generation, enhance business profiles through high cash-flow visibility in transparent and supportive regulatory regimes. Power generation is higher risk, due to its exposure to changes in fuel and electricity prices, and electricity demand. Strong domestic market positions, as in the Czech Republic, Slovakia or Bulgaria, or limited openness as in Poland, support the generation segment to a degree.

Financial Risks

The financial profiles of CE utilities benefit from relatively healthy cash-flow generation, but risks have surfaced in an environment of European macroeconomic stress and structural changes in the generation segment. Fitch expects negative free cash flow in the mid-term for many of the utilities, due to large capex plans with limited short-term flexibility. CE utilities have demonstrated good access to bank funding to date. In addition, the bond market has become an important funding source for many CE utilities following strong bond issuance in 2013-2014, including debut Eurobond issues by several companies.

Key Credit Characteristics

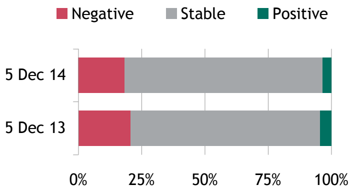
Large utilities with solid business profiles and strong to medium financial profiles generally command investment-grade ratings. Ratings depend both on business factors – including market presence, degree of vertical integration, generation mix and earnings diversification – and on financial factors such as financial policy, leverage, margins, capex plans and approach to M&A activity. Most rated CE utilities have solid credit ratios. Ratings reflect the expectation for FFO adjusted net leverage to rise to around 3x in the medium term for most issuers.

Related Criteria

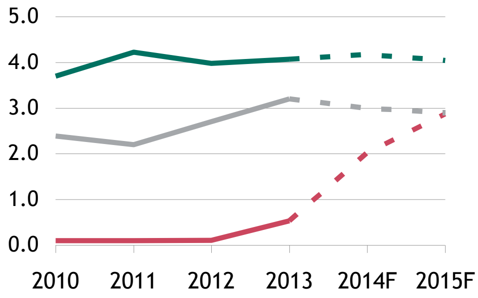
Corporate Rating Methodology (May 2014)

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

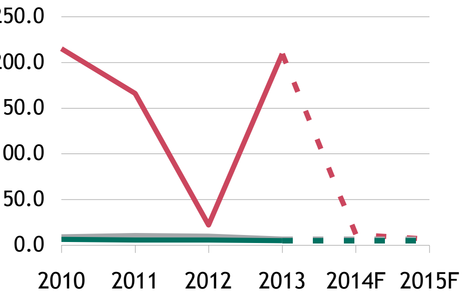
Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Leverage
including Fitch expectations



Interest Cover
including Fitch expectations



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:

- the share of regulated earnings to remain over 50% of EBITDA in the medium term;
- negative free cash flow due to growing capex in 2014-2018;
- capex of about PLN11bn in 2014-2018.

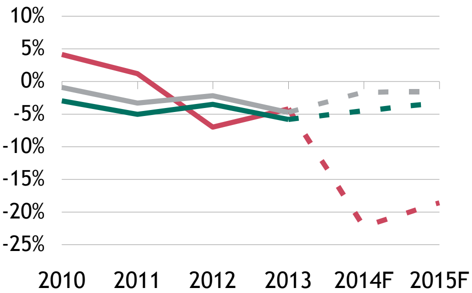
Debt Maturities and Liquidity at end-September 2014

Debt maturities	(PLNm)
Total	**2,050**
Short-term	25
Long-term	2,025
Readily available cash	**1,597**
Undrawn committed facilities	**5,195**
Underwritten bonds (commercial banks)[a]	3,340
EIB remaining part of loan	375
BGK bonds	740
Revolving loan	740

[a] On December 15, 2014 ENEA announced that it decided to reduce the amount of committed funding by PLN1bn.

Source: Fitch

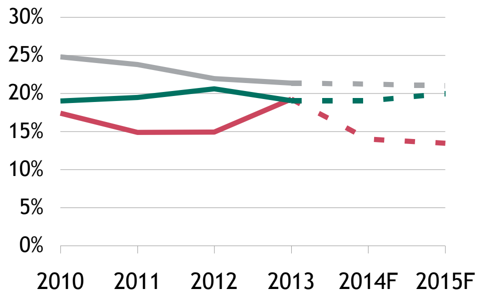
FCF/Revenues
including Fitch expectations



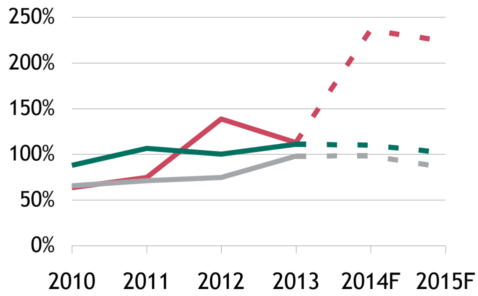
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received 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.

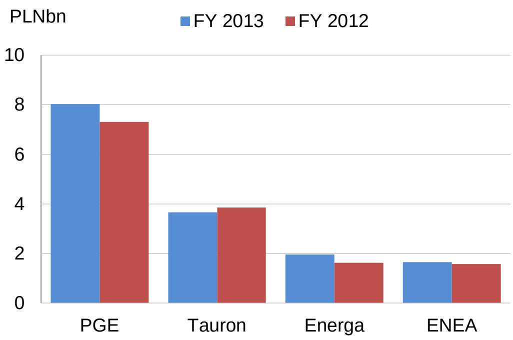
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

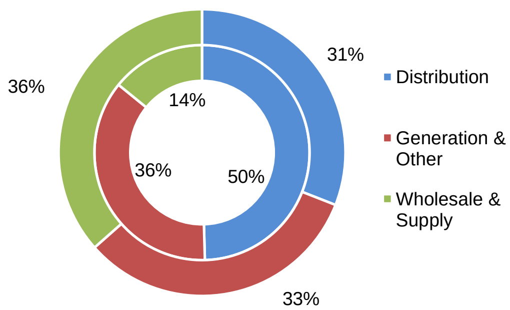


EBITDA (reported)
2013 vs. 2012



Source: Companies information

2013 ENEA's Segmental Split
Outer ring: Revenue
Inner ring: EBITDA



Source: Company information

Reconciliation of Key Financial Metrics for ENEA S.A.

(PLNm)	31 Dec 13	31 Dec 12
Interest bearing loans and borrowings	**847**	**83**
+ Subordinated debt	0	0
- Equity credit	0	0
= Total debt with equity credit	**847**	**83**
+ Total off-balance sheet debt (8 x long-term leases)	62	67
= Total lease-adjusted debt (a)	910	150
- Cash and equivalents (unrestricted, readily available)	1,745	1,515
= Net lease-adjusted debt (b)	**-836**	**-1,365**
Cash flows from operating activities (as reported)	**1,693**	**1,242**
+ Reversal of taxation paid	254	213
= Net cash from operating activities (adjusted by Fitch)	**1,948**	**1,455**
- Gross interest paid (c)	8	66
+ Interest received (d)	73	113
- Taxation paid	254	213
+ Dividend received (recurring)	5	3
= Cash flow from operations	1,763	1,292
- Change in working capital	4	-213
= Funds from operations (FFO) (e)	**1,759**	**1,504**
Long-term (LT) leases (f)	8	8
FFO adjusted net leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b/(e+c-d+f))	-0.5	-0.9
FFO fixed charge cover (x)		
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases) ((e+c-d+f)/(c+f))	107.1	19.7
FFO gross interest coverage (x)		
(FFO + net interest) / gross interest ((e+c-d)/c))	209.2	22.1

Source: Fitch based on company reports

ENEA S.A.
FINANCIAL SUMMARY

	31 Dec 2013 PLNm Year End	31 Dec 2012 PLNm Year End	31 Dec 2011 PLNm Year End	31 Dec 2010 PLNm Year End	31 Dec 2009 PLNm Year End
Profitability					
Revenue	9,151	10,091	9,709	7,837	7,154
Revenue Growth (%)	(9.32)	3.94	23.88	9.55	16.17
Operating EBIT	908	839	865	725	513
Operating EBITDA	1,670	1,589	1,548	1,378	1,174
Operating EBITDA Margin (%)	18.25	15.74	15.95	17.58	16.42
FFO Return on Adjusted Capital (%)	14.32	14.27	13.71	13.69	13.22
Free Cash Flow Margin (%)	(4.21)	(7.03)	1.17	4.12	0.20
Coverages (x)					
FFO Gross Interest Coverage	209.21	22.12	166.11	214.95	92.39
Operating EBITDA/Gross Interest Expense	206.17	24.11	186.52	225.87	96.25
FFO Fixed Charge Coverage (inc. Rents)	107.07	19.73	145.25	187.44	92.39
FCF Debt-Service Coverage	(11.22)	(6.89)	2.17	6.51	0.42
Cash Flow from Operations/Capital Expenditures	0.89	0.72	1.34	1.58	1.29
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	0.51	0.05	0.08	0.09	0.14
Total Debt Less Unrestricted Cash/Operating EBITDA	(0.54)	(0.90)	(1.51)	(2.04)	(2.09)
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	8	8	1	1	0
Gross Lease Adjusted Debt/Operating EBITDAR	0.54	0.09	0.09	0.09	0.14
Gross Lease Adjusted Debt /FFO+Int+Rentals	0.53	0.10	0.10	0.10	0.14
FFO Adjusted Net Leverage	(0.49)	(0.93)	(1.69)	(2.13)	(2.17)
FCF/Lease Adjusted Debt (%)	(42.35)	(474.02)	85.14	256.92	9.03
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	0.56	0.10	0.09	0.10	0.14
Balance Sheet Summary					
Readily Available Cash	1,745	1,515	2,464	2,922	2,611
Restricted/Not Readily Available Cash	124	8	10	10	0
Short-Term Debt	26	28	48	45	51
Long-Term Senior Debt	822	55	76	74	109
Subordinated debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	847	83	124	119	161
Off-Balance-Sheet Debt	62	67	10	7	0
Lease-Adjusted Debt	910	150	133	126	161
Fitch- identified Pension Deficit	41	4	6	6	7
Pension Adjusted Debt	950	154	139	131	168
Cash Flow Summary					
Operating EBITDA	1,670	1,589	1,548	1,378	1,174
Gross Cash Interest Expense	(8)	(66)	(8)	(6)	(12)
Cash Tax	(254)	(213)	(253)	(199)	(112)
Associate Dividends	5	3	3	16	11
Other Items before FFO (incl. interest receivable)	347	192	156	174	187
Funds from Operations	**1,759**	**1,504**	**1,445**	**1,362**	**1,248**
Change in Working Capital	4	(213)	(233)	(19)	(267)
Cash Flow from Operations	**1,763**	**1,292**	**1,213**	**1,343**	**982**
Total Non-Operating/Non-Recurring Cash Flow	0	0	0	0	0
Capital Expenditures	(1,989)	(1,789)	(905)	(852)	(764)
Dividends Paid	(159)	(212)	(194)	(168)	(203)
Free Cash Flow	**(385)**	**(710)**	**113**	**323**	**15**
Net (Acquisitions)/Divestitures	2	(51)	(589)	0	0
Net Equity Proceeds/(Buyback)	0	0	0	0	23
Other Cash Flow Items	(151)	(148)	12	30	1
Total Change in Net Debt	(534)	(908)	(463)	353	38
Working Capital					
Accounts Receivable Days	55	45	38	43	44
Inventory Days	42	37	26	19	22
Accounts Payable Days	81	66	60	71	71

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings