ENEA S.A.

Update

Ratings

Foreign Currency

Long-Term IDR	BBB

Local Currency

Long-Term IDR	BBB

National

Long-Term Rating	A(pol)

Outlooks

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

Financial Data

ENEA S.A.

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

Related Research

Fitch Affirms ENEA at 'BBB' (April 2012)

Energa S.A. (March 2012)

Fitch: Shale Gas in Poland Could Still Be a Game Changer (March 2012)

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Key Rating Drivers

Healthy Performance in 2011: ENEA S.A.'s stable operating and strong financial performance in 2011, coupled with its leading position in electricity distribution and supply and its significant position in power generation, led to the affirmation of its ratings in April 2012.

Strong Financial Profile: ENEA's strong financial profile was underpinned by a large cash balance at end-2011 of PLN2.6bn, limited debt and progress in arranging external financing.

The targeted financing mix entails loans granted by international financing institutions with long maturities, a long-term bond programme underwritten by a banking consortium, and operating cash flows generated by the group. Management believes that the signing of the loan documentation should be finalised mid-2012, which fits in well with the timing for the selection of a contractor for the 1,000MW new unit at the Kozienice power plant.

Slower Increase in Capex: Although capex rose to PLN1.2bn in 2011, it is increasing at a slower pace compared to ENEA's original plans. Fitch Ratings believes that lower capex has contained an increase in financial leverage. However, slower-than-expected progress in capex implementation may reduce the company's flexibility in terms of capex management.

Compensation Payments to Cease: The cash flows in ENEA's generation segment are supported by the compensation for the termination of long-term power purchase agreements (PPAs), which will be reported only until 2015.

Regulated Business: ENEA's ratings continue to benefit from the high contribution to EBITDA of regulated electricity distribution earnings (40% in 2011), higher than 23% at PGE Polska Grupa Energetyczna S.A. ('BBB+'/Stable), on a par with 42% at TAURON Polska Energia S.A. (Tauron; 'BBB'/Stable), but lower than 60% at ENERGA S.A. (Energa; 'BBB−'/Stable).

Sub-Optimal Generation Business: ENEA's creditworthiness is still constrained by the group's limited generation fuel mix diversification and high asset concentration, which was slightly improved by the acquisition of Elektrocieplownia Bialystok S.A. in mid-2011.

Narrowing Generation Short Position: Lower electricity volumes sold to end-customers in 2011 improved the generation to supply coverage ratio to 84%. This ratio is now substantially higher than that of Tauron or Energa.

What Could Trigger a Rating Action

Positive Drivers: Rating upside potential for ENEA is 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 which would transfer knowledge to ENEA and/or provide additional equity to co-fund investment.

Negative Drivers: FFO net leverage approaching or exceeding 3x – for example, due to full implementation of capex in a scenario of weaker-than-expected operating cash flows – would be negative for the ratings.

Liquidity and Debt Structure

Strong Liquidity: ENEA's liquidity was ample at end-2011, with PLN2.6bn of cash and an available credit line of PLN150m. The agency expects ENEA's limited external funding (PLN121m at end-2011) to increase after establishing the target funding mix.

Peer Group

Issuer	Country
A−	
CEZ, a.s.	Czech Republic
BBB+	
PGE Polska Grupa Energetyczna S.A.	Poland
BBB	
ENEA S.A.	Poland
Slovenske elektrarne, a.s.	Slovakia
TAURON Polska Energia S.A.	Poland
BBB−	
ENERGA S.A.	Poland

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
5 Apr 12	BBB	Stable
14 Apr 11	BBB	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status[a]	Trend
Operations	Average	Neutral
Market Position	Average	Neutral
Finances	Strong	Worsening
Governance	Average	Neutral
Geography	Average	Neutral

[a] Relative to Sector

Related Criteria

Corporate Rating Methodology (August 2011)

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, but risks have surfaced in an environment of global macro-economic stress. 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.

Figure 2

Business Profile Characteristics of CE Energy Utilities Rated by Fitch

	CEZ A−/Stable	PGE BBB+/Stable	Tauron BBB/Stable	SE BBB/Stable	ENEA BBB/Stable	Energa BBB−/Stable
Headroom within current rating level	Limited	Large	Large	Medium	Large	Medium
Vertical integration	Full	Full	Full	Low	Medium	Below-average
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	73 hard coal, 21 hydro, 6 biomass
Share of regulated EBITDA (%)	19	21	42	0	40	60

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, CEZ has a leading position and vertical integration in Czech power. It is the largest electric utility in central Europe. CEZ has a strong EBITDA margin, which is partly driven by its low-cost generation portfolio.

PGE Polska Grupa Energetyczna S.A. (PGE, 'BBB+'/Stable) – 62% owned by the Polish state, PGE has a leading and vertically integrated position in Polish power, including dominance in generation.

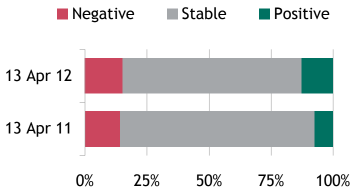
Slovenske Elektrarne, a.s. (SE, 'BBB'/Stable) – is the dominant power producer in Slovakia, and is 66% owned by Italy's Enel S.p.A. ('A−'/Rating Watch Negative). The company benefits from a good mix of generating sources but is less integrated than many of its peers.

TAURON Polska Energia S.A. (Tauron, 'BBB'/Stable) – 30% owned by the Polish state, Tauron is the second-largest vertically integrated utility in Poland. It has a relatively large presence in distribution and supply, as opposed to generation.

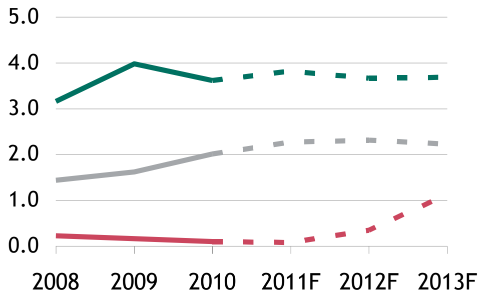
ENERGA S.A. (Energa, 'BBB−'/Stable) – 84% owned by the Polish state, Energa's creditworthiness is driven by a very high portion of regulated EBITDA and advanced implementation of the capex programme.

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

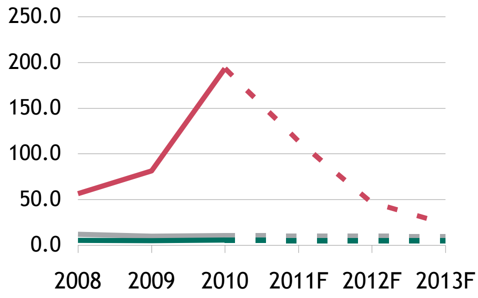
Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Leverage
including Fitch expectations



Interest Cover
including Fitch expectations



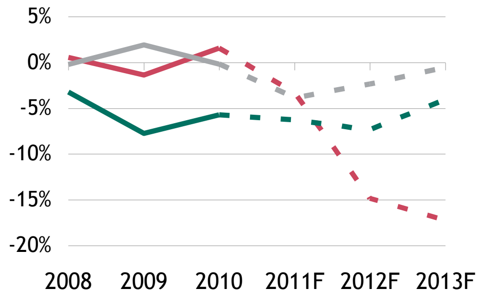
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

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

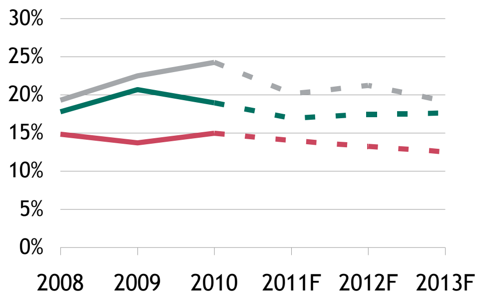
Debt Maturities and Liquidity at YE11

Debt maturities	[PLNm]
2011	47.6
After 2011	72.9
Cash and equivalents	2,550
Undrawn Committed Facilities (Expiry)	
Facility [PLN150m]	150

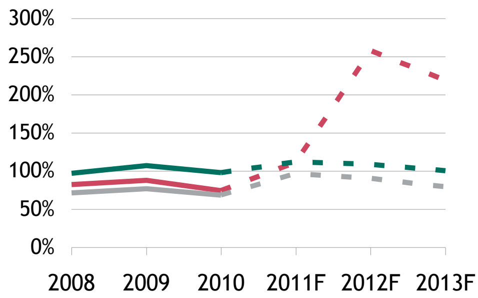
FCF/Revenues
including Fitch expectations



FFO Profitability
including Fitch expectations



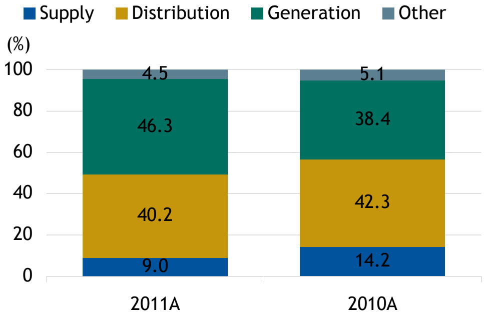
Capex/CFO
including Fitch expectations



Definitions

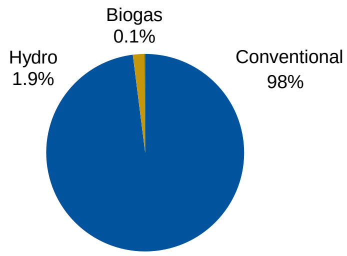
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus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

EBITDA Breakdown by Segments



Source: ENEA S.A.

ENEA'S Generation Mix
2010



Source: ENEA S.A.

ENEA 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
Profitability					
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
Coverages (x)					
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
Debt Leverage of Cash Flow (x)					
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)
Debt Leverage Including Rentals (x)					
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
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	0.1	0.1	0.2	0.5	0.1
Liquidity					
(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
Balance Sheet Summary					
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
Cash Flow Summary					
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
Funds from Operations	**1,173.6**	**979.6**	**913.3**	**538.5**	**772.8**
Change in Working Capital	(29.7)	(109.3)	(146.6)	20.2	(4.8)
Cash Flow from Operations	**1,143.9**	**870.3**	**766.7**	**558.7**	**768.0**
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)
Free Cash Flow	**124.0**	**(97.1)**	**34.4**	**376.4**	**366.3**
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
Working Capital					
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

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