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 14	31 Dec 13
Revenue (PLNm)	9,855	9,151
Operating EBITDA (PLNm)	1,803	1,857
Operating EBITDA margin (%)	18.3	20.3
Funds from operations (PLNm)	1,635	1,694
Free cash flow (PLNm)	-1,728	-459
FFO gross interest coverage (x)	32	273
FFO adjusted net leverage (x)	0.6	-0.5

Related Research

2016 Outlook: EMEA Utilities (December 2015)

Central European Utilities: Negative Sector Outlook (December 2015)

Fitch Affirms ENEA at 'BBB' On Bogdanka Acquisition (October 2015)

Fitch: Polish Power Capacity Will be Stretched for Several Years (August 2015)

ENEA S.A. – Ratings Navigator (June 2015)

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Key Rating Drivers

Coal Mine Acquisition: Fitch Ratings affirmed ENEA S.A.'s ratings in October 2015 following ENEA's decision to acquire a 64.57% stake – and thereby increase its shareholding to 66% – in Lubelski Wegiel Bogdanka S.A. (Bogdanka) for PLN1.48bn (EUR0.35bn). Bogdanka is the most modern coal mine in Poland and one of only a few that are profitable in the current stressed environment pressured by low coal prices and overcapacity in the Polish market.

Strong Business Links With Bogdanka: Bogdanka is ENEA's main coal supplier, while ENEA is the main coal off-taker for Bogdanka. ENEA's needs are lower than Bogdanka's coal production; however, they should become fairly well matched from 2017-2018 due to ENEA's commissioning of a new 1GW unit in Kozienice and increased electricity production.

Changed Business Profile: The Bogdanka acquisition increases ENEA's vertical integration and reduces the risk of coal supply and coal prices to its generation segment. However, the acquisition also changes ENEA's business profile by reducing the share of the more predictable and fairly stable regulated electricity distribution due to the increased contribution of risky and cyclical coal mining.

Lowered Return in Distribution: The regulator has reduced the WACC for 2016 to 5.68% from 7.2% for 2015 (or from 6.84% with a 5% haircut applied last year), partly due to lower market interest rates. We project that the lower WACC for 2016 will reduce ENEA's EBITDA by 4%. The regulatory return for distributors could also be negatively affected from 2018 by new quality elements in the tariff system for 2016-2020.

Potential Support for Coal Mining: The new government's support plan for the domestic coal mining sector may include acquisitions of stakes in some loss-making coal mining companies and a broader consolidation of the electricity and coal mining sectors to financially support the mines. In our view, further acquisitions of interests in coal mines by ENEA, if not mitigated by credit supportive measures, such as lower dividends or contemplated creation of a capacity market in Poland, would be negative for the ratings if net leverage increases above 3x.

Challenging Generation: Fitch expects the electricity generation segment to remain under pressure in 2016-2017 due to low wholesale electricity prices, growing CO_2 costs, a rising share of renewables supported by subsidies, and conclusion of the compensation scheme for the termination of long-term power purchase agreements for ENEA.

Rating Sensitivities

Limited Upside Potential: ENEA's large capex plan, business risk profile including a large share of mining, and our expectation that FFO adjusted net leverage will increase close to the 3x limit for the ratings in 2017-2019 reduce the probability of positive rating action.

Excess Leverage: An increase in FFO adjusted net leverage to above 3x on a sustained basis, a substantial adverse change in ENEA's business profile such as a material reduction in the share of regulated distribution in EBITDA, additional acquisitions of stakes or other form of support to coal mines, and prolonged oversupply in the Polish coal market are negative rating sensitivities.

Liquidity and Debt Structure

Sufficient Liquidity: At end-September 2015, ENEA had PLN3.2bn of unrestricted cash and equivalents and undrawn committed lines of PLN3.1bn against short-term debt of PLN10m.

Peer Group Table (FY14)

IDR/Outlook	CEZ A−/Stable	PGE BBB+/Stable	TAURON BBB/Negative	Energa BBB/Stable	ENEA BBB/Stable
Main shareholder (stake)	Czech state (69.78%)	Polish state (58.39%)	Polish state (30.06%)	Polish state (51.52%)	Polish state (51.5%)
Business profile	Vertically integrated	Vertically integrated	Vertically integrated	Mostly distribution	Vertically integrated
Regulated EBITDA (%)	27	28	59	65	61 (<50 with Bogdanka)
Generation capacity (GW)	16.0	12.6	5.1	1.4	3.3
Generation mix (%)	48 nuclear, 36 lignite, 9 hard coal	71 lignite, 22 hard coal	92 hard coal	64 hard coal, 17 hydro, 13 biomass	92 hard coal
Share of own coal/lignite mining (%)	~60	~70	~50 (with Brzeszcze)	0	~70 (with Bogdanka)
FFO net leverage 2015-17 (x)	2.7	1.4	3.3	2.6	2.6
Negative rating guideline for FFO net leverage (x)	Above 3.0	Above 3.0	Above 3.5	Above 3.5	Above 3.0
Expected FCF in mid term	Neutral	Strongly negative	Strongly negative	Negative	Strongly 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+	
EP Energy, a.s.	Czech Republic
BB−	
Bulgarian Energy Holding EAD	Bulgaria

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
29 Oct 15	BBB	Stable
27 Apr 15	BBB	Stable
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

Related Criteria

Corporate Ratings Methodology (August 2015)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Central European (CE) electric utilities have performed relatively predictably, despite their varying degrees of vertical integration. The regulated segments, such as electricity distribution, and the quasi-regulated segments, such as renewables and 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, electricity demand and costs of CO_2. The largely coal- and lignite-fired generation fleet in central Europe benefits from a gradual phase-out of free carbon dioxide allowances until 2020 in exchange for environment-friendly capex. The power generation segment in Poland benefits additionally from limited market openness. On the other hand, it is prone to further support for or consolidation with hard coal mining operations, which are facing financial difficulties.

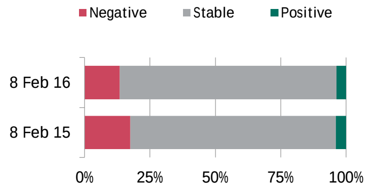
Financial Risks

The financial profiles of CE utilities benefit from relatively healthy and predictable cash-flow generation, though the generation segment of many companies is under cash flow pressure due to declining margins. Fitch expects negative free cash flow in the medium term for the utilities, due to large capex plans with limited short-term flexibility. Access to capital market funding differs among companies, with some companies being frequent issuers such as CEZ and PGE, and others for whom market access has yet to be proven. CE utilities have demonstrated good access to bank funding.

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 3.0-3.5x in the medium term for most issuers.

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



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:

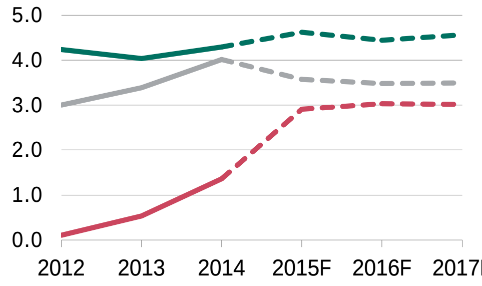
- no major shifts in wholesale electricity prices;
- an increase in the CO_2 market price of around 50% up to 2019;
- increased electricity production from mid-2017, due to commissioning of the new 1GW Kozienice block;
- stable distribution and sales volumes;
- lower WACC in the distribution segment: 5.7% in 2016 and then a gradual increase to 6% in 2019;
- capex of about PLN13.7bn in 2015-2019 including PLN1.48bn on the Bogdanka acquisition.

Definitions

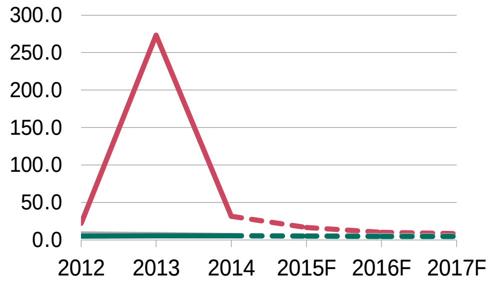
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received plus preferred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

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

Leverage
including Fitch expectations



Interest Cover
including Fitch expectations

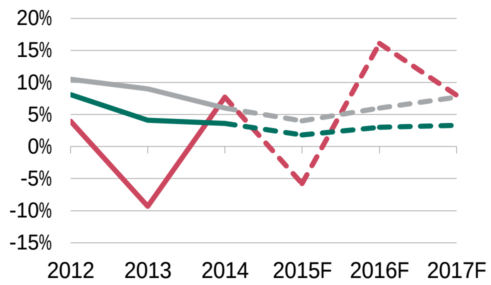


Debt Maturities and Liquidity at end-September 2015

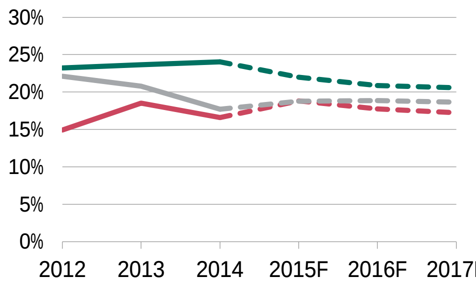
Debt maturities	(PLNm)
Total	**4,913**
Short-term	10
Long-term	4,903
Readily available cash	**3,224**
Undrawn committed facilities	**3,086**
Underwritten bonds (commercial banks)	2,140
Remaining part of EIB loan	946

Source: Fitch

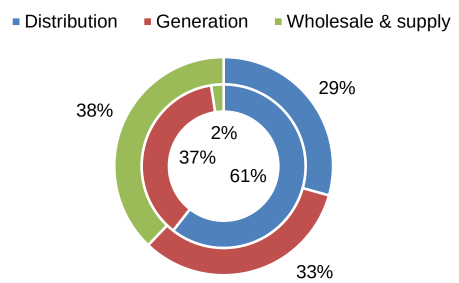
Revenue Growth
including Fitch expectations



FFO Profitability
including Fitch expectations

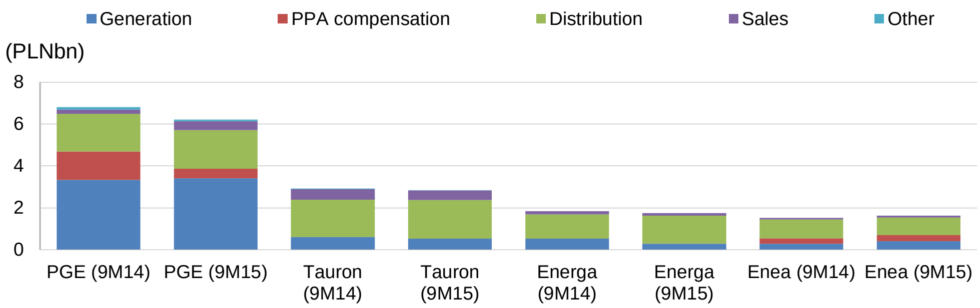


2014 ENEA's Segmental Split
Outer ring: Revenue
Inner ring: EBITDA



Source: Company information

EBITDA
9M15 vs. 9M14



[a] Compensation for the termination of long-term power purchase agreements
Source: Companies information

ENEA S.A.
FINANCIAL SUMMARY

	31 Dec 2014 PLNm Year End	31 Dec 2013 PLNm Year End	31 Dec 2012 PLNm Year End	31 Dec 2011 PLNm Year End	31 Dec 2009 PLNm Year End
Profitability					
Revenue	9,855	9,151	10,091	9,709	7,154
Revenue Growth (%)	7.70	(9.32)	3.94	23.88	16.17
Operating EBIT	1,074	1,095	935	842	513
Operating EBITDA	1,803	1,857	1,684	1,525	1,174
Operating EBITDA Margin (%)	18.29	20.29	16.69	15.71	16.42
FFO Return on Adjusted Capital (%)	11.81	13.78	14.27	13.71	13.22
Free Cash Flow Margin (%)	(17.54)	(5.02)	(7.03)	1.17	0.20
Coverages (x)					
FFO Gross Interest Coverage	31.73	273.29	22.12	166.11	92.39
Operating EBITDA/Gross Interest Expense	34.27	299.45	25.56	183.72	96.25
FFO Fixed Charge Coverage (inc. Rents)	28.31	121.59	19.73	145.25	92.39
FCF Debt-Service Coverage	(26.47)	(14.28)	(6.89)	2.17	0.42
Cash Flow from Operations/Capital Expenditures	0.42	0.85	0.72	1.34	1.29
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	1.23	0.46	0.05	0.08	0.14
Total Debt Less Unrestricted Cash/Operating EBITDA	0.57	(0.48)	(0.85)	(1.54)	(2.09)
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	7	8	8	1	0
Gross Lease Adjusted Debt/Operating EBITDAR	1.26	0.49	0.09	0.09	0.14
Gross Lease Adjusted Debt /FFO+Int+Rentals	1.36	0.53	0.10	0.10	0.14
FFO Adjusted Net Leverage	0.65	(0.49)	(0.93)	(1.69)	(2.17)
FCF/Lease Adjusted Debt (%)	(76.00)	(50.45)	(474.02)	85.14	9.03
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	1.32	0.51	0.09	0.09	0.14
Balance Sheet Summary					
Readily Available Cash	1,192	1,745	1,515	2,464	2,611
Restricted/Not Readily Available Cash	77	124	8	10	0
Short-Term Debt	11	26	28	48	51
Long-Term Senior Debt	2,211	822	55	76	109
Subordinated debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	2,221	847	83	124	161
Off-Balance-Sheet Debt	53	62	67	10	0
Lease-Adjusted Debt	2,274	910	150	133	161
Fitch- identified Pension Deficit	114	41	4	6	7
Pension Adjusted Debt	2,388	951	154	139	168
Cash Flow Summary					
Operating EBITDA	1,803	1,857	1,684	1,525	1,174
Gross Cash Interest Expense	(53)	(6)	(66)	(8)	(12)
Cash Tax	(160)	(254)	(213)	(253)	(112)
Associate Dividends	3	5	3	3	11
Other Items before FFO (incl. interest receivable)	42	94	97	179	187
Funds from Operations	**1,635**	**1,694**	**1,504**	**1,445**	**1,248**
Change in Working Capital	(550)	(46)	(213)	(233)	(267)
Cash Flow from Operations	**1,085**	**1,649**	**1,292**	**1,213**	**982**
Total Non-Operating/Non-Recurring Cash Flow	0	0	0	0	0
Capital Expenditures	(2,561)	(1,949)	(1,789)	(905)	(764)
Dividends Paid	(252)	(159)	(212)	(194)	(203)
Free Cash Flow	**(1,728)**	**(459)**	**(710)**	**113**	**15**
Net (Acquisitions)/Divestitures	(234)	28	(42)	(577)	16
Net Equity Proceeds/(Buyback)	0	0	0	0	23
Other Cash Flow Items	35	(103)	(157)	0	(16)
Total Change in Net Debt	(1,927)	(534)	(908)	(463)	38
Working Capital					
Accounts Receivable Days	58	55	45	38	44
Inventory Days	40	42	37	26	22
Accounts Payable Days	70	80	66	60	71

Figure 1

ENEA S.A. – Forecast Financial Information

	Historical			Fitch forecast		
(PLNm)	**31 Dec 12**	**31 Dec 13**	**31 Dec 14**	**31 Dec 15**	**31 Dec 16**	**31 Dec 17**
Summary income statement						
Gross revenue	10,091	9,151	9,855	9,280	10,774	11,639
Revenue growth (%)	3.9	-9.3	7.7	-5.8	16.1	8.0
Operating EBITDA	1,684	1,857	1,803	2,003	2,235	2,398
Operating EBITDA margin (%)	16.7	20.3	18.3	21.6	20.7	20.6
Operating EBITDAR	1,693	1,864	1,809	2,009	2,242	2,406
Operating EBITDAR margin (%)	16.8	20.4	18.4	21.7	20.8	20.7
Operating EBIT	935	1,095	1,074	1,049	935	1,016
Operating EBIT margin (%)	9.3	12.0	10.9	11.3	8.7	8.7
Gross interest expense	-15	-11	-39	-110	-200	-256
Pre-tax income	887	954	1,143	989	785	809
Summary balance sheet						
Readily available cash	1,515	1,745	1,192	899	791	463
Total debt with equity credit	83	847	2,221	5,210	6,206	6,629
Total adjusted debt with equity credit	150	910	2,274	5,260	6,263	6,692
Net debt	-1,432	-898	1,029	4,311	5,415	6,167
Summary cash flow statement						
Operating EBITDA	1,684	1,857	1,803	2,003	2,235	2,398
Cash interest	-66	-6	-53	-110	-200	-256
Implied interest cost (%)	79.9	1.3	3.4	3.0	3.5	4.0
Cash tax	-213	-254	-160	-203	-161	-166
Associate dividends less distributions to NCI	3	5	3	3	-13	-21
Other items before FFO	97	94	41	50	50	50
Funds flow from operations	1,504	1,694	1,635	1,744	1,911	2,005
FFO margin (%)	14.9	18.5	16.6	18.8	17.7	17.2
Change in working capital	-213	-46	-550	46	-184	-111
Cash flow from operations (Fitch defined)	1,292	1,649	1,085	1,791	1,727	1,894
Total non-operating/non-recurring cash flow						
Capital expenditure	-1,789	-1,949	-2,561			
Capital intensity (capex/revenue) (%)	17.7	21.3	26.0			
Common dividends	-212	-159	-252			
Net acquisitions & divestitures	-42	28	-234			
Capex, dividends, acquisitions & oth. items before FCF	-2,043	-2,080	-3,047	-5,072	-2,831	-2,646
Free cash flow after acquisitions & divestitures	-752	-431	-1,962	-3,282	-1,104	-752
Free cash flow margin (after net acquisitions) margin (%)	-7.4	-4.7	-19.9	-35.4	-10.2	-6.5
Other investing and financing cash flow items	-157	-103	35	0	0	0
Net debt proceeds	-41	765	1,374	2,989	996	424
Net equity proceeds				0	0	0
Total change in cash	-949	231	-553	-293	-108	-328
Coverage ratios (x)						
FFO interest coverage	22.1	273.3	31.7	16.5	10.3	8.6
FFO fixed charge coverage	19.7	121.6	28.3	15.6	10.0	8.4
Operating EBITDAR/gross interest expense + rents	22.8	133.2	30.6	17.3	10.8	9.1
Operating EBITDA/gross interest expense	25.6	299.5	34.3	18.3	11.2	9.4
Leverage ratios (x)						
Total adjusted debt/operating EBITDAR	0.1	0.5	1.3	2.6	2.8	2.8
Total adjusted net debt/operating EBITDAR	-0.8	-0.4	0.6	2.2	2.4	2.6
Total debt with equity credit/operating EBITDA	0.0	0.5	1.2	2.6	2.8	2.8
FFO adjusted leverage	0.1	0.5	1.4	2.9	3.0	3.0
FFO adjusted net leverage	-0.9	-0.5	0.6	2.4	2.6	2.8

How to interpret the forecast presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so

Source: Fitch

Figure 2

Reconciliation of Key Financial Metrics for ENEA S.A.

(PLNm)	31 Dec 14	31 Dec 13
Interest bearing loans and borrowings	**2,221**	**847**
+ Subordinated debt	0	0
- Equity credit	0	0
= Total debt with equity credit	**2,221**	**847**
+ Total off-balance sheet debt (8 x long-term leases)	53	62
= Total lease-adjusted debt (a)	2,274	910
- Cash and equivalents (unrestricted, readily available)	1,192	1,745
= Net lease-adjusted debt (b)	**1,082**	**-836**
Cash flows from operating activities (as reported)	**1,116**	**1,644**
+ Reversal of taxation paid	160	254
= Net cash from operating activities (adjusted by Fitch)	**1,276**	**1,899**
- Gross interest paid (c)	53	6
+ Interest received (d)	18	6
- Taxation paid	160	254
+ Dividend received (recurring)	3	5
= Cash flow from operations	1,085	1,649
- Change in working capital	-550	-46
= Funds From Operations (FFO) (e)	**1,635**	**1,694**
Long-term (LT) leases (f)	7	8
FFO adjusted net leverage (x)	**0.6**	**-0.5**
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b/(e+c-d+f))		
FFO fixed charge cover (x)	**28**	**122**
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases) ((e+c-d+f)/(c+f))		
FFO gross interest coverage (x)	**32**	**273**
(FFO + net interest)/gross interest ((e+c-d)/c))		

Source: Fitch based on company reports

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