FitchRatings

FITCH AFFIRMS ENEA AT 'BBB'

Fitch Ratings-Warsaw/London-05 April 2012: Fitch Ratings has affirmed ENEA S.A.'s (ENEA) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB' and National Long-term rating at 'A(pol)' with Stable Outlooks.

The affirmation is driven by ENEA's (ENEA group comprising ENEA S.A. and its subsidiaries) stable operating and strong financial performance in FY11 coupled with its leading position in electricity distribution and supply and material position in power generation.

ENEA's financial profile continues to be strong and was underpinned by a large cash balance at YE11 of PLN2.5bn (PLN3bn at YE10), limited external debt (PLN121m) and recent 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 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.

Although capex in FY11 of PLN1.2bn was almost two times higher than the average for 2008-2010, the capex spending is increasing at a slower pace compared to ENEA's original plans. Fitch believes that lower capex has slowed an increase in financial leverage. However, slower than expected progress in capex implementation may reduce the company's flexibility in terms of capex management. Fitch believes that the accumulation of construction works and related payments in 2013-2014 could be challenging and result in delayed completion of the Kozienice project and postponement of operating cash flows from the new generation unit.

Fitch projects that ENEA's ambitious capex plan will be funded from its large cash balance and new debt that ENEA expects to raise in the next few years. This will result in higher financial leverage, which is forecast to remain commensurate with the current ratings in the medium term. The agency notes that FFO adjusted net leverage approaching or exceeding 3.0x could lead to negative rating action.

Fitch assumed in its projections that additional cash flow in ENEA's generation segment, related to a compensation for the termination of long-term power purchase agreements (PPAs), will be reported only until 2015. According to the PPA Termination Act, the maximum compensation for ENEA's Kozienice power plant is PLN624m.

ENEA's ratings continue to benefit from the high contribution to EBITDA from regulated electricity distribution earnings (40% in FY11), higher than 23% at PGE Polska Grupa Energetyczna S.A. ('BBB+'/Stable), on a par with 42% at Tauron Polska Energia S.A. ('BBB'/Stable) but lower than estimated 60% at Energa S.A. ('BBB-'/Stable). ENEA's creditworthiness is still constrained by the group's limited generation fuel mix diversification and high asset concentration, which was slightly mitigated by the acquisition of Elektrocieplownia Bialystok S.A. in mid-2011. Lower electricity volumes sold to end-customers in FY11 improved the generation to supply coverage ratio to 84%. This ratio is now substantially higher than that of Tauron or Energa. ENEA also has substantial exposure to carbon dioxide costs, which could result in an erosion of profits from the generation segment beyond 2012.

ENEA's liquidity was ample at YE11 with PLN2.5bn of cash and a PLN150m fully available revolving credit line against PLN48m of short-term debt. Fitch notes that in FY11 the group implemented tools to manage cash flows within the group more efficiently, which should help raise debt at the holding company level.

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 12 August 2011, is available at www.fitchratings.com.

Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(pol)' for National ratings in Poland. Specific letter grades are not therefore internationally comparable.

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229