# Fitch Affirms Enea at 'BBB'; Outlook Stable

Fitch Ratings—Warsaw/London—04 April 2013: 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 financial performance in 2012 coupled with its leading position in electricity distribution and supply and material position in power generation. We expect ENEA's financial leverage (defined as funds from operations (FFO) adjusted net leverage) to increase to about 2.5x in 2016 from a net cash position of PLN1.5bn in 2012. This is due to its large capex plan allocated mostly to the generation segment. ENEA's available cash and funding facilities allow the company to fund its capex plan by 2020, which limits the funding risk.

KEY RATING DRIVERS
--Stable Performance in 2012
ENEA S.A.'s growing EBITDA of the regulated power distribution segment and better cash flows in power supply allowed the group to post a 4% increase in EBITDA in 2012 despite weaker cash flows in the power generation segment.

--Financial Leverage to Increase
ENEA's large capex plan for 2013-2017, mostly related to the construction of a new 1GW unit in the Kozienice coal-fired power plant, will result in negative free cash flow in this period. This is likely to increase FFO adjusted net leverage to about 2.5x in 2016, according to Fitch's projections from a net cash position of PLN1.5bn in 2012. ENEA's available cash and funding facilities, including committed bank loans and fully underwritten domestic bond programme, allow the company to fund its capex plan by 2020.

--Regulated Business
ENEA's ratings continue to benefit from the high contribution to EBITDA of predictable, regulated electricity distribution earnings (44% in 2012), higher than 25% at PGE Polska Grupa Energetyczna S.A. ('BBB+'/Stable), and lower than 51% at TAURON Polska Energia S.A. (Tauron; 'BBB'/Stable) and 75% at ENERGA S.A. (Energa; 'BBB'/Stable). Fitch expects that in the medium term the share of ENEA's regulated EBITDA will be around 50%.

--Sub-Optimal Generation Business
ENEA's creditworthiness is still constrained by the group's limited generation fuel mix diversification (96% of capacity is based on coal) and high asset concentration. ENEA also has substantial exposure to carbon dioxide costs, which is likely to result in an erosion of profits from the conventional generation segment in 2013-2020. The cash flows of ENEA's generation segment will be supported by the compensation for the termination of long-term power purchase agreements (stranded costs compensation) which will be mostly reported in 2013-2015. After 2015, ENEA will not receive additional cash flows from this source.

LIQUIDITY & DEBT STRUCTURE
--Strong Liquidity

ENEA's liquidity was strong at end-2012, with PLN1.6bn of cash and available credit lines of PLN300m against the short-term debt of PLN28m at end-2012. Fitch expects ENEA's currently limited external funding (PLN83m at end-2012) to increase substantially as the result of capex in 2013-2017. The maturity profile of the arranged funding (currently undrawn) is regarded by Fitch as supporting for the company's long-term capex plans, with long-term tenors available and flexible conditions of debt utilisation.

RATING SENSITIVITIES
Positive: Future developments that could lead to positive rating actions include:
- Rating upside potential for ENEA is limited. The ratings could be positively affected by successful implementation of the capex plan in the long term without jeopardising the financial profile, or the presence of a strong strategic investor which would transfer knowledge to ENEA and/or provide additional equity to co-fund investment.

Negative: Future developments that could lead to negative rating action include:
- Substantial increase in FFO adjusted net leverage to above 3x on a sustained basis – for example, due to full implementation of capex in a scenario of weaker-than-expected operating cash flows – would be negative for the ratings.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012, are 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.