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RESEARCH**Summary:****EVN AG**

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Credit Rating: A/Negative/--**Rationale**

The ratings on Austria-based utility EVN AG reflect the predictable revenues it generates through its stable monopoly network operations, and its strong market position as a supplier of electricity, gas, water, and heat. EVN also has strategic joint ventures with other Austrian utilities and a modest financial risk profile.

These strengths are offset by the company's exposure to competition in the liberalized Austrian electricity and gas supply market, short position in power generation, and regulatory pressure on its monopoly network operations. EVN also has an aggressive corporate strategy focused on internal and external growth, particularly in higher-risk Eastern European countries such as Albania, and an increasingly ambitious enlargement target for its generation fleet.

EVN is Austria's second-largest regional utility and in fiscal 2007 (fiscal year end is Sept. 30) it derived about 63% of consolidated revenues and almost 90% of EBIT from the domestic market, with the balance from Central and Eastern Europe. The energy division accounted for 88% of consolidated revenues (of which 15% from domestic energy networks), with the balance made of environmental services (water, wastewater and waste incineration).

EVN's domestic franchise area is a rating strength, due to Austria's robust economy and above-average presence of residential customers with a still-low propensity to switch supplier. However, churn rates are on the rise, on the back of some increasing retail competition.

Customer retention is also supported by the availability of regulated distribution network activities, which represent a natural monopoly and are a source of fairly stable revenues, albeit subject to moderate regulatory pressure.

Overall, the company's unaudited results as of June 30, 2008 (that is, for the first nine months of the fiscal year to Sept. 30, 2008) were somewhat below expectations, with reported EBITDA of €301 million, representing a 3.3% drop from the corresponding period of the previous year. The energy division posted 3.3% EBITDA growth to €292.5 million. This was a result of growing electricity and gas volumes triggered by colder temperatures, which were partly offset by lower margins due to only partial pass-through of higher energy purchasing costs and lower network gas tariffs. On the other hand, the environmental services segment recorded a 49.9% EBITDA decline, to €18.5 million, due to delays in new projects.

Reported net financial debt was €959 million at June 30, 2008, which was €134 million higher than at Sept. 30, 2007, predominantly because of the increase in ongoing investments. However, debt growth was lower than expected, due to delays in the capex program, particularly in relation to the acquisition of new environmental projects. Resulting unadjusted annualized net debt to EBITDA stood at 2.8x, compared with 2.4x at end-September 2007.

Liquidity

EVN has a strong liquidity position with €274 million in reported cash and cash equivalents, and €600 million (of which €400 million undrawn) under a committed bank line as of June 30, 2008. The company has repaid about €240 million in debt so far in 2008, mostly as a result of two bonds due for repayment. Maturities for 2009 are limited to €125 million (CHF200 million). Thanks to EVN's comfortable cash position and the credit facility in place, Standard & Poor's Ratings Services considers refinancing risk to be low.

Outlook

The negative outlook reflects our expectation that EVN's intention to enter the electricity generation business in Albania will

further weaken its credit risk profile. We expect the project to cost several hundred million euros, invested over several years.

In addition, the challenging sector environment is weighing on EVN's current performance and could impact ratings if the downturn is prolonged and prevents the group sustaining a financial profile commensurate with the ratings.

Given the increasing business risk caused by the company's business plans, and its intention to enlarge the generation fleet, we expect EVN to report fund from operations (FFO) interest cover of about 6x and FFO to debt of more than 30% at the current rating level.

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