

Austria-Based EVN AG Outlook Revised To Negative On Expansion Strategy; 'A+' Ratings Affirmed

Primary Credit Analysts:

Ralf Etzelmueller
Frankfurt
(49) 69-33-999-123
ralf_etzelmueller@
standardandpoors.com

Secondary Credit Analyst:

Peter Kernan
London
(44) 20-7176-3618
peter_kernan@
standardandpoors.com

Additional Contact: Infrastructure
Finance Ratings Europe
InfrastructureEurope@
standardandpoors.com

Credit Rating: A+/Negative/--

Rationale

On Feb. 3, 2006, Standard & Poor's Ratings Services revised its outlook on Austria-based utility EVN AG to negative from stable, reflecting its more aggressive expansion and investment strategy and that it is achieving an increasing share of its cash flows from lower rated Central and Eastern European countries. At the same time, the 'A+' long-term corporate credit and senior unsecured debt ratings on EVN were affirmed.

The ratings on EVN, the multi-utility based in the State of Lower Austria (AA+/Negative/A-1+), reflect the predictable revenues generated by its stable monopoly network operations, and its strong market position as a supplier of electricity, gas, water, and heat. This is supported by EVN's strategic joint ventures with other Austrian utilities and its robust financial profile.

These strengths are offset by EVN's exposure to competition in the liberalized Austrian electricity and gas supply market, continued and more transparent regulatory pressure on its monopoly network operations, and a more aggressive corporate strategy focusing on growth by acquisition and expansion, in particular in the lower rated Eastern European countries.

Publication Date

Feb. 3, 2006

Austria-Based EVN AG Outlook Revised To Negative On Expansion Strategy; 'A+' Ratings Affirmed

EVN's business risk profile has already weakened as a result of the acquisition of two regional electricity distribution companies in Bulgaria in 2004. In addition, in April 2005, EVN increased its indirect stake in Rohoel-Aufsuchungs-AG (RAG) to 37.5% via an asset swap with German utility E.ON AG (AA-/Negative/A-1+). RAG is the second-largest Austrian company in the oil and gas upstream business, with large storage capacities. Standard & Poor's considers that this transaction has further weakened EVN's business profile, as we consider the upstream business to be riskier. RAG can, however, provide EVN with improved access to storage capacity.

Over the past five years, EVN has become a diversified multi-utility, with activities in electricity, gas, heat, water, wastewater, and waste incineration in Austria and Central and Eastern Europe, having formerly been predominantly a domestic utility with interests in electricity, gas, and heat. The group's water and waste activities are predominantly operated on a nonrecourse project-finance basis, but we consider these operations to be core and strategically important. In 2005, about 23% of consolidated EBIT came from Central and Eastern European countries, which have generally lower sovereign ratings and higher economic and political risks than Austria. Revenues and EBIT from eastern European countries are expected to rise over the medium term.

The Bulgarian acquisition had a positive effect on EVN's annual results for the fiscal year ended Sept. 30, 2005. Cash flow after capital expenditures and before acquisitions (discretionary cash flow) for the period was sound at EUR83 million, slightly above the previous year.

In fiscal 2005, funds from operations (FFO) improved to EUR295 million from EUR244 million in 2004. At the same time, however, interest expenses increased to EUR49 million from EUR45 million the previous year, and total debt increased to EUR1,036 million (EUR1,018 million in 2004). FFO improved to 7x (6.4x in 2004), owing to stronger cash flows and FFO to total debt was 28% (24%). FFO to net debt decreased to 32%, from 35% in 2004, owing to higher net debt.

Total debt to total capital, excluding a net pension liability of approximately EUR155 million, dropped to 30% at Sept. 30, 2005, from 37% in 2004. Including pension obligations, however, this ratio rises to 32% (40% in 2004). The drop in leverage ratios is due to the massive increase in the company's equity reserves, which were fuelled by the strong performance of Verbundgesellschaft (Oesterreichische Elektrizitaetswirtschafts Aktiengesellschaft; A/Stable/—) stock in 2005, in which EVN holds 12.5%.

Liquidity

EVN still has ample liquidity, with EUR261 million in cash and cash equivalents at Sept. 30, 2005. The company faces no significant debt maturities before 2008, when about EUR250 million will mature. Refinancing risk is therefore considered to be low. EVN has five outstanding bonds with a book value of about EUR695 million. Longer term liquidity requirements could be supported by the sale of EVN's strategic investments in other utilities, the most notable being its 12.5% shareholding in Austrian generator Verbund. The market value of this stake is currently about EUR1.35 billion. However, these investments would rely on finding a buyer.

Outlook

The negative outlook reflects Standard & Poor's expectation that EVN's credit quality is likely to be negatively affected by its expansion strategy and its planned activities in the generation sector. Any further debt-financed investments and acquisitions, particularly in Central and Eastern Europe, could result in a rating action.

Ratings List

	To	From
Corporate credit rating	A+/Negative/—	A+/Stable/—
Senior unsecured debt	A+	

The McGraw-Hill Companies

Austria-Based EVN AG Outlook Revised To Negative On Expansion Strategy; 'A+' Ratings Affirmed

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2005 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.