Credit Opinion: EVN AG

EVN AG

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Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Unsecured	A1

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Key Indicators

EVN AG

	2004/05	**2003/04**	**2002/03**
(FFO + Interest) / Interest Expense	**6.5x**	**5.2x**	**6.4x**
(CFO Pre-W/C) / Debt	**24.6%**	**14.7%**	**22.2%**
RCF / Net Debt	**26.9%**	**18.9%**	**28.6%**
(CFO Pre-W/C - Dividends) / Capex	**204.7%**	**136.4%**	**80.9%**
Debt / Book Capitalization	**32.3%**	**50.4%**	**42.4%**
EBITA Margin %	**11.6%**	**13.3%**	**16.6%**

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

EVN AG (EVN), rated A1 stable outlook, a multi-utility, the second-largest of the nine Austrian provincial electric utilities (PECs), with the Province of Lower Austria being its primary business area. Its main business activity is energy (electricity generation, distribution and supply; gas distribution and supply) in Austria, generating 73% of revenues and 85% of EBIT in H1 2005/06, are electricity and gas.

Rating Rationale

EVN is considered a Government Related Issuer (GRI) because of its 51% indirect ownership by the Province of Lower Austria via holding managing company, NÖ Landes-Beteiligungsholding GmbH, and in accordance with Moody's GRI rating methodology the A1 ratings for EVN reflect the combination of the following inputs:

-Baseline credit assessment (BCA) of 3 (in EVN's case, this maps to midway within the "A" category)

- Aa1 local currency rating of Lower Austria

-Medium dependence

- Medium support

When assessing EVN's BCA, Moody's applies its Rating Methodology for Global Regulated Electric Utilities. The following factors represent key drivers in determining the rating:

ASSESSMENT OF BUSINESS RISK PROFILE (INCLUDING REGULATED V.UNREGULATED ACTIVITIES):

Currently, around 50% of EVN's earnings result from its relatively low risk Austrian electricity and gas network businesses which have quasi-monopolistic characteristics and produce stable cash flows for the company. As a consequence of EVN's growth strategy into Eastern and South Eastern Europe, we expect this share to decrease over the medium-term which will weaken the company's currently medium business risk profile. Although we recognize that the entities acquired in Bulgaria and Macedonia also operate regulated distribution networks, we regard these activities as more risky due to the evolving regulatory frameworks in these countries, which we classify as a SRE (Supportiveness of Regulatory Environment) of 4 under Moody's Methodology of Global Regulated Utilities. Our framework goes from of 1-4, where 1, such as the UK system, is the most predictable. The Austrian regulatory framework is considered as a SRE of 2 which also reflects the incentive based regulatory framework which was implemented in January 2006 and creates more certainty for EVN, as the regulatory period, for which tariffs are set on an ex-ante basis, covers 4 years instead of being exposed to an annual review like in the past.

Moody's medium business risk assessment also incorporates EVN's strong electricity and gas supply business in Lower Austria with low churn rates, but also the entity's exposure to procurement cost volatility as the company is short in generation, partly mitigated by the "Austrian electricity solution" and planned investment in new generation capacities.

The BCA also reflects the event risk in conjunction with management's accelerated approach and strategy of corporate expansion, in higher risk areas in Central and Southeastern Europe and the potential weakening impact of this strategy on EVN's business and financial risk profile. In this context, Moody's recognizes EVN's focus on keeping its financial strength and commitment to a single A rating as partly risk mitigating.

ASSESSMENT OF FINANCIAL RISK FACTORS

As a result of the growth strategy of recent years and the increase in financial debt from EUR 741 million at the end of September 2003 to EUR 1.038 billion as at September 2005, EVN's financial profile has weakened from its historical strong levels. Following the acquisition of the Macedonian electricity distribution and supply company in April 2006, Moody's expects some further weakening of EVN's financial metrics.

For EVN's current medium business risk profile, we expect the company to exhibit RCF/Net debt of the low twenties and FFO interest coverage between 5.0 to 6.5 times. In the medium-term, EVN's currently more moderate business risk profile will weaken as a result of the increasing earning's contributions by higher risk markets. As a result, Moody's expects a gradual improvement of EVN's financial profile to offset the weaker business risk profile for its rating category. In the medium-term, for this weaker business risk profile we expect the company to exhibit a RCF/Net debt of mid twenties and a FFO interest coverage of 6 to 7.5 times.

As a result of its expansion strategy, EVN's credit risk has increased and has become more comparable to unregulated utilities such as Verbund, rated A1, and CEZ, rated A2. Verbund and CEZ have a stronger financial profile than EVN, but at this stage a weaker business risk profile than EVN due to their higher exposure to unregulated activities. In addition, CEZ's rating like EVN's one reflect event risk associated with CEZ's ambitious growth strategy in Central and South-Eastern Europe.

OTHER GRI FACTORS

Medium dependence reflects that EVN still generates the majority of its earnings in Lower Austria with a decreasing trend considering the growing international activities.

Medium support reflects that EVN, being partially privatized, has a stable ownership structure which is supported by the constitutional law requirement for the 51% stake to be owned by the Province of Lower Austria. The majority owner also supports EVN's international expansion strategy and participated in the 2004 capital increase. Simultaneously, we recognize in case of required support, there could be a timeliness issue.

Rating Outlook

The stable outlook reflects Moody's expectations that despite the continuous growth strategy, EVN will continue focusing on financial strength and gradually improve its financial profile in the medium-term to offset the weakened business risk profile. This implies a successful integration of the Bulgarian and Macedonian acquisitions and limited M&A activities.

What Could Change the Rating - Up

EVN's successful integration of its international activities and/or a reserved M&A policy leading to a strengthening of EVN's financial profile on a sustainable basis i.e. RCF/Net debt above the mid twenties and FFO interest coverage above 6.5 times.

What Could Change the Rating - Down

A further acceleration of EVN's M&A activities and a substantial increase to more risky businesses in combination with a weaker financial profile (RCF/Net Debt sustainably below 20% and FFO interest coverage below 5 times) would lead to downwards pressure on the company's ratings.

In addition to the factors listed above affecting the baseline credit assessment, the ratings may also be impacted by changes in the ratings of the supporting government, or by changes in Moody's assessments of default dependence and support described in the rating rationale

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