

Credit Opinion: EVN AG

EVN AG

Maria Enzersdorf, Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aa3

Contacts

Analyst	Phone
Christine Garburg/London	44.20.7772.5454
Helen Francis/London	
Stuart Lawton/London	

Key Indicators

EVN AG

	2004/05	2003/04	2002/03	2001/02	2000/01
EBIT Margin [1]	9%	11%	9%	11%	12%
Adjusted RCF/Net Adjusted Debt [2]	21%	22%	30%	33%	26%
Adjusted FFO Interest Coverage [3]	6.1	6.5	8.0	11.3	9.3
Adjusted RCF/Capex+ Investments (net of disposals) [4]	47%	86%	169%	86%	65%
EBIT Gross Interest Coverage [5]	3.1	3.2	3.6	4.9	5.5
Adjusted FFO/Net Adjusted Debt [6]	25%	25%	33%	36%	29%

[1] (Revenues - Op.Expenses +/- One-time non-recurring items + Goodwill amortisation)/Turnover [2] (RCF postWC+2/3 OpLease Expense)/((Total Debt+ 8*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities)-(Cash+Marketable Securities)) [3] (FFO postWC + Cash Interest Expense) / Interest Expense [4] RCF postWC /(Capex - Sale of TFA + Acquisitions - Divestments) [5] (EBIT + Interest Income) / (Interest Expense) [6] (FFO postWC+2/3 OpLease Expense)/((Total Debt+ 8*OpLease Expense+G'tees+Hybrids+Off-balance sheet debt+Pension liabilities+Nuclear liabilities)-(Cash+Marketable Securities))

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Credit Strengths

Stable, supportive public majority owner (the Province of Lower Austria).

Majority of earnings are derived from low-risk electricity and gas network businesses.

Strong electricity supply business in Lower Austria with low churn rates.

Credit Challenges

Weakened financial profile compared to its historical strength, though financial debt includes increasing non-recourse project finance debt portion.

Event risk associated with management continuous growth strategy.

Higher exposure to business activities associated with weaker business risk profile compared to EVN's energy activities in Lower Austria.

Some exposure to increasing procurement costs, EVN's position has been strengthening through partnerships.

Some regulatory risk in conjunction with network tariffs.

Rating Rationale

In accordance with Moody's GRI rating methodology, the ratings of EVN reflect the combination of the following inputs:

- Baseline credit assessment of 3 (on a scale of 1 to 6, where 1 represents lowest credit risk)
- Local currency rating of the Province of Lower Austria (not published)
- Medium dependence
- Medium support

The baseline credit assessment of 3 is underpinned by its medium business risk profile where the majority of its earnings are derived from its low risk electricity gas and network activities in Lower Austria supported by a strong supply business in its home territory with low churn rates. EVN is a vertically-integrated energy company principally providing electricity, natural gas, heat and water to the province of Lower Austria. In the last few years, the company has extended its activities into new areas (project business in water and waste) and entered into countries in Central and Eastern Europe. The assessment also incorporates EVN's weaker financial profile compared to EVN's historically strong financials and the group's growing exposure to higher business risk activities and to higher risk countries. Moody's also acknowledges EVN's exposure to procurement cost volatility and the impact on its profitability. Moody's notes some event risk associated with further debt-financed M&A activities in conjunction with management's growth strategy and its potential impact on EVN's financial profile. In addition, there are some uncertainties considering the regulatory environment in Austria with regard to the introduction of a new incentive based system for network tariffs, though EVN does not expect any negative impact on its network tariffs as a result of the new system. 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 privatised, 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.

Recent Developments

To fulfil the European energy directive and the Austrian legislation which requires legal unbundling of the electricity network activities by the 1st of January 2006, EVN has established a separate 100% owned legal entity, EVN Netz GmbH, for its electricity network and transferred its electricity network assets and associated employees to this entity. As this entity does not have any external financial obligations and EVN's financial policy will require to maintain and raise the majority of its financial debt at EVN AG level (excluding the debt associated with the non-recourse debt at the project finance companies), Moody's does not consider structural subordination with respect to the financial debt at the EVN AG level. In addition, EVN AG is not a pure holding company as it owns directly the power plants assets of the group.

Rating Outlook

The stable outlook reflects Moody's assumptions that the company will not pursue any larger scale M&A activities which could sustainably weaken its financial profile.

What Could Change the Rating - UP

EVN's consolidation and integration strategy strengthens its financial profile more than originally expected.

What Could Change the Rating - DOWN

Continuous debt-financed M&A activities, negatively impacting EVN's financial profile with exhibited financial parameters such as Adjusted Retained Cash Flow to Net Adjusted Debt drop sustainably below 20%.

Regulatory announcements constraint EVN's earnings and cash flow more than expected.

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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