

Rating Action: EVN AG

Moody's downgrades EVN's rating to A2; outlook negative

Approximately USD1.1 billion of rated debt affected

London, 08 July 2009 -- Moody's Investors Service has today downgraded to A2 from A1 the long-term senior unsecured debt rating of EVN AG ("EVN"). The outlook assigned to the rating is negative. The rating action concludes the review initiated on 8 April 2009.

The downgrade reflects Moody's view that the continuation of the company's ambitious capex programme over the period 2009-2012, which is expected to result in an annual expenditure broadly in line with 2008 capex of approximately EUR400 million, will result in a projected financial profile inconsistent with the previous A1 rating, particularly in light of the deterioration in the company's business risk profile derived from increasing exposure to higher risk markets.

Over the past few years, EVN has implemented a relatively aggressive internationalisation strategy, mainly focused on expanding into the developing Eastern and South-Eastern European markets. In particular, the company holds material operations in Bulgaria and Macedonia, focusing on electricity distribution and supply activities which, whilst partially regulated, present a higher level of risk related to the evolving and less stable nature of their regulatory frameworks. EVN is also increasingly committed to expanding its presence in Albania, where the company has recently announced joint ventures with the Austrian generator Verbund (rated A1/under review for downgrade) and the Norwegian energy company Statkraft (rated Baa1/stable outlook) in respect of the construction of hydro plants in the country. In addition, as part of its environmental activities division, EVN is currently present in 14 countries in Central and Eastern Europe.

In Moody's view, EVN's growth strategy has resulted in an increasing exposure to unregulated activities and/or relatively less stable operating environments. As a result, the share of regulated cash flows derived from stable electricity and gas distribution activities in EVN's domestic market has decreased from historically strong levels, thus negatively impacting the company's business risk profile.

To compensate for the shift in business risk profile, Moody's had previously indicated that EVN's credit metrics needed to strengthen to support the previous rating levels. Moody's believes the sizeable investment levels over the period 2009-2012 will weigh on the company's key credit metrics, leading to levels inconsistent with the previous rating. Thus, Moody's has downgraded the company's rating to A2. Going forward, Moody's would expect EVN to exhibit an FFO interest coverage ratio of at least 5.5x, FFO/Net Debt above 25% and RCF/Net Debt of at least 20% on a sustainable basis to support the current ratings.

While acknowledging the projected boost to EVN's earnings over the medium term, Moody's notes that cash generation associated with a portion of the current envisaged level of debt-financed investment spending will be relatively limited in the shorter term, potentially resulting in a relatively weak positioning of the company within the current rating category. Therefore, to reflect the limited flexibility at the current rating levels, Moody's has assigned a negative outlook to EVN's rating.

In light of EVN's 51% ownership by the province of Lower Austria, the company falls under Moody's rating methodology for government-related issuers ("GRIs"). As a reflection of the considerations discussed above, Moody's has revised downward one of EVN's GRI rating inputs - the Baseline Credit Assessment ("BCA"), which represents the company's stand-alone credit quality - from 6 to 7, which, on the scale of 1-21, is equivalent to the A3 category. The other GRI rating inputs for EVN remain unchanged, namely: (1) the Aaa/stable outlook rating of the province of Lower Austria; (2) Moody's assessment of a medium level of default dependence between the province and EVN; and (3) the agency's assessment of medium probability of support.

The previous rating action on EVN was implemented on 8 April 2009, when Moody's placed the company's A1 senior unsecured debt rating under review for possible downgrade.

The principal methodology used in rating EVN was "The Application of Joint Default Analysis to Government Related Issuers" published in April 2005, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating EVN can also be found in the Credit Policy & Methodologies directory.

EVN is a multi-utility with primary focus on the province of Lower Austria. The company is the second-largest of the nine Austrian provincial electric utilities ("PECs"), with energy activities (ie electricity generation, distribution and supply; gas distribution and supply) accounting for more than 90% of revenues as of YE 2007/2008.

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