

Energie  
vernünftig  
nutzen

**EVN**

Annual Report  
2005/06



# Creating value

Market entry into the **Macedonian electricity industry** + **significant expansion** of foothold in **South East Europe** + swift integration of **subsidiaries in Bulgaria and Macedonia** + **revenue** increase of 28.7% + **EBITDA** rise of 18.6% + **EBIT** improvement of 40.7% + **Group net profit** up 53.7%



always  
close  
at hand



shaping South  
East Europe



securing  
supply

# Key figures

|  |                  | 2005/06            | 2004/05             | Change % | 2003/04       | 2002/03       | 2001/02       |
|--|------------------|--------------------|---------------------|----------|---------------|---------------|---------------|
| <b>Sales volumes</b>                                   |                  |                    |                     |          |               |               |               |
| Electricity generation                                 | GWh              | 4,556              | 4,484               | 1.6      | 4,240         | 3,439         | 3,795         |
| Electricity sales volumes to end customers             | GWh              | 15,641             | 11,342              | 37.9     | 6,164         | 6,126         | 6,284         |
| Thereof Austria  | GWh              | 6,426              | 6,197               | 3.7      | 6,164         | 6,126         | 6,284         |
| Thereof South East Europe                              | GWh              | 9,215              | 5,145               | 79.1     | –             | –             | –             |
| Gas sales volumes to end customers <sup>1)</sup>       | m m <sup>3</sup> | 682                | 636                 | 7.3      | 661           | 905           | 1,299         |
| Heating sales volumes to end customers                 | GWh              | 1,067              | 1,033               | 3.3      | 967           | 877           | 786           |
| <b>Income statement</b>                                |                  |                    |                     |          |               |               |               |
| Revenue  | EURm             | 2,071.6            | 1,609.5             | 28.7     | 1,207.3       | 1,082.1       | 1,113.9       |
| EBITDA   | EURm             | 397.4              | 335.2               | 18.6     | 297.6         | 227.5         | 250.0         |
| EBITDA margin  | %                | 19.2               | 20.8                | –        | 24.6          | 21.0          | 22.4          |
| Results from operating activities (EBIT)               | EURm             | 184.4              | 131.0               | 40.7     | 114.6         | 102.5         | 127.9         |
| EBIT margin  | %                | 8.9                | 8.1                 | –        | 9.5           | 9.5           | 11.5          |
| Profit before income tax                               | EURm             | 304.9              | 186.2               | 63.7     | 135.9         | 145.4         | 137.6         |
| Group net profit                                       | EURm             | 221.9              | 144.4               | 53.7     | 117.4         | 102.6         | 89.5          |
| <b>Balance sheet</b>                                   |                  |                    |                     |          |               |               |               |
| Balance sheet total                                    | EURm             | 5,845.8            | 4,739.6             | 23.3     | 3,732.0       | 2,993.8       | 2,803.9       |
| Equity   | EURm             | 2,756.0            | 2,285.4             | 20.6     | 1,555.7       | 1,160.2       | 1,064.7       |
| Equity ratio   | %                | 47.1               | 48.2                | –        | 41.7          | 38.8          | 38.0          |
| Capital employed                                       | EURm             | 4,492.6            | 3,645.0             | 23.3     | 2,896.4       | 2,229.5       | 2,066.2       |
| Net debt   | EURm             | 930.0              | 673.8               | 38.0     | 429.3         | 347.0         | 441.9         |
| Gearing  | %                | 33.7               | 29.5                | –        | 27.6          | 29.9          | 41.5          |
| <b>Cash flow and investments</b>                       |                  |                    |                     |          |               |               |               |
| Net cash flow from operating activities                | EURm             | 399.7              | 267.1 <sup>2)</sup> | 49.7     | 242.6         | 213.2         | 263.9         |
| Investments <sup>3)</sup>                              | EURm             | 251.5              | 192.6               | 30.6     | 168.8         | 228.0         | 161.7         |
| Net debt coverage (FFO)                                | %                | 49.1               | 44.5                | –        | 67.0          | 69.4          | 65.7          |
| Interest cover (FFO)                                   | x                | 8.1                | 6.1                 | –        | 6.4           | 7.8           | 11.0          |
| <b>Employees</b>                                       |                  |                    |                     |          |               |               |               |
| Number of employees                                    | Average          | 9,973              | 6,654               | 49.9     | 2,608         | 2,317         | 2,199         |
| Thereof South East Europe                              | Average          | 7,353              | 4,049               | 81.6     | –             | –             | –             |
| <b>Value added</b>                                     |                  |                    |                     |          |               |               |               |
| Return on equity (ROE)                                 | %                | 10.6               | 8.2                 | –        | 8.7           | 9.3           | 8.7           |
| Return on capital employed (ROCE)                      | %                | 7.9                | 6.2                 | –        | 6.2           | 6.2           | 6.0           |
| Economic Value Added (EVA <sup>®</sup> ) <sup>4)</sup> | EURm             | 118.8              | 82.9                | 43.3     | 57.9          | –             | –             |
| <b>Share</b>   |                  |                    |                     |          |               |               |               |
| Earnings/share   | EUR              | 5.43               | 3.53                | 53.7     | 3.08          | 2.73          | 2.39          |
| Dividend/share   | EUR              | 1.40 <sup>5)</sup> | 1.15 <sup>6)</sup>  | 21.7     | 0.95          | 0.75          | 0.70          |
| Payout ratio   | %                | 25.8 <sup>5)</sup> | 32.6                | –        | 33.1          | 27.5          | 29.3          |
| Dividend yield   | %                | 1.7 <sup>5)</sup>  | 1.5                 | –        | 2.3           | 2.1           | 1.6           |
| <b>Share performance</b>                               |                  |                    |                     |          |               |               |               |
| Share price at the end of September                    | EUR              | 83.58              | 75.00               | 11.4     | 41.50         | 36.22         | 43.98         |
| Highest price  | EUR              | 99.00              | 78.50               | 26.1     | 47.34         | 44.50         | 48.43         |
| Lowest price   | EUR              | 65.20              | 40.90               | 59.4     | 36.10         | 35.40         | 41.00         |
| Market capitalisation                                  | EURm             | 3,417              | 3,066               | 11.4     | 1,697         | 1,361         | 1,653         |
| <b>Credit rating</b>                                   |                  |                    |                     |          |               |               |               |
| Moody's  |                  | A1, stable         | Aa3, stable         | –        | Aa3, negative | Aa3, negative | Aa3, negative |
| Standard & Poor's                                      |                  | A, stable          | A+, stable          | –        | A+, stable    | AA–, stable   | AA–, stable   |

<sup>1)</sup> From January 1, 2003, excluding gas trading and sales to large customers following transfer to EconGas.

<sup>2)</sup> This figure was adjusted due to changes in the reporting structure of the cash flow statement.

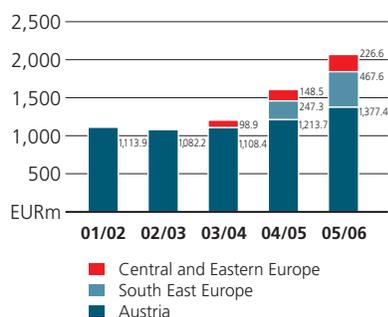
<sup>3)</sup> Investments in intangible assets and property, plant and equipment.

<sup>4)</sup> As defined by Stern Stewart & Co.

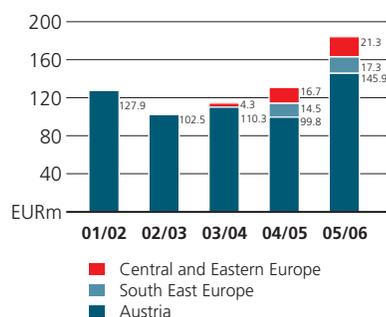
<sup>5)</sup> Proposal to the Annual General Meeting: EUR 1.20 plus a bonus of EUR 0.20.

<sup>6)</sup> EUR 1.00 plus a bonus of EUR 0.15.

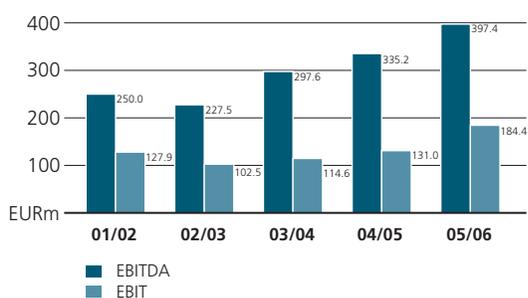
### Revenue by region



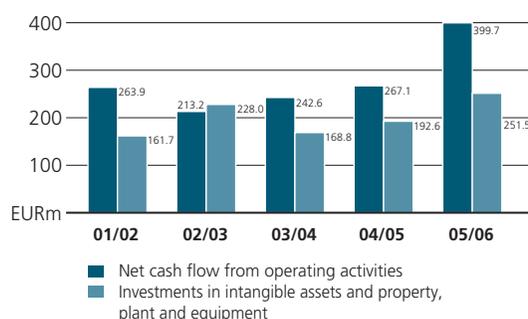
### EBIT by region



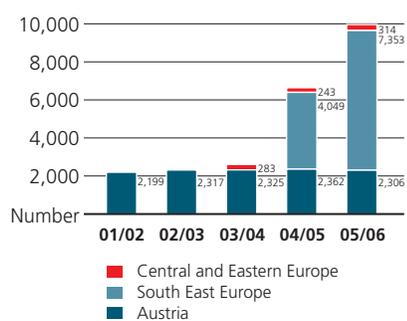
### EBITDA/EBIT



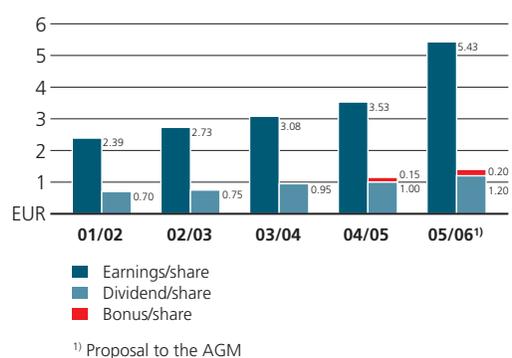
### Cash flow/Investments



### Employees by region

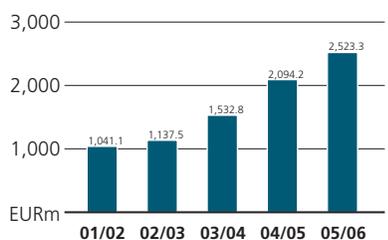


### Earnings/Dividend

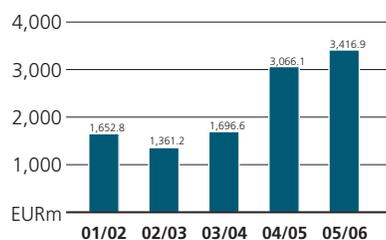


<sup>1)</sup> Proposal to the AGM

### Equity (EVN Group quote)



### Market capitalisation





pursuing  
sustainability



cooperating  
internationally



growing  
steadily

## Creating value

### **Modern, international, successful. EVN has come a long way.**

We have made significant progress in transforming EVN from a regional energy supplier to a Central and Eastern European energy and environmental services provider, since we first defined this goal in the year 2000. Above and beyond supplying energy in Lower Austria, EVN operates in related business areas, and now offers its customers a broad-based portfolio of energy and environmental services.

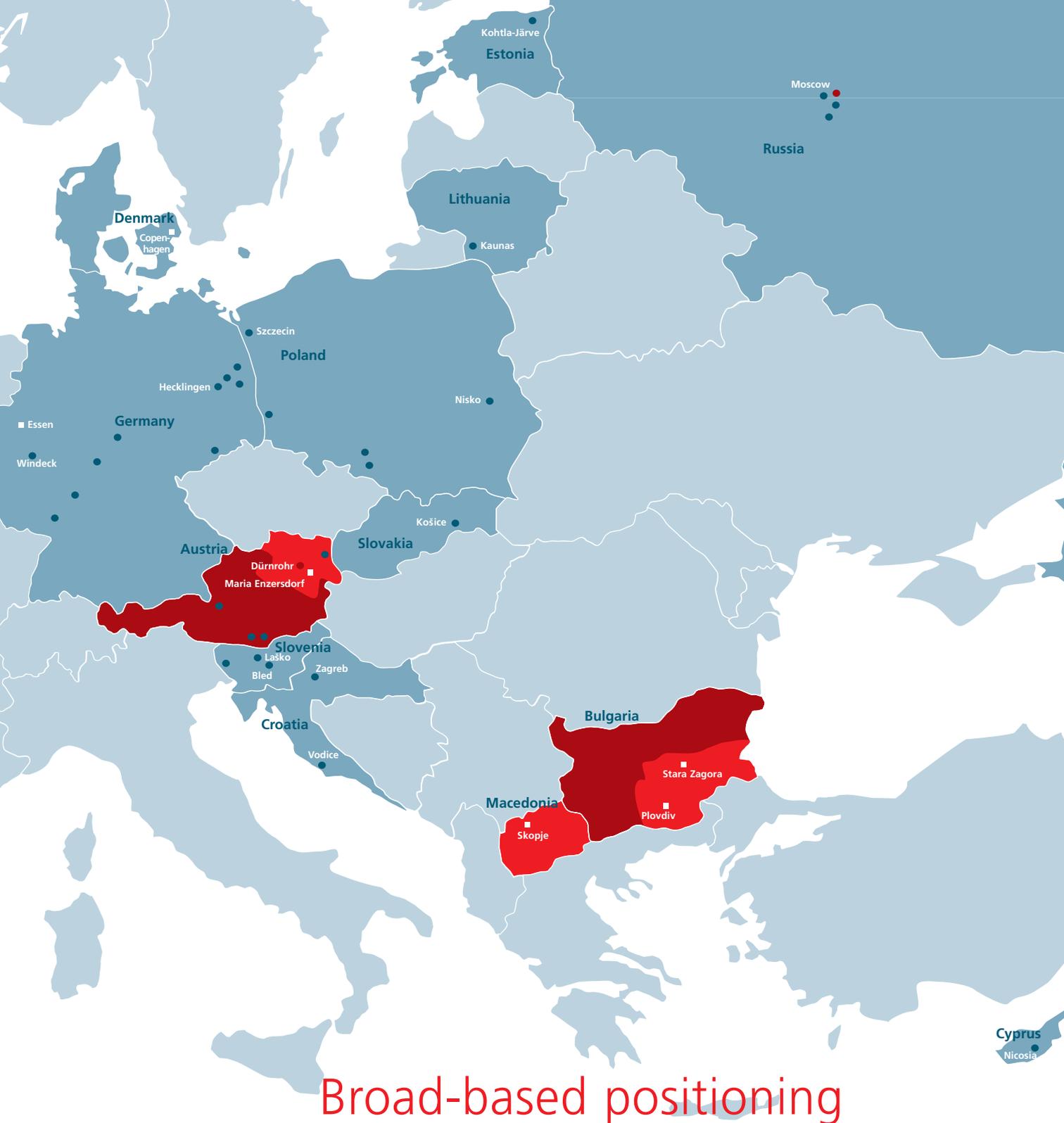
In addition to our “traditional” products – electricity, gas and heating – our business operations now also encompass water supply, wastewater treatment, waste incineration and other infrastructure services. In particular, as a result of the acquisition of regional electricity supply companies in Bulgaria and Macedonia, we have established EVN as a major player in the energy industry of South East Europe during the last two financial years. However, with our subsidiaries, we are also very successful in the water, wastewater and waste incineration business in Central and Eastern Europe as well as other European markets.

The motto of this annual report – “creating value, exploiting strengths” – demonstrates the two key poles on this path. On the one hand, one of our top priorities is creating value – for our customers, shareholders and employees, but also for all other stakeholders. At the same time, we can build upon our manifold strengths, which EVN has developed and cultivated over the last years and decades.



Burkhard Hofer  
Speaker of the Executive Board

# A presence in 13 countries



## Broad-based positioning

In two respects, EVN has considerably transformed the foundations of its activities in recent years. In addition to its energy business, EVN has expanded its business portfolio to the fields of water, wastewater treatment and waste incineration, encompassed in the “Environmental Services” segment. On a parallel basis, it has also significantly enlarged the geographical reach of its operations. In addition to its domestic market of Austria, EVN has gained a strong foothold in the energy sector of South East Europe, and is in the process of implementing attractive environmental services projects in 12 other European countries.



# Creating value

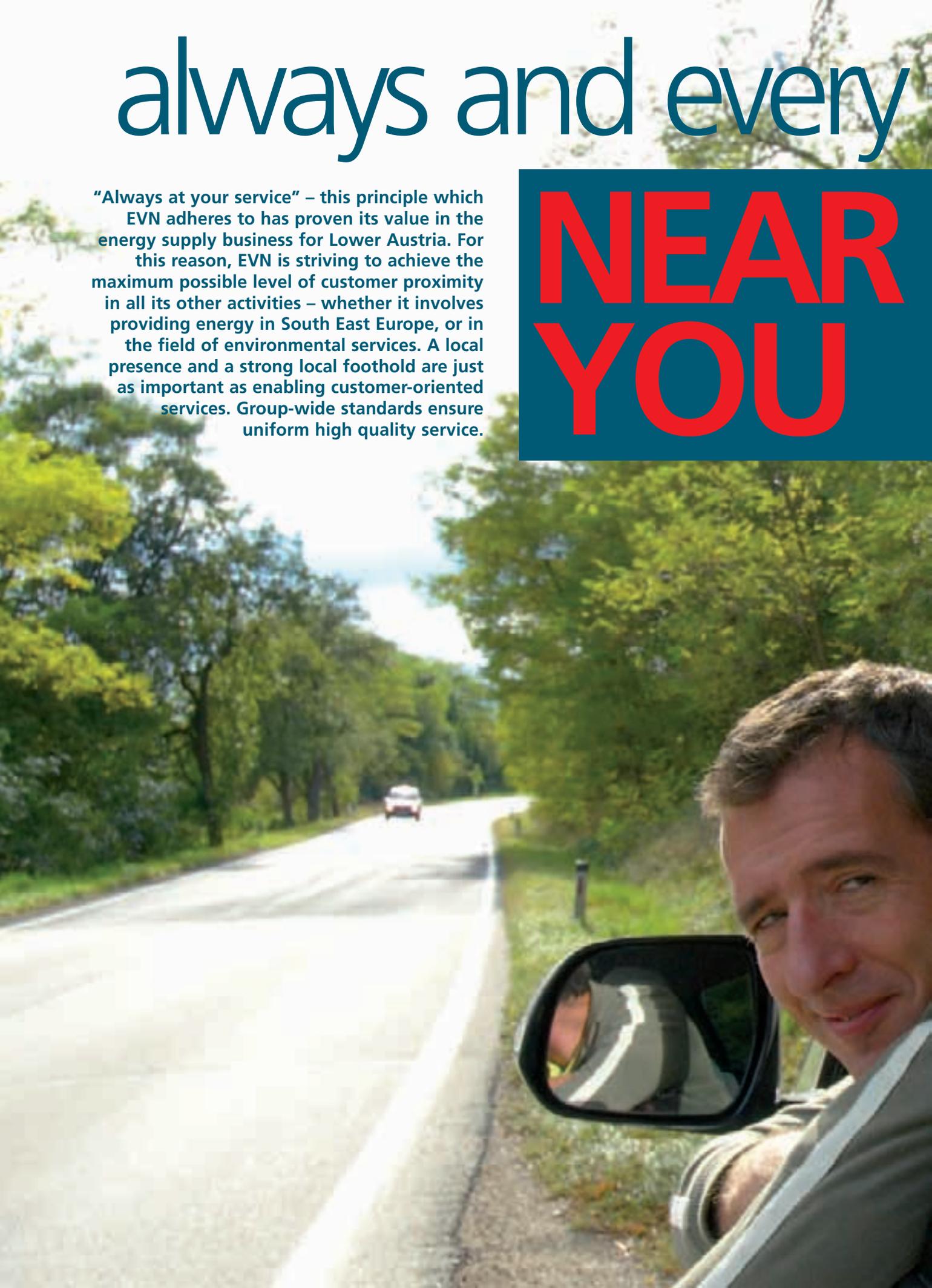
Two aspects are shaping the successful path EVN is taking, and, at the same time, comprise the main focus of this annual report. One of the top priorities of the EVN Group is to create **value** – for customers, shareholders, employees and all other stakeholder groups. The business results in the last few years have confirmed that EVN is moving in the right direction. EVN can also build upon manifold **strengths**, which it has developed and cultivated in the last years and decades. Customer orientation, a regional foothold or a quadrupling of its customer base – all these indicators demonstrate that EVN's market position today ensures considerable growth potential for the future.

# exploiting strengths

# always and every

“Always at your service” – this principle which EVN adheres to has proven its value in the energy supply business for Lower Austria. For this reason, EVN is striving to achieve the maximum possible level of customer proximity in all its other activities – whether it involves providing energy in South East Europe, or in the field of environmental services. A local presence and a strong local foothold are just as important as enabling customer-oriented services. Group-wide standards ensure uniform high quality service.

# NEAR YOU





where

Creating VALUE  
exploiting STRENGTHS

By acquiring electricity distribution companies, the EVN Group has enormously strengthened its market presence precisely in South East Europe over the last two years. It ranks among the major players in the region's energy sector. Just as it does in the domestic market of Lower Austria, this means a long-term commitment and a high level of responsibility on the part of EVN. These are principles which also apply to the international water, wastewater treatment and waste incineration activities of the Group.

# At home in (SOUTH EAST)



# EUROPE

Creating VALUE  
exploiting STRENGTHS

# Four times **as**

EVN's customer base is growing. As a consequence of its market entry in Bulgaria and Macedonia, the EVN Group has achieved a four-fold increase in the number of its electricity customers as well as electricity sales volumes since the beginning of 2005. It is also continually posting growth in the heating and water business areas. The international project business in the Environmental Services segment is also expanding dynamically.

Creating **VALUE**  
exploiting **STRENGTHS**

much

**ELECTRICITY**



The Moscow, South-West drinking water plant, a construction site of the E.ON subsidiary WTE



Creating VALUE  
exploiting STRENGTHS



Additional growth in new markets. The EVN Group is also profiting from the upbeat, future-oriented business environment in Central and Eastern Europe. At an early stage, EVN favourably positioned itself by entering the water, wastewater treatment and waste incineration business. Interesting international projects, e.g. to construct and operate a drinking water supply facility and a waste incineration in Moscow, demonstrate proof of the Group's achievements.

# RIDING THE

# upswing

# SECURING supplies

“Electricity comes out of the wall socket”. This can no longer be taken for granted in a period of liberalised markets and increasing upward pressure on energy prices. Reliability and high quality continue to be the highest priorities for EVN – both in terms of ensuring supply and in customer relations. The basis is a modern, flexible and versatile mix of power plants, as well as an efficient customer service featuring around-the-clock availability.



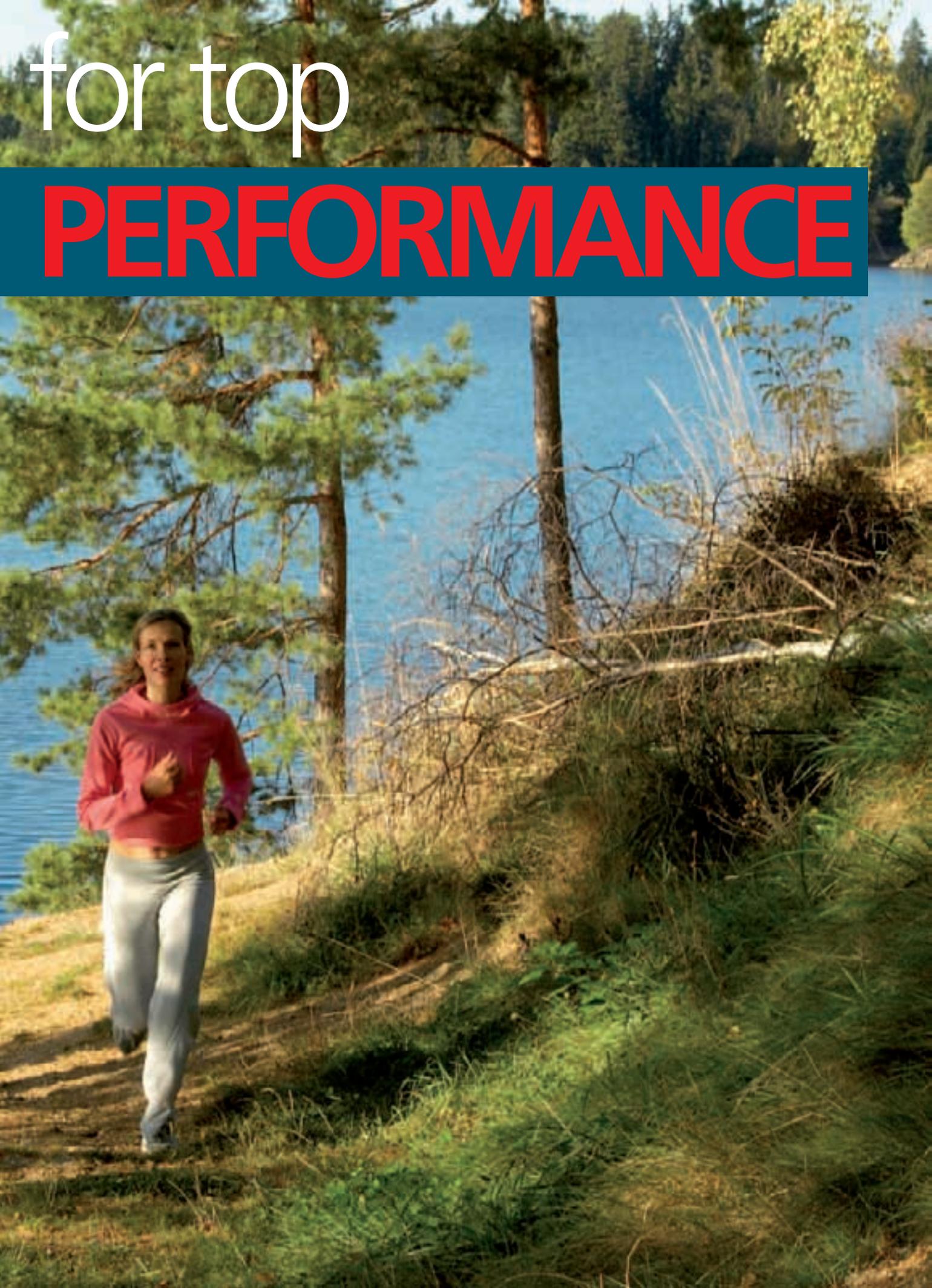


The EVN transformer station in Statzendorf

Creating VALUE  
exploiting STRENGTHS

# Clear goals

High performance is based on clearly defined goals. Therefore, EVN newly defined its strategy in the year 2000 – envisioning a transformation from a regional energy supplier to a Central and Eastern European energy and environmental services provider. Above and beyond that, to broaden its geographical reach and enter into new business areas. The company has succeeded in achieving both. Besides Austria, EVN successfully operates in 12 other countries. In addition to supplying energy, the environmental services business is becoming an increasingly important revenue and earnings growth driver.



for top

**PERFORMANCE**



Creating VALUE  
exploiting STRENGTHS

# Solutions for



The Otto Kandler hostel on the Hohenstein, Lower Austria

No mountain is too high for EVN. It responds to the individual requirements and wishes of its customers – private households as well as industrial and commercial companies and municipalities. EVN always finds an individualised solution, whether it involves supplying an Alpine hut with solar electricity, assisting an industrial firm to meet its complex energy needs, or partnering with a municipality to upgrade its water supply or wastewater treatment facility.

# EVERYONE

# Full speed

Things are running smoothly. Recently, the positive development of EVN's business results demonstrates that it is taking the right path. Ongoing revenue and earnings growth for years, increasing profitability, higher dividends. The share price of the EVN share has also developed positively. And forecasts for the future are quite optimistic.





# AHEAD

Creating **VALUE**  
exploiting **STRENGTHS**



# On the PACE

To also be in the forefront when tomorrow comes along. As an innovative, flexible and sustainably oriented company, EVN continually strives to identify opportunities and alternatives at an early time, and develop concepts for the future on this basis. The ongoing modernisation of all facilities with the latest technologies, the decision to diversify the business portfolio, the market entry into South East Europe's energy industry or the promotion of alternative energies such as biomass and wind-generated power are just a few prominent examples to underline EVN's way of doing business.



Creating VALUE  
exploiting STRENGTHS

# Highlights

- + **28.7% revenue**  
(EUR 2,071.6m)
- + **75.4% international revenue**  
(EUR 694.2m)
- + **18.6% EBITDA**  
(EUR 397.4m)
- + **40.7% EBIT**  
(EUR 184.4m)
- + **53.7% Group net profit**  
(EUR 221.9m)
- + **53.7% earnings/share**  
(EUR 5.43)
- + **21.7% dividends/share<sup>1)</sup>**  
(EUR 1.20 plus EUR 0.20 bonus)
- + **41.2% gross cash flow**  
(EUR 435.0m)

- ▶ Group net profit at record level
- ▶ Higher revenues in the Energy and Environmental Services segments
- ▶ Significant improvement in performance despite high cost pressure
- ▶ Perceptible improvement in the financial results due to the positive development of EVN Group investments
- ▶ Acquisition of a majority shareholding in the Macedonian national electricity distribution company ESM AD
- ▶ Swift integration of the new subsidiaries in Bulgaria and Macedonia
- ▶ Development concept for the Lower Austrian Central Region – investments of up to EUR 180m in renewable energies
- ▶ Wind-generated electricity output in Lower Austria more than doubled
- ▶ Expansion of the project business in the water, wastewater and waste incineration business

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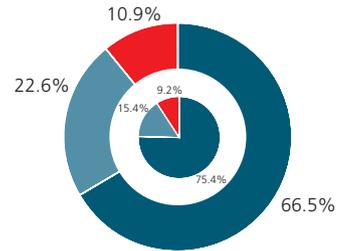
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# EVN at a glance

## EVN Group

### Revenue by region

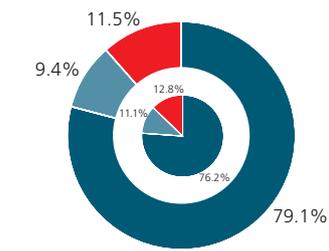


2005/06  
2004/05

- Austria
- South East Europe
- Central and Eastern Europe

Revenue 2005/06: EUR 2,071.6m

### EBIT by region

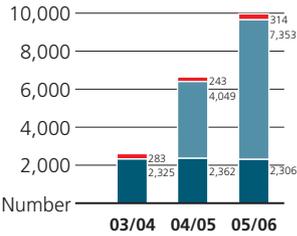


2005/06  
2004/05

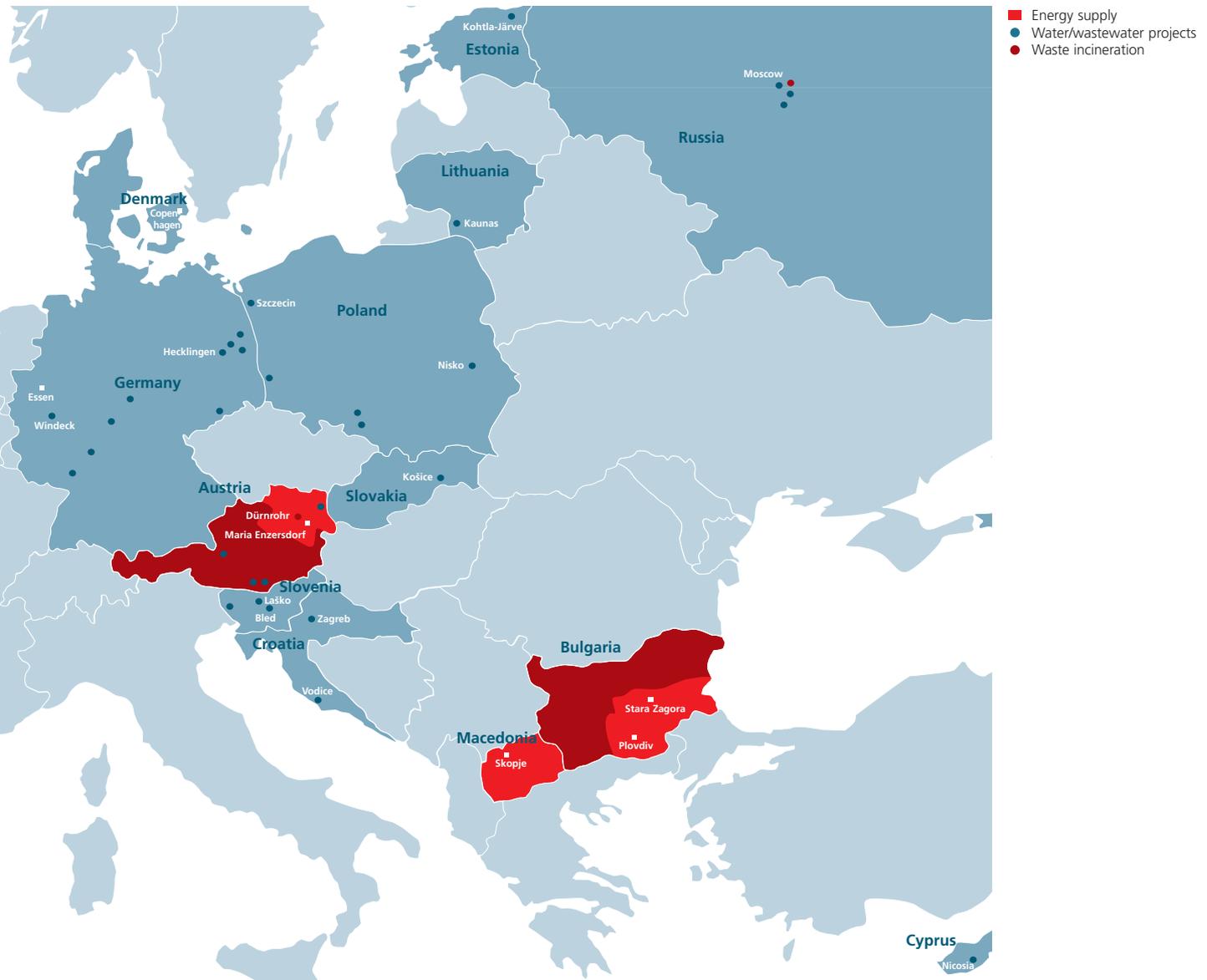
- Austria
- South East Europe
- Central and Eastern Europe

EBIT 2005/06: EUR 184.4m

### Employees by region



- Central and Eastern Europe
- South East Europe
- Austria



# The segments

| Energy   | Environmental Services  | Strategic Investments and Other Business  |
|--|---|---|
| <p><b>Generation business unit</b></p> <p><b>Own power-generating capacity:</b> 1,693 MW</p> <ul style="list-style-type: none"> <li>• Thereof thermal<sup>1)</sup> 1,382 MW</li> <li>    hydro 185 MW</li> <li>    wind 116 MW</li> <li>    biomass 10 MW</li> </ul>   | <p><b>Water</b></p> <p><b>evn wasser</b></p> <ul style="list-style-type: none"> <li>• Customers (directly supplied): 16,500</li> <li>• Customers (indirectly supplied): 463,500</li> <li>• Sales volumes: 25.2m m<sup>3</sup></li> </ul>  | <p><b>Strategic investments</b></p> <ul style="list-style-type: none"> <li>• Verbundgesellschaft</li> <li>• Burgenland Holding AG (BEWAG/BEGAS)</li> <li>• RAG Beteiligungs AG (Rohöl-Aufsuchungs-AG)</li> </ul>  |
| <p><b>Networks business unit</b></p> <p><b>Electricity, gas and heating networks</b></p> <ul style="list-style-type: none"> <li>• Power lines: 48,670 km</li> <li>• Gas pipelines: 10,510 km</li> <li>• Heating pipelines: 322 km</li> </ul> <p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Kabelsignal AG</li> <li>• grafotech Beratungs- und Planungsgesellschaft mbH</li> <li>• NÖKOM NÖ Telekom Service GmbH</li> </ul>  | <p><b>Water/wastewater</b></p> <p><b>WTE Group</b></p> <ul style="list-style-type: none"> <li>• 70 drinking water/wastewater projects in 11 Central and Eastern European countries</li> </ul> <p><b>Waste incineration</b></p> <p><b>AVN Group Austria</b></p> <ul style="list-style-type: none"> <li>• Facility in Zwentendorf/Dürnrohr</li> <li>• Annual capacity: 300,000 tonnes</li> </ul> <p><b>International</b></p> <ul style="list-style-type: none"> <li>• Project business, e.g. large-scale project in Moscow</li> </ul> | <p><b>Other investments</b></p> <ul style="list-style-type: none"> <li>• Utilitas Group</li> <li>• Allplan GmbH</li> <li>• first facility GmbH</li> <li>• V&amp;C GmbH</li> <li>• EVN Business Service GmbH</li> <li>• EVN Finanzmanagement GmbH</li> <li>• EVN Finanzservice GmbH</li> </ul> |
| <p><b>Energy Procurement and Supply business unit</b></p> <p><b>Electricity</b></p> <ul style="list-style-type: none"> <li>• Customers: 781,000</li> <li>• Sales volumes: 6,426 GWh</li> </ul> <p><b>Gas</b></p> <ul style="list-style-type: none"> <li>• Customers: 273,000</li> <li>• Sales volumes: 748 m m<sup>3</sup></li> <li>• EconGas GmbH</li> </ul> <p><b>Heating</b></p> <ul style="list-style-type: none"> <li>• Customers: 35,000</li> <li>• Sales volumes: 1,067 GWh</li> </ul> <p><b>South East Europe business unit</b></p> <p><b>Bulgaria: ERP Plovdiv, ERP Stara Zagora</b></p> <ul style="list-style-type: none"> <li>• Networks: 58,800 km power lines</li> <li>• Energy supply: 1,539,000 customers</li> <li>• Sales volumes: 7,229 GWh</li> </ul> <p><b>Macedonia: ESM AD</b></p> <ul style="list-style-type: none"> <li>• Generation: 8 MW</li> <li>• Networks: 23,660 km power lines</li> <li>• Energy supply: 700,000 customers</li> <li>• Sales volumes: 1,987 GWh<sup>2)</sup></li> </ul> |   |   |

<sup>1)</sup> Incl. cogeneration and combined cycle heat and power plants  
<sup>2)</sup> H2 2005/06

# Company profile

We are a leading Austrian energy and environmental services group with headquarters in Lower Austria, the nation's largest federal province. The EVN Group provides its customers with electricity, gas, heating, water, waste incineration and related services by means of a highly advanced infrastructure.

As a growth-oriented company, EVN is also endeavouring to share in the dynamic growth potential of the Central and Eastern European markets. The focus of our interest is primarily South East Europe, which offers diverse opportunities to expand our business operations. Within the framework of the privatisation process for the electricity industry, we have succeeded in establishing a solid foothold in the region. Through our majority shareholding in two Bulgarian electricity supply companies, we now provide power to approximately one-third of all electricity customers in Bulgaria. In Macedonia, we recently acquired the national electricity distribution company. As a consequence of these acquisitions, we have been able to significantly increase the number of our electricity customers in a period of only two years, from around 800,000 to the current level of close to three million.

As a provider of environmental services, we also strive to take advantage of the dynamic growth potential in the entire Central and Eastern European business region. Through fully owned subsidiaries, we are now successfully operating in Austria, as well as in ten CEE markets in the fields of water, wastewater treatment and waste incineration. Our primary focus is to serve as a partner to communities and companies, offering state-of-the-art solutions, which are professionally developed and implemented, in order to meet all water supply, wastewater treatment and waste management challenges.

Our priority is to create sustainable value and achieve long-term value enhancement in the interests of the customers, shareholders and employees, by exploiting the synergies among the different business areas of the EVN Group, both in Austria and other markets.

# Creating value – exploiting strengths



**A discussion with the members of the EVN Executive Board: Burkhard Hofer, Peter Layr and Herbert Pötttschacher.**

**In the 2005/06 financial year, the performance of the EVN Group was again quite good. Will this growth continue at the same pace in the future?**

**Hofer:** The last two financial years featured a period of enormous growth and change in our Group, primarily as the result of our acquisitions in Bulgaria and Macedonia. During this time, we succeeded in increasing total revenue by more than 70%. Results from operating activities rose by 60%, and Group net profit by about 90%. And the number of employees almost quadrupled.

In recent years, EVN's business results have been quite impressive. It is obvious that such growth rates cannot be repeated every single year – especially considering the difficult business environment in which the energy industry operates. However, developments in the last few years have enabled us to demonstrate that our growth course is taking us in the right direction.

**“... developments in recent years demonstrate our growth course is right ...”**

**When you think of the challenging business environment in the energy sector, what would you consider to be the most important challenges facing EVN today?**

**Layr:** First of all, there is no doubt we would have to emphasize the high primary energy and electricity procurement prices, as well as the burdens placed on us as a result of CO<sub>2</sub> emission trading. From our point of view, there was not a sufficient allocation of certificates. Austria's electricity industry, and this also refers to EVN, was allocated far fewer certificates than would have normally been appropriate in the light of the average CO<sub>2</sub> emissions measured in recent years. It must be added that the high and very volatile prices in trading for such certificates place a considerable financial burden on the company.

Furthermore, the reductions in network tariffs, as prescribed by the regulatory authority, have also trimmed our revenue. Nevertheless, in the meantime, the newly-launched incentive regulatory system has significantly improved the planability of our operations. A similar solution is currently being developed for the natural gas sector. However, one should not make the mistake of underestimating the consolidation process in the energy sector, as well as the growing shortage of power generating capacity, and bottlenecks in the high-voltage power grids.

**“... our Bulgarian and Macedonian acquisitions give us a strong foothold in South East Europe's energy sector ...”**

**What is EVN's role in this scenario?**

**Hofer:** At an early stage, EVN saw the signs on the horizon and decided to proactively develop business alternatives. As a result, EVN diversified its business to encompass the water, wastewater treatment and waste incineration business areas. We also expanded our energy business on a geographical level. The highlights were certainly the acquisitions in Bulgaria and Macedonia during the last two financial years. Subsequently, we have close to tripled our sales volumes in the energy business, and at the same time, managed to establish a strong foothold in South East Europe's energy sector.

**EVN has undergone a period of major expansion, in the energy sector, its core business, as well as in new business areas. Where will EVN be going from here?**

**Pötttschacher:** We are concentrating on certain regions and business areas, because we require a phase of consolidation and integration following the enormous growth achieved in recent years. Accordingly, we implemented a new group-wide organisational structure at the beginning of the last financial year, which is designed to considerably streamline our decision-making structures and increase the level of transparency and accountability for the perform-



ance of the company. Nonetheless, we are still open to expanding even more in South East Europe, which we have defined as our core region.

#### **Is the integration of the new subsidiaries in South East Europe proceeding as planned?**

**Layr:** Absolutely. This particularly applies to the Bulgarian subsidiaries, which have now been a part of the Group for almost two years. We have implemented a series of measures, such as the elimination of redundancies or adapting the external sales structures to the concept of setting up all-encompassing and competent customer relations centres, as we have successfully put into practice in Lower Austria. To be honest, the speedy successes have really been a positive surprise. Naturally, we are just at the beginning of the process in Macedonia, but we can take advantage of our experiences in Bulgaria.

#### **What about the profitability of the companies in Bulgaria and Macedonia?**

**Hofer:** Our aim is to achieve a sustainable level of profitability in these markets which matches our performance in Lower Austria. Of course, we can not achieve this from one day to the next. Key business indicators such as revenues or sales volumes have posted significant gains. However, the profitability for the Group as a whole has declined somewhat, as demonstrated by such benchmarks as EBIT per employee. On a long-term basis, the integration of our subsidiaries in Bulgaria and Macedonia will lead to an improvement in profits.

**“... we cover up to 80% of our electricity needs in Lower Austria from own power plants, and aim to develop generating capacity in South East Europe ...”**

**Regarding the issue of ensuring energy supplies, obviously it is vital to be as self-sufficient and flexible as possible. How is EVN positioned?**

**Pötttschacher:** In Lower Austria, we can cover up to 80% of our electricity needs from our modern and highly efficient power plants. In contrast, at present, we only serve as energy distributors in Bulgaria and Macedonia. In these markets, we have to purchase the required amounts of electricity from national providers. Generally speaking, we aim to achieve the highest possible autonomy. Our goal is to maintain a coverage ratio of 40%–60% from our own power plants for the entire EVN Group, depending on the price situation prevailing on the spot market.



In the upcoming years, we will be involved in a series of interesting projects. Apart from constructing a coal-fired power plant of 790 MW in Duisburg-Walsum, Germany, we also aim to develop our own electricity and heating generating capacity in South East Europe as well. For example, EVN was identified as the best bidder for a district heating facility in the Bulgarian city of Plovdiv.

**Do your business targets harmonise with the implementation of the goals laid out in the Kyoto accord? How can an energy provider ensure a sufficient supply of energy on a sustainable basis, and operate on an environment-compatible and profitable basis at the same time?**

**Layr:** It goes without saying that we operate within the overall framework defined for us by government policies. The focus is on trading with CO<sub>2</sub> emission certificates, but also maximally expanding the use of renewable energy sources. In the last few years, we have carried out a series of initiatives. As a result, in addition to our widespread reliance on hydroelectric power, we also have numerous wind parks and biomass-fired power plants at our disposal. We have invested around EUR 85m in new wind parks, and have more than doubled our capacity of wind-generated electricity to 116 MW. We are already close to achieving the goal of boosting our own power generating capacity from renewable energy sources to a level of 33% until 2010.

**“... wind power generating capacity more than doubled in 2006 ...”**

**Pötttschacher:** A comprehensive energy and infrastructure project for the Lower Austrian Central Region, which we presented to the general public



Peter Lay, Burkhard Hofer, Herbert Pöttschacher

in May 2006, could provide a major impetus to our business operations. The starting point for this undertaking is our power plant and waste incineration facility located in Dürnröhr. This initiative involves five separate projects, entailing investments totalling up to EUR 180m over the next three years.

**“... enormous growth in the water, wastewater and waste incineration markets, and EVN is well-positioned ...”**

**How would you assess further developments in your environmental services business? Besides individual large-scale projects, are there really bottom-line growth opportunities in this segment?**

**Layr:** The market for water, wastewater treatment and waste incineration solutions is absolutely huge, and has displayed enormous growth potential. Last but not least, this has been demonstrated by the numerous contracts concluded by our subsidiary WTE in recent years. Central and Eastern Europe is also the focal point of our environmental services business. As mentioned already, it is a region which boasts exciting growth perspectives in the future, and, at the same time, the potential to catch up. The comprehensive range of incentives offered by the European Union to the new Member States will also have a positive impact. We are well positioned in the field of environmental services, thanks to the ongoing projects we are implementing. We will also take advantage of the mutual synergies that can be exploited between the water and wastewater businesses on the one hand, and waste incineration on the other hand. Both projects in Moscow document this in an impressive manner.



**Moving on to the issue of cooperating with other energy suppliers, what is the current situation in terms of the consolidation process on the Austrian energy market?**

**Hofer:** Against the backdrop of a concentration process in the European energy industry, we have been successfully working for several years now towards achieving a consolidation in Austria's electricity and gas markets. Our aim is to create stable corporate entities with the “critical mass” required to operate successfully in the face of tough international competition. In this regard, it is particularly important to merge energy production and procurement capabilities as well as the relations to end customers. After founding EnergieAllianz together with several regional energy suppliers in the year 2000, the next step was the start of EconGas, the joint company for gas trading and large customer sales, which commenced operations in 2003. We now expect new momentum towards intensifying the cooperation within the Austrian electricity industry. Accordingly, other forms of cooperation should be considered, also at the shareholder level.

**“... the overriding goal is achieving a leading position in selected CEE markets ...”**

**Pötttschacher:** By the way, our strategic investments in other Austrian energy companies, e.g. Rohöl-Aufsuchungs-AG, as well as our joint ventures within the framework of Energie-

Allianz, have proven to be very successful. In recent years, the income from these investments has comprised an increasingly important contribution to our profits, and has served to cushion the company from the trend towards declining margins in the energy retail sector.

**How would you define your goals and strategy in the years ahead?**

**Hofer:** Our overriding aim is to achieve a leading position as an energy and environmental services provider in selected Central and Eastern European markets on a long-term, sustainable basis, with our foothold in Lower Austria serving as the starting point for our business activities.

**“... increased efficiency, use of renewable energy, new power generation capacity, expanded environmental services, further international expansion ...”**

In terms of taking concrete steps, we will not only have to promote a quick and efficient integration of our new subsidiaries in Bulgaria and Macedonia, but also focus on a multifaceted range of measures. These include achieving a maximum increase in efficiency at existing power plants; further expanding our use of renewable energy sources; developing additional power

generating capabilities; optimising and upgrading our electricity, gas, heat, water and telecommunications networks; constructing drinking water treatment installations as well as wastewater purification and waste incineration facilities; promoting the ongoing upgrading of our energy advisory services; and naturally, providing comprehensive professional development and training initiatives for our employees.

In order to increase our financial flexibility in the years to come, we concluded a syndicated revolving credit line in September 2006, amounting to EUR 600m. It is valid for a period of seven years, and ensures EVN favourable terms and conditions.

**“... 2006/07: consolidation after enormous growth in the last two years, highly dynamic environmental services business ...”**

**In conclusion: what are the specific perspectives for the financial year 2006/07?**

**Hofer:** The financial year 2006/07 will turn out to be a year focusing on the implementation of a considerable number of internal tasks. The priority is the further restructuring of the Bulgarian subsidiaries and fully kicking in the integration process in Macedonia. Both markets are regulated, which means that price adjustments are only possible on a step-by-step basis. The market environment in the energy sector will continue to be quite challenging, due to the ongoing high primary energy prices. For the most part, in the 2006/07 financial year, there will not be the same magnitude of positive one-off effects as in the past financial year. I am talking about the reduction in the Austrian corporate tax rate to 25%, which had a perceptible impact in the 2005/06 financial year, the full-year consolidation of the Bulgarian subsidiaries, the divestiture of our shareholding in Energie AG Oberösterreich, or the changeover of BEWAG and BEGAS to IFRS. On the other hand, the first full year of consolidation of our Macedonian investment in the consolidated financial statements will make a positive contribution to the growth of the EVN Group. Last but not least, we expect continuing dynamic growth in the environmental services business. To sum things up: We anticipate a substantial increase in revenue, stable results from operating activities, and a slight decline in the Group net profit.

**Thank you for this discussion.**



# Management and control

## Corporate governance

EVN is an Austrian public limited company listed on the Vienna Stock Exchange. For this reason, in addition to Austrian law, in particular stock corporation and capital market laws, legal regulations applying to the right of co-determination on the part of employees, as well as the company by-laws, the framework for the company's corporate governance policies is the Austrian Corporate Governance Code.

### Commitment to the Austrian Corporate Governance Code

The Executive Board and the Supervisory Board are committed to abide by the principles of good corporate governance. Both domestic and international investors expect the management and control of EVN to be carried out in a responsible and transparent manner, oriented to ensuring the well-being of the company on a long-term basis. In this regard, EVN decided to fully comply with the Austrian Corporate Governance Code, effective June 1, 2006. Beforehand, EVN had already committed itself to explicitly adhere to the goals laid down in the Austrian Corporate Governance Code, and to fulfil most of its guidelines.

The standards specified in the Austrian Corporate Governance Code are divided into three categories. The first category (Legal Requirements), based on binding regulations, is to be observed by all Austrian listed companies, and is also adhered to unconditionally and without qualification by EVN. In regards to the C-rules (Comply-or-Explain), listed companies are to publish regular statements to disclose the extent of their compliance. In contrast, R-rules represent recommendations, allowing deviations to occur without having to provide an explanation.

### Deviations from C-rules

Mainly due to the distinctive characteristics of the Austrian energy industry, EVN could not adhere to the following C-rules:

- **Rules 4 and 5:** Publishing all proposals and materials, including the texts of the proposals and counterproposals made by shareholders, including the possibility to download the information, seems neither appropriate nor practical, due to the fact that this information is not to be considered as information for the public domain, but is only of relevance to shareholders. This means that only shareholders should be allowed to have access to the materials. Vice versa, shareholders who submit proposals also have the right to confidentiality.
- **Rule 16:** Given the fact that the Executive Board consists of three members, there can be no tied vote in adopting a resolution. For this reason, appointing a Chairman, who would have the right to make the final decision in case of a tie and cast the tie-breaking vote, is not necessary. The Speaker of the Executive Board is responsible for directing meetings and representing the Executive Board to other target groups, and also to the Supervisory Board (Rule 37).
- **Rule 27:** This rule is already complied with in regards to the remuneration of the members of the Executive Board. The company is striving to comply with this rule in determining the level of remuneration for top management positions.
- **Rules 38 and 41:** In terms of the procedure for filling positions on the Executive Board, EVN is required to act in compliance with the legally binding provisions of the Austrian Law Governing the Filling of Positions. In this case, the recommendations contained in the Corporate Governance Code can only be partly carried out. In terms of the recommended age limits, EVN considers the qualifications of the candidates to have a higher priority than an imposed age limit.
- **Rule 52:** Due to the historical development of the company, EVN currently has 13 elected members serving on the Supervisory Board. The composition of the current Supervisory

Board was determined before the voluntary commitment on the part of EVN to comply with the Austrian Corporate Governance Code. Following the reduction in the size of the Supervisory Board in 2006, from 15 members in the past to 13 members at present, EVN will implement a step-by-step downward adjustment to streamline the Supervisory Board to the recommended level of ten members.

- **Rule 55:** The selection of the current Acting Chairman of the Supervisory Board took place before the voluntary commitment on the part of EVN to comply with the Corporate Governance Code.
- **Rule 57:** In terms of recommended age limits for members of the Supervisory Board, EVN considers the qualifications of the particular candidate to have a higher priority than an imposed age limit.

In addition, the Executive Board and the Supervisory Board of EVN AG formally declare their commitment to fully observe and abide by the L-rules and C-rules of the Austrian Corporate Governance Code. Only a small number of deviations from the R-rules exist.

### Shareholders and Annual General Meeting

The shareholders of EVN shares make use of their legal rights at the Annual General Meeting, and exercise their voting rights. Each share of EVN AG is granted one vote. There are no preferential shares of EVN stock, or shares with multiple voting rights.

The right to make certain important decisions, primarily in regards to the distribution of profits, the discharging of the members of the Executive Board and the Supervisory Board, the selection of the auditors for the financial and consolidated financial statements, and the election of the members of the Supervisory Board, is reserved to the Annual General Meeting. Moreover, the Annual General Meeting has the right to make decisions pertaining to changes in the company by-laws, and capital raising measures.

### Clear-cut separation of corporate management and control responsibilities

Austrian stock corporation law foresees a dual management system. It prescribes a strict separation between management bodies (i.e. Executive Board) and controlling bodies (i.e. Supervisory Board). It is not permitted to be a member of both. This is how the Austrian model fundamentally differs from the Anglo-American system of management.

### Executive Board

The EVN Executive Board consists of three members. In the case of the Supervisory Board not exercising its right to appoint the Chairman or Speaker, the Executive Board itself shall elect a Speaker.

### Management of the company

The Executive Board has the sole responsibility to manage the company, with the diligence and prudence of a dutiful, conscientious manager, and shall endeavour to promote the well-being of the company by taking into consideration the interests of the shareholders, the employees and the general public. The basis for the work of the Executive Board are the relevant legal regulations as well as the statutes laid down in the company by-laws, as well as the internal rules of procedure for the Executive Board as stipulated by the Supervisory Board.

Irrespective of the overall responsibility of the Executive Board, the Supervisory Board shall take account of the particular demands placed on the management to determine the composition of the Executive Board as well as the delegation of responsibilities. Specified areas of the business are reserved for joint discussions and decision-making on the part of the entire Executive Board. Moreover, certain business transactions require the express consent of the Supervisory Board as regulated by law, or a previous resolution passed by the Supervisory Board.

## Reporting obligation of the Executive Board

In accordance with organisational-legal regulations, the Executive Board is required to report to the Supervisory Board. Reporting standards also apply to Supervisory Board committees. The Executive Board's reporting obligation also encompasses regular information about business developments at the entire Group and matters of importance relating to Group subsidiaries.

### Success sharing bonus programme for the Executive Board (Rule 30)

Contractually fixed salaries comprise approximately 75% of the annual income paid to the members of the Executive Board, whereas the remaining 25% represents performance-based pay. A maximum amount has been predetermined for the profit sharing scheme, 35% of which is based on EBIT, 35% on ROCE and 30% on three individual targets which have been set. There are different forms of retirement benefits, ranging from a pre-defined percentage of the remuneration applicable in the final period of the employment contract, to a pension fund. Generally speaking, prevailing legal regulations apply in the case of termination of employment.

### Options (Rule 29)

There is no share option programme for members of the Executive Board.

### Directors' Dealings (Rule 70)

There were no directors' dealings reported in the EVN Group during the 2005/06 financial year.

## Supervisory Board

The Supervisory Board of EVN AG consists of 13 shareholder representatives elected by the Annual General Meeting, as well as seven employee representatives selected by the EVN Central Trade Unions Council. The Supervisory Board is led by a Chairman and two Vice-Chairmen, who are chosen by the Supervisory Board itself. In a meeting convened on May 29, 2006, the Supervisory Board approved a resolution stipulating that the proportion of independent members is to be set at a minimum of 50%.

The Supervisory Board exercises its job according to regulations laid down in stock corporation law, as well as in the company's statutes. Additional guidelines regulating the behaviour of the Supervisory Board are laid down in the internal rules of procedure for the Supervisory Board.

## Supervising the Executive Board

It is the particular responsibility of the Supervisory Board to supervise the work of the Executive Board, from whom they are authorised to demand a report at any time concerning all relevant aspects of business development at the company. Specified business transactions implemented by the Executive Board, as laid down in the Austrian Stock Corporation Act (§ 95 Section 1) or as determined previously by the Supervisory Board, require its formal consent.

The Supervisory Board convenes as a plenum, inasmuch as individual matters of importance have not been delegated to committees set up by the Supervisory Board. At present, the following committees have been established, each of which is required to include at least three members of the Supervisory Board:

- The **accounting committee** is responsible for evaluating and/or preparing the Report of the Supervisory Board approving the financial statements and the consolidated financial statements, the proposal of the Executive Board in regards to the distribution of profits, and the Management Report pertaining to the company and the Group.
- The **personnel committee** consists of the executive committee of the Supervisory Board, and deals with personnel issues pertaining to the Executive Board, including succession planning. The executive committee of the Supervisory Board consists of the Chairman and the two Vice-chairmen.

- The **working committee** is comprised of the members of the executive committee of the Supervisory Board, together with employee representatives. This committee is responsible for carrying out the specified tasks assigned to it by the entire Supervisory Board. In certain urgent cases, the working committee is authorised to give its consent to specified business transactions, on behalf of the Supervisory Board.

The Supervisory Board is authorised to set up other committees composed of its members with responsibility for preparing its consultations and resolutions, monitoring compliance with its resolutions, or deciding upon relevant matters pertaining to business developments at the company, assigned to it by the Supervisory Board.

#### **Remuneration for the Supervisory Board (Rule 51)**

The remuneration paid to members of the Supervisory Board has been set as an annual fixed sum totalling EUR 108,000. The Chairman of the Supervisory Board is granted 12.5% of the above mentioned amount, whereas 8.5% each is to be paid to the two Vice-Chairmen, and slightly more than 7% to each of the other members. A lump-sum payment amounting to EUR 170 is to be paid to each of the members for each of the sessions of the Supervisory Board which are convened.

#### **Contracts requiring the approval of the Supervisory Board (Rule 48)**

There are no contracts at EVN which are subject to the obligatory approval of the Supervisory Board.

#### **Auditing of the financial statements**

Since the 2005/06 financial year, the auditing of the consolidated financial statements of EVN has been carried out by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. 74.2% of the fees paid by EVN AG to the KPMG Group were for auditing, 25.8% for consulting services.

#### **Internal control**

At EVN, there exists an internal auditing department which reports directly to the Executive Board, and to the accounting committee of the Supervisory Board. It is responsible for overseeing auditing and controlling throughout the EVN Group. In the past financial year, the internal auditing department focused on implementing effective internal control mechanisms at ERP Plovdiv and ERP Stara Zagora in Bulgaria, and in setting up a new internal auditing department at ESM AD in Macedonia. Otherwise, the internal auditing department continued its controlling work as in the previous financial year. These audits did not reveal any deficiencies, with the exception of mostly formal errors.

#### **Compliance/preventing the misuse of insider information**

In fulfilling the regulations stipulated in the Austrian Stock Corporation Act and the Stock Exchange Act, the Austrian Compliance Code for the issuers of securities and the Directive of the European Parliament on insider dealing and market manipulation, EVN has developed a comprehensive set of rules designed to prevent the misuse of insider information. Several areas of EVN's business have been permanently designated as strictly confidential. When required, other specially-defined transactions or aspects of the business are temporarily defined as being subject to strict confidentiality. Moreover, the affected employees are given extensive training. Compliance and confidentiality are monitored and evaluated by a specially-designated compliance officer, reporting directly to the Executive Board. In the 2005/06 financial year, the ongoing monitoring carried out by the compliance officer did not reveal any deficiencies.

### **Comprehensive guidelines**

**Report regarding the evaluation of the declaration of the Executive and Supervisory Boards of EVN AG, Maria Enzersdorf, concerning compliance with the Austrian Corporate Governance Code**

We have evaluated the declaration of the Executive and Supervisory Boards of EVN AG, Maria Enzersdorf, concerning compliance with the Austrian Corporate Governance Code. Adherence to the individual regulations and public reporting are the responsibility of the company's Executive and Supervisory Boards. Our task is to issue a report concerning adherence to the Austrian Corporate Governance Code.

We conducted our evaluation in line with the regulations of the International Federation of Accountants (IFAC) for commissions relating to the completion of agreed audits in the case of financial information (ISRS 4400). These standards require that the evaluation be planned and performed in such a manner that reasonable assurance is achieved as to whether the declaration of the Executive and Supervisory Boards concerning the observance of the Austrian Corporate Governance Code is free of material misstatement. The evaluation mainly consisted of questioning of the persons responsible, random checks on adherence to the Austrian Corporate Governance Code, and an assessment of the declarations provided.

During our evaluation, we did not discover any facts that contradicted the declaration of the Executive and Supervisory Boards concerning compliance with the Austrian Corporate Governance Code by EVN AG.

Vienna,  
December 11, 2006

**KPMG Austria GmbH**  
**Wirtschaftsprüfungs- und Steuerberatungsgesellschaft**

Rainer Hassler m.p.  
Maximilian Schreyvogel m.p.

Austrian Chartered Accountants

## Report of the Supervisory Board

### Ladies and gentlemen!

The 2005/06 financial year was a very successful year for EVN. The company's expansion in Bulgaria and the new acquisition in Macedonia, the ongoing growth in the Lower Austrian domestic market, but also the extension of the Group's activities in the water, wastewater treatment and waste incineration business areas in Central and Eastern European markets led to profitable growth, laying the groundwork for a positive, future-oriented international development of the EVN Group.

### Supporting the Executive Board

The Supervisory Board has actively monitored and supported this development within the framework of its designated responsibilities. The Supervisory Board convened for a total of five meetings during the period under review. The rate of attendance of the meetings was 92%. None of the members missed more than 50% of the meetings. The executive committee as well as the personnel committee of the Supervisory Board each convened three times during the period under review, whereas the accounting committee met once.

The reports submitted by the Executive Board provided the Supervisory Board with current and comprehensive information about all relevant issues of business development, including the risk situation, company risk management and the main Group companies. As a result of this reporting, the Supervisory Board was able to supervise and support the management activities of the Executive Board on an ongoing basis. This took place within the framework of the candid, thematic discussions between the Executive and Supervisory Boards. There were no reasons for objections.

### Approval of important decisions

Furthermore, the Supervisory Board gave its formal stamp of approval to specified transactions, as required. The most important decisions of the past financial year included the approval of the acquisition of a majority shareholding in the Macedonian electricity distribution company "ESM AD", a comprehensive energy and infrastructure project for the Lower Austrian Central Region, a syndicated loan with a credit line amounting to EUR 600m to finance future projects or to restructure any existent financing packages, as well as the planned construction of the "Walsum 10" power plant project. All these resolutions were unanimously approved.

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was appointed to serve as EVN's certified public accountant for the 2005/06 financial year starting on October 1, 2005 and ending on September 30, 2006. KPMG examined the annual accounts of EVN AG and the Management Report as at September 30, 2006, which were prepared in accordance with Austrian accounting regulations. KPMG presented a report on the results of the audit, and issued an unqualified opinion.

Following detailed scrutiny and discussions in the accounting committee as well as in the entire Supervisory Board, the Supervisory Board approved the financial statements and the consolidated financial statements as at September 30, 2006, which were submitted by the Executive Board, the respective Management Report as well as the proposals for the distribution of profits. The financial statements as at September 30, 2006 are thereby taken as approved, pursuant to § 125 Section 2 of the Austrian Stock Corporation Act.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). These financial statements were also audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, which issued an unqualified opinion. The Supervisory Board has approved the consolidated financial statements and Management Report.

In closing, the Supervisory Board wishes to express its sincere gratitude to the Executive Board for its work during the 2005/06 financial year. It also extends its thanks and recognition to all employees of the Group for their endeavours and cooperation and even greater commitment in the light of integration of the new subsidiaries in Bulgaria and Macedonia in the interests of the company during the period under review.

Maria Enzersdorf,  
December 11, 2006

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'R. Gruber', written in a cursive style.

Rudolf Gruber  
Chairman of the Supervisory Board

## Corporate bodies and management

### Executive Board



**Burkhard Hofer**

Speaker of the Executive Board  
 Born 1944, Doctor of Law. Joined EVN in 1980. Member and Speaker of the EVN Executive Board since March 2005.

Burkhard Hofer has executive responsibility for the "Environmental Services" and "Energy Procurement and Supply" strategic business units, as well as for procurement and purchasing, controlling, customer relations, finance, general administration and corporate affairs, information and communications, human resources and Group accounting (incl. investor relations).



**Peter Layr**

Member of the Executive Board  
 Born 1953, Doctor of Technical Sciences. Joined EVN in 1978. Member of the EVN Executive Board since October 1999.

Peter Layr has executive responsibility for the "Networks" and "South East Europe" strategic business units, as well as for data processing, environmental controlling and safety.



**Herbert Pötttschacher**

Member of the Executive Board  
 Born in 1949, Degree in Surveying, Urban, Regional and Environmental Planning. Member of the EVN Executive Board since July 1995.

Herbert Pötttschacher has executive responsibility for the "Generation" strategic business unit, and for internal auditing as well as administration and construction.

### Group organisation

| EVN AG Executive Board  |   |   |
|---|---|---|
| Competence area 1<br>Hofer  | Competence area 2<br>Layr   | Competence area 3<br>Pötttschacher  |
| <ul style="list-style-type: none"> <li>▶ Procurement and Purchasing</li> <li>▶ Controlling</li> <li>▶ Customer Relations</li> <li>▶ Finance</li> <li>▶ General Administration and Corporate Affairs</li> <li>▶ Information and Communications</li> <li>▶ Human Resources</li> <li>▶ Group Accounting</li> </ul> | <ul style="list-style-type: none"> <li>▶ Data Processing</li> <li>▶ Environmental</li> <li>▶ Controlling and Safety</li> </ul>  | <ul style="list-style-type: none"> <li>▶ Internal Auditing</li> <li>▶ Administration and Construction</li> </ul>  |
| <p><b>Environmental Services</b></p> <ul style="list-style-type: none"> <li>▶ AVN Group</li> <li>▶ evn wasser</li> <li>▶ WTE Group</li> </ul>   | <p><b>Networks</b></p> <ul style="list-style-type: none"> <li>▶ EVN networks</li> <li>▶ Regional offices – operations</li> <li>▶ Network control</li> <li>▶ Network engineering electricity</li> <li>▶ Network engineering gas</li> <li>▶ System operator</li> <li>▶ Network telecommunications</li> <li>▶ Customer billing</li> <li>▶ Meters</li> <li>▶ grafotech</li> <li>▶ kabelsignal</li> <li>▶ nökom</li> <li>▶ Toplak</li> </ul> | <p><b>Generation</b></p> <ul style="list-style-type: none"> <li>▶ Plant construction</li> <li>▶ Production</li> <li>▶ evn naturkraft</li> <li>▶ STEAG EVN Walsum</li> </ul> |
| <p><b>Energy Procurement and Supply</b></p> <ul style="list-style-type: none"> <li>▶ Services</li> <li>▶ Energy planning</li> <li>▶ Heating</li> <li>▶ EconGas</li> <li>▶ EnergieAllianz Austria</li> <li>▶ e&amp;t</li> </ul>  | <p><b>South East Europe</b></p> <ul style="list-style-type: none"> <li>▶ EVN Bulgaria</li> <li>▶ ERP Plovdiv</li> <li>▶ ERP Stara Zagora</li> <li>▶ EVN Macedonia</li> <li>▶ ESM AD</li> </ul>  |   |

▶ Strategic Business Unit  
▶ Group administrative function  
▶ Group company  
▶ Investment

### Scope of activity of the entire Executive Board

Joint deliberations and decision-making by the entire Executive Board apply to all those matters which have been legally delegated to it, all business transactions which require the approval of the Supervisory Board, as well as decisions on those matters which refer to more than one competence area of the Executive Board. In addition, the Executive Board deals with important personnel decisions, the issuance of organisational rules and regulations, authorisation granted to the internal auditing department to audit specified transactions, or matters on which a member of the Executive Board requires a resolution to be adopted by the entire Executive Board. The right is also reserved to the entire Executive Board to concern itself with matters concerning Group investments, in particular those which impact the strategic interests of the Group as a whole. The Executive Board is also responsible for determining the CSR strategy of the EVN Group as well as the appropriate measures required to implement it.

### Heads of EVN Strategic Business Units and Group administrative functions



**Adolf Aumüller**  
Strategic Business Unit "Generation"



**Robert Essbüchl**  
Strategic Business Unit "Networks"



**Georg Reitter**  
Strategic Business Unit "Energy Procurement and Supply"



**Stefan Szyszkowitz**  
Strategic Business Unit "South East Europe"



**Franz Mittermayer**  
Strategic Business Unit "Environmental Services"



**Felix Sawerthal**  
General Administration and Corporate Affairs



**Stefan Zach**  
Information and Communications



**Wolfgang Schäffer**  
Customer Relations



**Michael Längle**  
Group Accounting and Finance



**Josef Karner**  
Controlling



**Robert Redl**  
Data Processing



**Karl Huber**  
Human Resources



**Hans-Georg Rych**  
Environmental Controlling and Safety



**Günter Allesch**  
Procurement and Purchasing



**Gerhard Möslinger**  
Administration and Construction



**Kurt Barwig**  
Internal Auditing

## Supervisory Board

### Chairman

**Rudolf Gruber**<sup>1) 2) 3)</sup> (from January 19, 2005)

Chairman of the Executive Board of EVN AG, ret.

### Vice-Chairmen

**Stefan Schenker**<sup>1) 2) 3)</sup> (from December 12, 1996)

Forestry engineer

**Traude Dierdorf**<sup>1) 2) 3)</sup> (until November 21, 2005)

Mayor of Wiener Neustadt, ret.

**Gerhard Posset**<sup>1) 2) 3)</sup> (from December 12, 1995; vice-chairman from January 12, 2006)

Secretary, Lower Austrian Executive Committee of the Austrian Trades Union Council

### Members

**Walter Aigner** (from December 12, 1996)

Chairman of the Trade Unions Council, Spar Österreichische Warenhandels-AG, Sankt Pölten headquarters

**Edgar Führer**<sup>1) 2)</sup> (until January 12, 2006)

Chairman of the Stiftung Bürgerspital zu Horn Service-Betriebe GmbH

**Amir Ghoreishi** (from January 12, 2006)

Chairman of the Executive Board of EnBW Beteiligungen AG

**Norbert Griesmayr** (from January 12, 2001)

Chairman of the Executive Board of VAV Versicherungs-Aktiengesellschaft

**Gottfried Holzer** (from June 22, 1987)

Director of the Lower Austrian Chamber of Agriculture

**Reinhard Jordan** (until January 12, 2006)

Managing partner, Busatis GmbH

**Helmut Krünes** (until January 12, 2006)

CEO, Austrian Research Centers GmbH – ARC

**Dieter Lutz** (from January 12, 2006)

CEO, BENDA-LUTZ INTERNATIONAL Holding GmbH and BENDA-LUTZ-WERKE GmbH

**Franz Madl** (until January 12, 2006)

**Reinhard Meissl**<sup>1) 2)</sup> (from January 12, 2006)

Head of the finance department, Provincial Government of Lower Austria  
CEO, NÖ Landes-Beteiligungsholding GmbH

**Bernhard Müller**<sup>1)</sup> (from January 12, 2006)

Mayor of Wiener Neustadt

<sup>1)</sup> Accounting committee

<sup>2)</sup> Working committee

<sup>3)</sup> Personnel committee

**Wolfgang Peterl** (from January 12, 2001)  
Mayor of Korneuburg

**Leopold Richentzky** (until January 12, 2006)  
Mayor of Stockerau

**Martin Schuster** (from January 12, 2006)  
Mayor of Perchtoldsdorf

**Michaela Steinacker** (from January 12, 2001)  
CEO, ÖBB-Immobilienmanagement GmbH

**Employee representatives**

**Franz Hemm**<sup>1) 2)</sup> (from May 5, 1994)  
Chairman of the EVN Central Trades Union Council  
Vice-chairman of the Lower Austrian Chamber of Labour

**Rudolf Rauch**<sup>1)</sup> (from April 2, 1993)  
Vice-chairman of the EVN Central Trades Union Council

**Manfred Weinrichter**<sup>1) 2)</sup> (from January 1, 2001)  
Vice-chairman of the EVN Central Trades Union Council

**Otto Mayer** (from May 12, 2005)

**Helmut Peter** (from May 12, 2005)

**Leopold Rösel** (until January 12, 2006)

**Peter Ruis** (from August 1, 2000)

**Franz Ziegelwagner** (from March 22, 2004)

The following members of the Supervisory Board elected by the Annual General Meeting have formally made a declaration of their independence to the Supervisory Board in written form:

- **Rule 53 of the Austrian Corporate Governance Code (independence from the company and the Executive Board):** Schenker, Posset, Aigner, Ghoreishi, Griesmayr, Holzer, Lutz, Meissl, Müller, Peterl, Schuster, Steinacker
- **Rule 54 of the Austrian Corporate Governance Code (no representatives of a shareholder with a shareholding exceeding 10%):** Gruber, Schenker, Posset, Aigner, Griesmayr, Holzer, Lutz, Müller, Peterl, Schuster, Steinacker

No member of the Supervisory Board has a comparable position in any other domestic or foreign listed company.

The terms of office of all members of the Supervisory Board expires at the end of the Annual General Meeting, which will resolve upon matters pertaining to the 2009/10 financial year.

<sup>1)</sup> Accounting committee  
<sup>2)</sup> Working committee  
<sup>3)</sup> Personnel committee

# Strategy and value management

## Leading market position

## Strategy

### Goals

The most important strategic goal of EVN, in its capacity as an independent, listed energy and environmental services provider coordinating business operations from its headquarters in Lower Austria, is to achieve a strong market position in selected Central and Eastern European markets, and to maintain this leadership on a long-term basis.

Accordingly, the EVN Group aims to offer

- its customers high value services at competitive prices,
- its employees attractive working conditions and fair compensation, and
- its shareholders a sustained increase in value of the capital employed.

### Business environment poses numerous challenges

In the energy sector, EVN has been confronted with a series of challenges in recent years:

- **International competition and consolidation process in the energy sector**  
Following the liberalisation of Europe's electricity and gas markets, domestic and international competition has significantly increased. The response to this trend has been an increase in the number of mergers on the part of utility companies. The question of the appropriate size of the business (critical mass) has emerged as an increasingly crucial issue.
- **Growing demand for energy in the face of limited power generating capacity**  
The increased intensity of energy use has led to an increase in the growth of electricity consumption to a rate of 2.0%–2.5% p.a. However, in the first few years after market liberalisation, European electricity companies curtailed their investments in power plants. As a result, the gap between supply and demand widened considerably. This phenomenon also applies to power grids, in particular international high-voltage networks.
- **Procurement costs**  
The rise in primary energy prices has led to a significant increase in cost pressure. In particular, oil and gas prices have climbed considerably in recent years, but even the price of coal has risen, though somewhat more moderately. This downward pressure on margins has been accompanied by enormous price increases for the required CO<sub>2</sub> emission certificates since the beginning of 2005. Accordingly, electricity prices have also steadily climbed.
- **Implementation of the Kyoto targets and other environmental protection measures**  
The energy sector has generally been subject to even stricter environmental protection guidelines in order to fulfil the targets negotiated in Kyoto, which foresee a reduction of total EU CO<sub>2</sub> emissions to an average level 8% below that in the year 1990 (surpassed by Austria, which offered a 13% reduction). Apart from the resulting higher cost burden, these regulations provide an added incentive to expand the use of renewable energy sources, which naturally entails considerable investments.
- **Limited growth opportunities in the company's traditional core business areas**  
Despite the ongoing increase in demand, the growth potential of EVN in the domestic energy market of Lower Austria is relatively limited. This particularly applies to the electricity market, whereas the expansion of the gas and heating networks or the upgrading and enlargement of gas and heating facilities enables the company to achieve a certain organic growth in sales volumes. However, the potential to increase margins is limited in the light of tough competition and strict government regulation.

### Regional priorities and strategic core business areas

Based on this evaluation of the overall business environment, the strategy of the EVN Group, classified in accordance with its main business segments Energy and Environmental Services, is based on the following priorities:

## Energy

### Strengthening the company's profile as an energy and environmental services provider

The approach taken by EVN, which envisions the company as a single provider offering both energy-related and environmental services, has proven to be successful. For this reason, EVN aims to implement this concept in its other markets, primarily Bulgaria and Macedonia at the present time. Starting with its existing business operations focusing on supplying electricity, EVN will not only expand its own power generating capacities, but more extensively diversify into the fields of gas, heating, water, wastewater treatment and waste incineration on a medium-term basis. Simultaneously, the EVN Group will also continually expand and upgrade its activities in the Lower Austrian energy sector, particularly in the gas and heating segments, as well as in the supply of water and wastewater treatment.

### International expansion in European growth regions

In the light of the limited opportunities to expand the energy supply business in Lower Austria, EVN is ensuring its ongoing growth by penetrating markets which are dynamically growing at above-average rates. EVN will maintain its focus on Central and Eastern Europe and South East Europe. Due to their comparatively low gross domestic products, these countries possess an enormous catch up potential. Through its acquisition of majority shareholdings in Bulgaria and Macedonia, the EVN Group has established an outstanding foothold, positioning itself as one of the major players in the region's energy sector. In addition to the energy industry, the fields of water, wastewater treatment and waste incineration all represent an increasingly important international diversification of EVN's product and service portfolio.

### Increasing profitability through targeted investments in the energy sector

Selected strategic investments in companies such as Verbundgesellschaft, Rohöl-Aufsuchungs-AG or EconGas have led to a significant improvement in EVN's financial results. Furthermore, this approach enables EVN to considerably reduce its operational risks.

### Boosting EVN's flexibility and autonomy in energy production

In order to achieve an optimal balance between electricity sales volumes and power generation, the EVN Group is focusing its medium-term efforts on increasing the share of the required electricity produced in its own power plants to a level ranging from 40% to 60%. In addition to optimising the capacity and efficiency of existing power generating facilities, as well as further reducing the level of emissions, EVN plans to acquire or newly construct thermal or hydroelectric power plants within and outside of the regions covered by its services. The company has also increased its capacity to produce wind-generated power. As a result, the EVN Group will continue to rely heavily on the environment-compatible utilisation of renewable energy sources, whose share of Austrian-based electricity production by the EVN Group is expected to climb to some 33% by 2010.

### Strengthening the company's competitive position by means of strategic alliances

Against the backdrop of the market liberalisation for electricity and gas, EVN already concluded close partnerships with other Austrian utility companies at an early stage, in order to ensure the critical mass required to compete on an international level. Wholesale trading and large customer service, both in the electricity and gas segments, were merged and integrated into newly-formed joint companies. These strategic alliances comprise a solid basis for expanding the level of cooperation with the participating partners, for example by jointly participating in international projects. EVN partly cooperates with other providers in the wastewater treatment segment. One prominent example is the construction and operation of a central municipal wastewater purification facility for the city of Zagreb, which is being implemented through ZOV, a joint venture between EVN and RWE. To expand its own power generating capacity, EVN has concluded a cooperation agreement with a German utility company (STEAG).

## Environmental Services

### Cushioning the seasonal nature of the energy business by further expanding the new business areas of water, wastewater treatment and waste incineration

EVN's business activities in the fields of water, wastewater treatment and waste incineration have more than compensated for the seasonal nature of the energy industry, and the trend towards declining margins. EVN intends to continue this strategy and intensify its efforts to expand in these fields.

### Short and medium-term perspectives

EVN will focus on the following priorities in the implementation of its business strategies during the upcoming financial years:

- **Integration of the subsidiaries in Bulgaria and Macedonia**

EVN aims to restructure the new subsidiaries according to the successful model being practiced in Lower Austria, and make them as profitable as possible.

The integration process in Macedonia is in its infancy. In contrast, major milestones have already been set in Bulgaria. For details on the measures that have been implemented or which are in planning, refer to the chapter "New core region: South East Europe" starting on page 27.

- **Further expansion in South East Europe**

Starting with its investments in Bulgaria and Macedonia, EVN is striving to further consolidate its position in the region through acquisitions, strategic alliances or own investments. Accordingly, it will take part in the ongoing privatisation processes as well as continue its efforts to obtain energy supply and distribution licences.

- **Implementation of the energy and infrastructure project for the Lower Austrian Central Region**

This far-reaching project, whose starting point is the power plant and waste incineration facility located in Dürnrohr, involves five separate projects, entailing investments totalling up to EUR 180m over the next three years:

- Construction of a large biomass pyrolysis facility, enabling the production of biogas from straw, wood, energy plants or grains, which can be used in the power generating process,
- Creating the logistic conditions required to ensure the environment-friendly delivery of biomass and coal by use of water transport on the nearby Danube,
- Expansion of the district heating network in the Sankt Pölten region through heat extraction from the Dürnrohr power station and construction of a 29 km district heating supply line,
- Delivery of process steam from the Dürnrohr power station to supply the Agrana bio-ethanol plant in neighbouring Pischelsdorf, and
- Enlargement of the waste incineration plant, enabling annual capacity to climb to 500,000 t from the current level of 300,000 t. This represents an increase of thermal output from 120 MW to 210 MW.

- **Expanding power generating capacity abroad**

In the upcoming years, EVN will particularly focus on completing construction of a new coal-fired power plant with an overall capacity of 790 MW, which EVN and STEAG will jointly build in Duisburg-Walsum, Germany. The total investment volume of the project, in which EVN has a 49% stake, amounts to EUR 820m. The ground-breaking ceremony took place in November 2006. The necessary CO<sub>2</sub> emission certificates have already been allotted. Based on a tender process for financing the project, a consortium consisting of three German banks was selected in October 2006. The project will be financed with an equity share of 25%. For this reason, EVN will have to raise EUR 100m over the next three years. The power plant is expected to commence operations at the beginning of 2010. Payments on the loan will begin in 2010, and extend over a period of 17 years.

In South East Europe, EVN was identified as the best bidder for a district heating company in the Bulgarian city of Plovdiv in October 2006.

- **Further expansion of the environmental services business**

The waste incineration business will continue to be a key growth driver in the next financial year in terms of revenue and results in the Environmental Services segment. In particular, the operation of the AVN waste incineration facility in Dürnröhr at full capacity, along with the new waste incineration plant in Moscow, will lead to a significant improvement in revenue and results. At the same time, the company will proactively promote the commercial exploitation of its "waste to energy" know-how, primarily in the new Member States of the EU.

WTE will further expand its market position in the upcoming year on the basis of its proven role as a competent partner of local government and industrial companies. Apart from Germany and Austria, the company's key target markets are the new Member States of the EU as well as candidates for EU accession. These countries have considerable growth potential, due to the accumulated backlog and the urgent need to catch up in the field of environmental services. EU incentives will also make an important contribution to develop the environmental services business in these markets.

## Value-oriented corporate management

### Focus: Increasing EVA

The management of the EVN group is oriented to achieving a sustainable increase in shareholder value for the entire EVN Group as well as for the individual business segments. EVN relies on a unified, group-wide controlling system, which ensures an efficient utilisation of the capital employed.

The main indicators used to assess the value development of EVN's business operations are the economic value added (EVA) and the rate of return on the capital employed (ROCE). Accordingly, all investment decisions are evaluated in terms of their impact on the sustainable value of the enterprise. Transparency about value creation in the EVN Group is the basis for the strategic allocation of capital to the business segments.

### Calculation of economic value added

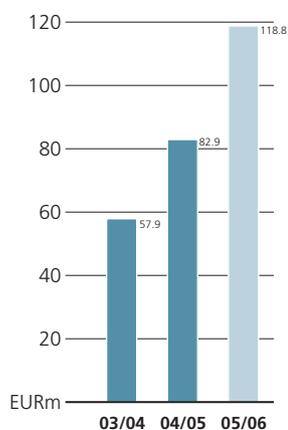
### WACC after tax: 6.5%

$$\text{EVA} = \text{NOPAT} - (\text{Capital Employed} \times \text{WACC})$$

- **NOPAT** (Net Operating Profit after Tax) is calculated by taking the Group net profit less the cost of capital.
- The **capital employed** is based on the current and non-current assets less non interest-bearing liabilities.
- The **return on capital employed (ROCE)** is the yield achieved on the invested capital. In order to calculate the ROCE, NOPAT is taken in relation to the average capital employed.
- The **weighted average cost of capital (WACC)** describes the interest claims on the invested capital. It is calculated as the weighted average value of the costs of equity capital and interest-bearing debt. The cost of equity capital is calculated by using the capital market model CAPM (Capital Asset Pricing Model). The cost of interest-bearing debt is based on the average interest rate for long-term government bonds plus a risk premium, which is derived from EVN's credit rating. The tax deductibility of interest on debt is taken into account with the company's corporate tax rate.

The economic value added reflects the operational performance of the EVN Group. A positive economic value added is achieved, when NOPAT is higher than the costs required to finance the invested capital (capital employed), as measured against the WACC.

### EVA development<sup>1)</sup>



<sup>1)</sup> Excl. financial value contribution

### Calculation of the cost of capital for the EVN Group

|   |             |
|---|-------------|
| Beta factor (B)                             | 1.0         |
| Market risk premium (MRP)                   | 5.0%        |
| Risk-free interest rate                     | 4.1%        |
| Cost of equity capital                      | <b>9.3%</b> |
| Cost of interest-bearing debt <sup>1)</sup> | 4.5%        |
| Corporate tax rate (25%)                    | 1.1%        |
| Cost of interest-bearing debt after tax     | <b>3.4%</b> |
| Share of equity capital                     | 50%         |
| Share of interest-bearing debt              | 50%         |
| Cost of capital after tax                   | <b>6.5%</b> |

<sup>1)</sup> Average interest rate on long-term government bonds plus credit spread of 0.4%.

The parameters for the calculation of the cost of capital in the table above were rounded off to one decimal place.

### Development of the value contribution

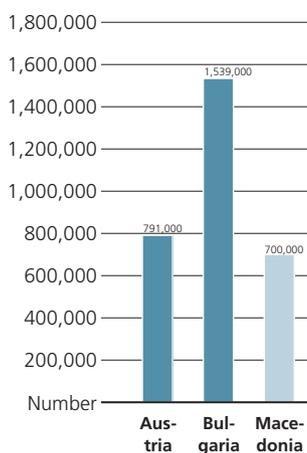
|  |      | 2005/06 | 2004/05 |
|--|------|---------|---------|
| NOPAT <sup>1)</sup>                    | EURm | 298.2   | 230.5   |
| Average Capital Employed <sup>1)</sup> | EURm | 2,760.4 | 2,461.0 |
| OpROCE <sup>1)</sup>                   | %    | 10.8    | 9.4     |
| WACC after tax                         | %    | 6.5     | 6.0     |

<sup>1)</sup> Adjusted for impairments and one-off effects. In order to consistently calculate the development of the value contribution, the market value of the Verbund shareholding is not taken into account in capital employed. The value increase in this shareholding is incorporated in the financial value contribution, which includes the share price changes and dividends of the Verbund share.

# New core region: South East Europe

Following the acquisition of a majority shareholding in three electricity supply companies in Bulgaria and Macedonia, EVN is now positioned as one of the biggest players operating in South East Europe's electricity industry. The region's above-average economic dynamism underlies its considerable growth potential. EVN's move into the South East European energy market is an important step towards ensuring the Group's ongoing growth well into the future.

## Electricity network customers



## Expansion of business operations in South East Europe

### Three strong subsidiaries

#### Bulgaria

Through its acquisition of a 67.0% shareholding in each of the two South East Bulgarian electricity supply companies ERP Plovdiv and ERP Stara Zagora, EVN assumed operational responsibility for these firms in January 2005.

All in all, ERP Plovdiv and ERP Stara Zagora serve around 1.5 million, or approximately 33%, of Bulgaria's electricity customers. The two companies operate a medium- and low-voltage network spanning 58,800 km. The ERP Plovdiv supply area measures some 22,000 km<sup>2</sup>, whereas that of ERP Stara Zagora comes to approximately 20,000 km<sup>2</sup>. The Stara Zagora region offers considerable potential with regard to Black Sea tourism as well as the trading activities of the port of Burgas. For its part, Plovdiv is the second largest city in Bulgaria, and an important business and trade fair centre.

In the 2005/06 financial year, 97% of the power supplied by ERP Plovdiv and ERP Stara Zagora was derived from the national electricity company NEK (Nationalna Elektricheska Kompania EAD), which is responsible for the supra-regional transmission of electricity as well as for all electricity import and export transactions. The remaining sales volumes were derived from smaller producers on the basis of electricity purchase obligations (cogeneration/hydropower).

#### Macedonia

Through the acquisition of a majority stake in ESM AD, Macedonia's national electricity distribution company, EVN has decisively expanded its presence in South East Europe during the period under review. ESM AD, one of the leading regional electricity suppliers, provides energy to the entire Republic of Macedonia. Around two million people live in the area covered by ESM AD, which serves approximately 700,000 customers. Annual electricity sales volumes amount to some 4,300 GWh. The company has a good distribution infrastructure, as a large percentage of the population lives in urban areas.

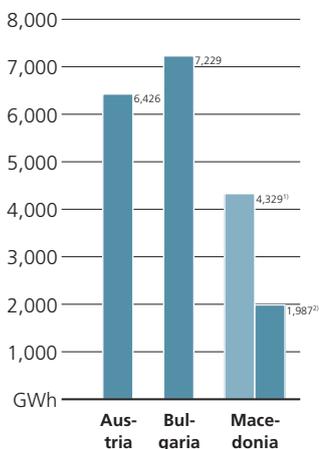
Following the acquisition of ESM AD at the beginning of April 2006, the new subsidiary was incorporated for the first time into the consolidated financial statements of the EVN Group for the 2<sup>nd</sup> half of the 2005/06 financial year. The process of integrating ESM AD began immediately and is already moving ahead rapidly.

## Separation of network and energy operations

## First utility to implement unbundling in Bulgaria

## Electricity market liberalisation and regulation

### Electricity sales volumes 2005/06



<sup>1)</sup> Total sales volumes in the 2005 calendar year  
<sup>2)</sup> April–September 2006

## Legal and energy sector environment

### Bulgaria

In Bulgaria, a new energy law has prescribed an unbundling between network operators and electricity suppliers starting at the beginning of 2007. In the first half of 2006, the subsidiaries acquired by EVN already concluded the required structural and legal preparations. In the future, ERP Stara Zagora will serve exclusively as a utility company, whereas ERP Plovdiv will serve as a network operator. The utility company will be responsible for the sourcing, procurement and distribution of electricity, whereas the network company will operate the network, as well as providing network engineering and network services for the utility. Both companies will be headquartered in Plovdiv.

Following approval of a resolution in the Annual General Meeting authorising these changes, the corresponding applications were submitted to the responsible courts. The change in the legal form of the companies has already been recorded in the commercial register, and is thus legally effective. Accordingly, the subsidiaries of the EVN Group are the first utilities in Bulgaria to implement the legally binding unbundling of their operations.

Bulgaria took the first step towards opening its electricity market back in 1999. At that time, the country chose to implement a single buyer model for procuring electricity and establish an independent regulatory body. At present, a monopoly also exists for all electricity import and export transactions, which must be processed by the national electricity company NEK. All electricity producers are obliged to sell at least 85% of the power generated to NEK, from which the regional electricity supply companies draw their required volumes at a price stipulated by the regulator. However, since the middle of 2005, all customers requiring more than 20 GWh annually are allowed to purchase electricity directly from the Bulgarian power producers. This minimum level of energy consumption was lowered to 9 GWh in the middle of 2006. As of January 1, 2007, in accordance with existing legal regulations, the electricity market in Bulgaria will be completely liberalised for all household and business customers.

Generally speaking, the prices of electricity and the network tariffs are determined by an independent regulatory body in Bulgaria. The principle is to compensate for the actual costs which are incurred, as well as to ensure an adequate return on equity. On the basis of applications submitted by the utility companies, new electricity tariffs were defined by the regulator, effective October 1, 2005. The prices for household customers remained the same, whereas the prices for business customers using low-voltage and medium-voltage lines were raised slightly. Effective October 1, 2006, the regulator prescribed a tariff increase for customers with an annual consumption of up to 75 kWh. In addition, two components – energy prices and network tariffs – have to be detailed separately in the electricity bills.

At present, the procurement and sales prices for electricity are still around half the European average. The regulator has prescribed volume-dependent prices for using the high-voltage and medium-voltage networks. However, Bulgaria has not yet developed a tariff structure which corresponds to West European standards.

Apart from the price adjustments, the EVN Group has also been working together with the regulator and other Bulgarian electricity distribution companies to design a modern tariff structure which meets the challenge posed by a liberalised market.

## Macedonia

AD Elektrostopanstvo na Makedonija ("ESM AD"), the former state-owned electricity company of Macedonia, was divided into four independent companies in 2005, in line with the traditional concept of the value added chain. Two power generating companies were spun off, AD Eleketrani na Makedonija (ELEM), the country's largest energy producer, and AD TEC Negotino, a thermal power plant. AD MEPSO was designated to be the operator of Macedonia's high-voltage network, and is also in charge of electricity imports and exports. Responsibility for operating the electricity network as well as relations with end customers was put in the hands of ESM AD, which was acquired by EVN in April 2006. EVN received 70.1% of the shares in ESM AD at the time of acquisition and has a claim to acquire a further 19.9% stake in ESM AD, due to the fact that the European Bank for Reconstruction and Development ("EBRD") did not exercise its purchase option. Thus, EVN will own 90% of the shares in this company.

## Single buyer model with national energy pool

Similar to the situation in Bulgaria, the Macedonian electricity market is organised according to the single buyer model. In this regard, MEPSO, the operator of the country's power grid, also serves as the operator of a national energy pool. ESM AD is required to procure most of the electricity it needs from this pool, 80% of which is derived from the state-owned power generating company ELEM, the remaining 20% being imported electricity. Only 2% of ESM AD's total energy needs are directly purchased from independent producers, whereas the remaining 98% of its annual requirements actually comprise 75% of the entire energy pool. The other 25% of the energy pool is sold directly by MEPSO to those customers whose annual consumption exceeds 20 GWh.

## Government price regulation

At present, the sales price of electricity produced by power generating companies in Macedonia as well as the prices for supplying energy to large customers and end customers are regulated by the government. The cost evaluation process takes into consideration the operating expenses (partly reduced) or procurement costs, including a capital market-based return on equity. On the basis of the expected sales volumes, an average price is calculated ex ante, which is valid during the following year and which is, in turn, converted to a regulated tariff system. An incentive to increase efficiency is also included in the calculation model, which entails ex post rewards for achieving a reduction in technical losses. However, this system does not incorporate a separation of energy fees and network tariffs.

As Macedonia has undertaken to liberalise its electricity and gas industry in line with EU guidelines, all non-household customers will be permitted to freely choose their electricity providers starting January 1, 2008. However, further efforts will be needed to create a more developed free market system. The creation of market-oriented tariffs and an investment-friendly business environment as the basis for improving the reliability and quality of the energy supply are extremely important to the further development of the country.

In Macedonia, the difference between local and West European electricity prices is even more pronounced than in Bulgaria. Electricity prices in Macedonia are slightly less than half the price levels prevailing in Western Europe.

## Energy Community

The development of the energy market in South East Europe is being extensively impacted by the Energy Community. It serves as a platform to extend the EU internal energy market to the South East European region. The corresponding treaty was signed in Athens on October 25, 2005 as one of the first multilateral agreements for South East Europe. In addition to the Member States of the European Union, the Energy Community also encompasses nine other countries in the region, including Bulgaria and Macedonia. The headquarters of the new institution will be located in Vienna.

The treaty aims to ensure a unified and stable regulatory framework for supplying energy throughout Europe, which, in turn, is designed to increase the attractiveness of the South East European region for investments in the energy sector, enhance the security of supply, improve the environmental situation and contribute to exploiting economies of scale.

Accordingly, the Energy Community has been established to provide support for implementing the “acquis communautaire” of the EU, creating a unified mechanism for cross-border energy deliveries, and setting up an energy market without internal barriers.

## Favourable economic conditions

The favourable business environment in Bulgaria as well as in Macedonia serves as the basis for a swift integration of the companies which were acquired by the EVN Group in the last two years.

### Economic growth above West European level

In Bulgaria, the economy expanded very dynamically in the forefront of the country's EU membership. Following an impressive GDP growth rate of 5.5% in the year 2005 as well as in the first half of 2006, economic growth is expected to be in the range of 5.0%–5.5% over the next few years. In particular, the industrial sector developed in a particularly dynamic manner, with forecasts predicting a 7%–8% growth in industrial production. This strong period of growth is being driven by large-scale investments. Due to the economic upturn, energy demand is expected to expand by about 4% annually.

Macedonia's economy continues to be in the midst of a far-reaching transformation. Supported by structural changes in the industrial sector, GDP growth is anticipated to reach a level of 3.5%–4.0% in the years 2006 and 2007. In the upcoming years, energy consumption is forecast to rise by about 4%–5% annually.

## Far-reaching integration in the EVN Group

### Integration makes rapid progress

With the completion of important phases, the integration of the subsidiaries acquired in Bulgaria has made considerable progress. In Macedonia, corresponding processes were initiated immediately after the acquisition of ESM AD in April 2006. EVN is pursuing the following goals:

#### Long-term targets

- **Development of a business model similar to the successful approach applied in the domestic market of Lower Austria**

In South East Europe, the product portfolio will be gradually enlarged to encompass not only electricity production and distribution, but also the fields of gas, heating, water and waste incineration.

- **Strengthening of flexibility and autonomy in electricity production**

On a long-term basis, EVN is striving to ensure a coverage ratio of electricity generated from its own power plants in the range of 40%–60%. Accordingly, the power generating capacity and thus the coverage ratio of EVN's subsidiaries in the new South East European markets will be boosted by constructing, acquiring and upgrading power plants.

- **Applying EVN's Lower Austrian standards to all subsidiaries**

This project encompasses the application of unified, group-wide energy supply and service standards, as well as the development of an appropriate technical, economic and social framework.

### Medium-term targets

- **Strengthening the competitiveness of the companies**

This primarily entails preparing the Bulgarian companies for the upcoming market liberalisation. EVN has already created the underlying technical and organisational conditions required to enable the unbundling of energy supply and network operations. The legal unbundling in accordance with corporate law took place in October 2006. Furthermore, Energy Trading AD, a joint venture set up by ERP Plovdiv and ERP Stara Zagora, already succeeded in boosting its competitiveness by obtaining a trading license. As a result, it is allowed to supply electricity to so-called "authorised" customers (with an annual consumption of more than 9 GWh) on the free market, thus enabling it to expand its business parallel to the phased opening of Bulgaria's energy sector.

- **Utilising potential synergies by simplifying management structures**

In Bulgaria, this restructuring step was already concluded in 2005 by means of a reduction in the number of management levels from four to two. The joint management of both companies will lead to a 20% savings in administrative costs. In Macedonia, implementation of management audits for the second and third management levels was initiated immediately after the acquisition.

- **Reduction of power grid losses**

The package of measures designed to reduce extremely high power grid losses and minimise electricity thefts encompasses the exchange or relocation of electricity meters as well as investments designed to maintain and enlarge the network. The medium-term goal of EVN is to reduce network losses in Bulgaria and Macedonia to an average level of about 10%, comparable to the situation in the rest of Europe.

- **Setting up of customer centres in line with the Lower Austrian model**

The successful customer relations approach used in Lower Austria will be implemented in Bulgaria by the end of 2006. The new customer centres will be responsible for new customer installations, customer relations, maintenance and customer service for the specific region in which they are located. The first four pilot projects involving customer centres, which were carried out in the past financial year, proved to be highly successful. By the end of the year, a total of 39 customer service centres will be established throughout the country.

- **Socially compatible reduction in employee numbers**

In order to strengthen the productivity of its new South East European subsidiaries, EVN is in the process of carrying out a socially compatible reduction in employee numbers, a drive which has already been initiated within the framework of the "Perspectives 2007" programme in Bulgaria. Through the process of natural employee fluctuation, and by employees taking advantage of a voluntary social assistance programme, the total number of employees in Bulgaria will be reduced by about 1,000 up until the end of the year 2007.

- **Extensive training and professional development measures**

The integration of the newly-acquired subsidiaries in Bulgaria and Macedonia represents an important challenge to the human resources management of the EVN Group. In the 2005/06 financial year, the "ERP Academy" was founded in Bulgaria, which among others, offers language courses in English and German. The professional development programme also encompasses instruction in safety and security precautions, designed particularly for personnel working with electrical equipment, as well as management seminars and character training. EVN plans to set up a training academy similar to the one in Bulgaria also in Macedonia during the 2006/07 financial year.

### **Best bidder for district heating company**

#### **Building up local power generating capacity**

In October 2006, EVN was identified as the best bidder for a district heating company in the Bulgarian city of Plovdiv. Subject to the condition that sales negotiations with the privatisation authorities proceed positively, EVN anticipates that the transaction will be closed at the turn of the year 2006/07. The company has a total heat generating capacity of 1,259 MW of thermal energy, and 85 MW of electrical energy, and is serving 62,000 household, commercial and industrial customers. If the deal is successful, EVN plans to further raise generating capacity.

# EVN share and investor relations

**Positive international environment with bear market in May**

**ATX: +11.9%**

**EVN: +11.4%**

## The EVN share

### Double digit growth in Europe continues

During the period under review, from October 2005 to September 2006, the international stock markets continued their positive development. Despite a period of strongly falling prices in May 2006, European share indices in particular posted upward growth rates. The European EuroStoxx 50 share index showed a rise of 13.7% in the 2005/06 financial year, compared to the 22.2% growth level which was registered in the previous year. Europe's most important share index, the German DAX, gained 19.0% in value. In the same period, the Dow Jones index showed a rise of 10.5%, moving toward an all-time high despite the restrictive interest rate policies pursued by the U.S. Federal Reserve. In the near future, no further interest rate hikes are expected.

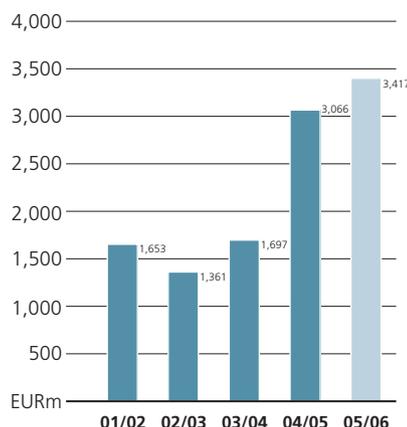
### ATX achieves remarkable gains once again

The ATX index of the Vienna Stock Exchange lost considerable momentum during the period under review, following a very gratifying development in the previous financial year. Similar to all other stock markets in the region, the Vienna Stock Exchange, which is internationally considered to be a part of the Central and Eastern European region, was disproportionately impacted by the downward adjustment in share prices in May 2006. Nevertheless, the ATX index still managed to achieve impressive growth once again, posting a rise of 11.9% in the 2005/06 financial year. However, the ATX index was outperformed by the other European indices, which registered 12.9% growth on average. In contrast, the performance of the Dow Jones Euro Stoxx Utilities sector index, which is relevant to EVN, clearly surpassed the performance of most other indices, registering growth of 30.4%.

### EVN share slightly lower than ATX

Following a highly favourable development in the 2004/05 financial year, in which it had gained 80.7% in value, the EVN share lost considerable momentum during the period under review, similar to the share price developments of other shares listed on the ATX index. At the end of the 2005/06 financial year, the EVN share still posted a rise of 11.4%, registering slightly lower growth than the overall ATX index. At the closing date of trading on September 29, 2006, the EVN share was traded at EUR 83.58, corresponding to a market capitalisation of EUR 3.4bn.

### Market capitalisation



### Extensive investor interest

The positive share price development of the EVN share was supported by the company's favourable interim results, as well as the increase in the results outlook and share price expectations by investment analysts during the first half of the 2005/06 financial year. During the period under review, Erste Bank, Société Générale, Helaba Trust and Raiffeisen Centrobank all announced buy recommendations on EVN stock. The main argument for recommending the EVN share was the good strategic positioning of the EVN Group, based on its ongoing expansion through the acquisition of ESM AD in Macedonia shortly after the successful entry into the Bulgarian market, and the impressive growth achieved in the field of environmental services. The ongoing positive development of EVN Group investments as well as the further high increase in value of the Verbund share also provided a positive impetus to investing in EVN shares.

### All-time high of EUR 99.00

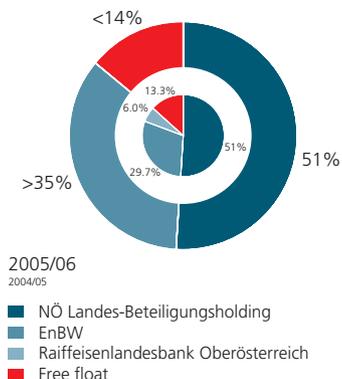
On May 10, 2006, following the announcement of the merger plans between OMV and Verbund, which have been abandoned in the meantime, the EVN share achieved an all-time high, closing at EUR 99.00 at the end of trading.

### EVN share price and ATX – relative development



Turnover in EVN shares also increased once again during the 2005/06 financial year. On average, some 21,900 EVN shares (counted once) were traded on the Vienna Stock Exchange daily, compared to the previous year's level of 19,300 EVN shares traded per day. Total turnover in EVN shares amounted to EUR 437m (counted once) in the 2005/06 financial year. This represents a 61.6% increase compared to last year's turnover of EUR 270.5m. Turnover in EVN shares amounted to 0.77% of total Vienna Stock Exchange trading volume during the period under review. At the end of September 2006, the ATX weighting of the EVN share was 1.47%. OTC trading in EVN shares reached a volume of EUR 186m (counted once; previous year: EUR 204m).

## Shareholder structure



## Participating in the company's success

### Shareholder structure

In July 2006, Raiffeisenlandesbank Oberösterreich AG announced that its holding of EVN AG voting rights had fallen to below 5%. At the same time, Energie Baden-Württemberg AG ("EnBW") made public a purchase of EVN AG shares on July 13, 2006, exceeding the 30% voting right threshold. Furthermore, EnBW also stated that it had access to further EVN AG voting rights, which due to a formal contract, it can, or must, purchase by means of a unilateral declaration of intent.

At the end of the 2005/06 financial year, EnBW announced that it had exercised this declaration of intent, and had crossed the 35% voting right threshold.

On the basis of federal and provincial constitutional law requirements, the province of Lower Austria continues to be the majority shareholder of EVN AG, with a stake of 51%. Lower Austria's shareholding is formally held via its investment holding, NÖ Landes-Beteiligungsholding GmbH. The remaining shares are in free float. As a result, EVN boasts a stable shareholder structure.

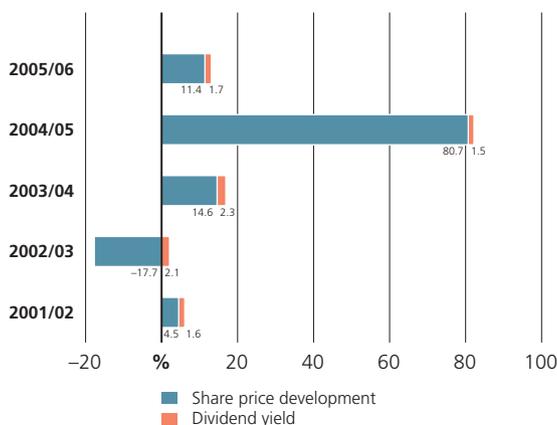
### End of share buy-back period

On January 19, 2005, the 76<sup>th</sup> Annual General Meeting passed a resolution formally giving authorisation to EVN's Executive Board to buy back EVN's own shares amounting to 10% of the company's equity capital. The authorised period for the buy-back was 18 months, which has now expired. The Executive Board did not make use of its share buy-back authorisation during this time.

### Stable dividend policy

EVN's dividend policy is directed towards sustainable, continuous development. Apart from taking long-term growth prospects and future investment and financing requirements into consideration, it endeavours, above all, to provide an appropriate return for company shareholders. Accordingly, EVN seeks a continuous rise in the dividend payout ratio. EVN defined a basic dividend of EUR 1.00 plus a bonus dividend of EUR 0.15 for the 2004/05 financial year. Following the regular dividend increases carried out in previous years, the Executive Board proposes to the Annual General Meeting that the dividend for the 2005/06 financial year be further raised by 21.7% to EUR 1.40 (EUR 1.20 plus a EUR 0.20 bonus dividend) taking into account the one-off effects, particularly in EVN's Group investments. This corresponds to a payout ratio of 25.8%.

## Total shareholder return



The total shareholder return since going public in 1989 amounts to an impressive 13.01% p.a.

## Stable ratings

### Revision of international credit ratings

EVN's credit ratings were revised during the 2005/06 financial year. This can be primarily attributed to the changes in EVN's corporate profile as a result of its acquisition of three energy suppliers in South East Europe. Accordingly, Standard & Poor's made a slight downward adjustment of its credit rating for EVN in March 2006, from A+ to A, but confirmed the stable outlook. The reason for this revision of the credit rating was the second acquisition made by EVN in South East Europe within a two year period, in this case referring to the electricity distribution company ESM AD in Macedonia. In July 2006, Moody's also changed its long-term credit rating for EVN from Aa3 to A1, but as well maintained its stable outlook for the company. Moody's also attributed this step to EVN's increased presence in the region of East and South East Europe. Despite these downward revisions, EVN continues to boast a very good credit rating in comparison with other European utility companies.

### The EVN share

| Index weighting                   |       |
|-----------------------------------|-------|
| September 29, 2006                |       |
| ATX (Austrian Traded Index)       | 1.47% |
| ATX Prime                         | 1.25% |
| WBI (Vienna Stock Exchange Index) | 2.73% |

| Performance                                   |        | 2005/06 | 2004/05 | 2003/04 |
|---|--------|---------|---------|---------|
| Share price at the end of September           | EUR    | 83.58   | 75.00   | 41.50   |
| Highest price                                 | EUR    | 99.00   | 78.50   | 47.34   |
| Lowest price                                  | EUR    | 65.20   | 40.90   | 36.10   |
| Value of shares traded <sup>1)</sup>          | EURm   | 874     | 541     | 167     |
| Average daily turnover <sup>1)</sup>          | Shares | 21,900  | 19,301  | 7,927   |
| Share of total turnover <sup>1)</sup>         | %      | 0.77    | 0.87    | 0.54    |
| Market capitalisation at the end of September | EURm   | 3,417   | 3,066   | 1,697   |

<sup>1)</sup> Vienna Stock Exchange

| Value added                   |     | 2005/06            | 2004/05 | 2003/04 |
|-------------------------------|-----|--------------------|---------|---------|
| Earnings/share                | EUR | 5.43               | 3.53    | 3.08    |
| Dividends/share               | EUR | 1.40 <sup>1)</sup> | 1.15    | 0.95    |
| Cash flow/share <sup>2)</sup> | EUR | 9.78               | 6.53    | 6.36    |
| Book value/share              | EUR | 67.41              | 55.90   | 38.33   |
| Price/earnings                | x   | 15.4               | 21.2    | 13.5    |
| Price/cash flow <sup>2)</sup> | x   | 8.5                | 11.5    | 6.5     |
| Price/book value              | x   | 1.2                | 1.3     | 1.1     |
| Dividend yield                | %   | 1.7 <sup>1)</sup>  | 1.5     | 2.3     |

<sup>1)</sup> Proposal to the AGM: EUR 1.20 plus a bonus of EUR 0.20

<sup>2)</sup> The figures from the previous year were adjusted due to changes in the reporting structure of the cash flow statement.

| Basic information           |  |
|-----------------------------|--|
| Share capital, denomination | EUR 99,069,392.62<br>40,881,455 zero par value shares                      |
| ISIN security code number   | AT0000741053   |
| Tickers                     | EVNV.VI (Reuters); EVN AV (Bloomberg);<br>AT; EVN (Dow Jones); EVNVY (ADR) |
| Stock exchange listing      | Vienna   |
| ADR programme; depositary   | Sponsored level one ADR program<br>(5 ADR = 1 share); Bank of New York     |
| Ratings                     | A1, stable (Moody's)<br>A, stable (Standard & Poor's)                      |

## Providing simultaneous information

## Investor relations

The goal of EVN's investor relations activities is to maintain an active dialogue with investors and analysts on a regular basis. Providing comprehensive, up-to-date information as well as gaining the confidence of these target groups constitutes the basis for achieving a fair valuation of the EVN share. The basic principles underlying EVN's investor relations activities are simultaneous, open and comprehensive communications with all market participants, a high degree of transparency and pro-active reporting.

In the 2005/06 financial year, EVN's management continued to provide information about the company's business development and strategy within the framework of press conferences and road shows. The investor relations team once again participated in a series of investment conferences.

| <b>Investor conferences 2005/06</b>    |                |                           |  |
|--|----------------|---------------------------|--|
| <b>Investor conference</b>             | November 2005  | <b>Frankfurt</b>          | Deutsche Bank                                |
| <b>Investor conference</b>             | November 2005  | <b>New York</b>           | Vienna Stock Exchange, Erste Bank            |
| <b>Edison conference</b>               | November 2005  | <b>Hollywood, Florida</b> | Edison Electric Institute                    |
| <b>Annual results 2005/06 roadshow</b> | December 2005  | <b>Frankfurt</b>          | IXIS Securities                              |
| <b>Investor conference</b>             | January 2006   | <b>Kitzbuhel (A)</b>      | CA IB  |
| <b>Utilities conference</b>            | January 2006   | <b>Paris</b>              | Société Générale                             |
| <b>Investor conference</b>             | February 2006  | <b>London</b>             | Vienna Stock Exchange, Erste Bank            |
| <b>Edison Conference</b>               | February 2006  | <b>London</b>             | Edison Electric Institute                    |
| <b>Result Q1 2005/06 roadshow</b>      | February 2006  | <b>Zurich, Milan</b>      | Raiffeisen Centrobank                        |
| <b>Result H1 2005/06 roadshow</b>      | May 2006       | <b>London</b>             | CA IB  |
| <b>Investor conference</b>             | September 2006 | <b>Bad Aussee (A)</b>     | Capital Bank                                 |
| <b>Investor conference</b>             | September 2006 | <b>London</b>             | Vienna Stock Exchange, CA IB                 |
| <b>Investor conference</b>             | September 2006 | <b>Edinburgh</b>          | Vienna Stock Exchange, Raiffeisen Centrobank |
| <b>Investor conference</b>             | September 2006 | <b>Stegersbach (A)</b>    | Erste Bank                                   |

In the fall of 2006, EVN once again hosted an event for private investors, in which retail investors were provided with detailed information about the latest developments at the EVN Group. On September 23, 2006, investors were invited to Dürnrrohr, enabling them to get a closer look at the waste incineration plant. The facility, which is operated by EVN's fully owned subsidiary AVN, is Austria's largest waste incineration plant. Its capacity is currently 300,000 t annually, with an expansion of capacity to 500,000 t p.a. in the planning stage. A total of some 850 private shareholders took part in the event.

### Regular coverage from prominent investment houses

The proactive information policies of EVN's investor relations team were reflected in the broad-based coverage of the company by investment analysts. A series of international banks and investment houses once again published analyses about EVN in the period under review: CA IB (Harald Weghofer), Erste Bank (Christoph Schultes), Raiffeisen Centrobank (Teresa Schinwald), Société Générale (John Honoré), Helaba Trust (Mario Kristl) and CDC IXIS Securities (Philippe Ourpatian).

### International recognition for the EVN Annual Report 2004/05

In July 2006, EVN's 2004/05 Annual Report was granted a high level of international recognition. Within the framework of the international "LACP's Annual Report Competition, The 2005 Vision Awards" in San Diego, EVN was ranked 2<sup>nd</sup> worldwide in the utilities category (with revenues of more than USD 1bn). In addition to the overall impression, the award took account of various aspects such as the annual report's cover, level of creativity and clarity. EVN was given 95% of the total possible points. In the global ranking, EVN was rated 72<sup>nd</sup> among 1,957 participating companies from 16 countries. Overall, EVN was rated 4<sup>th</sup> among all the Austrian companies whose annual reports were evaluated.

### Ranking in Europe's Top 500

The enormous increase within the EVN Group in terms of the number of its employees has also attracted international attention during the period under review. Europe's top 500, together with KPMG and Microsoft, carry out an annual ranking which focuses on companies with extraordinary employee growth during the previous three-year period. In the last study, EVN was not only rated as the top Austrian firm for the 2004/05 financial year, but was ranked 6<sup>th</sup> on an overall basis among all the companies considered in 28 European countries.

We would like to extend a cordial invitation to you to visit our investor homepage. You will find all relevant information, such as current reports, press releases, share price development, financial calendar and much more at [www.investor.evn.at](http://www.investor.evn.at). In addition, we offer numerous services tailor-made to fulfil the specific needs of investors. Detailed information on the sustainability-oriented initiatives of EVN can be accessed at [www.responsibility.evn.at](http://www.responsibility.evn.at).

| <b>Financial calendar 2006/07<sup>1)</sup></b> |                   |
|--|-------------------|
| <b>78<sup>th</sup> AGM</b>                     | January 18, 2007  |
| <b>Ex-dividend day</b>                         | January 23, 2007  |
| <b>Dividend payment</b>                        | January 29, 2007  |
| <b>Results Q1 2006/07</b>                      | February 27, 2007 |
| <b>Results H1 2006/07</b>                      | May 31, 2007      |
| <b>Results Q1–3 2006/07</b>                    | August 28, 2007   |
| <b>Annual results 2006/07</b>                  | December 13, 2007 |

<sup>1)</sup> Preliminary

# Sustainable responsibility

## CSR management and reporting

### Responsibility for people and the environment

Long before “sustainability” or “corporate social responsibility” were used as concrete terms, or became comprehensive concepts, EVN had already oriented its activities towards the idea of a durable, long-lasting approach to business management. The reason for this approach is linked to EVN’s specific role in the area of essential public services, and the related high level of responsibility to people and the environment.

### Establishing CSR management structures

Starting with Lower Austria, the concept of a sustainably-oriented corporate management is to be more firmly anchored in the entire Group, which has expanded so much in recent years. For this purpose, a new CSR (Corporate Social Responsibility) management unit reporting directly to the Executive Board was established in October 2005, within the framework of the Group’s new organisational structure. Its goal is to develop a unified CSR strategy for the entire EVN Group. In this connection, EVN also joined the UN Global Compact in September 2005. This reflects the trend for companies, which are increasingly operating on a global basis, to orient their decisions and policies to international agreements.

One particularly important aspect of sustainability, especially in the case of an energy supplier, is a responsible use of natural resources. Prior to the concept of environmental protection becoming established, EVN had already initiated programmes aimed at achieving an equilibrium between economic and ecological interests. Among other aspects, these efforts incorporate the highest possible use of environment-friendly hydroelectric and wind power, the generation of electricity and heat from biomass, and the application of the most advanced environmental and generation technologies. Virtually all of EVN’s thermal power stations are now officially certified, with the result that the company today possesses an environmental management system which will be further developed into an integrated management system.

### International recognition

#### Confirmation through acceptance into sustainability indices

The endeavours of EVN in line with sustainability-oriented corporate management have received recognition several times in the past in the form of the company’s acceptance into related, specialised indices. These enable sustainability-oriented investors to make targeted investments in companies which fulfil globally recognised standards in regards to environmental and stakeholder responsibility. In September 2006, EVN’s membership in the FTSE4Good Index was once again confirmed. The company also continues to be represented in the Ethibel Sustainability Index (ESI). In October 2005, EVN was also included – and meanwhile confirmed – as a member in VÖNIX, the newly-created Austrian sustainability index, incorporating listed Austrian companies which are leaders in terms of their social and ecological performance.

Recognition for these initiatives is also reflected by EVN’s successful ratings in international sustainability rankings. EVN was rated first among 70 companies in the Austrian CSR ranking, “Companies with Responsibility”, which was carried out for the first time in 2005. The 100 largest Austrian companies were evaluated in the newly-implemented CSR ranking of September 2006. EVN placed third, another top-notch result which clearly confirms the success of the company’s approach. EVN is therefore recommended by leading financial services companies as a worthy investment from an ecological and social point of view.

### Comprehensive reporting

EVN has been providing regular information concerning its initiatives since 1990, in the form of its annual Environmental Report, which from 2002 onwards has been published in an extended version as a Sustainability Report. EVN was thus one of the first Austrian companies to report upon the sustainability of its activities, incorporating the level of transparency demanded by international standards.

### Survey of stakeholder groups

EVN has broken new ground in structuring and developing the contents of the EVN Sustainability Report 2005/06. In order to more effectively respond to the interests and information requirements of its readers, EVN carried out a survey of the company's various stakeholder groups. EVN approached its employees, customers, suppliers and shareholders, as well as representatives of interest groups, the media and the general public, focusing on the expectations of these key target groups in regards to the activities and communication work of EVN in the field of sustainability.

The use of renewable or alternative energy sources was one of the main areas of interest for almost all the people who took part in the survey. The stakeholders also expressed their desire to know more about EVN's future perspectives in the fields of ecological and social responsibility. For this reason, the EVN Sustainability Report 2005/06 deals with these issues in depth.

If you have not received a copy of the EVN Sustainability Report 2005/06, you can order it at any time on the Internet at [www.investor.evn.at](http://www.investor.evn.at), or in Austria by using the free service hot line number **0 800 800 200**. Parallel to this report, EVN also provides comprehensive information online about its initiatives in the interests of a sustainability-oriented corporate management at [www.responsibility.evn.at](http://www.responsibility.evn.at). While the EVN Sustainability Report highlights the concrete measures taken during the past financial year, the homepage primarily serves to document general principles and the longer-term development of EVN in the area of CSR.

### Corporate Social Responsibility (CSR) management structure<sup>1)</sup>

|  |            |          |               |                   |                        |
|--|------------|----------|---------------|-------------------|------------------------|
| <b>CSR management (complete Executive Board)</b> <ul style="list-style-type: none"><li>■ Determines EVN Group CSR strategy and programme</li></ul>   |            |          |               |                   |                        |
| <b>CSR advisory team</b> <ul style="list-style-type: none"><li>■ Strategic orientation and co-ordination of all CSR activities</li></ul>   |            |          |               |                   |                        |
| <b>Temporary working groups</b> <ul style="list-style-type: none"><li>■ Support of the CSR advisory team</li><li>■ Preparation of suggestions for new activities and supervision of the implementation of previously agreed measures</li></ul> |            |          |               |                   |                        |
| Group services   | Generation | Networks | Energy supply | South East Europe | Environmental Services |

<sup>1)</sup> CSR management will promote the structured, Group-wide implementation of EVN's sustainability strategy.

## Human resources

### Fourfold increase since 2004

EVN employed a workforce of 9,973 employees on average during the 2005/06 financial year. This was 49.9%, or 3,319 people more than in the preceding year, primarily due to the acquisition of the Macedonian electricity distribution company ESM AD. Accordingly, the enormous growth of the EVN Group is reflected in the increased number of employees. In the previous financial year, EVN's workforce had already expanded by 155.1%, mainly as a result of the acquisition of the two Bulgarian electricity supply companies. The total number of employees working for EVN has thus increased almost fourfold during the last two financial years.

EVN employs a workforce of 2,306 in Austria (previous year: 2,364), 1,631 of whom work in the Energy segment (previous year: 1,697).

### Personnel expenses show a disproportionately low increase

While on average the EVN Group workforce grew by 49.9% in the 2005/06 financial year, as mentioned above, personnel expenses only rose by 13.5%. This disproportionately small increase can be traced to the low wage levels prevailing in Bulgaria and Macedonia. In the period under review, personnel expenses accounted for around 12.7% of sales. By comparison, at the beginning of the 1990s, this figure had stood at about 27% at EVN.

| <b>Average number of employees<sup>1)</sup></b> |                |                |                |
|---|----------------|----------------|----------------|
|   | <b>2005/06</b> | <b>2004/05</b> | <b>2003/04</b> |
| <b>EVN AG and EVN Netz GmbH<sup>2)</sup></b>    | 1,842          | 1,906          | 1,944          |
| <b>Bulgaria</b>                                 | 3,803          | 4,049          | –              |
| <b>Macedonia</b>                                | 3,550          | –              | –              |
| <b>Other business areas</b>                     | 778            | 699            | 664            |
| <b>EVN Group total</b>                          | <b>9,973</b>   | <b>6,654</b>   | <b>2,608</b>   |
| Thereof apprentices                             | 78             | 71             | 61             |

<sup>1)</sup> Full-time basis

<sup>2)</sup> Due to the unbundling of the electricity and gas network operations, breakdown in EVN AG (463) and EVN Netz GmbH (1,379)

More details concerning EVN's activities in the interests of its employees are contained in the EVN Sustainability Report 2005/06, which is published in conjunction with this Annual Report. Additional information on this topic is also available at [www.responsibility.evn.at](http://www.responsibility.evn.at).

# Management Report

## Legal framework

### Implementation of the Kyoto targets – trading with CO<sub>2</sub> emission certificates

Within the framework of the Austrian National Allocation Plan I. (2005–2007), the EVN Group was allotted CO<sub>2</sub> certificates for annual emissions amounting to 1.45m t of CO<sub>2</sub>. However, this volume is one third below the average level of CO<sub>2</sub> emissions for the years 2003 and 2004. For this reason, EVN was required to purchase additional CO<sub>2</sub> emission certificates on the open market. This not only diminishes EVN's flexibility in its use of primary energy sources, but forces the company to bear the burden of considerable additional costs. The enormous increase in the prices for CO<sub>2</sub> emission certificates has aggravated the situation even more (see page 48).

Due to the experience gained with the initial national allocation plans, the European Commission has published guidelines for second generation allocation plans. In comparison to the first period, the EU is striving to reduce the overall volume of CO<sub>2</sub> emission certificates by 6%.

### Development of NAP II.

The Austrian National Allocation Plan II., which will be valid from 2008–2012, was finalised in the summer of 2006 following extensive discussions held with the affected industrial sectors, and submitted to the European Commission for its approval. The decision of the EU Commission is expected in the next months.

The future plan will be based on a forecast for CO<sub>2</sub> emissions in Austria, predicting a total level of 38.33m t annually. It envisions Austria saving 5.53m t of CO<sub>2</sub> emissions, which would amount to the country's stipulated contribution to environmental protection. This amount is significantly higher than in the first four years, which had foreseen an annual reduction in CO<sub>2</sub> levels of 1.8m t per year. Accordingly, the new system prescribes a total allotment of free certificates for CO<sub>2</sub> emissions amounting to 32.8m t per annum. This time around, the change involves the actual method of allotting certificates, which will partly take place within the framework of an auction. Each year, 32.4m t of CO<sub>2</sub> emission certificates will be allocated free of charge, whereas the remaining 400,000 t will be made available to utility and industrial companies at an auction. Austria's energy sector will be allotted 8.2m t annually at no charge, combined with an auction to purchase an additional 100,000 t.

The Austrian Constitutional Court has annulled § 13 Section 4 of the Austrian Emissions Certificate Act, and thus rescinded the legal basis for the allocation of certificates, effective December 31, 2007. Accordingly, it is important to clarify the relevant legal framework in Austria pertaining to the National Allocation Plan II. and the allocation of certificates. However, a change in the contents of the National Allocation Plan is not expected.

## Unbundling according to the fully-functional model

### Market liberalisation – legal unbundling

Within the framework of the liberalisation process in Europe's electricity and gas markets, EU legislators have prescribed an unbundling of the network business of utility companies from their other business operations. Accordingly, all electricity companies serving more than 100,000 customers were required to spin-off their electricity distribution networks by January 1, 2006. In the natural gas sector, all gas suppliers with more than 50,000 customers are also subject to a similar regulation, which took effect on June 28, 2006. In this regard, companies are permitted to jointly operate electricity and gas distribution networks.

In order to fulfil EU regulations, EVN set up a new company, EVN Netz GmbH, effective October 1, 2005. EVN has transferred all facilities, aspects and activities of EVN's entire electricity and gas network business to EVN Netz GmbH, including operational management, technical services and maintenance. This change also entails the transfer of 1,400 employees involved in network operations to the new network company. As a result, EVN has fulfilled the legally binding unbundling of production, trading, sales and distribution activities as well as network services to the highest possible degree. EVN selected to implement the fully-functional model, which not only transfers the operations of the networks but also ownership of the pertaining assets to the new network company.

### Network tariffs – new incentive model ensures greater stability

Effective January 1, 2006, the Austrian regulator prescribed a reduction in electricity network tariffs amounting to an average of around 2.5%. This tariff adjustment is no longer based on individual cost evaluation procedures carried out by the regulator. Instead, a new, multi-year incentive regulatory system was introduced, which took effect at the beginning of 2006. The core component of this new approach is a national benchmarking for Austria's electricity network operators, of which EVN ranks among the most efficient.

The new system generally foresees compensation for inflation, adjusted to deduct a general rise in productivity, as well as including an individual deduction for growth in efficiency, the latter depending on the performance of the company. As far as EVN's network tariffs are concerned, a stable development is to be expected, due to the fact that EVN is positioned as an Austrian benchmark based on the perceived efficiency of its electricity network. The defined regulatory parameters will remain unchanged for the duration of the current regulatory period, until 2009, ensuring a state of legal stability and continuity in the near future.

The Austrian regulatory authority required EVN to cut its gas network tariffs by an average of 8%, effective November 2005. A further reduction in tariffs is planned for January 2007, and another tariff revision is to be expected later in 2007. In contrast to the electricity network, these price reductions were still based on an individual cost evaluation procedure. Extensive work was done on developing a new gas network tariff system during the period under review. A tariff approach modelled on the new electricity network tariff system is currently under discussion.

## Separation of network and energy operations

### Legal framework in South East Europe

In Bulgaria, a new energy law has prescribed an unbundling between network operators and electricity suppliers starting at the beginning of 2007. In the first half of 2006, the subsidiaries acquired by EVN already concluded the required structural and legal preparations. In the future, ERP Stara Zagora will serve exclusively as a utility company, whereas ERP Plovdiv will serve as a network operator. The utility company will be responsible for the sourcing, procurement and distribution of electricity, whereas the network company will operate the network, as well as providing network engineering and network services for the utility. Both companies will be headquartered in Plovdiv.

## Government price regulation

Generally speaking, the prices of electricity and the network tariffs are determined by an independent regulatory body in Bulgaria. The principle is to compensate for the actual costs which are incurred, as well as to ensure an adequate return on equity. On the basis of applications submitted by the utility companies, new electricity tariffs were defined by the regulator, effective October 1, 2005. The prices for household customers remained the same, whereas the prices for business customers using low-voltage and medium-voltage lines were raised slightly. Effective October 1, 2006, the regulator prescribed a tariff increase for customers with an annual consumption of up to 75 kWh. In addition, two components – energy prices and network tariffs – have to be detailed separately in the electricity bills.

In Macedonia the sales price of electricity produced by power generating companies as well as the prices for supplying energy to large customers and end customers are also regulated by the government at present. The cost evaluation process takes into consideration the operating expenses (partly reduced) or procurement costs, including a capital market-based return on equity. On the basis of the expected sales volumes, an average price is calculated ex ante, which is valid during the following year and which is, in turn, converted to a regulated tariff system. An incentive to increase efficiency is also included in the calculation model, which entails ex post rewards for achieving a reduction in technical losses. However, this system does not incorporate a separation of energy fees and network tariffs.

## Sizeable global economic growth

## Strong economic performance in Austria

### Overall business environment

#### 2006/07: Dynamic international development

In 2006, the global economy continues to expand at a high rate. Economic growth in the OECD markets is expected to accelerate to around 3%, up from the 2.7% achieved last year. Forecasts for the US economy remain unchanged, predicting a growth rate of about 3.2%. On the basis of their strong economic performance, China and the Asian markets continue their role as the growth drivers of world trade and global economic expansion. However, due to price pressure on private consumption in the USA, world economic growth is expected to slow down somewhat to 2.2% in 2007.

In the first half of 2006, the euro zone was characterised by a significant economic upturn, driven by stronger investment activity. The latest forecasts anticipate GDP growth of 2.5% in the euro zone for the year 2006. The economy of the EU-25 has demonstrated the same momentum as the euro zone, although a slight weakening of economic growth is expected at the turn of the year 2006/07. This can be primarily attributed to the overall slowdown in global economic growth, as well as increasing interest rates. Against this backdrop, an economic growth rate of 2% is expected in the year 2007. This presupposes that the economic downturn in the USA or Germany does not turn out to be even more pronounced than current forecasts, and that there will not be any further appreciation in value of the euro vis-à-vis the US dollar. Up until now, the high oil prices have not had a major impact on the world economy. However, a higher and longer-lasting increase in the oil price could potentially dampen global economic growth.

#### Austria: Economic upturn and solid growth

The Austrian economy has profited from the favourable global economic environment which has prevailed since the middle of 2005. As a result, it expanded by a rate of 3.1% in the first half of 2006. Private consumption attained a level of 2%, higher than in recent years but behind GDP growth. Capital investments were more dynamic, and are forecast to expand by around 5% in 2006. Exports continue to be the main growth driver of Austria's economy, and are expected to increase by a total of 10% in 2006.

In the lights of these positive developments, both Austrian economic institutes, the Austrian Institute of Economic Research (WIFO) and the Institute for Advanced Studies (IHS), revised their original forecasts for the year upwards by half a percentage point during the third quarter of 2006, and now anticipate economic growth in Austria to reach a level slightly above 3%. Despite high energy prices and economic growth surpassing analyst expectations, the inflation rate has remained at a moderate level of about 1.5%. The labour market has developed favourably, with the level of employment expected to grow by 1.6%, the biggest increase in job numbers since the beginning of the 1990s.

## South East Europe as growth driver

It is anticipated that Austrian economic growth will be a bit more sluggish in 2007, due to the specific condition of the German economy, and a weakening of the impetus provided by bullish foreign trade. In particular, Austrian exports will only grow by approximately 7% in 2007. Due to this slight slowdown, a GDP growth rate of 2.3%–2.5% is expected for 2007. The number of employed people will continue to rise, climbing by 1.1%.

In 2006 and 2007, Austrian economic growth will thus continue to be above the average growth level attained in the euro zone.

### **Austria benefits from the ongoing integration of South East Europe**

Austria will considerably profit from the enlargement of the EU to Bulgaria and Romania, due to its close economic ties to many countries in this region. Apart from the large market share grabbed by Austrian financial institutions in both countries, some of the largest single investments ever made by Austrian companies took place in Bulgaria or Romania. EU membership will likely boost Austrian economic activity in the region.

Bulgaria's economy continued to expand dynamically prior to the country's accession to the EU. This was impressively demonstrated by GDP growth of 5.6% in the first half of 2006. Growth was primarily driven by considerable investments and a gratifying recovery in the tourism sector. GDP growth is anticipated to remain at a high level in 2006 and 2007, reaching 5.0%–5.5% in both years.

Macedonia's economy continues to be in the midst of a far-reaching transformation. Supported by structural changes in the industrial sector, GDP growth is anticipated to reach a level of 3.5%–4.0% in the years 2006 and 2007.

## Energy sector environment

The business environment in the energy sector has a considerable influence on the business development of the EVN Group. During the 2005/06 financial year, EVN was particularly impacted by the following factors:

- Despite a slight depreciation in the US dollar vis-à-vis the euro, the considerable rise in the price of crude oil led to a further significant increase in primary energy costs.
- Wholesale electricity prices also maintained their upward trend.
- The prices for CO<sub>2</sub> emission certificates have increased significantly since the previous year.
- Temperatures were below last year's level.

Temperatures in the Lower Austrian region supplied by EVN were 6.7% lower in the 2005/06 financial year than in the comparative period of the previous year. This change tended to have a positive effect on EVN's sales volumes.

### Oil, gas and electricity prices continue to climb

The price of North Sea crude oil (Brent), the variety of the highest relevance to Europe, rose by about one-quarter to USD 65.4 during the 2005/06 financial year. In the meantime, the price for Brent peaked at USD 75. At the same time, the value of the US dollar declined by more than 3% to EUR 1.23, so that the euro price of crude oil was about 25% higher than in the preceding year. Similarly, the natural gas price climbed significantly in the period under review, despite the contractually stipulated time lag related to oil prices.

### Primary energy price trends (indexed)

Base: January 2, 2003



2006 has seen an ongoing upward tendency in spot market prices on the European Electricity Exchange EEX, which had already risen more than 60% in 2005 compared to 2004. This was primarily due to the increase in primary energy prices, accompanied by a growing shortage of production capacity in the face of rising demand. As a result, average spot market prices for base load electricity during the 2005/06 financial year were about 42% higher than in the preceding year, those for peak load electricity rose by 57%.

In the period April–June 2006, price levels improved somewhat, due to strong thermal and wind-generated power production, as well as a short-term reduction in CO<sub>2</sub> spot market prices. However, in July there was a reversal of the trend. The high summer temperatures, low water levels and thus the ensuing short-term shortage of power generating capacity drove spot prices on the European electricity exchanges to record heights.

The prices for CO<sub>2</sub> emission certificates reached a new record level in the middle of April 2006, surpassing EUR 30/t. Following the publication of statistics reporting the actual levels of CO<sub>2</sub> emissions in most of the EU member states, which were significantly below expectations, these prices considerably declined, and after further fluctuations, reached a level of about EUR 13/t at the end of the financial year. On average, CO<sub>2</sub> prices in the 2005/06 financial year were still about 40% higher than in the comparative period of the previous year.

#### CO<sub>2</sub> emission certificates – price development



## Overall business development

### Consolidated financial statements according to IFRS

These EVN Group financial statements were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS).

### Acquisition of a majority interest in the Macedonian electricity supplier ESM AD

Compared to the previous financial year, the consolidation range was expanded by three fully consolidated companies. The most important change during the period under review was the incorporation of the Macedonian electricity distribution company ESM AD, a majority shareholding of which was acquired by EVN during the period under review. Following the majority takeover of the company – the closing of the transaction took place at the beginning of April 2006 – the new subsidiary has been included in the consolidated financial statements of the EVN Group since the 3<sup>rd</sup> quarter of the 2005/06 financial year, a total of two quarters. This expansion in the consolidation range has resulted in significant changes in almost all items on the balance sheet and income statement.

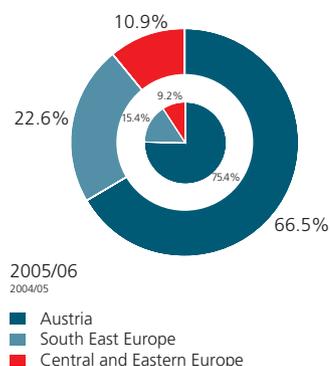
The Bulgarian electricity supply companies ERP Plovdiv and ERP Stara Zagora, in which EVN acquired a shareholding of 67% each, have been fully consolidated in the consolidated financial statements of the EVN Group since January 2005, and are thus relevant starting in the 2<sup>nd</sup> quarter of the 2004/05 financial year. Subsequently, only three quarters of the financial year of the two Bulgarian companies were incorporated in the annual consolidated financial statements of EVN in the previous financial year.

### EVN increases its stake in EnergieAllianz

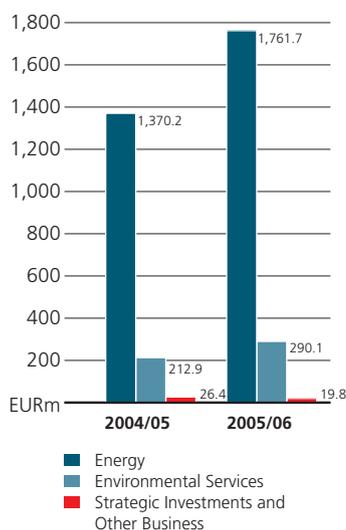
After Energie AG Oberösterreich and Linz AG both terminated their partnership in EnergieAllianz at the end of April 2006, according to contractual stipulations, there was a buy-back by the province of Upper Austria of EVN's 9.33% shareholding in Energie AG Oberösterreich, which it had acquired in 2002. At the same time, EVN acquired an additional 13.5% stake in both EnergieAllianz and e&t, and now has a 45.0% interest in the two companies.

Consequently, including EVN AG as the Group parent company, the consolidation range of the EVN Group currently consists of 43 fully consolidated companies and four proportionally consolidated companies. In addition, a total of 13 companies are included at equity in the consolidated financial statements.

## Revenue by region



## Revenue by segment



### Significant rise in revenue

During the period under review, total revenue of the EVN Group climbed to EUR 2,071.6m, a rise of 28.7%, or 462.0m, above the previous year's level. In addition to the aforementioned enlargement in the consolidation range, the main reasons for the significant improvement in revenue were the expansion of the project business in the field of environmental services, along with strong growth in EVN's energy business, the latter of which was propelled by broad-based rises in energy prices as well as the continuing high level of electricity generation. The Energy segment accounts for 85.0% of Group revenue, Environmental Services for 14.0%, and the Strategic Investments and other Business segment accounts for 1.0%. The geographical distribution of revenues reflects the expansion of the EVN Group. External revenue in Central and Eastern Europe along with South East Europe accounted for EUR 694.2m, or 33.5%, of total Group revenue (previous year: 24.6%).

During the period under review, the external revenue of the Energy segment rose by 28.6%, or EUR 391.4m, to EUR 1,761.7m compared to the preceding year. EVN's subsidiaries in South East Europe accounted for EUR 467.6m of this amount.

In the 2005/06 financial year, revenue of the Environmental Services segment rose by 36.2%, or EUR 77.2m. This can be mainly attributed to the numerous international projects implemented by EVN, in particular the construction of a drinking water facility and a waste incineration plant for the city of Moscow.

### Ongoing high energy prices

In the period under review, the high market prices for primary energy and electricity purchases continued to place a considerable burden on EVN results. In total, the item "Electricity purchases and primary energy expenses" rose by 38.9%, or EUR 291.8m, to EUR 1,042.1m. This is primarily attributable to the integration of the two Bulgarian subsidiaries and ESM AD. In addition, the sharp increases in the market prices for gas and electricity as well as the EUR 15.6m in expenditure required to acquire additional CO<sub>2</sub> emission certificates (previous year: EUR 12.5m) combined to have a negative impact.

The cost of materials and services climbed by 21.0%, or EUR 54.9m, to EUR 316.1m, which was mainly due to the expansion of the project business in the field of environmental services.

### Increase in workforce numbers due to acquisition of ESM AD

The average number of employees in the EVN Group climbed by 49.9% compared to the previous year. This can be primarily attributed to the acquisition of EVN's new Macedonian subsidiary. On average, a total of 9,973 people were working for the EVN Group during the period under review, an increase of 3,319 employees compared to the preceding year.

Despite the significant rise in workforce numbers and the restructuring expenditure arising in connection with the implementation of a voluntary social benefits programme, EVN's personnel expenses increased at a disproportionately low rate, rising by only 13.5%, or EUR 31.3m, to EUR 263.6m. This development can be primarily explained by the lower wage levels prevailing in South East Europe.

## Impairments and appreciation as adjustment to price levels

**EBIT: +40.7%**

### Higher depreciation and amortisation

During the period under review, depreciation and amortisation in the EVN Group rose by 4.3%, to EUR 213.0m (previous year: EUR 204.2m). This encompasses scheduled depreciation amounting to EUR 178.7m (previous year: EUR 157.8m), which increased primarily due to the expansion in the consolidation range and ongoing EVN investment activity.

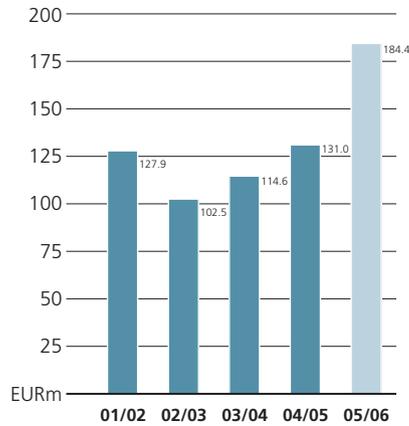
Moreover, impairment losses as a result of impairment tests amounted to EUR 78.9m during the 2005/06 financial year. This primarily related to the gas distribution networks, for which impairments were required as a result of the reduction in network access tariffs imposed by the regulator. On the other hand, a reversal of impairment losses amounting to EUR 40.2m was carried out in connection with the coal-fired power plant in Dürnröhr, the gas-fired power stations in Theiss and Korneuburg, and with regard to purchasing rights at the hydroelectric stations along the Danube due to increased sales prices. Furthermore, revaluation totalling EUR 4.4m was carried out for EVN's heat generation facilities during the period under review. In total, the impairment losses and the reversal of impairment losses led to an exceptional position of EUR -34.4m during the 2005/06 financial year, which was EUR 12.0m below the previous year's level of EUR -46.4m.

### EBITDA and EBIT clearly up on previous year's level

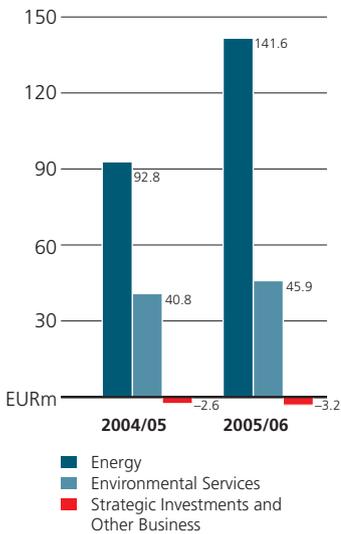
In spite of the unfavourable energy purchasing price trends, and declining network revenues, EBITDA rose by 18.6% to EUR 397.4m during the 2005/06 financial year.

Despite downward value adjustments, which were carried out during the period under review, the results from operating activities (EBIT) of the EVN Group improved considerably compared to the preceding year, rising by 40.7%, or EUR 53.4m, to EUR 184.4m. This was mainly due to the high level of electricity production, the positive contributions of the two Bulgarian electricity supply companies, as well as the positive development of the water and waste incineration business areas. The EBIT margin was at 8.9%, up from the level of 8.1% achieved in the previous year. This represents a slight improvement, although the high market prices for energy purchases and the lower profitability of the Bulgarian and Macedonian subsidiaries in comparison to Western European standards had a negative impact on the operating margin of the EVN Group.

### Results from operating activities (EBIT)



### EBIT by segment



The Energy segment accounted for EUR 141.6m, or 76,8%, of the results from operating activities and the Environmental Services segment contributed EUR 45.9m, or 24.9%. The Strategic Investments and Other Business segment posted results from operating activities of EUR -3.2m, or -1.7%. However, due to the strong income from investments, the high profitability of this segment is shown in the financial results.

Accordingly, the improvement in the results from operating activities of the EVN Group was driven by the Energy and Environmental Services segments which climbed by 52.7% and 12.5% respectively. The increase in the Energy segment is primarily due to the strong results contribution of the Generation business unit, which amounted to EUR 85.6m, and the EBIT improvement in the South East Europe business unit by 19.3%, or EUR 2.8m. The significant EBIT rise in the Generation and South East Europe business units thus more than compensated for the less favourable results achieved by the Networks and Energy Supply business units in comparison to the preceding year. Due to a series of successful international projects, the EBIT of the Environmental Services segment also increased.

**Income from investments:  
+EUR 75.6m**

**Financial results more than doubled**

There was a significant improvement of the financial results of the EVN Group during the 2005/06 financial year. It reached a volume of EUR 120.5m, EUR 65.3m above the level posted during the preceding year. This was primarily the result of the higher income from investments in the consolidated financial statements, which more than doubled in the period under review. This substantial improvement is partly based on one-off effects. In this regard, the income from investments in associates also close to doubled, rising by EUR 58.8m to EUR 115.1m. In addition to an increase of the contribution of Rohöl-Aufsuchungs-AG and a considerable increase in the results posted by EconGas, this rise was to a large extent due to one-off effects arising from the first-time consolidation of BEWAG and BEGAS with their proportional results according to IFRS as at September 30, 2006. In addition to the higher dividends distributed by Verbundgesellschaft, the main reason for the improved income from other investments was a further one-off effect derived from the sale of EVN's shareholding in Energie AG Oberösterreich.

Due to higher interest paid, the item "Interest and other financial results" declined by EUR 10.3m to EUR -27.3m. This item had been impacted during the preceding year by the positive results achieved from the disposal of securities in the balance sheet and non-current assets and current assets.

**Profit before income tax:  
+63.7%**

**Considerable improvement in the profit before income tax**

The profit before income tax of the EVN Group rose by 63.7%, to EUR 304.9m during the period under review. This increase was primarily due to the increase in the tax-free income from EVN Group investments. For this reason, income tax expense was up by only 30.7% to EUR 38.1m. On balance, the net profit for the period amounted to EUR 266.8m, a rise of 69.9%, or EUR 109.7m, compared to the preceding year.

**Group net profit: +53.7%**

Minority interest basically referred to shares in fully consolidated companies (primarily minority interest in RAG Beteiligungs AG, Burgenland Holding AG, ESM AD and the two Bulgarian electricity supply companies) and rose by EUR 32.2m to EUR 44.9m. After taking account of minority interest, the Group net profit amounted to EUR 221.9m, an increase of 53.7% in comparison to the Group net profit of EUR 144.4m posted in the preceding year. Accordingly, earnings per share also climbed from EUR 3.53 to EUR 5.43 in the period under review.

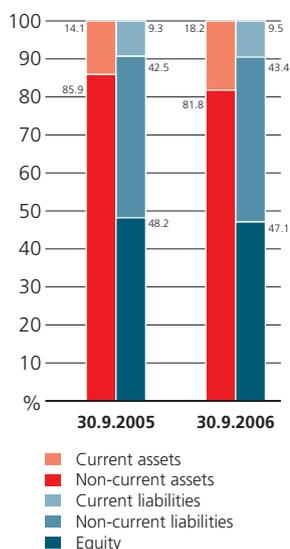
**Key indicators**

The Group net profit achieved during the 2005/06 financial year corresponds to a return on equity (ROE) of 10.6%, which is 2.4 percentage points higher than the previous year's level of 8.2%. However, it must be mentioned that the upward adjustment in value of EVN's shareholding in Verbundgesellschaft resulting from the higher share price led to a considerable increase in equity. The return on capital employed (ROCE) was also much higher at 7.9%, compared to 6.2% in the preceding year. Adjusted for the one-off effects contained in the financial results and the market valuation of the shareholding in Verbundgesellschaft, the return on capital employed ("OpROCE") increased from 9.4% to 10.8% in the period under review. The weighted average cost of capital after tax (WACC) of EVN, adjusted for specific corporate and country risks, was 6.5% (previous year: 6.0%).

| Key indicators |      |         |         |  |
|----------------|------|---------|---------|--|
|                |      | 2005/06 | 2004/05 |  |
| ROE            | %    | 10.6    | 8.2     |  |
| ROCE           | %    | 7.9     | 6.2     |  |
| OpROCE         | %    | 10.8    | 9.4     |  |
| EVA®           | EURm | 118.8   | 82.9    |  |

| Income statement                                    |  |                |                |              |             |
|---|--|----------------|----------------|--------------|-------------|
|   |  | 2005/06        | 2004/05        | Change       |             |
|   |  | EURm           | EURm           | EURm         | %           |
| Energy revenue                                      |  | 1,761.7        | 1,370.2        | 391.4        | 28.6        |
| Environmental Services revenue                      |  | 290.1          | 212.9          | 77.2         | 36.2        |
| Strategic Investments and Other Business revenue    |  | 19.8           | 26.4           | -6.6         | -24.8       |
| <b>Total revenue</b>                                |  | <b>2,071.6</b> | <b>1,609.5</b> | <b>462.0</b> | <b>28.7</b> |
| Change in work in progress and own work capitalised |  | 13.6           | 7.7            | 5.9          | 76.3        |
| Other operating income                              |  | 40.7           | 41.5           | -0.8         | -1.8        |
| Electricity purchases and primary energy expenses   |  | -1,042.1       | -750.3         | -291.8       | -38.9       |
| Other materials and services                        |  | -316.1         | -261.3         | -54.9        | -21.0       |
| Personnel expenses                                  |  | -263.6         | -232.3         | -31.3        | -13.5       |
| Other operating expenses                            |  | -106.6         | -79.7          | -26.9        | -33.8       |
| <b>EBITDA</b>                                       |  | <b>397.4</b>   | <b>335.2</b>   | <b>62.2</b>  | <b>18.6</b> |
| Depreciation and amortisation                       |  | -213.0         | -204.2         | -8.9         | -4.3        |
| <b>Results from operating activities (EBIT)</b>     |  | <b>184.4</b>   | <b>131.0</b>   | <b>53.4</b>  | <b>40.7</b> |
| Financial results                                   |  | 120.5          | 55.2           | 65.3         | -           |
| <b>Profit before income tax</b>                     |  | <b>304.9</b>   | <b>186.2</b>   | <b>118.7</b> | <b>63.7</b> |
| Income tax expense                                  |  | -38.1          | -29.2          | -9.0         | -30.7       |
| <b>Net profit for the period</b>                    |  | <b>266.8</b>   | <b>157.0</b>   | <b>109.7</b> | <b>69.9</b> |
| Thereof   |  |                |                |              |             |
| Minority interest                                   |  | 44.9           | 12.7           | -32.2        | -           |
| <b>Group net profit</b>                             |  | <b>221.9</b>   | <b>144.4</b>   | <b>77.5</b>  | <b>53.7</b> |
|   |  | EUR            | EUR            | EUR          | %           |
| Earnings per share                                  |  | 5.43           | 3.53           | 1.90         | 53.7        |

## Balance sheet structure



**Balance sheet total climbs 23.3% to over EUR 5.8bn**

**Non-current assets: +17.4%**

## Balance sheet

|  | 30.9.2006      | 30.9.2005      | Change         |             |
|--|----------------|----------------|----------------|-------------|
|  | EURm           | EURm           | EURm           | %           |
| <b>Assets</b>  |                |                |                |             |
| <b>Non-current assets</b>  |                |                |                |             |
| Intangible assets and property, plant and equipment                      | 2,359.3        | 2,060.0        | 299.3          | 14.5        |
| Investments in associates and other investments                          | 1,903.4        | 1,659.3        | 244.1          | 14.7        |
| Other non-current assets   | 519.1          | 352.8          | 166.3          | 47.1        |
|  | <b>4,781.8</b> | <b>4,072.1</b> | <b>709.8</b>   | <b>17.4</b> |
| <b>Current assets</b>  | <b>1,063.9</b> | <b>667.5</b>   | <b>396.4</b>   | <b>59.4</b> |
| <b>Total assets</b>  | <b>5,845.8</b> | <b>4,739.6</b> | <b>1,106.2</b> | <b>23.3</b> |
| <b>Equity and liabilities</b>  |                |                |                |             |
| <b>Equity</b>  |                |                |                |             |
| Equity attributable to EVN shareholders                                  | 2,523.3        | 2,094.2        | 429.1          | 20.5        |
| Minority interest  | 232.7          | 191.2          | 41.5           | 21.7        |
|  | <b>2,756.0</b> | <b>2,285.4</b> | <b>470.5</b>   | <b>20.6</b> |
| <b>Non-current liabilities</b>   |                |                |                |             |
| Non-current loans and borrowings   | 1,397.2        | 1,035.6        | 361.6          | 34.9        |
| Deferred tax liabilities and non-current provisions                      | 813.9          | 682.7          | 131.3          | 19.2        |
| Deferred income from network subsidies and other non-current liabilities | 325.9          | 294.5          | 31.5           | 10.7        |
|  | <b>2,537.0</b> | <b>2,012.7</b> | <b>524.3</b>   | <b>26.1</b> |
| <b>Current liabilities</b>   | <b>552.8</b>   | <b>441.5</b>   | <b>111.3</b>   | <b>25.2</b> |
| <b>Total equity and liabilities</b>                                      | <b>5,845.8</b> | <b>4,739.6</b> | <b>1,106.2</b> | <b>23.3</b> |

### Significant increase in the balance sheet total

The balance sheet total of the EVN Group rose to EUR 5,845.8m during the 2005/06 financial year, an increase of 23.3%, or EUR 1,106.2m, compared to the last balance sheet date (September 30, 2005). This increase was primarily the consequence of the acquisition of ESM AD together with the strong increase in value of EVN's shareholding in Verbundgesellschaft.

Non-current assets increased by 17.4%, or EUR 709.8m, to EUR 4,781.8m during the period under review. The item "Intangible assets and property, plant and equipment", which rose by 14.5%, to EUR 2,359.3m, due to the acquisition of ESM AD in Macedonia as well as ongoing investments, accounted for EUR 299.3m of the growth in non-current assets. In spite of the sale of EVN Group's shareholding in Energie AG Oberösterreich, Group investments increased by 14.7%, or EUR 244.1m, to EUR 1,903.4m. This was chiefly the consequence of the further increase in value – once again driven by the higher share price – of EVN's investment in Verbundgesellschaft, which amounted to EUR 344.8m. This led to a result-neutral write-up of the valuation of this investment. As a result of EVN's ongoing project business, other non-current assets also rose considerably, climbing by 47.1%, or EUR 166.3m, to EUR 519.1m, due to a rise in receivables from long-term lease transactions.

Current assets increased significantly during the period under review, rising by 59.4%, or EUR 396.4m, to EUR 1,063.9m. This improvement was mainly due to the growth in the item "Current receivables". The main reason for this development was the acquisition of ESM AD and the outstanding payment derived from the sale of Energie AG Oberösterreich, which will be due in January 2007, in accordance with the stipulations of the contractual agreement.

### **Equity +20.6%**

Taking account of the distribution of the dividends of EVN AG for the 2004/05 financial year as well as dividends paid to minority shareholders of fully consolidated companies, the positive Group net profit for the 2005/06 business year, combined with the profit-neutral upward adjustment in value of EVN's investment in Verbundgesellschaft, led to an increase in equity by 20.6% to EUR 2,756.0m. Accordingly, the equity ratio amounted to 47.1% as at September 30, 2006. Net debt totalled EUR 930m, corresponding to a gearing of 33.7%, which continues to be well under the energy sector average.

EVN Group's drawing on a line of credit to refinance the acquisition of a majority shareholding in the two Bulgarian subsidiaries during the 2004/05 financial year, as well as the increase in the deferred tax liabilities in connection with the result-neutral increase in value of EVN's investment in Verbundgesellschaft, were primarily responsible for the increase in non-current liabilities by 26.1%, or EUR 524.3m, to EUR 2,537.0m.

Current liabilities as at September 30, 2006 stood at EUR 552.8m, which was 25.2%, or EUR 111.3m, above the comparable figure in the preceding year. Above all, the initial consolidation of ESM AD was responsible for the increase in this item.

### **Cash flow**

### **Gross cash flow +41.2%**

The EVN Group's gross cash flow climbed by 41.2%, or EUR 126.9m, to EUR 435.0m during the 2005/06 financial year. This increase was primarily attributable to the significant increase in the profit before income tax and the rise in non-current provisions.

### **Net cash flow from operating activities: +49.7%**

After taking account of the changes in working capital, which rose mainly as the consequence of the increase in inventories and a decline in other liabilities, net cash flow from operating activities climbed to EUR 399.7m, an increase of 49.7%, or EUR 132.7m, above the previous year's level.

As a consequence of the acquisition of ESM AD, the increase in ongoing investments, as well as investments in short-term securities, the net cash flow from investing activities totalled EUR -719.9m.

In spite of higher dividends distributed for the 2004/05 financial year, the net cash flow from financing activities amounted to EUR 314.6m as a consequence of long-term corporate borrowing.

All in all, EVN posted a slight decline in the net change in cash and cash equivalents for the 2005/06 financial year, amounting to EUR -5.6m. This led to a decrease in cash and cash equivalents to EUR 76.8m. In addition, a total of EUR 282.7m (previous year: EUR 177.2m) were invested in short-term securities as at September 30, 2006, which, in accordance with IFRS, were not allocated to cash equivalents. Therefore, the liquidity situation of EVN continues to remain very stable. Net debt coverage rose from 44.5% to 49.1%, whereas the interest cover climbed from 6.1 to 8.1.

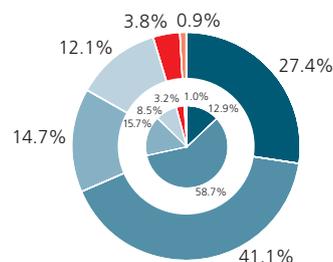
| <b>Cash flow statement</b>                                     |         |                       |        |       |
|--|---------|-----------------------|--------|-------|
|  | 2005/06 | 2004/05 <sup>1)</sup> | Change |       |
|  | EURm    | EURm                  | EURm   | %     |
| Profit before income tax                                       | 304.9   | 186.2                 | 118.7  | 63.7  |
| Non-cash items   | 130.1   | 121.9                 | 8.2    | 6.7   |
| Gross cash flow  | 435.0   | 308.1                 | 126.9  | 41.2  |
| Changes in current balance sheet items                         | -14.7   | -25.6                 | 10.9   | 42.5  |
| Income tax paid  | -20.6   | -15.5                 | -5.1   | -32.7 |
| Net cash flow from operating activities                        | 399.7   | 267.1                 | 132.7  | 49.7  |
| Changes in intangible assets and property, plant and equipment | -210.9  | -114.7                | -96.2  | -83.9 |
| Acquisition of subsidiaries, net of cash acquired              | -227.9  | -284.3                | 56.4   | 19.8  |
| Changes in non-current financial and other assets              | -180.4  | -80.2                 | -100.2 | -     |
| Changes in current financial assets <sup>2)</sup>              | -100.7  | 255.2                 | -355.9 | -     |
| Net cash flow from investing activities                        | -719.9  | -223.9                | -496.0 | -     |
| Net cash flow from financing activities                        | 314.6   | -25.5                 | 340.1  | -     |
| Net change in cash and cash equivalents                        | -5.6    | 17.6                  | -23.2  | -     |
| Cash and cash equivalents at the beginning of the period       | 82.4    | 64.8                  | 17.6   | 27.2  |
| Cash and cash equivalents at the end of the period             | 76.8    | 82.4                  | -5.6   | -6.8  |

<sup>1)</sup> Figures from the previous year were adjusted due to changes made in the reporting structure.

<sup>2)</sup> The change in securities, which are used for the investment of surplus liquidity, but do not meet the IFRS criteria for reporting as cash equivalents, is reported in this item.

## Investments clearly up on last year

### Investments



2005/06  
2004/05



## Investments in intangible assets and property, plant and equipment

The investments of the EVN Group in intangible assets and property, plant and equipment posted an increase in the 2005/06 financial year, climbing about 30.6%, or EUR 58.9m, to EUR 251.4m. This can be primarily attributed to higher investments in the Generation and Networks business units.

Of the aforementioned investment volume, EUR 239.7m (previous year: EUR 184.5m) were invested in the Energy segment, EUR 9.6m (previous year: EUR 6.2m) in the Environmental Services segment, and EUR 2.2m (previous year: EUR 1.9m) in the Strategic Investments and Other Business segment.

## Outlook

Within the framework of a favourable international and domestic business environment, EVN anticipates a dynamic development for the entire EVN Group in the 2006/07 financial year. The first full-year consolidation of the new Macedonian subsidiary ESM AD will serve as the most important driver of revenue growth in the Energy segment. EVN's own power generating capacity will also propel growth. Continuing strong international demand for electricity and ongoing higher energy prices are expected to have a positive impact, resulting in a corresponding improvement of revenue and results in the Energy segment during the 2006/07 financial year.

The downward pressure on margins in the Energy Supply business unit is expected to continue due to the upward price trend for primary energy sources and the costs for CO<sub>2</sub> emission certificates. Perspectives for the Networks business unit are also less optimistic as a result of the planned reduction in gas network tariffs.

The companies which comprise the Environmental Services segment – namely evn wasser, WTE Group and AVN Group – have achieved a strong positioning in their markets thanks to their successful business operations, and can take advantage of considerable growth potential in the future. On this basis, it can be anticipated that EVN will further expand its market position in Central and Eastern Europe in the water and wastewater business areas, as well as in the field of waste incineration during the 2006/07 financial year. It is expected that EVN will achieve a continuing improvement in its results, on the basis of the proactive cultivation of these new markets, the ongoing expansion of project development work, as well as an improvement in the results expectations of existing BOOT projects (Build-Own-Operate-Transfer).

All in all, these factors underlie EVN's assumption that it will achieve a further increase in total revenue and an improvement in the results from operating activities during the 2006/07 financial year. However, due to the non-reoccurrence of the positive one-off effects in EVN's Group investments, the financial results will be below the level reached during the 2005/06 financial year. As a consequence, it is anticipated that the Group net profit will also decline somewhat in 2006/07.

Nevertheless, by consistently pursuing its strategy of expanding its business activities in Austria and abroad along the entire value-added chain, the EVN Group has provided the basis for a positive business development in the financial years to come.

## Risk management

As an international energy and environmental services provider, EVN is subject to various business, operational, financial and event risks, last but not least as a consequence of its successful growth. Managing these risks is ensured by means of different levels of risk management structures operating within EVN. As a result, EVN Group is in a position to actively take advantage of risks – which also involve opportunities for the future.

### Adequate risk management

#### Risk policies

EVN's risk policies are designed to enable the company to take advantage of opportunities on the marketplace, if the potential benefits are higher than the risks. In addition, existing risks are counterbalanced through appropriate safeguards, if deemed economically useful and technically feasible. EVN's risk policies also involve countering the ongoing changes in the risk profile by means of a suitable risk management response.

### Multi-level risk management organisation

#### Risk management organisation

EVN's risk management is implemented by a multi-level organisational structure. Operational risk management is in the hands of each business unit which is exposed to the particular risk. EVN's operational risk management is guided by risk management policies which are shaped by a commitment to transparency and risk awareness, and which are regulated in binding guidelines.

In the interest of ensuring a long-term increase in corporate value, EVN implements a multi-level, integrated planning and management system, which provides the basis for measuring and controlling the economic success of the company within the framework of an ongoing process. This enables the company to quickly identify risks and take suitable countermeasures in response.

Together with the risk management committees in the operative business units, the operative and strategic risk control staff units provide support to the Executive Board in making decisions regarding EVN Group risk policies. Through regular reporting, the Supervisory Board is integrated in this process.

### International impact

#### Risk profile

As an international Group, EVN's overall risk is increasingly influenced by the country risks associated with its South East European subsidiaries and investments. The risk profile of the EVN Group changed considerably in the 2005/06 financial year, through its acquisition of a majority shareholding in the Macedonian electricity distribution company ESM AD, as well as the planned accession of Bulgaria to the European Union in 2007.

All in all, the expansion of the project business in the field of environmental services, the considerable activities in the field of alternative energies and the diversification of the company's business portfolio have had a positive impact on the overall risk profile of the EVN Group.

## Greater attention paid to investment risks

## Minimising operational risks

### Measures

In order to effectively meet the challenges posed by the changing risk profile, EVN has implemented a series of measures in accordance with its risk management policies. For example, in the project business, the consistent insistence on liabilities without recourse against EVN (non-recourse liabilities) serves to actively manage and limit risks. On an international level, the participation of EVN in projects involving operational risks has provided the Group with insights which it now applies to the field of environmental services risk controlling. An additional measure is concluding credit risk insurance policies from public authorities or international financial institutions in regards to political and economic risks.

In the past financial year, a project was initiated to implement a value-oriented management system for EVN. Against the backdrop of the new organisational structure, it has a considerable significance for EVN's strategic risk controlling (also see page 25 f.). Last but not least, corresponding personnel measures have also been initiated to meet the growing demands placed on the company's operational risk controlling.

### Risk categories

The main risks which the EVN Group is subject to in its business operations, including its project business, are counteracted by a series of specific hedging measures:

- **Investment risks**

In the light of its ongoing growth, which is also the result of the acquisitions of shareholdings on the Austrian market and in other countries, EVN is required to pay increasing attention to risks associated with Group investments. For this reason, the risk management processes of the Group attach particular importance to monitoring EVN's shareholdings. EVN has developed its own risk control staff unit, whose work is oriented to the risk structures of the Group, and which is responsible for risk controlling of the Group subsidiaries.

In addition to activities designed to increase revenues, for example by acquiring shareholdings, EVN also strives to improve its competitive position by an ongoing enlargement of the product and service portfolio in its core business areas. The continuing use, upgrading and expansion of its own power generating capacity, last but not least in the field of alternative energies, is designed to further strengthen the autonomy of EVN. This will enable the EVN Group to minimize the competitive risks arising from a liberalisation of the energy markets.

- **Operational risks**

EVN operates the most technically advanced facilities in the fields of energy and environmental services, whose long-term reliability is the pre-requisite for keeping them in service. As a consequence, operational risks must be minimised to the greatest possible extent. In this regard, the company counteracts such operational and contingency risks with strict maintenance and quality controls, combined with constant monitoring, maintenance and repair work. EVN limits the potential effects of any damage by extensive insurance coverage. Personnel risks are counteracted by maintaining close contacts to research and educational facilities, and by carrying out broad-based training programmes for company employees.

## Ongoing monitoring of relevant markets

EVN counterbalances the planning and performance risks associated with its facilities with an ongoing expansion of its project risk management activities. In this regard, risk analysis is a particularly essential tool, together with the importance attached to risk controlling.

The positive cooperation with public authorities, associations and interest groups on a regional, national and international level serves as the basis for preventing legal risks from arising.

EVN limits system risks by consistently and regularly adapting its operations to the latest technological developments, and by ensuring unified standards in the Group. Security management corresponds to the continually growing demands on the availability, confidentiality and integrity of all systems.

- **Financial management risks**

A separate risk control system to hedge financial and energy industry-related risks has been established at EVN, which takes targeted measures designed to counteract market and credit risks in the company with the assistance of the most advanced risk management systems. This risk control system is also responsible for monitoring credit rating risks in these areas.

EVN has set up a centralised treasury management system to counteract foreign currency, interest, price and liquidity risks. Detailed Group directives and limits enable the employment of derivative financial instruments, which are primarily designed to minimize financial risks. Such transactions are only carried out in cooperation with banks enjoying a top credit rating, as a means of minimising risks in connection to business partners.

- **Event risks**

For EVN, event risks primarily represent natural risks. In most cases, they can be attributed to an act of nature beyond the company's control. The risks are transferred to insurance companies, insofar as this is possible and economically feasible.

### **General risks**

At present, EVN does not foresee any risks whose impact could potentially endanger the existence of the company. The functional capacity and the procedures of the risk management system are scrutinised by the internal auditing department as well as the Group auditors.

## Human resources

The integration of the Group, which has significantly grown through acquisitions, was once again the most important priority of EVN's human resources management in the period under review.

In this connection, following the appointment of professional development managers for the EVN Group, a further education and training drive has been initiated, which is designed to improve the personal competencies and service-oriented skills of employees.

At a total of EUR 2.1m, expenditure on further training (seminar fees, trainers, e-learning) during the 2005/06 financial year was almost twice the figure for the comparable period in 2004/05. The main reason was the training drive initiated during the period under review, which concentrated on developing executive skills and junior level management know-how.

EVN implements a broad range of initiatives in the interest of ensuring employee safety and health, as well as promoting employee motivation, from company health care and safety precautions to flexible working time, comprehensive internal information, idea management, corporate pension plans and even to subsidised leisure facilities.

## Environment

One particularly important aspect of sustainability, especially in the case of an energy supplier, is a responsible use of natural resources. Prior to the concept of environmental protection becoming established, EVN had already initiated programmes aimed at achieving an equilibrium between economic and ecological interests. Among other aspects, these efforts incorporate the highest possible use of environment-friendly hydroelectric and wind power, the generation of electricity and heat from biomass, and the application of the most advanced environmental and generation technologies. Virtually all of EVN's thermal power stations are now officially certified, with the result that the company today possesses an environmental management system which will be further developed into an integrated management system.

## Active participation in various projects

## Research and development

Investments in research and development are essential to ensure the sustainable success of a company. Knowing that successful R&D initiatives contribute to increasing shareholder value, EVN has been proactively participating in a variety of research and development projects for many years. The traditional priority has been the energy sector, in which EVN has positioned itself as a competent and committed partner, both domestically and on an international level. EVN's recent focus has been on developing specific, innovative solutions and strategies as a basis for actively impacting the political decision-making process on issues pertaining to sustainable development.

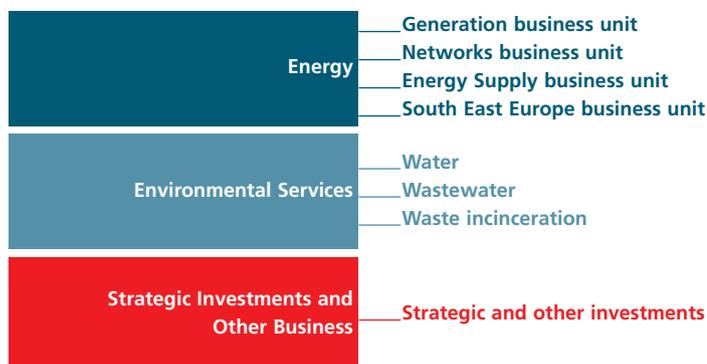
During the period under review, EVN spent a total of around EUR 0.6m on R&D projects.

Recent R&D programmes which EVN has supported or initiated include:

- **FENCO ("Fossil Energy Coalition")** is an ERA-Net project supported by the European Commission. It aims at the promotion of an integrated and European-wide R&D initiative for technologies to generate energy from fossil fuels at zero emission power plants, or with the lowest possible level of emissions. 16 partners from 12 countries, including the **Austrian Fenco Initiative (AFI)**, initiated by EVN, are working on a project to increase the acceptance of hard coal, which continues to be one of the most important global energy sources. AFI develops, administers and finances a research fund for energy programmes in the field of an environment-compatible application of fossil fuels.
- The **ADMONI** project, which is also being promoted by the European Commission, focuses on achieving an improvement in monitoring and control capabilities as a basis for increasing the operational efficiency of boiler plants. EVN's partners in this research drive include the research company VTT and electricity producer Fortum, both from Finland, Delft University of Holland and Cranfield University in England, the Greek research centre CERTH and the Spanish energy research institute Circe.
- **Initiative "Lower Austria's Energy Future 2020 – Sustainable Energy Industry"**  
EVN is an active member of this initiative, which is designed to serve as a network to promote the use of renewable energy sources.
- **Master plan for environmental technologies**  
This platform, coordinated by the province of Lower Austria and the Austrian Federal Ministry of the Environment, aims to ensure Austria's leading position in the field of environmental technologies on a long-term basis. The master plan is a goal-oriented programme designed to bundle the efforts of all interested partners from the business community, industry and research institutions as well as political decision makers.
- In the light of the Earth's limited quantities of fossil fuels, increasing importance is being attached to the **development of alternative electricity generating technologies**, in order to reliably cover future energy requirements. In this regard, EVN has been consistently expanding its reliance on production facilities which make use of renewable energy sources. However, the technologies which are currently available are not yet capable of fulfilling all our electricity needs, or even the increased demand. Extensive research and development work is still required, until alternatives can be found to replace traditional energy sources. EVN is involved in a series of projects in this field.

# Business segments

## Overview of business segments



## Annual Report reflects new segment reporting for the first time

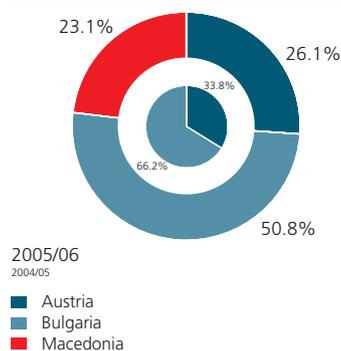
The Annual Report 2005/06 represents the first time in which EVN is reporting the results for an entire financial year in accordance with the changes in the company's organisational structure, which took effect on October 1, 2005. The new segment reporting is designed to convey a sufficient level of information about the course of business in the different business areas. Accordingly, the structure of this report focuses on EVN's three business segments: Energy, Environmental Services and Strategic Investments and Other Business. Within the Energy segment, EVN operations have been subdivided into individual business units, which are oriented to the particular activities within the value-added chain.

## Energy segment

The Energy segment consists of the following business units: Generation, Networks, Energy Procurement and Supply (henceforth referred to as "Energy Supply"), as well as South East Europe, which will be described in greater detail below.

| Key figures Energy segment               |          |          |        |       |
|--|----------|----------|--------|-------|
|  | 2005/06  | 2004/05  | Change |       |
|  | EURm     | EURm     | EURm   | %     |
| External revenue                         | 1,761.7  | 1,370.2  | 391.4  | 28.6  |
| Intra-Group revenue                      | 11.3     | 3.5      | 7.8    | –     |
| Operating expenses                       | –1,439.8 | –1,098.0 | –341.8 | –31.1 |
| EBITDA                                   | 333.2    | 275.8    | 57.4   | 20.8  |
| Depreciation and amortisation            | –191.5   | –183.0   | –8.5   | –4.7  |
| Results from operating activities (EBIT) | 141.6    | 92.8     | 48.9   | 52.7  |
| EBIT margin (%)                          | 8.0      | 6.8      | –      | –     |
| Financial results                        | –12.0    | –1.5     | –10.5  | –     |
| Profit before income tax                 | 129.7    | 91.2     | 38.5   | 42.2  |

### Electricity network customers



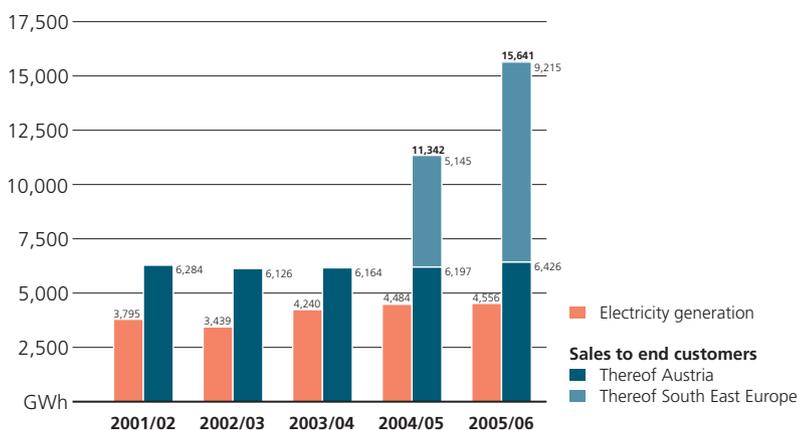
### Key energy business indicators

|   | 2005/06 | 2004/05 | Change  |      |
|---|---------|---------|---------|------|
|   |         |         | Nominal | %    |
| <b>Electricity generation (GWh)</b>     | 4,556   | 4,484   | 72      | 1.6  |
| Thereof thermal power                   | 3,517   | 3,498   | 19      | -0.5 |
| Thereof renewable energy                | 1,039   | 986     | 53      | 5.4  |
| <b>Distribution volumes</b>             |         |         |         |      |
| <b>Electricity (GWh)</b>                | 16,495  | 12,076  | 4,418   | 36.6 |
| Thereof Austria                         | 7,279   | 6,932   | 348     | 5.0  |
| Thereof Bulgaria                        | 7,229   | 5,145   | 2,084   | 40.5 |
| Thereof Macedonia                       | 1,987   | -       | 1,987   | -    |
| <b>Gas (m<sup>3</sup>)<sup>1)</sup></b> | 1,874   | 1,818   | 56      | 3.1  |
| <b>Supply volumes to end customers</b>  |         |         |         |      |
| <b>Electricity (GWh)</b>                | 15,641  | 11,342  | 4,299   | 37.9 |
| Thereof Austria                         | 6,426   | 6,197   | 228     | 3.7  |
| Thereof Bulgaria                        | 7,229   | 5,145   | 2,084   | 40.5 |
| Thereof Macedonia                       | 1,987   | -       | 1,987   | -    |
| <b>Gas (m<sup>3</sup>)<sup>2)</sup></b> | 748     | 707     | 42      | 5.9  |
| <b>Heating (GWh)</b>                    | 1,067   | 1,033   | 34      | 3.3  |

<sup>1)</sup> Incl. network sales to EVN power stations.

<sup>2)</sup> Incl. gas wholesales amounting to 66m m<sup>3</sup> (previous year: 71m m<sup>3</sup>).

### Electricity generation and sales volumes



## Energy revenue: +28.6%

The external revenue of the Energy segment rose to EUR 1,761.7m, an increase of 28.6%, or EUR 391.4m, in comparison to the previous year. This increase can be primarily attributed to the first full-year consolidation of the two Bulgarian subsidiaries, the initial consolidation of the Macedonian electricity supply company ESM AD for two quarters of the financial year, as well as an increase in sales volumes and prices in the Generation, Networks and Energy Supply business units in Austria.

## EBITDA: +20.8%

EBITDA in the Energy segment rose by EUR 57.4m, or 20.8%, to EUR 333.2m. However, the adjustments in sales prices, increased production and higher electricity sales volumes could not fully compensate for the lower productivity of EVN's South East European subsidiaries at the present time, the significantly higher primary energy prices, higher prices to obtain additional CO<sub>2</sub> certificates, as well as the negative effects of network tariff reductions. For this reason, the 20.8% improvement in EBITDA was lower than the overall increase in revenue.

Impairment tests implemented during the period under review led to write-offs amounting to EUR 78.6m (previous year: EUR 57.1m) and a reversal of impairment losses totalling EUR 44.6m (previous year: EUR 10.7m). All in all, this resulted in an exceptional value adjustment amounting to EUR –34.0m, compared to EUR –46.4m in the preceding year. (More details are provided in the sections on the individual business units.)

EBIT in the Energy segment climbed by 52.7%, or EUR 48.9m, to EUR 141.6m. This development was driven by the Generation business unit, whereas the Networks and Energy Supply business units posted significant decreases. The South East Europe business unit also accounted for positive contributions.

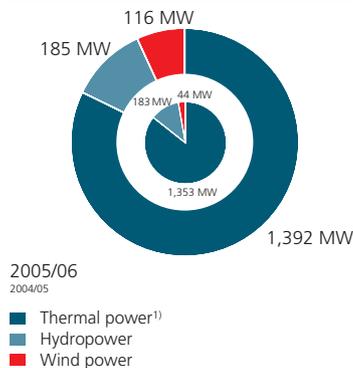
Developments in the individual business units of the Energy segment are described below.

## Generation business unit

The Generation business unit encompasses the electricity production of the EVN Group derived from thermal production capacities, hydroelectric power, wind and biomass.

In the generation area, the EVN Group has total generating capacity in its own power stations and from purchasing rights from hydroelectric plants of about 1,693 MW. Apart from three thermal power stations in Dürnröhr (coal/gas, total capacity of 350 MW plus 30 MW from waste incineration), Theiss (gas/oil, 800 MW) and Korneuburg (gas, 160 MW), the EVN Group operates five storage power stations and 62 small-scale hydroelectric plants as well as seven wind farms through its eco-electricity subsidiary evn naturkraft. In the period under review, EVN continually expanded its wind-generated power capacities. In addition, EVN also sources its own electricity from the Danube power stations of Melk, Greifenstein and Freudenau, on the basis of purchasing rights.

### EVN power plants – generating capacity



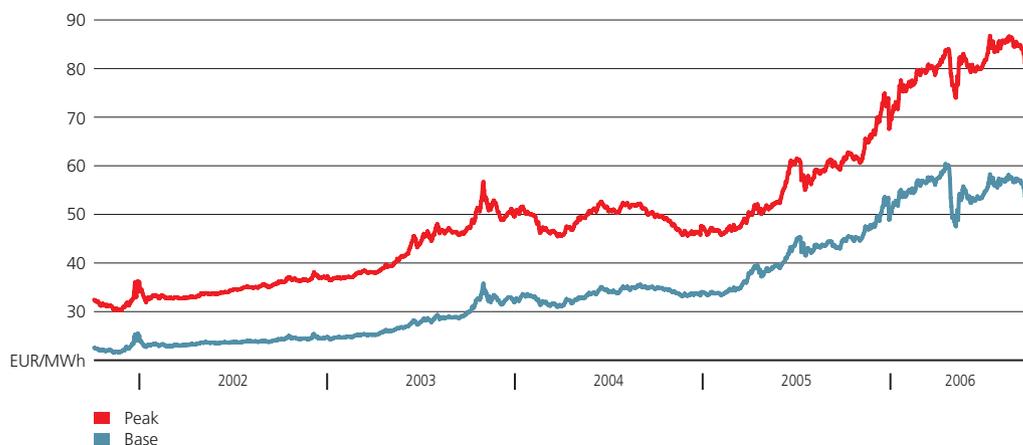
<sup>1)</sup> Incl. cogeneration and combined cycle heat and power plants.

| Generation business unit                 | 2005/06 | 2004/05 | Change |      |
|--|---------|---------|--------|------|
|  | EURm    | EURm    | EURm   | %    |
| Revenue                                  | 260.9   | 194.3   | 66.6   | 34.3 |
| Results from operating activities (EBIT) | 85.6    | –37.2   | 122.8  | –    |
| Profit before income tax                 | 79.6    | –38.2   | 117.9  | –    |
| Investments                              | 68.9    | 24.8    | 44.0   | –    |

## Increased electricity generation

The electricity market on the European continent continues to be characterised by a high-price phase. This can be mainly attributed to the enormous increases in primary energy prices, above all for crude oil and natural gas. At the same time, the market prices reflect the increasing shortage of production capacity in the face of growing demand.

### Electricity wholesale price development – peak/base



In the light of high prices for electricity, EVN once again made intensive use of its own thermal power plants in the 2005/06 financial year. As a consequence, during the period under review, at 3,517 GWh, EVN's own power generation was at about the record level of the previous year.

Whereas EVN considerably boosted its production by around 17% in the first two quarters, electricity output was substantially below last year's level during the second half of the 2005/06 financial year. This decline in electricity production was due to scheduled maintenance and repairs on all three thermal power stations in the 3<sup>rd</sup> quarter.

### Coverage ratio: 29.1%

All in all, 29.1% (previous year: 39.5%) of the total volume of electricity provided to end customers by the EVN Group or on the basis of cooperative agreements during the period under review was generated in EVN's own power plants. As a result, the coverage ratio from the company's own electricity production was 10.4 percentage points below the previous year's level. If one does not take into account the two Bulgarian electricity supply companies and the Macedonian subsidiary, which do not possess their own power generating capacity, this figure amounts to 70.9% (previous year: 72.4%).

### Significant improvement in results

The high generation levels of electricity in EVN's own power plants combined with the higher market prices for electricity were primarily responsible for the significant increase in revenue for the Generation business unit, which climbed by 34.3%, or EUR 66.6m, to EUR 260.9m.

This increase, together with a reversal of impairment losses amounting to EUR 40.2m as a result of an impairment test due to higher market prices, mainly in connection with EVN's thermal power plants and electricity purchasing rights (previous year: total of appreciation and write-offs amounting to EUR -42.0m), clearly compensated for the negative effects of higher primary energy prices as well as the expenditure required to purchase additional CO<sub>2</sub> emission certificates. The purchasing of additional CO<sub>2</sub> certificates negatively impacted results to the amount of EUR 15.6m (previous year: EUR 12.5m).

## Opening of three new wind parks

### Investments

EVN's investments in the Generation business unit, amounting to EUR 85m (of which EUR 67.5m in the 2005/06 financial year), focused primarily on expanding its capacity of wind-generated power. Three new wind parks with a total of 38 turbines and a combined power generating capacity of 72 MW commenced operations in the 2005/06 financial year.

### Construction of a coal-fired power plant in Duisburg-Walsum, Germany

During the period under review, EVN made considerable progress in carrying out the preparatory work required in connection with the planned construction of a new coal-fired power plant with an overall capacity of 790 MW, which EVN and STEAG will jointly build in Duisburg-Walsum, Germany. The total investment volume of the project, in which EVN has a 49% stake, amounts to EUR 820m. The ground-breaking ceremony took place on November 20, 2006. The new power plant is expected to commence operations in 2010. The Walsum project is included in the consolidated financial statements of the EVN Group at equity.

### Outlook

EVN anticipates a further rise in Generation revenue and results from operating activities for the 2006/07 financial year. In part, this is due to the increased electricity generating capacity resulting from the new wind parks which have been supplying wind-generated power to the electricity network of EVN since the end of the 2005/06 financial year, as well as the expected ongoing strong use of EVN's thermal power stations. In addition, EVN's positive expectations are based on energy industry forecasts, which foresee ongoing increases in electricity prices in the years to come. Total EVN investments in power stations will significantly climb in the upcoming financial year. The focus will be on the construction of the coal-fired power plant in Duisburg-Walsum and a biomass-fired plant located near the Dürnröhr power station.

## Networks business unit

The Networks business unit primarily encompasses the operation of electricity and gas distribution networks in Austria, as well as EVN's cable TV and telecommunications businesses. Thus, the Networks business unit mainly consists of the companies EVN Netz GmbH and Kabelsignal AG.

## EVN fulfils unbundling guidelines

With backdated effect to October 1, 2005, the electricity and gas distribution networks were transferred from EVN AG to a separate network subsidiary, EVN Netz GmbH. Thus, EVN fulfilled the legally stipulated unbundling of its network operations, implemented within the framework of the ongoing liberalisation process in Europe's electricity and gas markets.

### Network services for electricity and gas

EVN possesses a modern network in Lower Austria for the transmission and distribution of electricity, with a total length of around 1,370 km of high-voltage and 47,300 km of medium- and low-voltage lines. The EVN gas transport and distribution pipeline network in Lower Austria has an overall length exceeding 10,510 km. High-pressure pipelines make up around 1,940 km of this network, whereas medium- and low-pressure pipelines comprise approximately 8,570 km.

On this infrastructure basis, EVN provides all its customers with network services. This business area is regulated, both in regards to electricity network as well as to gas network services. At the beginning of 2006, a new multi-year incentive regulatory system was introduced for electricity network tariffs. A similar model applying to gas network tariffs is currently being developed.

| <b>Networks business unit</b>                   |                |                |               |          |
|---|----------------|----------------|---------------|----------|
|   | <b>2005/06</b> | <b>2004/05</b> | <b>Change</b> |          |
|   | <b>EURm</b>    | <b>EURm</b>    | <b>EURm</b>   | <b>%</b> |
| <b>Revenue</b>                                  | 467.1          | 425.5          | 41.6          | 9.8      |
| <b>Results from operating activities (EBIT)</b> | 12.5           | 78.1           | -65.6         | -84.0    |
| <b>Profit before income tax</b>                 | 4.9            | 79.8           | -74.9         | -93.8    |
| <b>Investments</b>                              | 103.4          | 113.1          | -9.8          | -8.6     |

### Increased distribution volumes

### Business development in the electricity and gas networks

Due to the increase in electricity distribution volumes in EVN's networks in Austria, electricity network sales volumes rose by 5.0% during the period under review, or 348 GWh, to 7,279 GWh. Due to lower temperatures, gas network sales volumes also climbed, rising by 3.1%, or 56m m<sup>3</sup>, to 1,874m m<sup>3</sup>.

### Network revenues decline due to tariff reductions

Following a reduction in network tariffs for EVN's electricity networks by an average of 7.0% as at April 1, 2005, the Austrian network regulatory authority once again lowered network tariffs by an average of 2.5%, effective January 1, 2006. Gas network tariffs in the EVN networks were also reduced by 8.0%, effective November 1, 2005.

Despite the increase in distribution volumes, the upward development in sales volumes could not compensate for the negative effects of these reductions in network tariffs. For this reason, network revenues declined by 2.9%, or a total of EUR 10.9m, to EUR 367.9m during the period under review.

### Cable TV and telecom

Kabelsignal AG, a fully owned EVN subsidiary, is the largest cable TV supplier in Lower Austria. The company uses 72 local area networks to provide cable TV services to a total of 68,000 customers, and broadband Internet services to more than 30,000 customers. Furthermore, Kabelsignal offers voice communication products via the Internet (voice-over-IP).

**Revenue: +9.8%**  
**EBIT: -84.0%**

### Network tariff cuts negatively impact results

Overall, higher cable TV and telecommunication revenues, combined with the invoicing of intragroup services performed by EVN Netz GmbH, led to a total increase in revenue for the Networks business unit by EUR 41.6m, to EUR 467.1m. The losses incurred as a result of the reductions in network tariffs prescribed by the regulator could thus be compensated. However, due to exceptional impairments in connection with impairment tests of the gas network of EUR 75.9m, the results from operating activities (EBIT) of the Networks business unit decreased by EUR 78.1m, to EUR 12.5m. These impairments were necessary in connection with the expected decline in the profitability of the networks resulting from regulatory measures (network tariff cuts). In the previous year, impairments of EUR 4.4m had become necessary with regard to data transmission networks.

### Investments

EVN invested a total of EUR 103.4m in its network infrastructure during the 2005/06 financial year. Investments focused on further enlarging and improving the existing electricity and gas distribution networks in Lower Austria. The main priority is to link up new wind generating power facilities (wind parks) and the highly populated areas surrounding the Austrian capital city of Vienna.

## Outlook

The newly-launched incentive regulatory system for electricity network tariffs should ensure a state of legal stability and a certain level of continuity for EVN, at least until the year 2009. The core element of the new system is a national benchmarking for Austrian network operators, of which EVN ranks among the most efficient. Gas distribution network providers and the Austrian regulatory authority are currently working on a similar system for gas network tariffs. Over the next few years, EVN will increase its investments designed to further enlarge and improve the existing electricity and gas distribution networks. All in all, a stable but somewhat weaker business development is expected.

## Energy Supply business unit

The Energy Supply business unit encompasses both the sourcing of electricity and gas, the trading and the sale of electricity and gas within the framework of EnergieAllianz, and the sale of heat by EVN AG itself. EnergieAllianz, which bundles sourcing, distribution and sales in joint companies, was established by EVN in cooperation with other regional Austrian energy suppliers, particularly with regard to the liberalisation of the national electricity market.

### Bundled supply channel through EnergieAllianz

All electricity trading, i.e. the marketing of EVN's own electricity production, as well as the sourcing of the electricity volumes required for the supply of customers, is carried out today by e&t, the joint trading unit of the EnergieAllianz partner companies. Following the purchase of a further 13.5% stake in the 2005/06 financial year, EVN now has a 45.0% holding in this company. The sale and distribution of electricity to large customers is implemented by EnergieAllianz Austria GmbH, whereas EVN Energievertrieb GmbH & Co KG ("EVN KG") is responsible for supplying electricity to households and commercial customers within the framework of EnergieAllianz. The number of customers of EVN KG has risen slightly, from the previous year's level of 777,000 to about 781,000 at present.

Since January 1, 2003, all EVN Group gas sourcing and trading is carried out via EconGas, the joint subsidiary of the EnergieAllianz partners, Linz AG, Oberösterreichische Ferngas AG and OMV. EconGas, in which EVN has a 15.7% holding, serves as a joint natural gas wholesaling company, and also maintains the gas reserves required in Austria for security of supply. All sales to large customers with annual consumption exceeding 500,000 m<sup>3</sup> were also transferred to EconGas. About 273,000 household and commercial customers are supplied with gas by EVN KG, within the framework of the EnergieAllianz.

EVN sells heat to private and business customers. The production of this heat, which is also encompassed in this business unit, is carried out in district heating, local heating and cogeneration plants. Heat generation is largely based on the primary energy source of natural gas, as well as the bleeding of waste heat from the EVN Group's thermal power stations. Since 1993, EVN has also placed an increasing focus on heat production using biomass, and is currently Austria's largest supplier of heat from this source. At present, EVN supplies some 35,000 heat customers, a slight increase from the previous year's level of around 33,000.

| <b>Energy Supply business unit</b>       |         |         |        |       |
|--|---------|---------|--------|-------|
|  | 2005/06 | 2004/05 | Change |       |
|  | EURm    | EURm    | EURm   | %     |
| Revenue                                  | 628.5   | 583.1   | 45.4   | 7.8   |
| Results from operating activities (EBIT) | 26.3    | 37.4    | -11.1  | -29.8 |
| Profit before income tax                 | 35.7    | 45.0    | -9.3   | -20.6 |
| Investments                              | 37.0    | 30.2    | 6.8    | 22.6  |

**Electricity sales volumes:**  
**+3.7%**

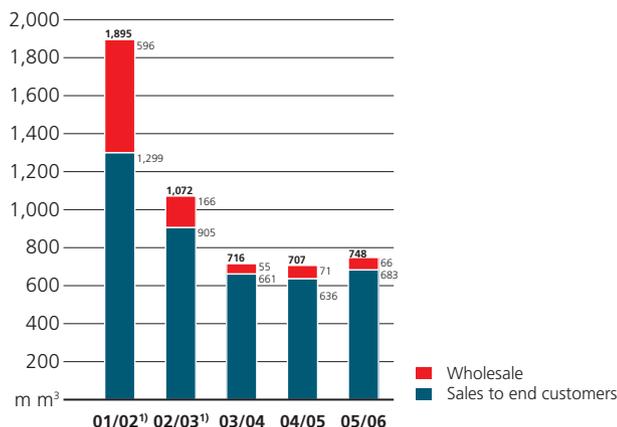
**Gas sales volumes: +5.9%**

### Sales volumes consistently above last year's levels

In the 2005/06 financial year, electricity sales volumes of EVN KG to end customers in Austria rose by 228 GWh, or 3.7%, to 6,426 GWh.

During the period under review, gas volumes sold by EVN KG amounted to 748m m<sup>3</sup>, an increase of 5.9%, or 42m m<sup>3</sup>, compared to the level of the previous year. The lower temperatures, which were 6.7% on average below the level of the 2004/05 financial year, tended to have a positive effect compared to the comparatively mild temperatures prevailing during the same period last year.

### Gas sales volumes

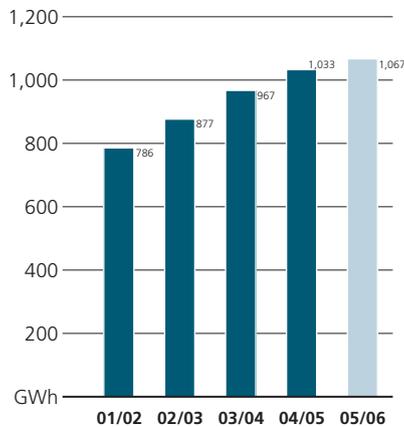


<sup>1)</sup> Incl. gas trading and sales to large customers, which were transferred to EconGas as of January 2003.

**Heating sales volumes:**  
**+3.3%**

EVN's heating sales volumes also climbed in the period under review, rising by 3.3%, or 34 GWh, to 1,067 GWh. This was primarily due to the low temperatures, particularly during the first two quarters of the 2005/06 financial year, as well as the ongoing expansion of EVN's customer base.

### Heating sales volumes



### Enormous rise in energy prices

#### Market-oriented adjustment of sales prices

In the 2005/06 financial year, energy prices on the international primary energy and electricity markets reached new record levels. The enormous climb in EVN's production and procurement costs could only be partly compensated by a slight decline in prices for CO<sub>2</sub> emission certificates since April 2006. On average, electricity purchasing prices were 22% higher during the 2005/06 financial year, and gas purchasing prices even rose by close to 40%. As a result, the company had no other choice but to make upward adjustments in sales prices.

As EVN's sales and distribution subsidiary within the framework of the EnergieAllianz, EVN KG therefore passed on the significantly higher energy costs for electricity and gas to its household and business customers. In this regard, gas prices were hiked at the beginning of October 2005, while electricity prices were raised in April 2006. As a consequence, average gas prices for EVN's end customers in the 2005/06 financial year were 29% above last year's level, whereas average electricity prices were 16% higher.

In EVN's heating business, sales prices for all products are index-based. In almost all cases, heating prices are linked to index values based on publicly collected data (e.g. by the Austrian Central Statistical Office). Depending on the particular product group, this controlled price system led to varying upward adjustments in sales prices, ranging from 11% to 40%. Above and beyond that, no extraordinary price adjustments were carried out in the 2005/06 financial year as a result of rising primary energy costs.

**Revenue: +7.8%**  
**EBIT: -29.8%**

The increased sales volumes, as well as the upward price adjustments carried out for electricity and natural gas, led to a rise in revenue by the Energy Supply business unit of 7.8%, or EUR 45.4m, to EUR 628.5m. However, despite the price adjustments in electricity and gas sales prices, there was a significant decline in EBIT, decreasing by 29.8%, or EUR 11.1m, to EUR 26.3m during the period under review.

#### EconGas

EVN has a 15.7% stake in EconGas, the joint subsidiary of the EnergieAllianz partners, Linz AG, Oberösterreichische Ferngas AG and OMV, which operates in the field of gas trading and large customer sales. EconGas serves large end consumers, power stations and local communities with an annual gas consumption exceeding 500,000 m<sup>3</sup>.

## Market leader for gas trading and large customers

The third operative business year of EconGas, in which the company doubled its profit from EUR 36.9m to EUR 72.8m, ended on March 31, 2006. The volumes sold rose by 16.0% to 7.8bn m<sup>3</sup>. The company's foreign business also doubled. Sales to customers outside of Austria accounted for two-thirds of its revenue growth in the 2005/06 financial year. Higher sales volumes and increased prices led to a corresponding rise in revenue by 60.8%, to EUR 1.8bn. As a result, EconGas is the undisputed market leader in Austria. Customers outside of Austria already account for 15% of the total sales of EconGas. The company's target markets are all countries, which border on Austria, with the exception of Switzerland. The region has a total market volume of 120bn m<sup>3</sup>. EconGas is included in the EVN consolidated financial statements at equity.

### Investments

In the 2005/06 financial year, EVN invested a total of EUR 37.0m in the Energy Supply business unit. In large part, the investments focused on the completion of construction work for the two combined cycle heat and power plants in Baden and Mödling.

### Outlook

In the light of the ongoing unfavourable business environment prevailing in the energy sector, it can be anticipated that EVN KG will once again carry out further market-oriented upward price adjustments for electricity and natural gas by the end of the 2006 calendar year, similar to the steps that will be taken by the majority of Austria's energy suppliers.

An increase in the wood fuel index as of the beginning of 2007 will also lead to an increase in sales prices for biomass heating. However, these upward price adjustments will partially first take effect from the middle of the year, due to the various escalation clauses in existing contracts.

## Improvement in results expected

Due to the price adjustments and higher sales volumes, EVN anticipates an improvement in results in the Energy Supply business unit for the 2006/07 financial year.

## South East Europe business unit

Effective as from the beginning of April 2006, the South East Europe business unit encompasses the activities of EVN Group's new Macedonian subsidiary ESM AD, in addition to the two Bulgarian regional energy suppliers ERP Plovdiv and ERP Stara Zagora.

All in all, ERP Plovdiv and ERP Stara Zagora serve around 1.5 million, or approximately 33%, of Bulgaria's electricity customers. ESM AD provides energy to the entire Republic of Macedonia and serves approximately 700,000 customers.

More information about the companies and their integration in the EVN Group is provided in the section "New core region: South East Europe" starting on page 27.

| South East Europe business unit          |         |         |        |      |
|--|---------|---------|--------|------|
|  | 2005/06 | 2004/05 | Change |      |
|  | EURm    | EURm    | EURm   | %    |
| Revenue                                  | 467.6   | 247.3   | 220.4  | 89.1 |
| Results from operating activities (EBIT) | 17.3    | 14.5    | 2.8    | 19.3 |
| Profit before income tax                 | 9.3     | 4.6     | 4.7    | –    |
| Investments                              | 30.5    | 16.4    | 14.1   | 86.3 |

**Revenue: +89.1%**  
**EBIT: +19.3%**

### Positive revenue and results trend

The two Bulgarian electricity supply companies ERP Plovdiv and ERP Stara Zagora, which were first included in the consolidated financial statements of the EVN Group starting in the 2<sup>nd</sup> quarter 2004/05 and were therefore included with a full financial year for the first time in 2005/06, achieved revenue amounting to EUR 373.7m.

In the first half year of its integration into the consolidated financial statements of the EVN Group, the Macedonian subsidiary ESM AD already contributed EUR 93.9m in revenue. However, due to high network losses from its power grid and necessary receivable write-offs the company has not yet achieved a positive EBIT.

Despite necessary restructuring measures and the ongoing amortisation of the customer base in Bulgaria existing at the time of the initial consolidation, the contribution of the South East Europe business unit to the results from operating activities (EBIT) increased by 19.3%, or EUR 2.8m, to EUR 17.3m.

### Investments

The focus of the investment programme in Bulgaria was to upgrade electricity meters and network technologies and thus to further reduce electricity losses from the power grid. Immediately after the acquisition of ESM AD in Macedonia, a similar broad-based investment programme was also developed. In total, investments in the South East Europe business unit amounted to EUR 30.5m.

### Outlook

With the completion of important phases, the integration of the subsidiaries acquired in Bulgaria has made considerable progress. In Macedonia, corresponding processes were initiated immediately after the acquisition of ESM AD was made in April 2006.

Driven by Bulgaria's upcoming membership in the European Union as of January 2007, EVN anticipates a continuation of the country's dynamic economic development, with GDP growth expected to remain robust between 5% and 6% annually. Due to the expansion of the power grid operated by the two Bulgarian subsidiaries, revenue in the Energy segment is expected to climb.

With regard to its Macedonian subsidiary ESM AD, EVN committed itself to carrying out investments of about EUR 32m annually for a three-year period. The focus will be on expanding, upgrading and maintaining the electricity distribution network. Driven by economic growth, EVN also expects energy consumption in Macedonia to increase, but at a lower level than in Bulgaria.

**Rapid progress in integrating the new subsidiaries**

**Further development driven by EU membership**

## Environmental Services segment

### Water, wastewater, waste

The Environmental Services segment encompasses the water, wastewater treatment and waste incineration activities of the EVN Group. On the one hand, the water business is comprised of the regional supply of drinking water in Lower Austria (evn wasser). On the other hand, it consists of the international project business in the fields of drinking water and wastewater treatment in Central and Eastern Europe (WTE Group).

The waste incineration business (AVN Group) encompasses the waste incineration plant in the domestic market of Lower Austria (Dürnröhr), as well as international project business, in regard to the planning, financing, construction and operation of waste incineration facilities.

In the 2004/05 financial year, the WTE and AVN Groups were both incorporated into the EVN Umweltholding GmbH (EVN's holding company for environmental services).

| Key figures Environmental Services segment |         |         |        |       |
|--|---------|---------|--------|-------|
|  | 2005/06 | 2004/05 | Change |       |
|  | EURm    | EURm    | EURm   | %     |
| External revenue                           | 290.1   | 212.9   | 77.2   | 36.2  |
| Intra-Group revenue                        | 9.6     | 7.3     | 2.3    | 31.5  |
| Operating expenses                         | -233.7  | -160.1  | -73.6  | -45.9 |
| EBITDA                                     | 66.0    | 60.1    | 5.9    | 9.8   |
| Depreciation and amortisation              | -20.1   | -19.2   | -0.8   | 4.2   |
| Results from operating activities (EBIT)   | 45.9    | 40.8    | 5.1    | 12.5  |
| EBIT margin (%)                            | 15.3    | 18.5    | -      | -     |
| Financial results                          | -11.1   | -5.9    | -5.1   | -86.5 |
| Profit before income tax                   | 34.9    | 34.9    | -      | -     |

### evn wasser

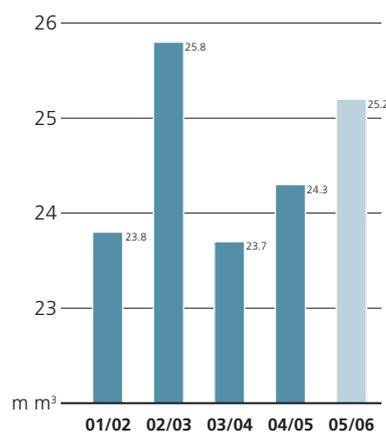
EVN successfully penetrated the water business in 2001 with its acquisition of the Lower Austrian company evn wasser, the second largest supplier of drinking water in Austria. At the same time, opportunities were opened up for the exploitation of synergies with EVN's existing activities in the energy sector.

At present, evn wasser supplies drinking water to approximately 480,000 inhabitants in 615 Lower Austrian municipalities, or approximately one-third of the province's population.

Whereas evn wasser operates as a wholesaler indirectly supplying the majority of its customers with drinking water, the company is striving to expand its foothold as a direct supplier of end customers. In recent years, evn wasser has assumed responsibility for operating municipal water supply networks. In the past financial year, evn wasser acquired the water supply network of the municipality of Gerasdorf near Vienna, with 11,000 inhabitants, and the water supply facilities of Grossmugl, a municipality with 1,760 inhabitants. evn wasser now directly supplies about 16,500 end customers with water. The company plans to further expand this business in the future.

evn wasser is also becoming increasingly active in the wastewater segment. A wastewater purification plant is already in use, and two more facilities are currently under construction.

### Water sales volumes



### Positive sales volume development

Due to the favourable weather conditions prevailing in the period under review, as well as the ongoing increase in the number of its customers, evn wasser boosted its sales volume by 3.6%, to 25.2m m<sup>3</sup>. The increased sales volume corresponded with the long-term trend.

### WTE Group

#### Active in 11 European markets

The WTE Group is a leading service provider in the area of drinking water supply and wastewater treatment. The company plans, builds, finances and operates municipal and industrial water and wastewater installations for cities, municipalities and industrial companies. In addition to Germany, Denmark and Austria, WTE operates in eight high-growth Central and Eastern European markets. WTE has already completed more than 70 wastewater purification plants for around ten million people. Of these plants, 23 are also being managed by WTE. WTE Group is part of the EVN Umweltholding.

#### BOOT model gains in popularity

WTE projects in which the contractor hands over responsibility for planning, construction, financing and operations to a professional partner are becoming increasingly popular.

### Attractive international projects

2005/06 was once again a successful year for the WTE Group. All large-scale projects were proceeding on schedule, and WTE also successfully assumed responsibility for a series of new projects. Apart from Germany and Austria, the target markets of the WTE Group are primarily the new Member States of the EU, and accession candidates to the EU.

Recently WTE achieved the preliminary completion of an important large-scale project, transferring a new drinking water facility to the City of Moscow on schedule. The investment volume of this project, funded by project financing, amounted to EUR 190m. The official start-up of the entire installation took place in November 2006. Drinking water will be supplied to one million inhabitants of the Russian capital city as of the end of 2006.

#### Start-up in Zagreb

Another major international project carried out by the WTE Group is the expansion of the central municipal wastewater treatment plant in the Croatian capital of Zagreb. An important milestone was reached in the middle of October 2006, with the official start-up of the first biological phase of the facility. Back in 2004, the initial extension phase involving mechanical wastewater purification had already gone into operation. The total investment volume of the project, implemented within the framework of a joint venture with RWE, amounts to more than EUR 265m. The wastewater treatment plant in Zagreb is also a good example of the tried and tested BOOT model of the WTE Group. The joint project company ZOV is not only responsible for planning and turn-key construction, but also for financing and operating the facilities.

Another interesting contract was won by the WTE Group at the beginning of the 2005/06 financial year in the Baltic States. WTE will construct a fully biological extension facility featuring nutrient elimination for the central municipal wastewater treatment plant of Kaunas, Lithuania, and its 370,000 inhabitants. The project involves a total investment volume amounting to EUR 18.3m. The official ground-breaking ceremony took place on October 17, 2006.

WTE was also awarded the contract to construct and operate a central wastewater treatment facility for the Cyprian capital city of Nicosia. The purification plant serves about 100,000 inhabitants. Investment volume for the project totals about EUR 18m. After completing construction, which began in April 2006, WTE will operate the facility for a period of ten years.

### Additional project in Moscow

WTE was once again successful in expanding its business in the Russian capital of Moscow. In March 2006, WTE won an international tender for constructing and operating a combined cycle heat and power plant. The project involves total investments of EUR 21.5m. Operating in accordance with the "waste to energy" principle, the power plant will generate electricity from biogas supplied by a water purification facility of the municipal wastewater utility.

WTE continues to expand its market presence in its Eastern European target markets. The focus is on developing projects in Cyprus, the Baltic States and on behalf of large cities in the Russian Federation.

### AVN Group

The waste incineration business is emerging as an increasingly valuable component of EVN's service portfolio and additional growth driver to sustain the long-term results of the Group. The starting point for the activities in this area is provided by the close connection between waste incineration and the energy conversion process in thermal power stations. AVN Group is part of the EVN Umweltholding.

EVN is active in this area with its own waste incineration facility possessing an annual capacity of about 300,000 t located adjacent to the Dürnrrohr power plant. At the same time, it is also involved in international project business, with the planning, financing, building and operational management of such facilities. At present, a waste incineration plant with an annual capacity of approximately 360,000 t is under construction in Moscow.

### International business

#### Waste incineration in Moscow

The basis for winning the large-scale contract to construct and operate a waste incineration installation for the Russian capital city was the convincing technical solution implemented at the waste incineration facility in Dürnrrohr. The waste incineration plant will be the most technologically advanced of the three facilities in Moscow, and will thermally convert approximately one-sixth of Moscow's annual household refuse amounting to 2.1m t. Total investment volume for the project is EUR 191m, provided by means of project financing. Construction of the project proceeded on schedule in 2005/06. Start-up of the facility is expected in the second half of 2007. As of the end of the 2005/06 financial year, about 50% of construction on the plant had been completed.

Within the framework of a BOOT model, WTE will operate the facility until the year 2019, when it will be handed over to the municipal authorities in Moscow. The heat produced in Moscow in the course of the waste incineration process will be converted into electricity and fed into the public district heating network. As a consequence, the entire configuration of the plant will considerably relieve the burden on the environment.

### Raising capacity by two-thirds

#### Expansion of the waste incineration facility in Dürnrrohr

Construction of a third waste incineration line at the waste incineration installation in Dürnrrohr, foreseen as part of an infrastructure project for the Lower Austrian Central Region, is currently in the planning stage. The project is designed to expand the facility's capacity by about two-thirds, from 300,000 t at present to an annual volume of 500,000 t.

All required materials for the mandatory environmental compatibility assessment were submitted to the relevant authorities for their approval at the end of May 2006. If the official notification granting formal approval to the project is received in the early part of 2007, as expected, construction could potentially begin in the summer of 2007. In this case, the new waste incineration line would commence operations in the year 2010.

Incidentally, the waste incineration plant in Dürnrrohr, which has been fully operational since the beginning of 2004, continues to develop to EVN's utmost satisfaction. The waste incineration facility in Dürnrrohr is making a positive contribution to revenue and results of the EVN Group, due to the fact that it is running uninterruptedly, practically at full capacity.

**Revenue: +36.2%**  
**EBIT: +12.5%**

### **Positive revenue and results development in the segment**

Due to the positive development in the international project business, revenue in the Environmental Services segment rose by 36.2%, or EUR 77.2m, during the period under review, to EUR 290.1m. In spite of the high proportion of construction work completed by EVN in connection with the large projects in Moscow, and higher depreciation and amortisation on the capitalised profit contributions of the orders on hand, the results from operating activities climbed significantly by 12.5%, or EUR 5.1m, to EUR 45.9m.

### **Investments**

EVN invested a total of EUR 9.6m in its Environmental Services segment in the 2005/06 financial year. Keeping in mind EVN's goal of expanding its drinking water and wastewater treatment business activities, investments were primarily made in connection with the takeover of the water supply network in Gerasdorf near Vienna, as well as the construction of a sewage network and wastewater purification facility for the Lower Austrian municipalities of Grossmugl und Niederhollabrunn.

The international project business in the field of Environmental Services is primarily covered in the items, "Non-current receivables from lease transactions" and "Customer orders not yet invoiced". As a result, the incorporation of these companies in the consolidated financial statements of the EVN Group does not result in any major additions to non-current assets.

**Target group: new EU  
Member States**

### **Outlook**

The waste incineration business will continue to be an important growth driver in the next financial year in terms of revenue and results in the Environmental Services segment. In particular, the operation of the AVN waste incineration facility in Dürnrrohr at full capacity, along with the completion of the new waste incineration plant in Moscow, will lead to a significant improvement in revenue and results. At the same time, the company will proactively promote the commercial exploitation of its "waste to energy" expertise, primarily in the new Member States of the EU.

Due to its proven role as a competent partner of local government and industrial companies, WTE will further expand its market position in the upcoming year. The target markets of the company are primarily the new Member States of the EU and candidates for EU accession. Due to the accumulated backlog and the urgent need to catch up in the field of environmental services, these countries boast a considerable growth potential. EU incentives will also make an important contribution to the environmental services business in these markets.

The focal point of investments in the Environmental Services segment will be the planned expansion of capacity at the waste incineration plant in Dürnrrohr.

## Strategic Investments and Other Business segment

### Strategic investments

On the one hand, the Strategic Investments and Other Business segment encompasses the strategic investments of EVN in Verbundgesellschaft, Burgenland Holding AG and RAG Beteiligungs AG as well as other investments which are not considered the core business of the EVN Group, and which are thus not directly allocated to one of the strategic business units.

Moreover, until the 2<sup>nd</sup> quarter of the 2005/06 financial year, this segment also included EVN's share of Energie AG Oberösterreich which has since been divested. The companies reported as Other Business investments primarily operate in the fields of facility management and consulting & engineering, encompassed in the Utilitas Group.

### Importance of the financial results

Like in the other business segments, different categories of companies and activities are included in the Strategic Investments and Other Business segment. This is reflected in the different ways in which the activities of these firms are reported in the consolidated financial statements of the EVN Group. The business operations of fully consolidated companies are disclosed in terms of revenue and results from operating activities, whereas associates and other investments are only reported in the financial results.

| <b>Key figures Strategic Investments and Other Business segment</b> |                |                |               |          |
|---|----------------|----------------|---------------|----------|
|   | <b>2005/06</b> | <b>2004/05</b> | <b>Change</b> |          |
|   | <b>EURm</b>    | <b>EURm</b>    | <b>EURm</b>   | <b>%</b> |
| <b>External revenue</b>   | 19.8           | 26.4           | -6.6          | -24.8    |
| <b>Intra-Group revenue</b>  | 48.5           | 10.3           | 38.2          | -        |
| <b>Operating expenses</b>   | -69.5          | -36.7          | -32.8         | 89.4     |
| <b>EBITDA</b>   | -1.1           | 0.1            | -1.2          | -        |
| <b>Depreciation and amortisation</b>                                | -2.1           | -2.7           | 0.6           | 21.8     |
| <b>Results from operating activities (EBIT)</b>                     | -3.2           | -2.6           | -0.6          | 22.0     |
| <b>EBIT margin (%)</b>  | -4.7           | -7.1           | -             | -        |
| <b>Financial results</b>  | 151.0          | 62.7           | 88.3          | -        |
| <b>Profit before income tax</b>                                     | 147.9          | 60.1           | 87.8          | -        |

### Segment result

Due to the good performance of EVN's strategic investments, the segment result developed very favourably. All in all the strategic investments of the EVN Group more than doubled their contribution to the profit before income tax in the 2005/06 financial year to about EUR 147.9m. However, this amount includes non-recurring one-off effects from EVN's sale of its shareholding in Energie AG Oberösterreich as well as the conversion of the financial reporting at BEWAG and BEGAS to IFRS.

### Verbundgesellschaft

EVN has a stake of 12.5% in the listed company Verbundgesellschaft, the largest Austrian producer of hydroelectric power, and the operator of the country's supra-regional, high-voltage network. The ongoing positive business development of the company not only resulted in a 66.7% increase in the dividends paid for the 2005 financial year, but was also reflected in the performance of the Verbund share. While the dividends paid to EVN, amounting to EUR 19.3m, are reported in the financial results, the stake in Verbundgesellschaft is valued using the mark-to-market method. The change in value is reported under EVN equity. Subsequently, the value of the corresponding EVN investment once again increased considerably during the period under review.

### **RAG – Rohöl-Aufsuchungs-AG**

Via its holding in RAG Beteiligungs AG, EVN has an indirect 37.5% share in Rohöl-Aufsuchungs-AG (RAG), Austria's second largest oil and gas producer, and number two in the field of gas storage. At its Austrian facilities, RAG produces an annual volume of more than 800m m<sup>3</sup> of natural gas, which is approximately 40% of Austria's domestic production of natural gas. This corresponds to around 10% of the country's total natural gas consumption. In addition, around 100,000 t (733,000 bbl) of crude oil are extracted, comprising about 10% of total Austrian production. RAG is also the oldest existing Austrian company in the field of oil exploration and production.

Another important business area for RAG is the storage of natural gas. The company now has a storage capacity of about 700m m<sup>3</sup>. A massive expansion of capacity is currently taking place, against the backdrop of the market liberalisation in the gas sector. The Haidach deposit site in Upper Austria, ideally suited in geological terms, will be adapted for use as a natural gas storage facility within the framework of an agreement between RAG and WINGAS of Germany, a joint venture of the BASF subsidiary Wintershall and Gazprom, as well as the Russian company Gasexport. This storage area, the second largest in Central Europe, will be able to hold up to 2.4bn m<sup>3</sup> of natural gas. By linking the facility to the German-Austrian-Czech gas hub in Burghausen, the new gas repository will play an important role in covering Europe's increasing demand for natural gas. Total investment volume for the project amounts to EUR 250m. The new storage facility is expected to go into service in 2007.

RAG succeeded in continuing its satisfactory development during 2005. The company is included in EVN's consolidated financial statements at equity and contributed EUR 43.4m to the profit before income tax in the period under review.

### **Burgenland Holding AG – BEWAG and BEGAS**

On the balance sheet date, EVN had a 69.6% holding in Burgenland Holding AG, listed on the Vienna Stock Exchange, which in turn owns 49.0% of the shares in Burgenländische Elektrizitätswirtschafts-AG (BEWAG) and BEGAS – Burgenländische Erdgasversorgungs-AG. Both companies are strategic partners of EVN within the EnergieAllianz. Burgenland Holding is fully consolidated in the EVN Group financial statements.

BEWAG supplies approximately 145,000 customers in Burgenland with electricity, and in the meantime has emerged as the largest Austrian producer of wind-generated power, operating ten wind parks with a total capacity of 241 MW. BEWAG electricity sales volumes in the 2005/06 financial year amounted to 1,294.5 GWh. In the same period, BEGAS supplied about 197.3m m<sup>3</sup> of natural gas to approximately 44,500 customers. BEWAG and BEGAS are included in the EVN consolidated financial statements at equity.

The contributions to the result of these companies amounted to EUR 49.5m during the period under review. The conversion of their financial reporting to IFRS led to a positive one-off effect totalling EUR 33.0m.

### **Energie AG Oberösterreich**

Energie AG Oberösterreich and Linz AG both terminated their partnership in EnergieAllianz at the end of April 2006. At the same time, there was a buy-back by the province of Upper Austria of EVN's 9.33% shareholding in Energie AG Oberösterreich, which it had acquired in 2002. The purchase price amounts to EUR 178m, and is due for payment in January 2007. From this transaction, EVN achieves a capital gain of EUR 11.8m.

### **Outlook**

EVN continues to expect a positive business development in its strategic Group investments. Nevertheless, due to the divestiture of Energie AG Oberösterreich, and the positive one-off effects at BEWAG and BEGAS in the period under review, the contributions of EVN Group investments in the next financial year will likely be below the high level achieved in 2005/06.

# Consolidated financial statements according to IFRS

# Balance sheet

|   | Note <sup>1)</sup> | 30.9.2006<br>TEUR  | 30.9.2005<br>TEUR  |
|---|--------------------|--------------------|--------------------|
| <b>Assets</b>                           |                    |                    |                    |
| <b>Non-current assets</b>               |                    |                    |                    |
| Intangible assets                       | 26                 | 332,955.7          | 284,445.8          |
| Property, plant and equipment           | 27                 | 2,026,371.6        | 1,775,538.5        |
| Investments in associates               | 28                 | 424,319.8          | 361,316.7          |
| Other investments                       | 29                 | 1,479,098.9        | 1,298,021.9        |
| Deferred tax assets                     | 42                 | 1,296.9            | –                  |
| Other non-current assets                | 30                 | 517,806.3          | 352,774.9          |
|   |                    | <b>4,781,849.1</b> | <b>4,072,097.8</b> |
| <b>Current assets</b>                   |                    |                    |                    |
| Inventories                             | 31                 | 70,725.1           | 64,483.4           |
| Receivables and other current assets    | 32                 | 618,593.9          | 341,883.8          |
| Cash and current deposits               | 33                 | 374,622.4          | 261,138.7          |
|   |                    | <b>1,063,941.5</b> | <b>667,505.9</b>   |
| <b>Total assets</b>                     |                    | <b>5,845,790.6</b> | <b>4,739,603.7</b> |
| <b>Equity and Liabilities</b>           |                    |                    |                    |
| <b>Equity</b>                           |                    |                    |                    |
| Equity attributable to EVN shareholders | 34–39              | 2,523,276.1        | 2,094,212.2        |
| Minority interest                       | 40                 | 232,676.8          | 191,194.6          |
|   |                    | <b>2,755,952.9</b> | <b>2,285,406.8</b> |
| <b>Non-current liabilities</b>          |                    |                    |                    |
| Non-current loans and borrowings        | 41                 | 1,397,169.2        | 1,035,566.2        |
| Deferred tax liabilities                | 42                 | 379,699.7          | 295,202.3          |
| Non-current provisions                  | 43                 | 434,208.3          | 387,448.4          |
| Deferred income from network subsidies  |                    | 250,035.2          | 226,170.9          |
| Other non-current liabilities           | 44                 | 75,901.6           | 68,284.8           |
|   |                    | <b>2,537,014.0</b> | <b>2,012,672.6</b> |
| <b>Current liabilities</b>              |                    |                    |                    |
| Current loans and borrowings            | 45                 | 15,271.5           | 2,271.8            |
| Taxes payable                           | 46                 | 58,422.2           | 72,754.7           |
| Trade payables                          |                    | 201,109.8          | 138,567.3          |
| Current provisions                      | 47                 | 147,260.3          | 128,335.2          |
| Other current liabilities               | 48                 | 130,760.0          | 99,595.4           |
|   |                    | <b>552,823.8</b>   | <b>441,524.3</b>   |
| <b>Total equity and liabilities</b>     |                    | <b>5,845,790.6</b> | <b>4,739,603.7</b> |

<sup>1)</sup> The following notes to the financial statements form an integral part of this balance sheet.

# Income statement

|  | Note <sup>1)</sup> | 2005/06<br>TEUR    | 2004/05<br>TEUR  |
|--|--------------------|--------------------|------------------|
| Revenue  | 49                 | 2,071,571.5        | 1,609,529.9      |
| Change in work in progress                                 |                    | -955.5             | -4,295.5         |
| Own work capitalised                                       |                    | 14,541.3           | 11,999.5         |
| Other operating income                                     | 50                 | 40,739.4           | 41,503.3         |
| Cost of materials and services                             | 51                 | -1,358,240.8       | -1,011,609.6     |
| Personnel expenses   | 52                 | -263,606.3         | -232,258.5       |
| Depreciation and amortisation                              | 53                 | -213,015.8         | -204,162.9       |
| Other operating expenses                                   | 54                 | -106,629.0         | -79,686.8        |
| <b>Results from operating activities (EBIT)</b>            |                    | <b>184,405.0</b>   | <b>131,019.4</b> |
| Income from investments in associates                      | 28                 | 115,109.2          | 58,799.2         |
| Income from other investments                              | 55                 | 32,673.9           | 13,372.3         |
| Interest and other financial results                       | 56                 | -27,303.5          | -16,991.1        |
| <b>Financial results</b>                                   |                    | <b>120,479.6</b>   | <b>55,180.4</b>  |
| <b>Profit before income tax</b>                            |                    | <b>304,884.6</b>   | <b>186,199.9</b> |
| Income tax expense   | 57                 | -38,120.8          | -29,158.0        |
| <b>Net profit for the period</b>                           |                    | <b>266,763.8</b>   | <b>157,041.8</b> |
| <b>Thereof</b>   |                    |                    |                  |
| <b>Minority interest</b>                                   |                    | 44,882.3           | 12,683.9         |
| <b>EVN AG shareholders (Group net profit)<sup>1)</sup></b> |                    | <b>221,881.5</b>   | <b>144,357.9</b> |
| <b>Earnings per share in EUR<sup>2)</sup></b>              | 58                 | 5.43               | 3.53             |
| <b>Dividend per share in EUR</b>                           |                    | 1.40 <sup>3)</sup> | 1.15             |

<sup>1)</sup> The following notes to the financial statements form an integral part of this income statement.

<sup>2)</sup> There is no difference between basic and diluted earnings per share.

<sup>3)</sup> Proposal to the Annual General Meeting: a dividend of EUR 1.20 plus a bonus of EUR 0.20.

# Cash flow statement

|   | 2005/06<br>TEUR   | 2004/05 <sup>1)</sup><br>TEUR |
|---|-------------------|-------------------------------|
| <b>Profit before income tax</b>   | <b>304,884.6</b>  | <b>186,199.9</b>              |
| + Depreciation and amortisation and impairment losses/<br>– reversal of impairment losses on non-current assets | 213,015.8         | 204,162.9                     |
| – Non-cash share of income from investments in associates   | –49,161.0         | –39,680.1                     |
| – Gains/+ losses from foreign exchange translation  | –6,115.3          | –4,032.3                      |
| + Other non-cash financial results  | –17,576.9         | –14,207.7                     |
| – Release of deferred income from network subsidies   | –23,334.4         | –20,268.3                     |
| – Gains/+ losses on disposal of non-current assets  | 210.4             | –120.9                        |
| + Increase/– decrease in non-current provisions   | 13,093.6          | –3,911.6                      |
| <b>Gross cash flow</b>  | <b>435,016.8</b>  | <b>308,142.0</b>              |
| – Increase/+ decrease in current inventories and receivables  | –15,000.2         | 2,872.6                       |
| + Increase/– decrease in current provisions   | 17,002.4          | 18,860.4                      |
| + Increase/– decrease in trade payables and other liabilities   | –16,715.1         | –47,312.8                     |
| – Income tax paid   | –20,581.8         | –15,506.5                     |
| <b>Net cash flow from operating activities</b>  | <b>399,722.1</b>  | <b>267,055.6</b>              |
| + Proceeds from the disposal of intangible assets and property,<br>plant and equipment                          | 1,294.7           | 3,080.9                       |
| + Proceeds from network and investment subsidies  | 39,136.0          | 65,082.5                      |
| + Proceeds from the disposal of financial assets and other<br>non-current assets                                | 32,780.4          | 26,160.7                      |
| + Proceeds from the disposal of current financial investments <sup>2)</sup>                                     | 114,768.7         | 328,817.2                     |
| – Acquisition of subsidiaries, net of cash acquired   | –227,909.9        | –284,307.1                    |
| – Acquisition of intangible assets and property, plant and<br>equipment   | –251,343.8        | –182,863.4                    |
| – Acquisition of non-current financial and other assets   | –213,187.6        | –106,331.7                    |
| – Acquisition of current financial assets <sup>2)</sup>   | –215,471.8        | –73,582.4                     |
| <b>Net cash flow from investing activities</b>  | <b>–719,933.1</b> | <b>–223,943.2</b>             |
| – Dividends paid by EVN AG  | –47,013.7         | –38,837.4                     |
| – Dividends paid to minority shareholders of fully consolidated<br>companies                                    | –26,329.7         | –938.4                        |
| + Increase in financial liabilities   | 418,160.5         | 60,402.2                      |
| – Decrease in financial liabilities   | –30,223.5         | –46,119.6                     |
| <b>Net cash flow from financing activities</b>  | <b>314,593.6</b>  | <b>–25,493.2</b>              |
| <b>Net change in cash and cash equivalents</b>  | <b>–5,617.5</b>   | <b>17,619.2</b>               |
| <b>Net change in cash and cash equivalents<sup>3)</sup></b>   |                   |                               |
| <b>Cash and cash equivalents at the beginning of the period</b>   | <b>82,414.9</b>   | <b>64,795.7</b>               |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>76,797.4</b>   | <b>82,414.9</b>               |
| <b>Net change in cash and cash equivalents</b>  | <b>–5,617.5</b>   | <b>17,619.2</b>               |

<sup>1)</sup> Comparative figures from the preceding year were in part adjusted to reflect the new Group reporting requirements.

<sup>2)</sup> Changes in securities are reported under these items in cases where these securities are used for the investment of surplus liquidity, but do not meet IFRS criteria for reporting as cash equivalents.

<sup>3)</sup> For additional information, see note ► 59. Cash flow statement.

# Changes in equity statement

| TEUR   | Share capital | Share premium | Retained earnings | Revaluation reserve according to IFRS 3 | Valuation reserve according to IAS 39 | Currency translation reserve | Minority interest | Total       |
|--|---------------|---------------|-------------------|---|---------------------------------------|------------------------------|-------------------|-------------|
| Balance on 30.9.2004   | 99,069.4      | 309,361.9     | 965,284.9         | –                                       | 159,514.0                             | –419.9                       | 22,857.9          | 1,555,668.0 |
| Derecognition of negative goodwill <sup>1)</sup>   | –             | –             | 10,132.9          | –                                       | –                                     | –                            | –                 | 10,132.9    |
| Balance on 1.10.2004   | 99,069.4      | 309,361.9     | 975,417.8         | –                                       | 159,514.0                             | –419.9                       | 22,857.9          | 1,565,801.0 |
| Dividends for 2003/04  | –             | –             | –38,837.4         | –                                       | –                                     | –                            | –938.4            | –39,775.8   |
| Net profit for the period 2004/05  | –             | –             | 144,357.9         | –                                       | –                                     | –                            | 12,683.9          | 157,041.8   |
| Valuation gains/losses of financial instruments  | –             | –             | –                 | –                                       | 438,155.5                             | –                            | –                 | 438,155.5   |
| Currency translation adjustment  | –             | –             | –                 | –                                       | –                                     | 542.5                        | –                 | 542.5       |
| Business combinations of fully consolidated companies                                    | –             | –             | –                 | –                                       | –                                     | –                            | –385.7            | –385.7      |
| Business combinations  | –             | –             | –                 | –                                       | –                                     | –                            | 68,500.8          | 68,500.8    |
| Business combinations achieved in stages   | –             | –             | –                 | 7,050.6                                 | –                                     | –                            | 88,476.1          | 95,526.6    |
| Balance on 30.9.2005   | 99,069.4      | 309,361.9     | 1,080,938.3       | 7,050.6                                 | 597,669.5                             | 122.6                        | 191,194.6         | 2,285,406.8 |
| Dividends for 2004/05  | –             | –             | –47,013.7         | –                                       | –                                     | –                            | –26,329.7         | –73,343.4   |
| Net profit for the period 2005/06 <sup>2)</sup>  | –             | –             | 221,881.5         | –                                       | –                                     | –                            | 44,882.3          | 266,763.8   |
| Valuation gains/losses of financial instruments  | –             | –             | –                 | –                                       | 247,975.8                             | –                            | –                 | 247,975.8   |
| Currency translation adjustment  | –             | –             | –172.0            | –                                       | –                                     | 139.8                        | –                 | –32.2       |
| Business combinations  | –             | –             | –                 | –                                       | –                                     | –                            | 20,232.9          | 20,232.9    |
| Proportional share of changes to investments in associates recognised directly in equity | –             | –             | –                 | –                                       | 6,252.4                               | –                            | 2,669.8           | 8,949.1     |
| Balance on 30.9.2006   | 99,069.4      | 309,361.9     | 1,255,634.2       | 7,050.6                                 | 851,897.6                             | 262.4                        | 232,676.8         | 2,755,952.9 |

<sup>1)</sup> The carrying value of the negative goodwill created before September 30, 2004 was recorded under retained earnings in accordance with IFRS 3.

<sup>2)</sup> Proposal to the Annual General Meeting: a dividend of EUR 1.20 plus a bonus of EUR 0.20.

# Notes

## Basis of preparation

### ► 1. General

EVN AG is a leading listed Austrian company, with registered offices at EVN Platz, 2344 Maria Enzersdorf, whose business operations focus on the fields of energy supply and environmental services (also see note ►60. Segment reporting). In addition to providing services to its domestic market in Lower Austria, EVN AG is also active in supplying energy to customers in South East Europe, having acquired majority shares in two regional electricity supply companies in South East Bulgaria as well as the Macedonian electricity distribution company AD Elektrostopanstvo na Makedonija (“ESM AD”), which was purchased by EVN during the 2005/06 financial year (also see note ►4. Company acquisitions). The EVN Group is also active in the fields of water, wastewater treatment and waste incineration via wholly owned subsidiaries in Austria as well as in ten Central and Eastern European countries.

The consolidated financial statements of the EVN Group are prepared on the balance sheet date of the parent company. The financial year of the parent company encompasses the period starting on 1 October and ending on 30 September. The consolidated financial statements are prepared using uniform accounting policies. If there are any differences between the balance sheet dates of companies included in the consolidated financial statements of the EVN Group or investments in associates included at equity, interim financial statements are prepared which reflect the balance sheet date of the EVN Group.

Items on the balance sheet as well as the income statement are grouped together in order to achieve a more understandable and clearly structured presentation. In the notes, these positions are itemised individually and explained according to the principle of materiality.

For the sake of clarity and comparability, all figures appearing in consolidated financial statements are generally provided in thousands of euros. There may be some slight mathematical differences due to the rounding up or down of individual items or percentages.

The income statement is prepared in accordance with the Austrian method under which “total costs” are shown.

### ► 2. Reporting in accordance with International Financial Reporting Standards (IFRS)

The consolidated financial statements were prepared in accordance with the current guidelines valid as of the balance sheet date as set forth in International Financial Reporting Standards (IFRS) as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that are applicable in the European Union (EU).

The initial application of standards or interpretations that are effective as of the 2005/06 financial year did not have any material influence on the period under review or earlier periods.

IFRIC 4, Determining whether an Arrangement contains a lease, was applied previously.

The following standards or interpretations were issued, but do not require mandatory application during the 2005/06 financial year:

| <b>2. Standards which are not yet effective</b>  |                               |
|--|-------------------------------|
| <b>New standards/IFRIC</b>   | <b>Effective<sup>1)</sup></b> |
| IFRS 6 Exploration for and Evaluation of mineral resources   | January 1, 2006               |
| IFRS 7 Financial instruments: Disclosures  | January 1, 2007               |
| IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds   | January 1, 2006               |
| IFRIC 6 Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment  | January 1, 2006               |
| IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies  | March 1, 2006                 |
| IFRIC 8 Scope of IFRS 2  | May 1, 2006                   |
| IFRIC 9 Reassessment of Embedded Derivatives   | June 1, 2006                  |
| <b>Revised standards /IFRIC</b>  |                               |
| IFRS 1 First-time adoption of IFRS (revision applies to the applicability of IFRS 6 – Exploration for and evaluation of mineral resources)   | January 1, 2006               |
| IFRS 4 Insurance Contracts (revision applies to financial guarantee contracts)   | January 1, 2006               |
| IAS 1 Presentation of Financial Statements (revision applies to additional disclosure requirements on capital)   | January 1, 2007               |
| IAS 19 Employee Benefits (revision pertains to recognition of actuarial gains and losses; guidelines on sharing of pension benefits in the case of pension plans from several employers)                                     | January 1, 2006               |
| IAS 21 The Effects of Changes in Foreign Exchange Rates (revision applies to definition of net investments in a foreign operation)   | January 1, 2006               |
| IAS 32 Financial Instruments: Presentation (disclosure requirements replaced by IFRS 7; Title of IAS 32 changed to: “Financial instruments: disclosures”)  | January 1, 2007               |
| IAS 39 Financial Instruments: Recognition and Measurement (revision applies to reporting of financial guarantee contracts; cash flow hedge accounting for forecast intragroup transactions; evaluation of fair value option) | January 1, 2006               |

<sup>1)</sup> The standards are to be applied in the particular financial year that starts at or after the date on which the standards are binding.

EVN does not anticipate any material effect on the reporting of its assets, liabilities, financial position or profit and loss as a result of the initial application of these standards or interpretations in the future. EVN is currently evaluating the effects on the presentation and disclosure of its consolidated financial statements.

## Basis of consolidation

### ► 3. Consolidation methods

The consolidation is carried out in accordance with IAS 27 by offsetting the acquisition cost against the revalued net assets of the subsidiary on the date of acquisition.

In this regard, the identifiable assets, liabilities and contingent liabilities are reported at their full fair value, irrespective of the extent of any minority interest. Intangible assets must be presented separately from goodwill, if it can be demonstrated that they are separable from the entity or arise from contractual or other legal rights. In applying this method, restructuring provisions may not be recognised separately within the framework of the purchase price allocation. Any remaining unallocated acquisition costs, which compensate the divesting company for market opportunities or developmental potential that has not been clearly identified, are recorded as goodwill in the local currency of the relevant segment. If the interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the gain is recognised immediately in profit or loss after a reassessment of the measurement. In accordance with IFRS 3, negative goodwill recognised before 1 October 2004 was derecognised with a corresponding adjustment to retained earnings during the 2004/05 financial year. Any fair value adjustment is treated according to the related assets and liabilities within the follow-up consolidation.

In the case of the acquisition of additional shares in a company in which EVN already holds a controlling interest, the difference between the purchase price and the proportional share of equity is reported as a fair value adjustment. Any remaining difference is reported as goodwill.

The consolidated financial statements of the EVN Group encompass the business activities of those companies in which EVN AG, directly or indirectly, possesses a majority of the voting rights (subsidiaries) or, if it has control, when EVN is the primary beneficiary of any economic value arising from the business operations of these companies, or if EVN AG must bear most of the risks. This is usually the case when the voting rights exceed 50%. The company is consolidated when EVN obtains control and is deconsolidated when control ceases to exist.

The consolidation of joint venture companies (joint management together with one or more companies outside of the EVN Group) is carried out on a proportionate basis, according to the same principles as outlined above.

The following overview documents the main positions reported in the balance sheet and income statement of the joint ventures that are consolidated on a proportionate basis:

| <b>3. Key balance sheet/income statement positions of jointly controlled entities</b> |                |                |
|---|----------------|----------------|
| <b>TEUR</b>   | <b>2005/06</b> | <b>2004/05</b> |
| <b>Balance sheet</b>  |                |                |
| <b>Non-current assets</b>   | 3,320.8        | 3,683.2        |
| <b>Current assets</b>   | 182,904.7      | 189,400.1      |
| <b>Non-current liabilities</b>  | 2,389.9        | 793.4          |
| <b>Current liabilities</b>  | 116,813.1      | 101,283.1      |
| <b>Income statement</b>   |                |                |
| <b>Revenue</b>  | 552,298.8      | 450,728.0      |
| <b>Operating expenses</b>   | -529,506.9     | -409,401.3     |
| <b>Depreciation and amortisation</b>  | -153.6         | -116.3         |
| <b>EBIT</b>   | 22,638.3       | 41,210.4       |
| <b>Financial results</b>  | 1,267.7        | 1,354.2        |
| <b>Profit before income tax</b>   | 23,906.0       | 42,564.5       |

The same basic principles used for fully consolidated companies also apply to associates consolidated at equity. The financial statements of those companies included in the financial statements of the EVN Group at equity are based on uniform accounting policies.

Subsidiaries, joint venture companies or associated companies are not consolidated if their influence on the assets, liabilities, financial position and profit and loss is considered to be immaterial, either individually or in total. These companies are reported at fair value, which generally corresponds to amortised acquisition cost. In order to assess the materiality of an investment, the balance sheet total, non-current assets, proportional equity and external revenues are considered in relation to Group totals. The companies consolidated on the basis of these criteria account for more than 99% of the respective totals.

The consolidation procedure for profit and loss on intragroup transactions considers the effects on income taxes as well as the recognition of deferred taxes.

Intragroup balances, expenses and income as well as intragroup profits arising in companies that are included using full or proportionate consolidation are eliminated if they are not immaterial.

Impairment losses and reversals thereon to investments in subsidiaries, which are reported in the individual financial statements, are eliminated in preparing the consolidated financial statements.

#### ► 4. Changes in the consolidation range

##### Company acquisitions

During the 2005/06 financial year, EVN acquired a 90% stake in the Macedonian electricity distribution company ESM AD. The purchase price amounted to TEUR 225,000. This transaction led to the transfer of 70.1% of the shares on the date of acquisition, and EVN AG holds a pre-emptive right for a further 19.9% of the shares as the European Bank for Reconstruction and Development (EBRD) decided not to exercise its purchase option. Taking into account the additional expenses arising from the acquisition and any performance guarantees which could be applied to reduce the purchase price, the total purchase price amounted to TEUR 210,483.1. The date on which EVN assumed effective control of the company was April 7, 2006. The EVN Group will also pursue its multi-service utility approach in Macedonia, where a period of dynamic growth is forecasted for the upcoming years. EVN expects the acquisition of ESM AD will create increased opportunities to strengthen and develop its core business activities in the electricity, gas and heating segments and expand its operations to the fields of water, wastewater treatment and waste incineration. Through the ongoing integration process, EVN expects to utilise potential synergies and increase profitability to a Western European level.

In April 2006, EVN acquired a 13.5% stake in EnergieAllianz Austria GmbH, Vienna, for a purchase price totalling TEUR 350.0, and thereby raised its stake in the company to 45.0%.

Since the expert opinion on the valuation of property, plant and equipment has not yet been completed, the preliminary impact of company acquisitions and the related initial consolidations on the Group balance sheet is reported as follows:

| <b>4. Impact of company acquisitions</b> |                  |                  |
|--|------------------|------------------|
| <b>TEUR</b>                              | <b>2005/06</b>   | <b>2004/05</b>   |
| <b>Non-current assets</b>                | 234,730.0        | 421,716.2        |
| <b>Current assets</b>                    | 75,958.5         | 70,165.8         |
|  | <b>310,688.5</b> | <b>491,882.0</b> |
| <b>Equity</b>                            | 202,328.8        | 395,959.7        |
| <b>Non-current liabilities</b>           | 31,443.6         | 33,549.6         |
| <b>Current liabilities</b>               | 76,916.2         | 62,372.7         |
|  | <b>310,688.5</b> | <b>491,882.0</b> |

Within the framework of the initial consolidation of ESM AD, TEUR 24,614.0 of the purchase price was allocated to the acquired customer base and TEUR 4,981.0 to the brand ESM.

Net profit (before minority interest) earned by the acquired company since the date of its acquisition amounted to minus TEUR 9,509.7.

An assessment was completed in the 1<sup>st</sup> half of 2005/06 to determine the carrying amount of the acquired assets and debt assumed by the EVN Group, which had been incurred by the Bulgarian electricity supply companies acquired during the preceding year. The preliminary valuation of the goodwill of these companies remains unchanged.

### Start-ups

In April 2006, EVN Macedonia DOOEL, Skopje, Macedonia, was founded. It is designed to operate as a management company, which will provide services to ESM AD and enable the company to diversify into new business segments.

In April 2006, WTE Vodice d.o.o., Zagreb, Croatia, was established to implement the operating model "Vodice Wastewater Facility".

Furthermore, the Austrian project company EVN Umwelt Beteiligungs und Service GmbH, Maria Enzersdorf, was founded in September 2006 to construct and finance a combined cycle heat and power plant on the grounds of the Kurjanovo wastewater purification plant in Russia.

### Changes in legal form, liquidations, deconsolidation

Based on a resolution passed by the Annual General Meeting on 19 May 2006, the fully consolidated company WTE Wassertechnik Austria GmbH, Maria Enzersdorf, was merged into WTE Wassertechnik GmbH, Essen, in accordance with §§ 2 ff of the Austrian law regulating the transformation of companies. This change has no impact on the current consolidated financial statements.

ARGE Scan4Tech, Maria Enzersdorf, which was previously consolidated at equity, was liquidated as of 31 March 2006.

Energie Raum Mur Wasserkraftwerk Errichtungs- und Betriebs GmbH, Graz, was deconsolidated following the discontinuation of business operations on 30 September 2006.

| <b>4. Changes in the consolidation range</b> |                           |                                    |                      |              |
|--|---------------------------|------------------------------------|----------------------|--------------|
|  | <b>Full consolidation</b> | <b>Proportionate consolidation</b> | <b>Equity method</b> | <b>Total</b> |
| <b>30.9.2004</b>                             | <b>32</b>                 | <b>4</b>                           | <b>15</b>            | <b>51</b>    |
| <b>Initial consolidation</b>                 | 12                        | –                                  | 2                    | 14           |
| <b>Merger</b>                                | –5                        | –                                  | –                    | –5           |
| <b>Change in consolidation method</b>        | 1                         | –                                  | –1                   | –            |
| <b>Deconsolidation</b>                       | –                         | –                                  | –1                   | –1           |
| <b>30.9.2005</b>                             | <b>40</b>                 | <b>4</b>                           | <b>15</b>            | <b>59</b>    |
| <b>Initial consolidation</b>                 | 4                         | –                                  | –                    | 4            |
| <b>Merger</b>                                | –1                        | –                                  | –                    | –1           |
| <b>Deconsolidation</b>                       | –                         | –                                  | –2                   | –2           |
| <b>30.9.2006</b>                             | <b>43</b>                 | <b>4</b>                           | <b>13</b>            | <b>60</b>    |

The sub-group financial statements of EnergieAllianz Austria GmbH are included on a proportionate basis. Following the acquisition of an additional 13.5% stake in EnergieAllianz Austria GmbH during the 2005/06 financial year, EVN now has a 45.0% interest in the financial statements of the sub-group, which is comprised of EnergieAllianz Austria GmbH, Switch Energievertriebsgesellschaft m.b.H. and Naturkraft Energievertriebsgesellschaft mbH.

EVN Energievertrieb GmbH & Co KG, in which EVN owns a 100% stake, is consolidated on a proportionate basis due to a special contractual agreement.

Röhöl-Aufsuchungs-AG, in which the fully consolidated company RAG Beteiligungs AG has a 75.0% interest, is consolidated at equity although the EVN Group holds a majority of the voting rights. This is due to a contractual stipulation, which does not permit EVN to exert a controlling influence on the company.

EconGas GmbH, in which EVN AG has a 15.7% interest, is consolidated at equity due to a special clause in the contractual agreement, which stipulates that EVN can exert a significant level of influence on the company.

A total of 14 affiliated companies (previous year: 13) were not consolidated due to their immaterial influence on the assets, financial position and profitability of the EVN Group.

### ► 5. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into the euro based on the average exchange rate on the balance sheet date.

The financial statements of foreign subsidiaries are translated into the euro based on the functional currency method in accordance with IAS 21. For companies that do not report in the euro, assets and liabilities are translated at the mid-market exchange rate on the balance sheet date, while expenses and income are translated at the average exchange rate for the period. Differences arising from foreign currency translation are reported under retained earnings without recognition to profit or loss. When a foreign company is deconsolidated, these currency differences are recognised to profits or loss.

The following key exchange rates were used for foreign currency translation:

| <b>5. Foreign currency translation</b> |  |   |  |   |
|--|--|---|--|---|
| <b>Currency</b>                        | <b>2005/06</b>                                 |   | <b>2004/05</b>                                 |   |
|  | <b>Exchange rate on the balance sheet date</b> | <b>Average exchange rate for the year</b> | <b>Exchange rate at the balance sheet date</b> | <b>Average exchange rate for the year</b> |
| <b>Bulgarian Lev</b>                   | 1.95583  | 1.95583                                   | 1.95583  | 1.95583                                   |
| <b>Danish Krone</b>                    | 7.45760  | 7.46020                                   | 7.46240  | 7.44580                                   |
| <b>Croatian Kuna</b>                   | 7.38950  | 7.33438                                   | 7.43300  | 7.48454                                   |
| <b>Macedonian Denar<sup>1)</sup></b>   | 61.19550                                       | 61.19890                                  | –  | –   |
| <b>Polish Zloty</b>                    | 3.97130  | 3.91888                                   | 3.91850  | 4.11632                                   |
| <b>Russian Ruble</b>                   | 33.94200                                       | 34.08500                                  | 34.33400                                       | 35.90531                                  |
| <b>Slovenian Tolar</b>                 | 239.59000                                      | 239.55846                                 | 239.52000                                      | 239.66462                                 |

<sup>1)</sup> First applicable since the initial consolidation of ESM AD in the 2005/06 financial year.

## Significant accounting policies

The consolidated financial statements of the EVN Group are prepared in accordance with the following principles:

### ► 6. Primary financial instruments

In accordance with IAS 39, financial instruments are defined as contracts, which are simultaneously reported by one company as a financial asset and by the other contract partner as a liability or an equity instrument. Primary financial instruments reported under assets consist of financial assets, receivables and liquid funds. Primary financial instruments reported under equity and liabilities represent liabilities.

A financial asset is reported at fair value through profit and loss if it meets one of the following criteria:

- It is classified as held for trading, and therefore designed to realise a profit from short-term exchange rate fluctuations; the regulations for hedge accounting are not applicable.
- During the initial recognition, it was classified as a financial asset to be recognised at fair value through profit or loss. Exceptions are investments in equity instruments, for which no listed active market prices are available and the attributed market value can not be reliably determined.

Financial assets are stated at fair value when a group of financial assets – in accordance with the documented risk management or an investment strategy – is administered at fair value, and the relevant information is conveyed to persons in key positions.

Securities held for an unspecified period of time are classified as investments available for sale. They are measured at market value, and any changes in value are recorded under the valuation reserve in equity without recognition through profit or loss in accordance with IAS 39.

The fair value of financial instruments is the amount used as a basis in business transactions between expert contractual parties, who are independent of each other. The fair value is frequently identical with the market price. Thus, the fair value is established on the basis of the market information available on the balance sheet date. In view of conflicting influences, the values reported can therefore differ from the values realised at a later date.

### ► 7. Derivative financial instruments

Derivative financial instruments include swaps, options, futures and structured products.

Individual derivative instruments, primarily currency and interest rate swaps, are utilised as a means of hedging and controlling existing economic exchange rate and interest fluctuation risks. In part, they fulfil the pre-requisites for hedge accounting. These items are measured at market value (current value). The current market value of derivatives reflects the estimated amount, which the EVN Group will receive or be required to pay if this transaction is concluded on the balance sheet date. For this reason, the values encompass unrealised gains and losses. The treatment of these changes in value depends on the type of hedge.

The market movements of derivatives, which are allocated as cash flow hedging instruments (primarily interest rate swaps) in accordance with IAS 39 are recorded without recognition through profit or loss (hedging reserve). The ineffectiveness of cash flow hedges is not material. The realisation of a hedge is recognised through profit or loss.

In the case of fair value hedges (primarily currency swaps), the valuation of the underlying transaction is adjusted through profit or loss to reflect the amount which corresponds to the market value of the hedged risk.

#### ► 8. Intangible assets

Acquired intangible assets are recognised at acquisition cost. Internally generated intangible assets are reported at production cost when the pre-requisites defined by IAS 38 for the capitalisation of such assets have been fulfilled.

Development expenditures are capitalised if a newly developed product or process can be clearly separated, is technically feasible and will either be used or marketed. Research expenses are capitalised in the period when the research work is carried out.

In the past financial year, no development expenditures or internally generated assets were capitalised in the EVN Group.

Intangible assets are amortised in accordance with their expected useful life. With the exception of goodwill and intangible assets with indefinite lives, the calculation of amortisation is based on the straight-line method (linear amortisation) over a period of three to eight years for software and three to 40 years for rights.

Order backlog acquired through business combinations is reduced in accordance with performance on the relevant orders.

The capitalised customer relationships (customer base) arising from an acquisition are not amortised if a useful life has yet to be defined for lack of market liberalisation. Scheduled amortisation between five and 15 years is carried out for customer relationships subject to market liberalisation.

The brand ESM, which was capitalised during the period under review, was allocated as an intangible asset with an indefinite life on the basis of an assessment of product life cycles, contractual and legal controls and other relevant factors. For this reason, it will not be amortised.

Impairment losses are recognised in the year in which an event takes place, which leads to this downward value adjustment. If the reasons for impairment cease to exist, a corresponding write-up is recorded; this write-up does not exceed amortised cost.

Goodwill and intangible assets with indefinite lives are subject to an annual review to determine any potential impairment. In case events or a change in circumstances indicate a potential loss in value, impairment tests are carried out more frequently. For further details on the procedures involved in connection with annual impairment tests on goodwill, refer to note ► 10. Procedures and effects of impairment tests.

### ► 9. Property, plant and equipment

Property, plant and equipment is carried at acquisition or production cost, less ordinary straight-line depreciation and any impairment losses. Production cost includes direct costs as well as an appropriate percentage of material and manufacturing overheads. General administrative costs are not capitalised.

If construction on non-current assets continues over an extended period, the interest on debt is capitalised as a part of acquisition or production cost until construction is completed, in accordance with IAS 23.

Assets are depreciated from the time of commissioning. Depreciation is calculated on a straight-line basis over the expected useful life of the equipment or its components. The expected economic and technical life of plant or equipment is taken into consideration in determining the useful life of these items.

| <b>9. Expected useful life of property, plant and equipment</b> |              |
|---|--------------|
|   | <b>Years</b> |
| <b>Buildings</b>  | 10–50        |
| <b>Transmission lines and pipelines</b>                         | 15–50        |
| <b>Machinery</b>  | 10–33        |
| <b>Meters</b>   | 7–40         |
| <b>Tools and equipment</b>                                      | 3–25         |

Maintenance and repair work is shown as an expense in the year the costs are incurred, provided that it does not change the nature of the asset involved and no additional future benefit arises. Replacement investments and value-enhancing investments are capitalised.

When property, plant or equipment is retired, the cost of the acquisition and the accumulated depreciation are reported in the financial statements as a disposal. The difference between the net proceeds on the sale and the remaining carrying value are reported as operating income or other operating expenses.

When plant, property or equipment is sold, the carrying value of the asset is written down if required to equal the selling price less any costs to sell; this adjustment takes place once the transaction is approved and the conditions defined in IFRS 5 are met. The resulting carrying value is not depreciated until the date of disposal.

## ► 10. Procedures and effects of impairment tests

### Goodwill and other intangible assets with indefinite lives

In accordance with IFRS 3 Business Combinations and IAS 38 Intangible Assets, goodwill and other intangible assets with indefinite lives are not subject to scheduled amortisation, but are subject to an impairment test at least once a year.

The goodwill arising from a business combination must be allocated to the particular cash generating units that generate cash flow and derive a benefit from the synergies arising from the merger. The non-assignable consolidation difference is allocated to the cash generating units Energy Procurement and Supply, Bulgaria, Macedonia, and Environmental Services.

In assessing the economic value within the framework of impairment tests, the higher of the net selling price and the value in use is compared to the previously reported carrying amount.

The calculation of the carrying amount is based on the expected future cash flows, which can be determined on the basis of the data derived from medium-term corporate planning. These monetary inflows and outflows are discounted at the pre-tax weighted average cost of capital (WACC) of 8.7% (previous year: 8.0%), which is adjusted to reflect the specific corporate and country risks.

If the market value exceeds the carrying amount, there is no need to recognise an impairment loss. If the market value is lower than the reported carrying amount, an impairment loss must be recognised for this cash generating unit. In accordance with IFRS 3, goodwill that was written down through an impairment loss may not be revalued, even if the reasons for the impairment have ceased to exist.

### Intangible assets with finite lives and property, plant and equipment

Intangible assets with finite lives and property, plant and equipment are subject to impairments if the higher of the net selling price or the value in use is less than the carrying value. If the asset is part of a cash generating unit, the value of the impairment loss is determined on the basis of the recoverable amount of the cash generating unit. The decisive criterion for the qualification of a production unit as a cash generating unit is its technical and commercial ability to generate independent revenues. In the EVN Group, this definition applies to electricity and heating generation plants, electricity and gas distribution systems, data transmission lines and electricity purchasing rights.

The value in use of property, plant and equipment is calculated by discounting the future monetary inflows and outflows that result from the use of an asset. The interest rate for the discount amounted to 8.7% during the period under review (previous year: 8.0%), and was derived from the weighted average cost of capital for the EVN Group. The valuation was based on a forecast that contained expected future revenues, operating and maintenance costs, whereby the respective, use-related condition of the asset was also taken into account.

If the carrying amount of a cash generating unit to which goodwill has been allocated exceeds the recoverable amount, the goodwill must be reduced through impairment losses amounting to the difference between the previously reported carrying value and the recoverable amount. Any further need for an impairment is implemented through a proportional reduction of the carrying amount of the remaining fixed assets. If the reasons for impairment cease to exist, a corresponding write-up is recorded. The increased carrying amount may not exceed the depreciated acquisition or production costs.

► **11. Leased and rented assets**

In accordance with IAS 17, a leased asset is allocated to the lessee or lessor based on the transfer of all significant risks and rewards incidental to the ownership of the leased asset.

Long-term lease receivables within the framework of the so-called BOOT model (“Build, Own, Operate & Transfer”) – in which a facility is built, financed and then operated on behalf of the customer for a pre-defined period of time, after which the plant becomes the property of the customer – are classified as finance leases in accordance with IAS 17 together with IFRIC 4, and capitalised as such in the consolidated financial statements of the EVN Group.

Assets obtained through finance leases are capitalised by the lessee at the present value or the lower cash value of the minimum lease payment, and amortised on a straight-line basis over their expected useful life or the shorter contract period. The obligations resulting from future lease payments are reported as a liability.

Assets obtained through operating leases are considered to be owned by the lessor. The rental charges incurred by the lessee are allocated as equal instalment payments over the duration of the lease and reported as an expense.

► **12. Investments in associates**

Companies included at equity are initially recognised at cost (acquisition price), and in later periods measured at the proportional share of depreciated net assets. In this case, the carrying value is increased or decreased by the proportional share of net profit, distributed dividends or other changes in equity. An impairment loss is recognised when the recoverable amount is less than the carrying amount.

► **13. Other investments**

Stakes in affiliated companies which are not consolidated in the EVN financial statements, in associated companies which are not consolidated at equity and other investments are reported as “available for sale”. These investments are carried at fair value, if fair value can be reliably determined. Unrealised profits or losses are capitalised under equity without recognition through profit or loss. Impairment losses are recognised to reflect any permanent reductions in value. When financial assets are sold, the unrealised profits or losses that were previously recorded under equity without recognition to profit or loss are recognised to profit or loss.

► **14. Other non-current assets**

Securities recorded under non-current assets are initially recognised as financial assets to be carried at fair value through profit or loss. They are reported at their market value as of the balance sheet date. Changes in market value are recognised to the income statement as income or expense.

Interest-bearing debt is reported at amortised cost, whereas interest-free and low-interest loans are reported at their cash value.

Long-term lease receivables are derived from EVN’s project business, and are reported as finance leases according to IAS 17 in connection with IFRIC 4 (see note ► 11. Leased and rented assets).

### ► 15. Inventories

Inventories represent assets that are retained in normal business operations for sales purposes (finished products and goods), stored for manufacturing purposes (unfinished products and services) or used to manufacture products or perform services (raw materials, auxiliary materials or fuels as well as purchased emission certificates).

The valuation of inventories is based on acquisition or production cost or the lower net realisable value on the balance sheet date. For marketable inventories, these values are derived from the current market price; for other inventories, this figure is based on the planned proceeds less future production costs. Risks arising from the duration of storage or reduced convertibility are reflected in impairment losses. The applicability of primary energy inventories and raw materials, auxiliary materials or fuels is determined in accordance with the moving average price procedure.

The emission certificates allocated free of charge in accordance with the Austrian Emission Certificate Act are capitalised at zero acquisition cost on the basis of IAS 20 and IAS 38, due to the rejection of IFRIC 3 by the European Commission. The cost of materials and services in the income statement only includes expenses arising from an insufficient allotment of emission certificates. Additional emission certificates which are purchased are capitalised at cost, whereas additions to provisions for shortfalls are based on the current market value as of the balance sheet date.

### ► 16. Receivables

Receivables and other assets are generally reported at amortised cost. Exceptions to this procedure are derivative financial instruments, which are reported at market values, and assets and liabilities in foreign currencies, which are carried at the exchange rate in effect on the balance sheet date. Amortised cost is considered to represent a fair estimate of the current value because, in most cases, the remaining time to maturity is less than one year. Non-current receivables are discounted by applying the effective interest method. Corresponding value adjustments allow for all recognisable risks.

Deferred tax assets and deferred tax liabilities are offset, when these relate to the same tax authority and the company has a right to offset these items.

### ► 17. Cash and current deposits

Cash on hand and cash at banks are reported at current rates. Cash in foreign currencies is translated at the exchange rate in effect on the balance sheet date.

Cash and current deposits also includes short-term securities used for the temporary investment of free liquid funds, which are held for trading purposes and thus reported at fair value through profit or loss. The securities are carried at market value, and any changes in market value are recognised immediately through profit or loss.

► **18. Income and expenses after tax directly recognised in equity**

This item comprises certain changes in equity that are not recognised through profit or loss as well as the related deferred taxes. For example, this position includes the currency translation adjustment, unrealised gains or losses from the market valuation of marketable securities, and the effective part of market value changes from cash flow hedge transactions. This item also encompasses the proportional share of changes to investments in associates recognised directly in equity.

► **19. Provisions for pensions and similar obligations**

Under the terms of a company agreement, EVN is obliged to pay employees who joined the company prior to December 31, 1989 a supplementary pension on retirement. In principle, the amount of this supplementary pension is performance-related, and is derived from the length of service and the amount of remuneration at the time of retirement. Contributions to EVN-Pensionskasse AG are always made by EVN and, as a rule, also by the employees, whereby the resulting claims are fully credited to pension payments. The obligations of EVN to retired employees as well as to prospective beneficiaries are covered in part by provisions for pensions and through defined contribution payments made by EVN-Pensionskasse AG.

For employees who joined the company after January 1, 1990, the supplementary company pension has been replaced by a contribution-based pension scheme, which is financed by EVN-Pensionskasse AG.

EVN-Pensionskasse AG invests the pension fund assets primarily in different investment funds, in accordance with the provisions of the Austrian Pension Fund Law.

EVN has made pension commitments to certain employees, which entitle these persons to receive company pension payments on retirement if certain conditions are met.

Provisions for similar obligations were created for liabilities arising from the future claims of current employees and current claims of retired personnel and dependents to receive benefits in kind in the form of electricity and gas.

The provisions for pensions and similar obligations are calculated on the basis of an actuarial report using the projected unit credit method. The expected pension payments are distributed according to the number of years of service by employees until retirement. The expected increases in wages, salaries and pensions are incorporated. The provisions for pensions are determined by an actuary on the basis of an actuarial report as of the balance sheet date.

Accumulated actuarial gains and losses that exceed 10% of the higher of the defined benefit obligation (DBO) and the present value of plan assets are recognised through profit or loss over the average remaining working life of the particular employees.

As in the previous year, the biometric bases for calculation were established using the "AVÖ 1999-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand" Austrian pension tables.

The current service cost and the interest portion of the addition to the provision for pensions are reported as personnel expenses.

#### ► 20. Provisions for severance payments

Severance payments are one-off payments, which are compulsory under Austrian labour legislation. Companies are required to make these payments when employees are dismissed or when employees whose terms of employment began before January 1, 2003 have reached the legal retirement age. The amount of such payments is based on the number of years of service and the amount of individual remuneration. The provision for severance payments is created in accordance with actuarial principles. The calculation of the provision is based on the same assumption used for the provision for pensions.

Accumulated actuarial gains and losses that exceed 10% of the higher of the defined benefit obligation (DBO) and the present value of plan assets are recognised through profit or loss over the average remaining working life of the particular employees.

For those employees whose employment status commenced after December 31, 2002, the responsibility for fulfilling this obligation will be assumed by a contribution-based severance payment system. The payments to this external employee fund are reported as expenses.

#### ► 21. Provisions for service anniversary bonuses

The obligations for service anniversary bonuses required by collective wage and company agreements were calculated using the same parameters as the provision for severance payments.

#### ► 22. Other non-current provisions

Other non-current provisions reflect all other recognisable legal or factual commitments to third parties at the balance sheet date based on events which took place in the past and where the level of the commitments and the precise starting point are still uncertain. The provisions are reported at the actual amount to be paid. Valuation is based on the expected value or the amount which involves the highest probability of a loss.

Non-current provisions are reported at the discounted amount to be paid as of the balance sheet date. An exception to this procedure is formed by the provisions for pensions and similar obligations, which reflect the application of special rules in accordance with IAS 19.

Waste disposal or land restoration requirements to fulfil legal and perceived commitments are reported at the cash value of the expected future costs. Changes in the valuation of the costs or the interest rate are offset against the carrying amount of the underlying assets. If the provision for these costs exceeds the carrying amount of the assets, the difference is recognised through profit or loss.

### ► 23. Liabilities

Liabilities are reported at amortised cost, with the exception of liabilities arising from derivative financial instruments or liabilities arising from hedge accounting. Costs for the procurement of funds are considered part of acquisition cost.

Non-current liabilities are discounted by applying the effective interest method.

Deferred income from network subsidies and other investment grants do not diminish the reported acquisition or production costs of the corresponding assets. They are reported as liabilities on the income statement in accordance with IAS 20. Deferred income from network subsidies constitutes payments made by customers as part of investments in network construction, represents an offset to acquisition cost of these assets and is released on a straight-line basis over their average useful life. Other investment grants are reported as other non-current liabilities, and are released as income in line with the useful life of the related assets. As a rule, the provision of investment grants is linked to operational management in accordance with legal requirements and approval of the responsible authorities.

### ► 24. Revenue

Revenues from EVN's end customer business at the balance sheet date are partly determined with the help of statistical procedures from the customer billing system, and accrued based on the quantities of energy and water supplied during the period under review. Revenues are recognised when EVN is entitled to payment from the customer for billable services.

Revenues from contract work derived from EVN's project business (BOOT model) are reported in proportion to the level of completed work within the framework of the contractual agreement, by using the cost-to-cost method.

Earnings from dividends are reported at the time concurring with the legal entitlement to payment.

► **25. Income taxes and deferred taxes**

The corporate income tax rate applicable to the parent company EVN AG on the balance sheet date equalled 25%.

The 2005 Tax Reform Act passed by the Austrian parliament enables companies to establish corporate tax groups. The EVN Group took advantage of this measure by setting up three such groups during the 2004/05 financial year.

The taxable profit or loss from the companies belonging to these three groups is assigned to the superior unit (Group member) or the respective corporate tax group, following the calculation of losses incurred by each of the companies in the group. In order to offset the taxable results which were transferred, the group contracts were amended to include a tax charge that is based on the stand-alone method.

The following corporate income tax rates were used to calculate deferred taxes:

| <b>25. Corporate income tax rates</b> |          |
|---------------------------------------|----------|
| <b>Headquarters</b>                   | <b>%</b> |
| <b>Austria</b>                        | 25.0     |
| <b>Bulgaria</b>                       | 15.0     |
| <b>Croatia</b>                        | 20.0     |
| <b>Cyprus</b>                         | 10.0     |
| <b>Denmark</b>                        | 28.0     |
| <b>Estonia</b>                        | 23.0     |
| <b>Germany</b>                        | 39.0     |
| <b>Lithuania</b>                      | 15.0     |
| <b>Macedonia</b>                      | 15.0     |
| <b>Poland</b>                         | 19.0     |
| <b>Russia</b>                         | 24.0     |
| <b>Slovenia</b>                       | 25.0     |

Deferred tax assets and deferred tax liabilities are calculated and reported on all temporary differences (differences between the amounts included in the consolidated financial statements and the financial statements prepared for tax purposes). Deferred taxes are calculated using the liability method at the tax rate to be expected on the balance sheet date when short-term differences are reversed.

Tax loss carryforwards are capitalised as deferred tax assets. Deferred tax assets and deferred tax liabilities are offset, when the company is entitled to offset these amounts and when they relate to the same tax authority. Deferred tax assets are only reported to the extent that it is considered probable that sufficient taxable results or taxable temporary differences will arise.

## Notes to the balance sheet

### Assets

#### Non-current assets

The net value is the residual book value, which equals the acquisition cost less accumulated depreciation.

#### ► 26. Intangible assets

The additions to goodwill resulting from acquisitions amounted to TEUR 28,398.1 (previous year: TEUR 118,739.3).

The carrying amount of the negative goodwill which arose prior to September 30, 2004 totalled TEUR 10,132.9, and was offset against retained earnings in the 2004/05 financial year in accordance with IFRS 3.

Other intangible assets include electricity procurement rights, transportation rights on natural gas pipelines, and other rights, in particular software licenses. This item also comprises capitalised future profit contributions from the order backlog of the WTE Group as well as the customer base of the Bulgarian and Macedonian electricity supply companies, and the brand name ESM at the date of initial consolidation.

The impairment test for intangible assets led to a reversion of impairment losses of TEUR 5,625.2 (previous year: TEUR 4,487.5) to electricity purchasing rights.

The impairment test procedure is described under the accounting and valuation methods in note ► 10. Procedures and effects of impairment tests. The development of depreciation in the period under review is described in note ► 53. Depreciation and amortisation.

In the 2005/06 financial year, a total of TEUR 573.0 (previous year: TEUR 1,200.0) was invested in research and development. The criteria required by IFRS to capitalise this item were not fulfilled.

| <b>26. Development of intangible assets 2004/05</b>  |                          |                          |                                |              |
|--|--------------------------|--------------------------|--------------------------------|--------------|
| <b>TEUR</b>  | <b>Positive goodwill</b> | <b>Negative goodwill</b> | <b>Other intangible assets</b> | <b>Total</b> |
| Gross value on 30.9.2004                             | 69,734.4                 | -12,989.0                | 293,576.1                      | 350,321.6    |
| Offset against retained earnings according to IFRS 3 | -                        | 12,989.0                 | -                              | 12,989.0     |
| Offset against accumulated amortisation              | -25,571.5                | -                        | -                              | -25,571.5    |
| Gross value on 1.10.2004                             | 44,162.9                 | -                        | 293,576.1                      | 337,739.0    |
| Currency translation differences                     | -                        | -                        | 0.5                            | 0.5          |
| Additions through company acquisitions               | -                        | -                        | 34,899.9                       | 34,899.9     |
| Additions  | 118,739.3                | -                        | 4,793.8                        | 123,533.0    |
| Disposals  | -                        | -                        | -1,975.4                       | -1,975.4     |
| Transfers  | -127.5                   | -                        | 475.3                          | 347.8        |
| Gross value on 30.9.2005                             | 162,774.7                | -                        | 331,770.3                      | 494,544.9    |
| Accumulated depreciation on 30.9.2004                | -25,571.5                | 2,856.1                  | -202,752.8                     | -225,468.3   |
| Offset against retained earnings according to IFRS 3 | -                        | -2,856.1                 | -                              | -2,856.1     |
| Offset against accumulated amortisation              | 25,571.5                 | -                        | -                              | 25,571.5     |
| Accumulated amortisation on 1.10.2004                | -                        | -                        | -202,752.8                     | -202,752.8   |
| Currency translation differences                     | -                        | -                        | -0.3                           | -0.3         |
| Scheduled amortisation                               | -                        | -                        | -12,939.3                      | -12,939.3    |
| Impairment losses                                    | -                        | -                        | -61.4                          | -61.4        |
| Reversal of impairment losses                        | -                        | -                        | 4,487.5                        | 4,487.5      |
| Disposals  | -                        | -                        | 1,191.3                        | 1,191.3      |
| Transfers  | -                        | -                        | -24.2                          | -24.2        |
| Accumulated amortisation on 30.9.2005                | -                        | -                        | -210,099.2                     | -210,099.2   |
| Net value on 30.9.2004                               | 44,162.9                 | -10,132.9                | 90,823.3                       | 124,853.3    |
| Net value on 30.9.2005                               | 162,774.7                | -                        | 121,671.1                      | 284,445.8    |

## 26. Development of intangible assets 2005/06

| TEUR                                   | Positive goodwill | Other intangible assets | Total      |
|--|-------------------|-------------------------|------------|
| Gross value on 30.9.2005               | 162,774.7         | 331,770.3               | 494,549.9  |
| Currency translation differences       | –                 | –0.1                    | –0.1       |
| Additions through company acquisitions | 28,398.1          | 29,595.0                | 57,993.1   |
| Additions                              | –                 | 2,065.6                 | 2,065.6    |
| Disposals                              | –                 | –2,344.0                | –2,344.0   |
| Transfers                              | –                 | 561.9                   | 561.9      |
| Gross value on 30.9.2006               | 191,172.8         | 361,648.7               | 552,821.5  |
| Accumulated amortisation on 1.10.2005  | –                 | –210,099.2              | –210,099.2 |
| Currency translation differences       | –                 | 0.1                     | 0.1        |
| Scheduled amortisation                 | –                 | –17,600.2               | –17,600.2  |
| Reversal of impairment losses          | –                 | 5,625.2                 | 5,625.2    |
| Disposals                              | –                 | 2,210.5                 | 2,210.5    |
| Transfers                              | –                 | –2.2                    | –2.2       |
| Accumulated amortisation on 30.9.2006  | –                 | –219,865.8              | –219,865.8 |
| Net value on 30.9.2005                 | 162,774.7         | 121,671.1               | 284,445.8  |
| Net value on 30.9.2006                 | 191,172.8         | 141,782.9               | 332,955.7  |

## ► 27. Property, plant and equipment

### 27. Development of property, plant and equipment 2004/05

| TEUR                                   | Land and buildings | Transmission lines and pipelines | Technical equipment | Meters    | Other plant, tools and equipment | Prepayments and equipment under construction | Total        |
|--|--------------------|----------------------------------|---------------------|-----------|----------------------------------|--|--------------|
| Gross value on 30.9.2004               | 472,846.5          | 1,889,599.0                      | 1,380,188.0         | 115,043.9 | 180,482.9                        | 76,344.1                                     | 4,114,504.4  |
| Currency translation differences       | 4.0                | –                                | –1.2                | –         | 27.5                             | –  | 30.3         |
| Additions through company acquisitions | 47,816.9           | 95,043.4                         | 23,569.3            | 22,442.4  | 6,907.0                          | 6,367.2                                      | 202,146.2    |
| Additions                              | 7,296.2            | 51,897.4                         | 24,631.2            | 10,501.0  | 13,870.5                         | 79,616.0                                     | 187,812.3    |
| Disposals                              | –4,498.2           | –5,001.7                         | –15,768.6           | –2,362.4  | –19,205.4                        | –279.8                                       | –47,116.1    |
| Transfers                              | 2,630.3            | 20,257.0                         | 7,139.8             | 6,854.0   | 2,593.1                          | –37,738.2                                    | 1,736.0      |
| Gross value on 30.9.2005               | 526,095.7          | 2,051,795.1                      | 1,419,758.6         | 152,478.9 | 184,675.5                        | 124,309.2                                    | 4,459,113.0  |
| Accumulated depreciation on 30.9.2004  | –291,720.1         | –1,001,127.3                     | –1,009,338.6        | –70,569.5 | –147,693.5                       | –1,287.0                                     | –2,521,736.1 |
| Currency translation differences       | –4.0               | –                                | 1.0                 | –         | –20.1                            | –  | –23.1        |
| Scheduled depreciation                 | –10,167.6          | –74,356.1                        | –36,843.0           | –7,624.9  | –15,715.1                        | –  | –144,706.7   |
| Impairment losses                      | –2,766.8           | –3,749.0                         | –49,496.4           | –         | –450.3                           | –605.0                                       | –57,067.4    |
| Reversal of impairment losses          | 1,096.7            | –                                | 5,158.1             | –         | –                                | –  | 6,254.8      |
| Disposals                              | 1,439.8            | 4,384.0                          | 8,065.0             | 1,832.8   | 18,872.7                         | –  | 34,594.3     |
| Transfers                              | 67.4               | 199.9                            | 70.9                | –945.9    | –282.5                           | –  | –890.2       |
| Accumulated depreciation on 30.9.2005  | –302,054.6         | –1,074,648.6                     | –1,082,383.0        | –77,307.5 | –145,288.8                       | –1,892.0                                     | –2,683,574.5 |
| Net value on 30.9.2004                 | 181,126.4          | 888,471.7                        | 370,849.4           | 44,474.3  | 32,789.4                         | 75,057.1                                     | 1,592,768.2  |
| Net value on 30.9.2005                 | 224,041.1          | 977,146.5                        | 337,375.6           | 75,171.4  | 39,386.7                         | 122,417.2                                    | 1,775,538.5  |

| <b>27. Development of property, plant and equipment 2005/06</b> |                           |   |                            |                  |   |   |                     |
|---|---------------------------|---|----------------------------|------------------|---|---|---------------------|
| <b>TEUR</b>   | <b>Land and buildings</b> | <b>Transmission lines and pipelines</b> | <b>Technical equipment</b> | <b>Meters</b>    | <b>Other plant, tools and equipment</b> | <b>Prepayments and equipment under construction</b> | <b>Total</b>        |
| <b>Gross value on 30.9.2005</b>                                 | <b>526,095.7</b>          | <b>2,051,795.1</b>                      | <b>1,419,758.6</b>         | <b>152,478.9</b> | <b>184,675.5</b>                        | <b>124,309.2</b>                                    | <b>4,459,113.0</b>  |
| <b>Currency translation differences</b>                         | 0.1                       | –                                       | 0.7                        | –                | –4.6                                    | 0.4   | –4.2                |
| <b>Additions through company acquisitions</b>                   | 117,243.5                 | –                                       | 70,557.1                   | –                | 4,111.0                                 | 12,626.3  | 204,537.9           |
| <b>Additions</b>  | 36,997.7                  | 43,680.1                                | 91,415.7                   | 19,940.5         | 13,087.5                                | 44,260.6  | 249,382.1           |
| <b>Disposals</b>  | –569.9                    | –3,441.4                                | –2,879.6                   | –2,975.7         | –17,729.3                               | –1,012.8  | –28,608.7           |
| <b>Transfers</b>  | 8,401.5                   | 24,294.7                                | 35,966.1                   | 37.3             | 6,901.6                                 | –75,899.7   | –298.4              |
| <b>Gross value on 30.9.2006</b>                                 | <b>688,168.6</b>          | <b>2,116,328.5</b>                      | <b>1,614,818.5</b>         | <b>169,481.0</b> | <b>191,041.7</b>                        | <b>104,283.2</b>                                    | <b>4,884,121.6</b>  |
| <b>Accumulated depreciation on 30.9.2005</b>                    | <b>–302,054.6</b>         | <b>–1,074,648.6</b>                     | <b>–1,082,383.0</b>        | <b>–77,307.5</b> | <b>–145,288.8</b>                       | <b>–1,892.0</b>                                     | <b>–2,683,574.5</b> |
| <b>Currency translation differences</b>                         | –                         | –                                       | –0.4                       | –                | 2.8                                     | –   | 2.4                 |
| <b>Scheduled depreciation</b>                                   | –13,166.9                 | –76,197.2                               | –42,814.2                  | –10,629.7        | –17,884.8                               | –358.3  | –161,051.0          |
| <b>Impairment losses</b>  | –1,563.8                  | –71,136.1                               | –6,112.1                   | –80.3            | –32.1                                   | –   | –78,924.3           |
| <b>Reversal of impairment losses</b>                            | 16,178.6                  | 530.2                                   | 22,225.8                   | –                | –                                       | –   | 38,934.6            |
| <b>Disposals</b>  | 321.7                     | 3,290.2                                 | 2,652.1                    | 2,465.0          | 17,247.7                                | 862.5   | 26,749.2            |
| <b>Transfers</b>  | 114.3                     | –1.1                                    | 641.2                      | –9.2             | –631.4                                  | –   | 113.7               |
| <b>Accumulated depreciation on 30.9.2006</b>                    | <b>–300,170.8</b>         | <b>–1,218,162.6</b>                     | <b>–1,105,880.5</b>        | <b>–85,561.7</b> | <b>–146,586.7</b>                       | <b>–1,387.8</b>                                     | <b>–2,857,750.1</b> |
| <b>Net value on 30.9.2005</b>                                   | <b>224,041.1</b>          | <b>977,146.5</b>                        | <b>337,375.6</b>           | <b>75,171.4</b>  | <b>39,386.7</b>                         | <b>122,417.2</b>                                    | <b>1,775,538.5</b>  |
| <b>Net value on 30.9.2006</b>                                   | <b>387,997.9</b>          | <b>898,165.9</b>                        | <b>508,938.0</b>           | <b>83,919.3</b>  | <b>44,455.1</b>                         | <b>102,895.4</b>                                    | <b>2,026,371.6</b>  |

The additions resulted primarily from the expansion of the electricity distribution, heating and wind power networks, the construction of gas transport and distribution pipelines and the exchange of electricity meters as well as investments in facilities for the company's technical infrastructure. Additions to the consolidation range are comprised primarily of the asset value of the two Bulgarian electricity supply companies during the 2004/05 financial year and the asset value of the Macedonian ESM AG in the 2005/06 financial year.

Land and buildings contain land amounting to TEUR 50,934.3 (previous year: TEUR 45,929.7).

As of the balance sheet date, the Group held a mortgage with a maximum value of TEUR 1,827.7 (previous year: TEUR 1,827.7).

The discontinuance of the reasons for impairments to several facilities resulted in the following reversals of impairment losses: TEUR 15,974.5 for the gas-fired power plants in Theiss and Korneuburg (previous year: impairment loss of TEUR 52,055.5); TEUR 18,583.9 for the coal-fired power plant in Dürnröhr (previous year: TEUR 6,254.8); and TEUR 4,376.2 for heating facilities (previous year: TEUR 0.0). An impairment loss of TEUR 75,197.0 (previous year: TEUR 0.0) was recognised to the gas distribution network due to the anticipated reduction in revenues resulting from regulatory measures, and impairment losses of TEUR 3,727.3 (previous year: TEUR 5,011.8) were recognised to other equipment.

The procedures for impairment tests are explained in greater detail in the accounting and valuation methods section, note ►10. Procedures and effects of impairment tests.

Prepayments and equipment under construction includes TEUR 90,817.1 (previous year: TEUR 104,833.4) in acquisition costs relating to equipment under construction on the balance sheet date.

For leased and rented equipment, the present value of the payment obligations for the use of heating networks and heat generation plants is reported on the balance sheet. The carrying amount of these assets totalled TEUR 9,922.8 at the balance sheet date (previous year: TEUR 11,469.7). The related leasing and rental liabilities are recorded under other non-current liabilities, with the exception of short-term lease and rental agreements with a term of up to one year.

### ► 28. Companies included at equity

The companies included in the consolidated financial statements of the EVN Group at equity are listed in note ►67. EVN Group investments.

Due to the first-time availability of up-to-date information on several associates included at equity, the proportional share of results is reported simultaneously and not with a one-year delay.

In accordance with IFRS guidelines, companies included at equity are initially recognised at their proportional results derived from an interim or annual report with a balance sheet date that is not more than three months before the balance sheet date of the parent company. The results of these companies during the 2005/06 financial year included non-recurring effects of TEUR 33,004.0.

| <b>28. Development of companies included at equity</b>         |                   |
|--|-------------------|
| <b>TEUR</b>  | <b>Associates</b> |
| <b>Gross value on 30.9.2005</b>                                | <b>300,032.7</b>  |
| <b>Additions</b>   | 4,963.2           |
| <b>Disposals</b>   | -92.5             |
| <b>Transfers</b>   | 6,545.5           |
| <b>Gross value on 30.9.2006</b>                                | <b>311,448.9</b>  |
| <b>Accumulated equity changes on 30.9.2005</b>                 | <b>61,284.0</b>   |
| <b>Currency translation differences</b>                        | 23.8              |
| <b>Proportional share of results</b>                           | 115,109.2         |
| <b>Dividends</b>   | -65,948.2         |
| <b>Changes in equity not recognised through profit or loss</b> | 8,913.3           |
| <b>Disposals</b>   | 34.2              |
| <b>Transfers</b>   | -6,545.5          |
| <b>Accumulated equity changes on 30.9.2006</b>                 | <b>112,870.9</b>  |
| <b>Net value on 30.9.2005</b>                                  | <b>361,316.7</b>  |
| <b>Net value on 30.9.2006</b>                                  | <b>424,319.8</b>  |

The following overview presents the main balance sheet and income statement items of the companies included at equity:

| <b>28. Key balance sheet/income statement figures of companies included at equity</b> |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>   | <b>2005/06</b>   | <b>2004/05</b>   |
| <b>Equity</b>   | <b>611,272.1</b> | <b>471,485.5</b> |
| <b>Assets</b>   | 1,998,039.6      | 1,623,335.9      |
| <b>Liabilities</b>  | 1,386,767.5      | 1,151,850.5      |
| <b>Adjustment to EVN's stake and equity valuation</b>                                 | -186,952.2       | -110,168.7       |
| <b>Companies included at equity</b>   | <b>424,319.8</b> | <b>361,316.7</b> |
| <b>Revenue</b>  | 2,845,159.4      | 2,177,875.6      |
| <b>Net profit</b>   | <b>107,958.3</b> | <b>102,712.9</b> |
| <b>Adjustment to EVN stake and equity valuation<sup>1)</sup></b>                      | 7,150.9          | -43,913.7        |
| <b>Proportional share of profit/loss from companies included at equity</b>            | <b>115,109.2</b> | <b>58,799.2</b>  |

<sup>1)</sup> Including non-recurring effects of TEUR 33,004.0 from the initial inclusion at the proportional share of IFRS results from the interim or annual financial statements with a balance sheet date that is not more than three months before the balance sheet date of the parent company.

A proportional loss of TEUR -22.6 was not recognised for the 2005/06 financial year (accumulated: TEUR -109.6) because it exceeded the carrying value of the investment.

There are no publicly recognised market prices for the companies included at equity in the EVN Group.

### ► 29. Other investments

This item includes shares in affiliated and associated companies, which are not consolidated due to immateriality, as well as investments in which EVN owns a stake of less than 20%, if these investments were not included at equity.

Other investments include shares in listed companies with a market value of TEUR 1,469,728.8 (previous year: TEUR 1,124,930.0) on the balance sheet date. Other investments included in this position amount to TEUR 9,370.1 (previous year: TEUR 173,091.8) and represent stakes in non-listed companies; therefore, an estimation of their market value is not possible due to insufficient information on market prices.

The disposal of the interest in the non-listed company Energie AG Oberösterreich, which had a carrying value of TEUR 163,786.4, resulted in profit amounting to TEUR 11,849.4 (excluding the indexing of value up to the date of payment) in the 2005/06 financial year. Group net profit for the period does not include any income from the disposal of financial assets classified as "available for sale".

Reversals of impairment losses of TEUR 344,798.8 (previous year: TEUR 584,077.5) to other investments represent adjustments to reflect increased market value and share prices, which were offset against the valuation reserve after the deduction of deferred taxes in accordance with IAS 39.

No impairment losses were recognised to net profit for the period (previous year: TEUR 1,287.3).

| <b>29. Development of other financial assets</b> |                                    |                          |              |
|--|------------------------------------|--------------------------|--------------|
| <b>TEUR</b>                                      | <b>Investments in subsidiaries</b> | <b>Other investments</b> | <b>Total</b> |
| Gross value on 30.9.2005                         | 9,619.6                            | 496,705.2                | 506,324.9    |
| Additions  | 24.5                               | 19.9                     | 44.4         |
| Disposals  | –                                  | –163,786.4               | –163,786.4   |
| Transfers  | –36.3                              | 17.5                     | –18.8        |
| Gross value on 30.9.2006                         | 9,607.8                            | 332,956.2                | 342,564.0    |
| Accumulated value adjustments on 30.9.2005       | –5,625.6                           | 797,322.5                | 791,697.0    |
| Write-up   | 39.2                               | 344,798.8                | 344,837.9    |
| Accumulated value adjustments on 30.9.2006       | –5,586.4                           | 1,142,121.3              | 1,136,534.9  |
| Net value on 30.9.2005                           | 3,994.0                            | 1,294,027.8              | 1,298,021.8  |
| Net value on 30.9.2006                           | 4,021.4                            | 1,475,077.5              | 1,479,098.9  |

### ► 30. Other non-current assets

Securities reported under non-current assets consist of shares in investment funds, and mainly serve to provide coverage for the provisions for severance payments, pensions and similar pension-related obligations at the balance sheet date as required by Austrian tax regulations. (Note: this stipulation contained in the Austrian Income Tax Code was repealed in October 2006 by Austria's Constitutional Court.) The net values correspond with the quoted prices on the balance sheet date. Additions and disposals resulted from the regrouping of assets during the financial year.

Of the loans receivable amounting to TEUR 13,644.6 (previous year: TEUR 12,625.3), a total of TEUR 1,101.4 (previous year: TEUR 1,143.4) have a remaining term to maturity of less than one year.

Additions to non-current assets also include the capitalised interest expense of TEUR 9,932.7 (previous year: TEUR 5,957.5) on debt. The interest rate used for capitalisation is 3.1%–6.1% (previous year: 2.5%–6.1%).

Non-current receivables from leases resulted from the project business within the framework of BOOT models implemented by the WTE and AVN Groups, which were merged into EVN Umweltholding und Betriebs-GmbH (EVN Environmental Holding Group) during the 2005/06 financial year. Receivables from ongoing contracts amount to TEUR 306,596.4 (previous year: TEUR 135,738.7).

The other non-current assets consist primarily of deferred guarantee payments for long-term bank loans and receivables concerning the fair value of the interest and currency swaps.

| <b>30. Development of other non-current assets</b> |            |                  |                         |  |                          |           |
|--|------------|------------------|-------------------------|--|--------------------------|-----------|
| TEUR   | Securities | Loans receivable | Primary energy reserves | Non-current receivables and accrued lease transactions | Other non-current assets | Total     |
| Gross value on 30.9.2005                           | 85,049.1   | 12,760.1         | 3,754.5                 | 244,937.5  | 3,791.2                  | 350,292.3 |
| Currency translation differences                   | –          | –                | –                       | –7.9   | –                        | –7.9      |
| Additions through company acquisitions             | 702.1      | –                | –                       | –  | –                        | 702.1     |
| Additions  | 6,266.8    | 2,542.3          | 6,548.6                 | 164,760.1  | 15,666.1                 | 195,783.9 |
| Disposals  | –3,107.7   | –1,503.0         | –                       | –25,240.7  | –1,574.4                 | –31,425.7 |
| Gross value on 30.9.2006                           | 88,910.4   | 13,799.3         | 10,303.1                | 384,449.0  | 17,882.9                 | 515,344.7 |
| Accumulated depreciation on 30.9.2005              | 5,260.4    | –134.7           | –521.1                  | –  | –2,122.0                 | 2,482.6   |
| Depreciation                                       | –1.0       | –20.0            | –                       | –  | –                        | –21.0     |
| Accumulated depreciation on 30.9.2006              | 5,259.4    | –154.7           | –521.1                  | –  | –2,122.0                 | 2,461.6   |
| Net value on 30.9.2005                             | 90,309.5   | 12,625.3         | 3,233.3                 | 244,937.5  | 1,669.2                  | 352,774.9 |
| Net value on 30.9.2006                             | 94,169.8   | 13,644.6         | 9,782.0                 | 384,449.0  | 15,760.9                 | 517,806.3 |

The conversion of the future minimum lease payments to their cash value is presented as follows.

| <b>30. Remaining terms of non-current receivables and accrued lease transactions</b> |                                |             |              |           |                                |             |              |           |
|--|--------------------------------|-------------|--------------|-----------|--------------------------------|-------------|--------------|-----------|
| TEUR   | Remaining term as of 30.9.2006 |             |              |           | Remaining term as of 30.9.2005 |             |              |           |
|  | Up to 1 year                   | Over 1 year | Over 5 years | Total     | Up to 1 year                   | Over 1 year | Over 5 years | Total     |
| Interest components  | 20,955.7                       | 112,772.3   | 71,128.7     | 204,856.7 | 8,491.4                        | 69,175.2    | 50,231.6     | 127,898.2 |
| Principal components   | 23,049.3                       | 187,293.5   | 174,106.2    | 384,449.0 | 7,576.0                        | 163,081.2   | 74,280.3     | 244,937.5 |
| Total  | 44,005.0                       | 300,065.8   | 245,234.9    | 589,305.7 | 16,067.4                       | 232,256.4   | 124,511.9    | 372,835.7 |

## Current assets

### ► 31. Inventories

The primary energy inventories consist chiefly of coal supplies. A decrease in these inventories during the reporting period was reflected in a corresponding reduction to this item.

The emission certificates relate exclusively to certificates which have already been purchased, but not yet used, in order to fulfil the requirements stipulated in the Emission Certificate Act. The corresponding obligation to return the certificates is reported under current provisions (see note ►47. Current provisions).

Other inventories consist of raw materials, supplies, and consumables and miscellaneous items as well as orders not yet invoiced.

| <b>31. Inventories</b>                                     |                 |                 |
|--|-----------------|-----------------|
| <b>TEUR</b>  | <b>2005/06</b>  | <b>2004/05</b>  |
| Primary energy reserves                                    | 23,290.2        | 27,912.9        |
| Emission certificates                                      | 7,921.4         | –               |
| Raw materials, supplies, consumables and other inventories | 24,822.9        | 16,892.5        |
| Customer orders not yet invoiced                           | 14,690.6        | 19,677.9        |
| <b>Total</b>   | <b>70,725.1</b> | <b>64,483.4</b> |

The risk of inventories resulting from comparatively low turnover was reflected in a valuation adjustment of TEUR 1,529.4 (previous year: TEUR 77.2).

Changes in the consolidation range increased inventories by TEUR 10,634.5 (previous year: TEUR 5,742.9).

The inventories are not subject to any limitations on disposal and are not encumbered.

There are no major long-term production contracts that must be consolidated as non-current manufacturing contracts.

### ► 32. Receivables and other current assets

Trade accounts receivable relate mainly to electricity, gas and heating customers. The risk of insolvency is accounted for by a provision of TEUR 20,973.6 (previous year: TEUR 13,178.0).

Receivables from financial instruments relate in particular to the valuation of hedging transactions without recognition to profit or loss and from interest accruals.

Receivables from employees comprise accruals from current wage and salary accounting.

Receivables from associated and affiliated companies are derived primarily from intragroup transactions relating to energy supplies, Group financing and services to non-consolidated subsidiaries.

Other receivables consist mainly of a performance guarantee relating to the acquisition of the Bulgarian and Macedonian electricity supply companies, prepayments made, receivables from insurance, receivables from taxation and the receivable from the sale of Energie AG Oberösterreich, which is due in January 2007 in accordance with the sale agreement.

| <b>32. Receivables and other current assets</b> |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>                                     | <b>2005/06</b>   | <b>2004/05</b>   |
| Trade accounts receivable                       | 250,895.6        | 153,983.6        |
| Receivables from financial instruments          | 3,265.2          | 12,899.0         |
| Receivables from employees                      | 5,834.3          | 5,522.9          |
| Receivables from subsidiaries and associates    | 86,246.1         | 67,746.7         |
| Receivables from affiliated companies           | 7,654.2          | 11,193.9         |
| Other receivables and assets                    | 264,698.6        | 90,537.6         |
| <b>Total</b>                                    | <b>618,593.9</b> | <b>341,883.8</b> |

► **33. Cash and current deposits**

Current securities, consisting largely of shares in funds, fixed-income securities and domestic shares, are used for the temporary investment of free liquid funds.

In addition to a gain of TEUR 2,530.3 (previous year: TEUR 5,021.8) on the sale of securities, a write-up of TEUR 3,541.6 (previous year: TEUR 5,951.2) was recognised in the period under review to reflect an increase in stock prices.

| <b>33. Cash and current deposits</b> |                  |                  |
|--------------------------------------|------------------|------------------|
| <b>TEUR</b>                          | <b>2005/06</b>   | <b>2004/05</b>   |
| Cash on hand                         | 255.7            | 150.0            |
| Cash at banks                        | 91,679.4         | 83,795.0         |
| Securities                           | 282,687.3        | 177,193.8        |
| <b>Total</b>                         | <b>374,622.4</b> | <b>261,138.7</b> |

The structure of EVN's securities portfolio at the balance sheet date is as follows:

| <b>33. Composition of securities</b> |                  |                  |
|--------------------------------------|------------------|------------------|
| <b>TEUR</b>                          | <b>2005/06</b>   | <b>2004/05</b>   |
| Shares in funds                      | 220,287.8        | 161,009.2        |
| Fixed income securities              | 4,112.4          | 3,697.7          |
| Shares in listed companies           | 58,287.1         | 12,486.8         |
| <b>Total</b>                         | <b>282,687.3</b> | <b>177,193.8</b> |

## Liabilities

### Equity

#### ► 34. Share capital

The share capital of EVN AG remained unchanged during the period under review, and amounts to TEUR 99,069.4. It is comprised of 40,881,455 zero par value bearer shares.

#### ► 35. Share premium

The share premium held by EVN at the end of the 2005/06 financial year remained unchanged in comparison to the preceding year. This item consists of appropriated reserves of TEUR 251,094.2 from capital increases in accordance with Austrian stock corporation law as well as non-appropriated capital reserves of TEUR 58,267.7 pursuant to Austrian stock corporation law.

#### ► 36. Retained earnings

Retained earnings of TEUR 1,255,634.2 (previous year: TEUR 1,080,938.3) comprise the non-distributed profit from companies included in the consolidation as well as investments included at equity.

The proposed dividend of EUR 1.40 per share (EUR 1.20 plus a bonus of EUR 0.20) is not included under liabilities.

#### ► 37. Revaluation reserve according to IFRS 3

The revaluation reserve recorded in accordance with IFRS 3 is derived from business combinations achieved in stages, and results from the acquisition of a further 10.05% interest in RAG Beteiligungs AG as well as the remaining 50% stake in EVN Liegenschaftsverwaltung Gesellschaft mbH during the 2004/05 financial year.

#### ► 38. Valuation reserve according to IAS 39

The valuation reserve according to IAS 39 includes non-recognised changes in the market value of securities available for sale and cash flow hedges as well as the proportional share of changes to investments in associates that were recognised directly in equity.

| <b>38. Valuation reserve according to IAS 39</b>   |                    |                   |                  |                  |                   |                  |
|--|--------------------|-------------------|------------------|------------------|-------------------|------------------|
| TEUR   | 2005/06            |                   |                  | 2004/05          |                   |                  |
|  | Before tax         | Tax               | After tax        | Before tax       | Tax               | After tax        |
| Market valuation of securities   | 1,141,944.7        | -285,486.2        | 856,458.5        | 797,146.0        | -199,286.5        | 597,859.5        |
| Cash flow hedges   | -14,500.0          | 3,686.8           | -10,813.3        | -630.9           | 440.9             | -190.0           |
| Proportional share of changes to investments in associates recognised directly in equity | 6,252.4            | -                 | 6,252.4          | -                | -                 | -                |
| <b>Total</b>   | <b>1,133,697.1</b> | <b>-281,799.4</b> | <b>851,897.6</b> | <b>796,515.1</b> | <b>-198,845.6</b> | <b>597,669.5</b> |

► **39. Currency translation reserve**

This item contains translation gains and losses from the consolidation of foreign subsidiaries, which resulted from the use of different exchange rates for the balance sheet and income statement.

► **40. Minority interest**

This item comprises minority interests in the equity of subsidiaries, which are fully consolidated in the financial statements of the EVN Group:

| <b>40. Minority interest</b>              |                |                |
|---|----------------|----------------|
| <b>%</b>                                  | <b>2005/06</b> | <b>2004/05</b> |
| Burgenland Holding AG                     | 30.40          | 30.42          |
| RAG Beteiligungs AG                       | 49.95          | 49.95          |
| ERP Plovdiv                               | 33.00          | 33.00          |
| ERP Stara Zagora                          | 33.00          | 33.00          |
| Wasserkraftwerke Trieb und Krieglach GmbH | 30.00          | 30.00          |
| ESM AD                                    | 10.00          | –              |

EVN directly or indirectly owns a 100% interest in all other fully consolidated companies.

**Non-current liabilities**

► **41. Non-current loans and borrowings**

In addition to a JPY bond issued in 1994, this item contains a CHF obligation placed in April 1998, a DEM bond issued in August 1998, a EUR bond issued in December 2001 and a CHF obligation issued in June 2004. All bonds call for payment in arrears. In the past financial year, TEUR 4,000.0 of the EUR bond were repurchased.

The loans consist of borrowings from banks, which are subsidised in part by interest and redemption grants from the Austrian Environment and Water Industry Fund.

These items are valued at amortised cost. Liabilities in foreign currencies were translated at the exchange rate in effect on the balance sheet date or at the hedged rate. In accordance with IAS 39, hedged liabilities were adjusted to reflect the corresponding change in the value of the hedged risk in cases where hedge accounting was applied.

A valuation as of the balance sheet date resulted in income of TEUR 2,641.6 from the foreign exchange-based reduction in the value of the CHF obligations (previous year: income of TEUR 219.9 from devaluation).

Deferred interest expenses are contained in the other current liabilities.

The non-recourse liabilities incurred by project companies against EVN AG amounted to TEUR 362,474.8 as of September 30, 2006 (previous year: TEUR 238,237.2).

The effective interest rate for the 2005/06 financial year, which averaged 4.31% (previous year: 4.42%), represents the average interest on the average carrying amount after interest and currency hedging were taken into account. On the balance sheet date, the interest rate weighted by the carrying amount of the relevant liabilities totalled 3.75% (previous year: 4.38%), which corresponded with a fixed interest period of 1.6 years (previous year: 2.4 years).

Fair value was calculated on the basis of the market information available for the respective bond prices and the exchange rates on the balance sheet date.

| <b>41. Non-current financial liabilities</b> |                       |           |                |                           |                           |                                       |   |                      |
|--|-----------------------|-----------|----------------|---------------------------|---------------------------|---------------------------------------|---|----------------------|
|  | Nominal interest rate | Term      | Nominal amount | Carrying amount 30.9.2006 | Carrying amount 30.9.2005 | Effective interest rate <sup>1)</sup> | Effective interest rate on nominal amount <sup>2)</sup> | Fair value 30.9.2006 |
|  | %                     |           |                | TEUR                      | TEUR                      | %                                     | %   | TEUR                 |
| <b>JPY bond</b>                              | 5.20                  | 1994–2014 | JPY 8bn        | 43,691.6                  | 50,946.4                  | 9.52                                  | 7.62  | 66,870.2             |
| <b>CHF obligation</b>                        | 3.25                  | 1998–2008 | CHF 184m       | 117,413.0                 | 120,829.8                 | 2.05                                  | 1.94  | 117,425.9            |
| <b>DEM bond</b>                              | 5.00                  | 1998–2008 | DEM 224m       | 115,200.6                 | 115,584.2                 | 4.96                                  | 5.00  | 116,705.4            |
| <b>EUR bond</b>                              | 5.25                  | 2001–2011 | EUR 262,9m     | 262,669.3                 | 280,310.8                 | 4.48                                  | 5.01  | 277,385.6            |
| <b>CHF obligation</b>                        | 2.43                  | 2004–2009 | CHF 200m       | 125,675.9                 | 128,170.9                 | 2.52                                  | 2.43  | 125,873.7            |
| <b>Total bonds</b>                           | –                     | –         | –              | <b>664,650.4</b>          | <b>695,842.1</b>          | –                                     | –   | <b>704,260.8</b>     |
| <b>Non-current bank loans</b>                | 1.00–7.49             | by 2031   | –              | 732,518.89                | 339,724.1                 | 4.67                                  | 4.67  | 732,518.8            |
| <b>Total</b>                                 |                       |           |                | <b>1,397,169.2</b>        | <b>1,035,566.2</b>        | <b>4.31</b>                           | –   | <b>1,436,779.6</b>   |

<sup>1)</sup> Interest expenses in relation to average carrying amount, allowing for interest and currency hedges.

<sup>2)</sup> Interest expenses in relation to nominal amount allowing for interest and currency hedges.

## ► 42. Deferred taxes

| <b>42. Deferred taxes</b>       |                  |                  |
|---------------------------------|------------------|------------------|
| TEUR                            | 2005/06          | 2004/05          |
| <b>Deferred tax assets</b>      |                  |                  |
| Employee-related provisions     | –28,828.4        | –29,259.0        |
| Tax loss carryforwards          | –2,646.4         | –6,035.7         |
| Financial instruments           | –172.1           | –1,697.9         |
| Other deferred tax assets       | –10,542.0        | –473.3           |
| <b>Deferred tax liabilities</b> |                  |                  |
| Non-current assets              | 49,423.7         | 41,563.0         |
| Untaxed reserves                | 27,403.4         | 29,274.1         |
| Financial instruments           | 312,267.8        | 224,555.3        |
| Other deferred tax liabilities  | 31,496.7         | 37,276.0         |
| <b>Total</b>                    | <b>378,402.8</b> | <b>295,202.3</b> |
| <b>Thereof</b>                  |                  |                  |
| Deferred tax assets             | –1,296.9         | –                |
| Provisions for deferred taxes   | 379,699.7        | 295,202.3        |

In accordance with IAS 39, deferred tax assets of TEUR 281,799.4 (previous year: TEUR 198,845.6) are recorded in retained earnings without recognition through profit or loss.

► **43. Non-current provisions**

| <b>43. Non-current provisions</b>             |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>                                   | <b>2005/06</b>   | <b>2004/05</b>   |
| Provision for pensions                        | 225,142.1        | 229,082.2        |
| Provision for obligations similar to pensions | 16,272.0         | 16,430.3         |
| Provision for severance payments              | 65,932.8         | 61,166.0         |
| Provisions for service anniversary bonuses    | 16,817.2         | 15,072.5         |
| Other non-current provisions                  | 110,044.2        | 65,697.4         |
| <b>Total</b>                                  | <b>434,208.3</b> | <b>387,448.4</b> |

The amounts reported for the provision on pensions and for similar obligations as well as severance payments were generally calculated on the basis of the following parameters:

- Interest rate of 4.75% p.a. (previous year: 4.25% p.a.)
- Remuneration increases of 2.75% p.a. (previous year: 2.5% p.a.)
- Pension increases of 2.75% p.a. (previous year: 2.5% p.a.)
- Expected long-term interest rate of 4.75% p.a. (previous year: 4.25% p.a.)

| <b>Development of the provisions for pensions and similar obligations</b> |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>   | <b>2005/06</b>   | <b>2004/05</b>   |
| Present value of pension obligations (DBO) on 1.10.                       | <b>254,937.0</b> | <b>226,323.9</b> |
| + Service costs   | 1,918.1          | 1,560.5          |
| + Interest paid   | 10,859.9         | 11,396.8         |
| - Pension payments  | -16,876.5        | -16,501.6        |
| +/- Actuarial loss/gain   | -3,654.9         | 32,157.4         |
| Present value of pension obligations (DBO) on 30.9.                       | <b>247,183.6</b> | <b>254,937.0</b> |
| Provisions for pensions and similar obligations on 30.9.                  | <b>241,414.1</b> | <b>245,512.6</b> |

On the balance sheet date, the provision for pensions showed a deficit of 2.3% compared to the DBO value (previous year: deficit of 3.7%).

| <b>Development of the provision for severance payments</b>    |                 |                 |
|---|-----------------|-----------------|
| <b>TEUR</b>   | <b>2005/06</b>  | <b>2004/05</b>  |
| Present value of severance payment obligations (DBO) on 1.10. | <b>65,138.3</b> | <b>57,511.0</b> |
| + Additions through company acquisitions                      | 2,760.3         | 1,662.2         |
| + Service costs   | 2,982.6         | 2,569.0         |
| + Interest paid   | 2,871.7         | 3,016.6         |
| – Severance payments  | –3,803.6        | –5,005.8        |
| +/- Actuarial loss/gain                                       | –772.4          | 5,385.3         |
| Present value of severance payment obligations (DBO) on 30.9. | <b>69,177.0</b> | <b>65,138.3</b> |
| Provision for severance payments on 30.9.                     | <b>65,932.8</b> | <b>61,166.0</b> |

At the balance sheet date, the provision for severance payments showed a deficit of 4.7% compared to the DBO value (previous year: deficit of 6.1%).

| <b>Development of other non-current provisions</b> |                                    |                               |                                      |                          |                      |  |                                     |                  |
|--|------------------------------------|-------------------------------|--------------------------------------|--------------------------|----------------------|--|-------------------------------------|------------------|
| <b>TEUR</b>  | <b>Service anniversary bonuses</b> | <b>Cooperation agreements</b> | <b>Environmental and waste risks</b> | <b>Legal proceedings</b> | <b>Restructuring</b> | <b>Non-current financial instruments</b> | <b>Other non-current provisions</b> | <b>Total</b>     |
| Carrying amount on 1.10.2005                       | <b>15,072.5</b>                    | <b>36,500.0</b>               | <b>19,767.7</b>                      | –                        | –                    | <b>5,069.0</b>                           | <b>4,360.6</b>                      | <b>80,769.9</b>  |
| Additions through company acquisitions             | 1,662.6                            | –                             | –                                    | 8,397.6                  | –                    | –  | –                                   | 10,060.2         |
| Interest paid                                      | 672.4                              | 2,190.0                       | 1,169.6                              | –                        | –                    | –  | –                                   | 4,032.0          |
| Use  | –1,299.0                           | –1,190.0                      | –                                    | –                        | –                    | –  | –1,621.1                            | –4,110.1         |
| Additions  | 708.7                              | –                             | 7,696.8                              | 3,546.4                  | 3,331.1              | 20,826.5                                 | –                                   | 36,109.5         |
| Carrying amount on 30.9.2006                       | <b>16,817.2</b>                    | <b>37,500.0</b>               | <b>28,634.0</b>                      | <b>11,944.0</b>          | <b>3,331.1</b>       | <b>25,895.5</b>                          | <b>2,739.5</b>                      | <b>126,861.5</b> |

As part of the extensive restructuring measures for the Bulgarian companies, a model was approved in December 2005 for the payment of severance compensation to employees who leave the company voluntarily. This model calls for a payment of between 4.5 and 18.5 monthly salaries or wages to participating employees, with the exact payment depending on age and length of service.

#### ► 44. Other non-current liabilities

Other non-current liabilities consist chiefly of investment subsidies and lease liabilities related to the long-term utilisation of heating networks and heating plants.

| <b>44. Other non-current liabilities</b>    |                 |                 |
|---|-----------------|-----------------|
| <b>TEUR</b>                                 | <b>2005/06</b>  | <b>2004/05</b>  |
| Investment grants                           | 37,422.3        | 33,400.3        |
| Long-term leases                            | 29,213.8        | 26,421.1        |
| Long-term accruals of financial instruments | 5,948.5         | 6,373.4         |
| Other non-current liabilities               | 3,317.1         | 2,090.0         |
| <b>Total</b>                                | <b>75,901.6</b> | <b>68,284.8</b> |

| <b>Term to maturity of other non-current liabilities</b> |                                  |                |                 |                 |                                  |                |                 |                 |
|--|----------------------------------|----------------|-----------------|-----------------|----------------------------------|----------------|-----------------|-----------------|
| TEUR   | Term to maturity as of 30.9.2006 |                |                 |                 | Term to maturity as of 30.9.2005 |                |                 |                 |
|  | Up to 1 year                     | Over 1 year    | Over 5 years    | Total           | Up to 1 year                     | Over 1 year    | Over 5 years    | Total           |
| Long-term leases   | –                                | 8,456.3        | 20,757.5        | 29,213.8        | –                                | 7,208.8        | 19,212.3        | 26,421.1        |
| Other non-current liabilities                            | –                                | 1,330.8        | 1,986.2         | 3,317.1         | –                                | 1,633.5        | 456.5           | 2,090.0         |
| <b>Total</b>   | <b>–</b>                         | <b>9,787.2</b> | <b>22,743.7</b> | <b>32,530.9</b> | <b>–</b>                         | <b>8,842.3</b> | <b>19,668.8</b> | <b>28,511.1</b> |

## Current liabilities

### ► 45. Current loans and borrowings

Overdrafts are included under cash and cash equivalents on the cash flow statement.

| <b>45. Current loans</b>                |                 |                |
|---|-----------------|----------------|
| TEUR                                    | 2005/06         | 2004/05        |
| EUR cash loans                          | 133.8           | 741.7          |
| Bank overdrafts and other current loans | 15,137.7        | 1,530.1        |
| <b>Total</b>                            | <b>15,271.5</b> | <b>2,271.8</b> |

### ► 46. Current tax liabilities

This item includes value added tax, energy tax, payroll-related duties and prepayments on corporate income tax not yet assessed and totalled TEUR 58,422.2 (previous year: TEUR 72,754.7).

### ► 47. Current provisions

The provision for claims by employees comprises special payments not yet due, outstanding leave and liabilities from restructuring. These items relate to an early retirement programme in which employees can participate on a voluntary basis. The provision for legally binding agreements on the balance sheet date equals TEUR 6,540.8 (previous year: TEUR 8,635.4).

For the 2005/06 financial year, an official notification from the government confirmed that a total of 1,444,152 emission certificates were granted to the EVN Group free of charge. A provision was created (see note ►31. Inventories) for the existing shortfall as of the balance sheet date based on the market value of the emission certificates as of September 30, 2006, and amounted to TEUR 20,294.6 (previous year: TEUR 12,509.8).

| <b>47. Current provisions</b>          |                        |                  |                       |  |   |                  |
|--|------------------------|------------------|-----------------------|--|---|------------------|
| TEUR                                   | Personnel entitlements | Impending losses | Emission certificates | Current provisions for asset additions | Deliveries and services not yet invoiced and other provisions | Total            |
| Carrying value on 1.10.2005            | 51,444.6               | 18,474.2         | 12,509.8              | 403.6                                  | 45,503.0  | 128,335.2        |
| Additions through company acquisitions | 1,695.7                | –                | –                     | –                                      | 227.0   | 1,922.7          |
| Use                                    | –32,997.6              | –17,543.3        | –6,063.1              | –359.4                                 | –2,444.6  | –59,408.1        |
| Reversal                               | –                      | –930.9           | –                     | –9.8                                   | –6,617.6  | –7,558.3         |
| Addition                               | 34,645.1               | 7,715.3          | 13,847.8              | 1,984.3                                | 25,776.3  | 83,968.9         |
| <b>Carrying value on 30.9.2006</b>     | <b>54,787.8</b>        | <b>7,715.3</b>   | <b>20,294.6</b>       | <b>2,2018.6</b>                        | <b>62,444.1</b>   | <b>147,260.3</b> |

► **48. Other current liabilities**

The liabilities relating to social security contributions comprise liabilities to the tax authorities and severance payment obligations.

The prepayments received were made by customers for electricity, gas and heating supplies, and the installation of customer equipment.

Other current liabilities consist primarily of deferred interest expenses as well as accrued liabilities from the offset of the surcharge on network tariffs.

| <b>48. Other current liabilities</b>       |                  |                 |
|--|------------------|-----------------|
| <b>TEUR</b>                                | <b>2005/06</b>   | <b>2004/05</b>  |
| Liabilities relating to social security    | 12,980.5         | 15,231.2        |
| Liabilities to subsidiaries and associates | 29,792.2         | 11,317.5        |
| Liabilities to affiliated companies        | 15,509.4         | 16,432.1        |
| Prepayments received                       | 3,483.6          | 1,204.4         |
| Other liabilities                          | 68,994.3         | 55,410.2        |
| <b>Total</b>                               | <b>130,760.0</b> | <b>99,595.4</b> |

## Notes to the income statement

EVN acquired a 67% stake in each of two Bulgarian electricity supply companies, ERP Plovdiv and ERP Stara Zagora, during the 2<sup>nd</sup> quarter of the 2004/05 financial year and included these two firms in the consolidated financial statements for the first time as of January 2005. Therefore, the consolidated income statement for the previous year includes these companies for only three quarters.

EVN acquired a majority stake in the Macedonian electricity distribution company ESM AD through a transaction that closed at the beginning of April 2006, and included this new subsidiary in the financial statements of the EVN Group as of the 3<sup>rd</sup> quarter of 2005/06. Accordingly, ESM AD is only included in the consolidated income statement for two quarters of the 2005/06 financial year.

The increase of the consolidation range in South East Europe has led to significant changes in almost all items. For this reason, comparisons with prior year figures may not be very informative.

### ► 49. Revenue

The revenues of the individual business segments developed as follows:

| <b>49. Revenue</b>                              |                    |                    |
|---|--------------------|--------------------|
| <b>TEUR</b>                                     | <b>2005/06</b>     | <b>2004/05</b>     |
| <b>Energy</b>                                   | 1,761,662.1        | 1,370,228.6        |
| <b>Environmental Services</b>                   | 290,061.5          | 212,893.6          |
| <b>Strategic Investments and Other Business</b> | 19,847.8           | 26,407.7           |
| <b>Total</b>                                    | <b>2,071,571.5</b> | <b>1,609,529.9</b> |

The segment reporting contains an overview of revenues by business area and region (see note ►60. Segment reporting).

Revenues also encompass revenues of TEUR 169,104.0 (previous year: TEUR 95,475.8) from contractual work on international projects.

### ► 50. Other operating income

Other operating income consists primarily of payments for claims and rental income, payments on receivables that were previously written off and insurance compensation.

| <b>50. Other operating income</b>  |                 |                 |
|--|-----------------|-----------------|
| <b>TEUR</b>  | <b>2005/06</b>  | <b>2004/05</b>  |
| <b>Income from the reversal of provisions</b>  | 492.4           | 1,217.5         |
| <b>Income from the reversal of deferred income from network subsidies</b>              | 23,334.4        | 18,219.4        |
| <b>Income from the disposal of intangible assets and property, plant and equipment</b> | -210.4          | 120.9           |
| <b>Miscellaneous other operating income</b>  | 17,123.1        | 21,945.6        |
| <b>Total</b>   | <b>40,739.4</b> | <b>41,503.3</b> |

### ► 51. Cost of materials and services

The cost of electricity purchases and primary energy mainly consists of gas and electricity procurement costs as well as the expense involved in purchasing emission certificates – related to the increased production of electricity.

The insufficient allocation of free emission certificates resulted in corresponding costs of TEUR 15,602.3 for the purchase of additional certificates during the period under review (previous year: TEUR 12,509.8).

The cost of other materials and services relates primarily to the project business of EVN Umweltholding as well as outsourced equipment operation and maintenance services. This item also includes other costs directly related to required services.

| <b>51. Cost of materials and services</b>                |                    |                    |
|--|--------------------|--------------------|
| <b>TEUR</b>  | <b>2005/06</b>     | <b>2004/05</b>     |
| <b>Electricity purchases and primary energy expenses</b> | 1,042,091.3        | 750,321.5          |
| <b>Other materials and services</b>                      | 316,149.5          | 261,288.0          |
| <b>Total</b>   | <b>1,358,240.8</b> | <b>1,011,609.6</b> |

### ► 52. Personnel expenses

Personnel expenses include payments of TEUR 4,400.7 (previous year: TEUR 4,230.7) to EVN-Pensionskasse AG as well as contributions of TEUR 104.8 (previous year: TEUR 65.0) to EVN pension funds.

| <b>52. Personnel expenses</b>   |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>   | <b>2005/06</b>   | <b>2004/05</b>   |
| <b>Wages and salaries</b>   | 184,383.4        | 161,883.7        |
| <b>Severance payments</b>   | 13,017.5         | 8,796.6          |
| <b>Pension costs</b>  | 16,393.6         | 16,744.3         |
| <b>Compulsory social security contributions and payroll-related taxes</b> | 43,625.1         | 39,484.3         |
| <b>Other employee-related expenses</b>                                    | 6,186.6          | 5,349.5          |
| <b>Total</b>  | <b>263,606.3</b> | <b>232,258.5</b> |

| <b>52. Employees by business unit</b> |                     |                     |
|---------------------------------------|---------------------|---------------------|
| <b>Annual average</b>                 | <b>2005/06</b>      | <b>2004/05</b>      |
| <b>Generation</b>                     | 70                  | 68                  |
| <b>Networks</b>                       | 1,449               | 1,509               |
| <b>Energy Supply</b>                  | 112                 | 120                 |
| <b>South East Europe</b>              | 7,353               | 4,049               |
| <b>Thereof Bulgaria</b>               | 3,803               | 4,049 <sup>1)</sup> |
| <b>Thereof Macedonia</b>              | 3,550 <sup>1)</sup> | –                   |
| <b>Environmental Services</b>         | 438                 | 396                 |
| <b>Other</b>                          | 550                 | 512                 |
| <b>Total</b>                          | <b>9,973</b>        | <b>6,654</b>        |

<sup>1)</sup> The average number of employees for Macedonia in the 2005/06 financial year and for Bulgaria during the 2004/05 financial year is calculated in relation to the entire year for comparative purposes, although the new subsidiaries were not included in EVN's consolidated financial statements for the entire financial year.

### ► 53. Depreciation and amortisation

The impairment test procedure is described under the accounting and valuation methods in note ►10. Procedures and effects of impairment tests.

| <b>53. Depreciation and amortisation by balance sheet item</b> |                  |                  |
|--|------------------|------------------|
| <b>TEUR</b>  | <b>2005/06</b>   | <b>2004/05</b>   |
| Amortisation of intangible assets                              | 11,975.0         | 8,314.3          |
| Depreciation of property, plant and equipment                  | 201,040.8        | 195,848.6        |
| <b>Total</b>   | <b>213,015.8</b> | <b>204,162.9</b> |

| <b>53. Depreciation and amortisation</b>    |                  |                  |
|---|------------------|------------------|
| <b>TEUR</b>                                 | <b>2005/06</b>   | <b>2004/05</b>   |
| Scheduled depreciation and amortisation     | 178,651.1        | 157,776.4        |
| Impairment losses <sup>1)</sup>             | 78,924.5         | 57,128.8         |
| Reversal of impairment losses <sup>1)</sup> | -44,559.8        | -10,742.3        |
| <b>Total</b>                                | <b>213,015.8</b> | <b>204,162.9</b> |

<sup>1)</sup> For details see notes ►26. Intangible assets and ►27. Property, plant and equipment

### ► 54. Other operating expenses

| <b>54. Other operating expenses</b>                                       |                  |                 |
|---|------------------|-----------------|
| <b>TEUR</b>   | <b>2005/06</b>   | <b>2004/05</b>  |
| Legal and consulting fees, expenses related to risks of legal proceedings | 20,409.1         | 12,144.1        |
| Write-off of receivables  | 15,505.9         | 6,265.1         |
| Insurance   | 9,445.1          | 7,175.5         |
| Telecommunications and postage  | 9,122.1          | 7,409.3         |
| Advertising expenses  | 8,987.3          | 9,322.1         |
| Business operations taxes and duties                                      | 6,233.9          | 4,462.1         |
| Rents   | 5,479.3          | 3,954.3         |
| Transportation and travelling expenses                                    | 4,599.2          | 3,024.6         |
| Miscellaneous other expenses  | 26,847.2         | 25,929.7        |
| <b>Total</b>  | <b>106,629.0</b> | <b>79,686.8</b> |

## Financial results

### ► 55. Income from other investments

This item is comprised chiefly of TEUR 19,262.5 (previous year: TEUR 11,557.5) in dividends paid by Österreichische Elektrizitätswirtschafts-AG (Verbund) and TEUR 1,563.3 (previous year: TEUR 1,401.4) in dividends distributed by Energie AG Oberösterreich as well as income of TEUR 11,849.4 on the sale of EVN's interest in Energie AG Oberösterreich. According to the agreement, the sale price will be paid in January 2007.

### ► 56. Interest and other financial results

Interest income from non-current financial assets includes interest from investment funds that focus chiefly on fixed-interest securities. Other interest income generally relates to income on securities recorded under current financial assets.

Interest expense on non-current financial liabilities represents regular interest payments on issued bonds and non-current bank loans. Other interest expense includes expenses for current loans as well as leasing costs for biomass equipment, distribution and heating networks.

Exchange rate gains/losses on non-current foreign currency obligations resulted primarily from a valuation adjustment to the CHF obligation, which carries an interest rate of 2.43% (nominal value: CHF 200m).

The results of share price changes and disposals of securities held as non-current assets are based primarily on the valuation of the investment instruments contained in the R138 fund.

The results of changes in share prices and disposals of securities recorded under current assets are related mainly to the sale of investment funds and the valuation of securities in accordance with IAS 39.

| <b>56. Interest and other financial results</b>                                  |                  |                  |
|--|------------------|------------------|
| <b>TEUR</b>  | <b>2005/06</b>   | <b>2004/05</b>   |
| <b>Interest income on non-current financial assets</b>                           | 2,288.6          | 893.7            |
| <b>Other interest income</b>   | 10,357.7         | 9,491.2          |
| <b>Interest expense for non-current financial liabilities</b>                    | -52,410.1        | -45,373.0        |
| <b>Other interest expense</b>  | -4,132.0         | -3,674.7         |
| <b>Valuation gains/losses on non-current foreign currency liabilities</b>        | 2,639.3          | 159.8            |
| <b>Results of valuation gains/losses and disposals of non-current securities</b> | 2,396.7          | 9,752.4          |
| <b>Results of valuation gains/losses and disposals of current securities</b>     | 5,669.0          | 8,897.9          |
| <b>Other financial results</b>   | 5,887.3          | 2,861.6          |
| <b>Total</b>   | <b>-27,303.5</b> | <b>-16,991.1</b> |

### ► 57. Income tax expense

The effective tax rate for the EVN Group amounted to 12.5% of taxable profit for the 2005/06 financial year (previous year: 15.7%).

| <b>57. Taxes on profit</b>   |                 |                 |
|--|-----------------|-----------------|
| <b>TEUR</b>  | <b>2005/06</b>  | <b>2004/05</b>  |
| Income tax expense   | 46,226.1        | 32,325.2        |
| + Additions to/<br>– reversal of deferred taxes through profit or loss | –8,105.3        | –3,167.1        |
| <b>Total</b>   | <b>38,120.8</b> | <b>29,158.0</b> |

The difference between the theoretical corporate tax (profit before tax multiplied by the Austrian corporate tax rate of 25%) and the effective corporate tax rate for the 2005/06 financial year, as shown in the income statement, is calculated as follows:

| <b>57. Calculation of the effective tax rate</b>                                   |                |                    |
|--|----------------|--------------------|
| <b>%</b>   | <b>2005/06</b> | <b>2004/05</b>     |
| Income tax rate  | 25.0           | 25.0               |
| – Changes in taxation due to § 26c Pt 2 Austrian Corporation Tax Law <sup>1)</sup> | –              | –1.5 <sup>1)</sup> |
| – Different tax rates in other countries   | –0.7           | 0.4                |
| – Tax-free income from investments in other companies                              | –11.1          | –9.0               |
| + Non-deductible expenses  | 0.6            | 0.1                |
| – Tax reductions related to previous periods                                       | –0.3           | –1.5               |
| – Other items  | –1.0           | –0.8               |
| <b>Effective tax rate</b>  | <b>12.5</b>    | <b>15.7</b>        |

<sup>1)</sup> Pursuant to § 26c of the Austrian Corporate Tax Law, a corporate tax rate of 34% is applied to the profit before tax of EVN AG for the 2004 calendar year. This results in an average corporate tax rate of 27.25% for the Austrian companies in the 2004/05 financial year.

### ► 58. Earnings per share

Earnings per share are calculated by dividing Group net profit by the average number of ordinary shares outstanding, i.e. 40,881,455 (previous year: 40,881,455).

This figure may generally be diluted due to the existence of so-called potential shares based on share options and convertible bonds. However, EVN has no such potential shares. Subsequently, there is no difference between basic earnings per share and diluted earnings per share.

Group net profit amounted to TEUR 221,881.5 for the 2005/06 financial year (previous year: TEUR 144,357.9). Calculated on this base, earnings per share for the 2005/06 financial year totalled EUR 5.43 (previous year: EUR 3.53).

## Other information

### ► 59. Cash flow statement

Income tax payments of TEUR 20,581.8 (previous year: TEUR 15,506.5) are reported separately under cash flow from operating activities. Dividends received, interest income and interest expenses are allocated to current business activities. Cash flow from dividends for the year totalled TEUR 99,073.3 (previous year: TEUR 33,412.7). Interest received amounted to TEUR 12,646.3 (previous year: TEUR 10,279.9), whereas interest paid totalled TEUR 56,542.1 (previous year: TEUR 44,132.7).

The purchase of the Macedonian company ESM AD is included in the cash flow from investing activities. More information is provided in note ►4. Company acquisitions.

The main non-cash transactions relate to the deferred payment of the price for the sale of EVN's stake in Energie AG Oberösterreich resulting in a capital gain of TEUR 11,849.4.

The dividend payment of TEUR 47,013.7 (previous year: TEUR 38,837.4) to EVN AG shareholders and TEUR 26,329.7 (previous year: TEUR 938.4) to minority shareholders (to RAG Beteiligungs AG and Burgenland Holding AG) are reported under cash flow from financing activities.

The cash and cash equivalents received by EVN within the framework of company acquisitions amounted to TEUR 5,073.3 (previous year: TEUR 5,580.6).

| <b>59. Cash and cash equivalents</b> |                 |                 |
|--------------------------------------|-----------------|-----------------|
| <b>TEUR</b>                          | <b>2005/06</b>  | <b>2004/05</b>  |
| <b>Cash on hand</b>                  | 255.7           | 150.0           |
| <b>Cash at banks</b>                 | 91,679.4        | 83,795.0        |
| <b>Bank overdrafts</b>               | -15,137.7       | -1,530.1        |
| <b>Total</b>                         | <b>76,797.4</b> | <b>82,414.9</b> |

The share of cash and cash equivalents held by companies included at proportionate consolidation amounted to TEUR 8,491.6 (previous year: TEUR 6,720.7).

### ► 60. Segment reporting

IAS 14 (Segment reporting) stipulates that specific data from the annual financial statements of a company must be provided separately according to the business areas and geographical segments. The structure follows the internal reporting structure, which provides a reliable assessment of the risks and earnings of the Group. Segment reporting allows for greater transparency in evaluating the profitability and prospects of success relating to the individual business areas of the Group.

The new organisational structure of the EVN Group, which took effect at the beginning of the 2005/06 financial year, has also been reflected in the company's external reporting instruments since the 1<sup>st</sup> quarter of 2005/06 (e.g. letters to shareholders and annual report). On the one hand, this new segment reporting is a compact description of the relevant management components characterising the EVN Group (management approach). On the other hand, it is also designed to convey a sufficient level of information about the course of business in the different business areas, and thus serves as the basis for a coherent interpretation of developments in the EVN Group. Accordingly, the structure of this report focuses on the three business segments: Energy, Environmental Services and Strategic Investments and Other Business.

The segments encompass the following activities:

| <b>Segment activities</b>                       |   |
|---|---|
| <b>Segment</b>                                  | <b>Activity</b>   |
| <b>Energy</b>                                   | Generation, Networks, Energy Procurement and Supply and South East Europe |
| <b>Environmental Services</b>                   | Water, wastewater and waste incineration                                  |
| <b>Strategic Investments and Other Business</b> | Strategic and other investments   |

The geographical segmentation encompasses the sub-divisions of EVN's business activities in the following regions: Austria, South East Europe, Central and Eastern Europe.

#### **Principles of segment allocation**

Items that can be assigned directly are designated to the respective segments. Services provided by one segment for another segment that can be directly charged are allocated by means of intragroup transactions. Any items that cannot be directly assigned or charged are assigned using an objective cost allocation process. Any remaining amounts are distributed in proportion to the assigned items.

Revenues are assigned to the country in which the service was provided in accordance with the country of destination. The project location is the main criterion for assigning revenues in EVN's project business.

#### **Transfer pricing**

The transfer prices for energy between the individual segments are based on comparable prices for special contract customers, and thus represent applicable market prices. For the remaining items, pricing is based on costs plus an appropriate mark-up.

| Segment reporting by area of business <sup>1)</sup>                |          |          |                        |         |  |         |             |         |          |          |
|--|----------|----------|------------------------|---------|--|---------|-------------|---------|----------|----------|
| EURm   | Energy   |          | Environmental Services |         | Strategic Investments and Other Business |         | Elimination |         | Total    |          |
|  | 2005/06  | 2004/05  | 2005/06                | 2004/05 | 2005/06                                  | 2004/05 | 2005/06     | 2004/05 | 2005/06  | 2004/05  |
| External revenue   | 1,761.7  | 1,370.2  | 290.1                  | 212.9   | 19.8                                     | 26.4    | –           | –       | 2,071.6  | 1,609.5  |
| Intragroup revenue (between segments)                              | 11.3     | 3.5      | 9.6                    | 7.3     | 48.5                                     | 10.3    | –69.5       | –21.2   | –        | –        |
| Operating expenses   | –1,439.8 | –1,098.0 | –233.7                 | –160.1  | –69.5                                    | –36.7   | 68.8        | 20.5    | –1,674.2 | –1,274.3 |
| EBITDA   | 333.2    | 275.8    | 66.0                   | 60.1    | –1.1                                     | 0.1     | –0.7        | –0.7    | 397.4    | 335.2    |
| Depreciation   | –191.5   | –183.0   | –20.1                  | –19.2   | –2.1                                     | –2.7    | 0.7         | 0.7     | –213.0   | –204.2   |
| Thereof impairment losses  | –78.6    | –57.1    | –0.4                   | –       | –  | –       | –           | –       | –78.9    | –57.1    |
| Thereof reversal of impairment losses                              | 44.6     | 10.7     | –                      | –       | –  | –       | –           | –       | 44.6     | 10.7     |
| Results from operating activities (EBIT)                           | 141.6    | 92.8     | 45.9                   | 40.8    | –3.2                                     | –2.6    | –           | –       | 184.4    | 131.0    |
| Income from investments in associates                              | 8.7      | 5.9      | 13.4                   | 11.3    | 93.1                                     | 41.6    | –           | –       | 115.1    | 58.8     |
| Carrying value of associates                                       | 15.5     | 11.7     | 34.4                   | 21.0    | 374.3                                    | 328.6   | –           | –       | 424.3    | 361.3    |
| Goodwill   | 149.7    | 121.3    | 41.5                   | 41.5    | –  | –       | –           | –       | 191.2    | 162.8    |
| Liabilities  | 1,949.4  | 1,448.7  | 761.5                  | 586.9   | 1,149.7                                  | 996.0   | –770.8      | –577.4  | 3,089.8  | 2,454.2  |
| Total assets   | 2,847.9  | 2,305.8  | 929.9                  | 731.2   | 2,880.6                                  | 2,304.9 | –812.5      | –602.4  | 5,845.8  | 4,739.6  |
| Investments in intangible assets and property, plant and equipment | 239.7    | 184.5    | 9.6                    | 6.2     | 2.2                                      | 1.9     | –           | –       | 251.5    | 192.6    |

<sup>1)</sup> The new segment reporting deviates from the segment reporting in EVN's 2004/05 Annual Report. As of the 1<sup>st</sup> quarter of 2005/06, the segmentation was modified to reflect the new Group structure and internal reporting. For comparative purposes, the corresponding pro-forma values for the 2004/05 financial year were calculated accordingly.

| Segment reporting by region  |         |         |                   |         |                            |         |         |         |
|--|---------|---------|-------------------|---------|----------------------------|---------|---------|---------|
| EURm   | Austria |         | South East Europe |         | Central and Eastern Europe |         | Total   |         |
|  | 2005/06 | 2004/05 | 2005/06           | 2004/05 | 2005/06                    | 2004/05 | 2005/06 | 2004/05 |
| Revenue  | 1,377.4 | 1,213.7 | 467.6             | 247.3   | 226.6                      | 148.5   | 2,071.6 | 1,609.5 |
| Results from operating activities (EBIT)                           | 145.9   | 99.8    | 17.3              | 14.5    | 21.3                       | 16.7    | 184.4   | 131.0   |
| Investments in intangible assets and property, plant and equipment | 220.2   | 175.4   | 30.5              | 16.4    | 0.8                        | 0.9     | 251.5   | 192.6   |
| Total assets   | 4,423.0 | 4,051.7 | 812.2             | 277.4   | 610.6                      | 410.5   | 5,845.8 | 4,739.6 |

## ► 61. Financial instruments

The receivables, shares and liabilities classified as primary financial instruments are reported in accordance with IAS 39. The accounting and valuation principles are described under the respective items. Purchases and disposals are recognised on the settlement date.

Non-current investments serve to provide the required coverage for employee-related provisions; these funds are invested with externally managed investment funds.

The credit risk associated with receivables reflects the figures shown in the financial statements, which were reduced by valuation adjustments.

Non-current financial liabilities arising from issued bonds are described in detail in note ►41. Non-current loans and borrowings. Current financial liabilities consist of euro cash bills due on a daily basis.

Derivative financial instruments are used primarily to hedge liquidity, exchange rate and interest change risks. The operative goal is to ensure the long-term continuity of financial results. In individual cases, the Group uses opportunities that carry a higher risk but offer a larger profit.

The company incurs foreign exchange risk mainly from the JPY and CHF bonds it has issued. These are also largely hedged with derivative financial instruments (see also note ►41. Non-current loans and borrowings). To minimise interest rate risks, EVN works to achieve a mix of fixed and variable interest financial liabilities. The fixed interest period is managed over the short-term through derivative financial instruments.

All financial instruments are integrated in a risk management system as soon as the transactions are completed. This provides a daily overview of all main risk indicators. A separate staff unit was established to monitor risk controlling, and develops risk analyses based on the value-at-risk method.

The nominal values represent the non-offset totals of all items classified as financial derivatives on the balance sheet date. Although these are equivalent to the amounts agreed between the contractual partners, these figures do not provide a measure of the risk incurred by the company through the use of derivatives. Potential risk factors include fluctuations in the market prices and the credit risk of the contractual parties. The nominal and current market values (fair value) of all derivative financial instruments are recognised.

| <b>61. Derivative financial instruments</b> |                                   |                  |                                  |                  |
|---|-----------------------------------|------------------|----------------------------------|------------------|
|   | <b>Nominal value<sup>1)</sup></b> |                  | <b>Market value<sup>2)</sup></b> |                  |
|   | <b>30.9.2006</b>                  | <b>30.9.2005</b> | <b>30.9.2006</b>                 | <b>30.9.2005</b> |
| <b>Currency swaps</b>                       |                                   |                  |                                  |                  |
| <b>CHFm (under 5 years)<sup>3)</sup></b>    | 180.0                             | 180.0            | -4.6                             | -                |
| <b>JPYm (over 5 years)<sup>3)</sup></b>     | 8,000.0                           | 8,000.0          | -16.6                            | -9.8             |
| <b>USDm (under 1 year)<sup>3)</sup></b>     | -                                 | 12.5             | -                                | 1.2              |
| <b>USDm (over 5 years)<sup>3)</sup></b>     | 21.3                              | 18.3             | 0.5                              | -0.3             |
| <b>Interest rate swaps</b>                  |                                   |                  |                                  |                  |
| <b>EURm (under 1 year)</b>                  | -                                 | 20.0             | -                                | -0.1             |
| <b>EURm (under 5 years)</b>                 | 70.3                              | 70.3             | -                                | -0.3             |
| <b>EURm (under 1 year)<sup>3)</sup></b>     | 100.0                             | -                | 0.3                              | -                |
| <b>EURm (over 5 years)<sup>3)</sup></b>     | 205.0                             | 205.0            | -4.2                             | 5.1              |
| <b>Caps</b>                                 |                                   |                  |                                  |                  |
| <b>EURm (over 5 years)</b>                  | 105.0                             | 105.0            | 0.4                              | 0.5              |

<sup>1)</sup> In nominal currency.

<sup>2)</sup> In TEUR.

<sup>3)</sup> Used as a hedging instrument in accordance with IAS 39.

### ► 62. Significant events after the balance sheet date

The Bulgarian parliament approved a reduction in the corporate income tax rate from 15% to 10% in October 2006. However, the relevant law has not yet been passed.

Within the framework of the privatisation process for a Bulgarian district heating supplier with four heat generation facilities in Plovdiv and Asenovgrad, EVN was ranked as the best bidder in October 2006 on the basis of its offer of EUR 32.1m. The closing of the transaction is expected before the turn of the year 2006/07.

An important milestone was set in mid-October 2006 for the construction and operation of the central municipal wastewater treatment plant in Zagreb, which is being realised by the ZOV joint venture that was founded by EVN in cooperation with RWE. The official start-up of the first biological phase of the facility took place at this time.

STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH ("SEK"), Essen, in which EVN holds a stake of 49% through EVN Kraftwerks- und Beteiligungsgesellschaft mbH, Maria Enzersdorf, concluded a contract at the end of October for a consortial loan of EUR 615m for the Walsum 10 power plant project. The lender will hold security through full recourse rights during the construction phase and for at least six calendar months after the start of commercial operations, which means that EVN AG is liable as a partial debtor with a share of 49%.

Moreover, the shareholders of SEK have committed to provide this company with equity of EUR 205m; the share attributable to EVN totals approximately EUR 100m.

The groundbreaking ceremony for the project took place on November 20, 2006.

A drinking water plant constructed in Moscow by WTE commenced operations on November 8, 2006.

### ► 63. Other obligations and risks

EVN has entered into long-term, fixed quantity and price agreements with e&t Energie Handelsgesellschaft m.b.H. as well as EconGas GmbH, in order to ensure its supplies of electricity and primary energy. The company has also concluded long-term agreements for the import of coal from Poland and Russia.

The potential risk of claims not covered by provisions for environment dangers and hazardous waste at discontinued industrial locations, which remain subject to investigation by the authorities, has been estimated at TEUR 10,312.9 (previous year: TEUR 12,466.6).

At the balance sheet date, order obligations for intangible assets and property, plant and equipment totalled TEUR 154,368.3 (previous year: TEUR 133,303.6).

In the course of its participation in a lease-and-lease-back transaction for the Freudenu power station, which is owned by Verbund-Austrian Hydro Power AG (formerly "Donaukraft"), EVN provided a guarantee of up to TEUR 30,240.6 to cover certain delays in payment and losses.

For the transactions conducted by e&t Energie Handelsgesellschaft m.b.H. on behalf of EVN relating to its own trading activities and the optimisation of electricity purchases, letters of comfort totalling TEUR 654,359.1 were distributed to trading partners. These obligations are offset by rights of recourse to the same amount.

In total, EVN has issued guarantees amounting to TEUR 259,883.6. Of this total, TEUR 152,000.0 are related to the construction of a waste incineration facility in Moscow, TEUR 50,000.0 to the building of a drinking water facility in Moscow, and TEUR 57,883.6 to the construction of a central wastewater treatment plant in Zagreb. In addition, the WTE Group distributed letters of comfort totalling TEUR 33,928.8 for these projects on behalf of its subsidiaries (project companies).

Further obligations resulting from guarantees as well as other contractual contingent liabilities amounted to TEUR 9,641.2 (previous year: TEUR 13,422.7). These items are comprised chiefly of outstanding capital contributions and loan commitments to EVN Group subsidiaries as well as assumed liabilities for loans to subsidiaries and associates.

In connection with the acquisition of a majority stake in ESM AD, EVN assumed investment obligations for the next three years. As of the balance sheet date, these investments totalled TEUR 88,436.6.

#### ► 64. Forward-looking statements

The preparation of the consolidated financial statements in accordance with IFRS requires estimates and appraisals that have an influence on the assets and liabilities, income and expenses and amounts listed in the notes to the financial statements.

The main applications of economic assumptions and estimates involve determining the useful life of non-current assets, ascertaining discounted cash flows within the framework of impairment tests, creating provisions for legal proceedings, social security contributions for employees and corresponding duties, taxes and environmental protection, the assessment of inventories, price discounts, product liabilities and guarantees. Our estimates are based on practical experience and other assumptions, which may be accurate under certain circumstances.

However, the actual amounts that result at the end of the financial year may deviate from these estimates. The validity of these estimates and appraisals, and their underlying assumptions, is the subject of continuous evaluation.

#### ► 65. Information on business transactions with related companies and individuals

Related companies and individuals include the main shareholders, NÖ Landes-Beteiligungsholding GmbH, Sankt Pölten, and EnBW Energie Baden-Württemberg AG, Karlsruhe, the members of the EVN Executive Board and Supervisory Board as well as associated companies.

A group and tax settlement agreement was concluded with NÖ Landes-Beteiligungsholding GmbH during the inclusion of EVN AG into a company group in accordance with § 9 of the Austrian Corporate Tax Law. EVN AG has since included further subsidiaries in this company group based on the agreement. This resulted in a liability of TEUR 19,468.5 to NÖ Landes-Beteiligungsholding GmbH as of the balance sheet date.

Long-term agreements were concluded with e&t Energie Handelsgesellschaft m.b.H. for the sale and sourcing of electricity.

Long-term sourcing contracts were also concluded with EconGas GmbH for natural gas.

A cooperation agreement also exists with Burgenländische Erdgasversorgungs-AG (BEGAS) for gas business related services as well as a long-term utilisation agreement with NÖKOM NÖ Telekom Service Gesellschaft m.b.H. for the provision of optical fibre cables.

The value of services provided to the Group's associates totalled TEUR 242,447.3 (previous year: TEUR 184,698.9); the value of services used by these companies amounted to TEUR 540,563.2 (previous year: TEUR 403,946.9). As of the balance sheet date, trade receivables equalled TEUR 68,367.7 (previous year: TEUR 40,584.7), trade payables totalled TEUR 12,543.3 (previous year: TEUR 2,140.2) and other liabilities amounted to TEUR 14,448.9 (previous year: TEUR 10,871.0). In addition, cash pooling resulted in interest expense of TEUR 360.5 (previous year: TEUR 451.5).

The services rendered to members of the Executive Board and the Supervisory Board consist primarily of salaries, severance payments, and remuneration of the Supervisory Board. Expenses for severance payments and pensions totalled TEUR 481.6 (previous year: TEUR 2,941.8) for the members of the Executive Board and senior management and TEUR 6,672.1 (previous year: TEUR 16,704.8) for other employees.

In the year under review, remuneration paid to the Supervisory Board amounted to TEUR 123.3 (previous year: TEUR 126.3).

The members of the Environmental and Social Responsibility Advisory Committee were paid compensation of TEUR 65.8 in the year under review (previous year: TEUR 65.8).

The transfer prices between the EVN Group and these related companies are calculated on the basis of transactions with third parties.

#### ► 66. Other information

EVN was allotted 1.4m emission certificates free of charge, which had a value of TEUR 37,114.7 on the date of allocation (previous year: TEUR 13,964.9).

EVN concluded an agreement on September 12, 2006 through EVN Finance Service B.V., Amsterdam, for a revolving syndicate loan amounting to EUR 600m.

The line of credit is valid for a period of seven years (2006–2013). For the first five years, the interest margin amounts to 15.0 basis points above EURIBOR, increasing to 17.5 basis points over EURIBOR during the last two years

#### ► 67. EVN Group investments

A listing of EVN Group investments is included below, structured according to business segments. The figures reported are derived from the last available financial statements of each company, at its respective balance sheet date. For financial statements in a foreign currency, the share capital of the company is converted to euro using the exchange rate in effect on the balance sheet date. Annual results are converted to euro on the basis of the average exchange rate for the financial year.

| <b>1. EVN AG investments in the Energy segment ≥ 20 % as at September 30, 2006</b>                       |                                  |                   |                 |                                 |                               |                           |                                |
|--|----------------------------------|-------------------|-----------------|---------------------------------|-------------------------------|---------------------------|--------------------------------|
| <b>Company, registered offices</b>   | <b>Shareholder</b>               | <b>Interest %</b> | <b>Currency</b> | <b>Shareholders' equity Tsd</b> | <b>Last year's result Tsd</b> | <b>Balance sheet date</b> | <b>Method of consolidation</b> |
| <b>AD Elektrostopanstvo na Makedonija, Skopje, Macedonia</b>   | EVN                              | 90.00             | MKD             | 200,869                         | -26,956                       | 31.12.2005                | F                              |
| <b>AUSTRIA FERNGAS Gesellschaft m.b.H. in Liqu., Vienna</b>  | EVN                              | 23.75             | EUR             | 2,723                           | -120                          | 31.12.2005                | N                              |
| <b>e&amp;t Energie Handelsgesellschaft m.b.H., Vienna</b>  | EVN                              | 45.00             | EUR             | 1,769                           | 407                           | 30.09.2006                | E                              |
| <b>EconGas GmbH, Vienna</b>  | EVN                              | 15.70             | EUR             | 107,963                         | 72,801                        | 31.03.2006                | E                              |
| <b>ENERGIEALLIANZ Austria GmbH ("EAA"), Vienna</b>   | EVN                              | 45.00             | EUR             | 3,946                           | 667                           | 30.09.2006                | P                              |
| <b>Elektroaspredelenie Plovdiv AD ("ERP Plovdiv"), Plovdiv, Bulgaria</b>                                 | EVN                              | 67.00             | BGN             | 85,026                          | 5,745                         | 31.12.2005                | F                              |
| <b>Elektroaspredelenie Stara Zagora AD ("ERP Stara Zagora"), Stara Zagora, Bulgaria</b>                  | EVN                              | 67.00             | BGN             | 109,490                         | 8,848                         | 31.12.2005                | F                              |
| <b>EVN Bulgaria EAD ("EVN Bulgaria"), Sofia, Bulgaria</b>  | EVN                              | 100.00            | BGN             | 273                             | 17                            | 31.12.2005                | F                              |
| <b>EVN Development EOOD, Sofia, Bulgaria</b>   | EVN Bulgaria                     | 100.00            | BGN             | 3                               | -                             | 31.12.2005                | N                              |
| <b>EVN Energievertrieb GmbH &amp; Co KG, Maria Enzersdorf</b>  | EVN                              | 100.00            | EUR             | 40,527                          | 13,271                        | 30.09.2006                | P                              |
| <b>EVN Kraftwerks- und Beteiligungsgesellschaft mbH ("EVN Kraftwerk"), Maria Enzersdorf</b>              | EVN                              | 100.00            | EUR             | 5,537                           | -8                            | 30.09.2006                | F                              |
| <b>EVN Liegenschaftsverwaltung Gesellschaft m.b.H., Maria Enzersdorf</b>                                 | EVN/Utilitas                     | 100.00            | EUR             | 860                             | -233                          | 30.09.2006                | F                              |
| <b>EVN Macedonia DOOEL, Skopje, Macedonia<sup>1)</sup></b>   | EVN                              | 100.00            | MKD             | -                               | -                             | -                         | F                              |
| <b>evn naturkraft Erzeugungs- und Verteilungs GmbH ("evn naturkraft"), Maria Enzersdorf<sup>2)</sup></b> | EVN                              | 100.00            | EUR             | 35,674                          | 5,535                         | 30.09.2006                | F                              |
| <b>EVN Netz GmbH, Maria Enzersdorf</b>   | EVN                              | 100.00            | EUR             | 386,134                         | 46,542                        | 30.09.2006                | F                              |
| <b>Energy Trading AD, Sofia, Bulgaria</b>  | ERP Plovdiv/<br>ERP Stara Zagora | 100.00            | BGN             | 25                              | -                             | 31.12.2005                | F                              |
| <b>Energie Raum Mur Wasserkraftwerk Errichtungs- und Betriebs GmbH, Graz</b>                             | WTK                              | 50.00             | EUR             | 291                             | 262                           | 31.12.2005                | N                              |
| <b>IN-ER Erözü Kft., Nagykanizsa, Hungary</b>  | EVN                              | 70.00             | HUF             | 1,938                           | 8                             | 31.12.2005                | N                              |
| <b>grafotech Beratungs- und Planungsgesellschaft m.b.H., Maria Enzersdorf</b>                            | Utilitas                         | 100.00            | EUR             | 2,153                           | 1,909                         | 30.09.2006                | F                              |
| <b>Kabelsignal AG, Maria Enzersdorf</b>  | Utilitas                         | 100.00            | EUR             | 19,595                          | 7,235                         | 30.09.2006                | F                              |
| <b>Kraftwerk Nussdorf Errichtungs- und Betriebs GmbH, Vienna</b>   | evn naturkraft                   | 33.33             | EUR             | 41                              | 3                             | 31.12.2005                | N                              |
| <b>Kraftwerk Nussdorf Errichtungs- und Betriebs GmbH &amp; Co KG, Vienna</b>                             | evn naturkraft                   | 33.33             | EUR             | 5,733                           | -121                          | 31.12.2005                | E                              |
| <b>Naturkraft Energievertriebsgesellschaft m.b.H., Vienna</b>  | EAA                              | 100.00            | EUR             | 658                             | 27                            | 30.09.2006                | P                              |
| <b>NÖKOM NÖ Telekom Service Gesellschaft m.b.H., Maria Enzersdorf</b>                                    | EVN                              | 50.00             | EUR             | 14,598                          | -1,512                        | 31.12.2005                | E                              |
| <b>STEAG-EVN Walsum 10 Kraftwerks-gesellschaft mbH, Essen, Germany</b>                                   | EVN<br>Kraftwerk                 | 49.00             | EUR             | -1,531                          | -3,316                        | 31.12.2005                | E                              |
| <b>Switch Energievertriebsgesellschaft m.b.H., Salzburg</b>  | EAA                              | 100.00            | EUR             | 217                             | 6                             | 30.09.2006                | P                              |
| <b>Toplak Gesellschaft m.b.H., Breitenfurt</b>   | EVN                              | 50.00             | EUR             | -26                             | -153                          | 31.10.2005                | E                              |
| <b>Wasserkraftwerke Trieb und Krieglach GmbH ("WTK"), Maria Enzersdorf</b>                               | evn naturkraft                   | 70.00             | EUR             | 749                             | -393                          | 30.09.2006                | F                              |

F Fully consolidated company (subsidiary)  
P Proportionally consolidated company  
E Company included at equity (associated company)  
N Not consolidated

<sup>1)</sup> The company was newly established in the financial year under review.  
<sup>2)</sup> Merger with evn naturkraft GmbH & Co KG

## 2. EVN AG investments in the Environmental Services segment ≥ 20 % as at September 30, 2006

| Company, registered offices   | Shareholder         | Interest % | Currency | Shareholders' equity Tsd | Last year's result Tsd | Balance sheet date | Method of consolidation |
|---|---------------------|------------|----------|--------------------------|------------------------|--------------------|-------------------------|
| ABeG Abwasserbetriebsgesellschaft mbH, Offenbach am Main, Germany                       | WTE Essen           | 49.00      | EUR      | 208                      | 27                     | 30.09.2005         | N                       |
| AVN Abfallverwertung Niederösterreich Ges.m.b.H., Maria Enzersdorf                      | EVN Umwelt          | 100.00     | EUR      | 11,576                   | 9,879                  | 30.09.2006         | F                       |
| BioBalance Baltic UAB, Kaunas, Lithuania  | WTE Denmark         | 100.00     | LTL      | 60                       | 39                     | 30.09.2006         | N                       |
| Cista Dolina – SHW Komunalno podjetje d.o.o., Kranjska Gora, Slovenia                   | WTE Betrieb         | 100.00     | SIT      | 15                       | –                      | 30.09.2006         | F                       |
| DTV Rt., Dunavarsány, Hungary   | evn wasser          | 51.00      | HUF      | 1,337                    | 65                     | 31.12.2005         | N                       |
| EVN Projektgesellschaft Müllverbrennungsanlage Nr. 3 mbH ("EVN MVA3"), Maria Enzersdorf | EVN Umwelt/Utilitas | 100.00     | EUR      | 37,182                   | –1,107                 | 30.09.2006         | F                       |
| EVN Umwelt Beteiligungs und Service GmbH, Maria Enzersdorf <sup>1)</sup>                | EVN Umwelt          | 100.00     | EUR      | –                        | –                      | –                  | F                       |
| EVN Umweltholding und Betriebs-GmbH ("EVN Umwelt"), Maria Enzersdorf                    | EVN                 | 100.00     | EUR      | 100,938                  | 10,835                 | 30.09.2006         | F                       |
| evn wasser Gesellschaft m.b.H., Maria Enzersdorf  | EVN/Utilitas        | 100.00     | EUR      | 63,325                   | 4,230                  | 30.09.2006         | F                       |
| OAD "EVN MSZ 3", Moscow, Russia   | EVN MVA3            | 100.00     | RUB      | 93,170                   | –2,463                 | 31.12.2005         | F                       |
| OAD "WTE Sud-West", Moscow, Russia  | Süd-West            | 100.00     | RUB      | 116,306                  | –159                   | 31.12.2005         | F                       |
| OOO Wassergesellschaft für Engineering und Beratung Moscow, Russia <sup>1)</sup>        | WTE Essen           | 90.00      | RUB      | 3                        | –                      | 31.12.2005         | N                       |
| Saarberg Hölter Projektgesellschaft Süd Butowo mbH ("Süd Butowo"), Essen, Germany       | WTE Essen           | 100.00     | EUR      | 5,933                    | 467                    | 30.09.2006         | F                       |
| SHW Hölter Projektgesellschaft Zelenograd mbH ("Zelenograd"), Essen, Germany            | WTE Essen           | 100.00     | EUR      | 12,155                   | 965                    | 30.09.2006         | F                       |
| SHW Hölter Projektgesellschaft Slowenien mbH, Essen, Germany                            | WTE Essen           | 100.00     | EUR      | 23                       | –4                     | 30.09.2006         | F                       |
| SHW/RWE Umwelt Aqua Vodogradnja d.o.o., Zagreb, Croatia                                 | WTE Essen           | 50.00      | HRK      | –1                       | –214                   | 31.12.2005         | N                       |
| SHW Projektgesellschaft Pskov mbH, Essen, Germany                                       | WTE Essen           | 100.00     | EUR      | 21                       | –1                     | 30.09.2006         | N                       |
| Wasserver- und Abwasserentsorgungsgesellschaft Märkische Schweiz mbH, Buckow, Germany   | WTE Essen           | 49.00      | EUR      | 526                      | 14                     | 31.12.2005         | N                       |
| Wiental-Sammelkanal Gesellschaft m.b.H., Untertullnerbach                               | evn wasser          | 50.00      | EUR      | 890                      | –2                     | 31.12.2005         | N                       |
| WTE Denmark A/S (WTE Denmark), Birkerød, Denmark <sup>2)</sup>                          | WTE Essen           | 100.00     | DKK      | 613                      | 70                     | 30.09.2006         | F                       |
| WTE Projektna družba Bled d.o.o., Bled, Slovenia  | WTE Essen           | 100.00     | SIT      | 13                       | 15                     | 30.09.2006         | F                       |
| WTE Projektna družba Kranjska Gora d.o.o., Kranjska Gora, Slovenia                      | WTE Essen           | 100.00     | SIT      | 14                       | 2                      | 30.09.2006         | F                       |
| WTE Projektna družba Lasko d.o.o., Lasko, Slovenia                                      | WTE Essen           | 100.00     | SIT      | –21                      | 15                     | 30.09.2006         | F                       |
| WTE Projektgesellschaft Süd-West Wasser mbH ("Süd-West"), Essen, Germany                | WTE Essen           | 100.00     | EUR      | 47,439                   | –10                    | 30.09.2006         | F                       |
| WTE Betriebsgesellschaft mbH ("WTE Betrieb"), Hecklingen, Germany                       | WTE Essen           | 100.00     | EUR      | 511                      | –                      | 30.09.2006         | F                       |
| WTE Vodice d.o.o., Zagreb, Croatia <sup>1)</sup>  | WTE Essen           | 100.00     | EUR      | –                        | –                      | –                  | F                       |

| Company, registered offices   | Shareholder | Interest % | Currency | Shareholders' equity Tsd | Last year's result Tsd | Balance sheet date | Method of consolidation |
|---|-------------|------------|----------|--------------------------|------------------------|--------------------|-------------------------|
| WTE Wassertechnik GmbH ("WTE Essen"), Essen, Germany <sup>3)</sup>    | EVN Umwelt  | 100.00     | EUR      | 58,531                   | 2,586                  | 30.09.2006         | F                       |
| WTE Wassertechnik (Polska) Sp.z.o.o., Warsaw, Poland                  | WTE Essen   | 100.00     | PLN      | 351                      | -31                    | 30.09.2006         | F                       |
| ZAO "STAER", Moscow, Russia   | Süd Butowo  | 70.00      | RUB      | 99                       | 110                    | 31.12.2005         | N                       |
| ZAO "STAER-ZWK", Moscow, Russia                                       | Zelenograd  | 70.00      | RUB      | 262                      | 245                    | 31.12.2005         | N                       |
| Zagrebacke otpadne vode d.o.o., Zagreb, Croatia                       | WTE Essen   | 48.50      | HRK      | 52,211                   | 21,313                 | 31.12.2005         | E                       |
| Zagrebacke otpadne vode – upravljanje i pogon d.o.o., Zagreb, Croatia | WTE Essen   | 35.00      | HRK      | 1,381                    | 2,451                  | 31.12.2005         | N                       |

F Fully consolidated company (subsidiary)  
E Company included at equity (associated company)  
N Not consolidated

- <sup>1)</sup> The company was newly established in the financial year under review.  
<sup>2)</sup> Previously BioBalance A/S  
<sup>3)</sup> Merger with WTE Wassertechnik Austria GmbH

| 3. EVN AG investments in the Strategic Investments and Other Business segment ≥ 20 % as at September 30, 2006 |                           |            |          |                          |                        |                    |                         |
|---|---------------------------|------------|----------|--------------------------|------------------------|--------------------|-------------------------|
| Company, registered offices   | Shareholder               | Interest % | Currency | Shareholders' equity Tsd | Last year's result Tsd | Balance sheet date | Method of consolidation |
| ALLPLAN Gesellschaft m.b.H., Vienna   | Utilitas                  | 50.00      | EUR      | 621                      | 20                     | 31.12.2005         | E                       |
| ARGE Coop Telekom, Maria Enzersdorf   | grafotech                 | 50.00      | EUR      | 61                       | -15                    | 31.12.2005         | E                       |
| Burgenland Holding Aktiengesellschaft ("BHAG"), Eisenstadt  | EVN                       | 69.60      | EUR      | 75,451                   | 5,966                  | 30.09.2006         | F                       |
| Burgenländische Elektrizitätswirtschafts-Aktiengesellschaft (BEWAG), Eisenstadt                               | BHAG                      | 49.00      | EUR      | 179,196                  | 14,649                 | 30.09.2005         | E                       |
| BEGAS – Burgenländische Erdgasversorgungs-Aktiengesellschaft, Eisenstadt                                      | BHAG                      | 49.00      | EUR      | 61,798                   | 6,221                  | 30.09.2005         | E                       |
| Ernst Hora Elektroinstallationen Gesellschaft m.b.H., Vienna  | first facility            | 100.00     | EUR      | 66                       | 13                     | 31.12.2005         | N                       |
| EVN Business Service GmbH, Maria Enzersdorf   | Utilitas                  | 100.00     | EUR      | 680                      | 495                    | 30.09.2006         | F                       |
| EVN Finanzmanagement und Vermietungs GmbH ("EVN FM"), Maria Enzersdorf  | EVN                       | 100.00     | EUR      | 17,700                   | 6,792                  | 30.09.2006         | F                       |
| EVN Finanzservice GmbH, Maria Enzersdorf  | EVN FM                    | 100.00     | EUR      | 16,694                   | 5,582                  | 30.09.2006         | F                       |
| EVN Finance Service B.V., Amsterdam, Netherlands <sup>1)</sup>  | EVN FM                    | 100.00     | EUR      | -                        | -                      | -                  | N                       |
| EVN-Pensionskasse Aktiengesellschaft, Maria Enzersdorf  | EVN                       | 100.00     | EUR      | 4,172                    | -137                   | 31.12.2005         | N                       |
| e&i EDV Dienstleistungsgesellschaft m.b.H., Vienna  | EVN                       | 50.00      | EUR      | 2,014                    | 409                    | 30.09.2006         | E                       |
| first facility GmbH ("first facility"), Vienna  | Utilitas                  | 100.00     | EUR      | 789                      | 345                    | 30.09.2006         | F                       |
| first facility Bulgaria EOOD, Sofia, Bulgaria   | first facility            | 100.00     | BGN      | -12                      | -14                    | 31.12.2005         | N                       |
| first facility d.o.o., Zagreb, Croatia  | first facility            | 100.00     | HRK      | -14                      | -17                    | 31.12.2005         | N                       |
| first facility Ingotlankezelő Kft., Budapest, Hungary   | first facility/Ernst Hora | 100.00     | HUF      | -40                      | -53                    | 31.12.2005         | N                       |
| first facility Imobile SRL, Bucharest, Romania <sup>1)</sup>  | first facility/Ernst Hora | 100.00     | RON      | -                        | -                      | -                  | N                       |
| Österreichische Elektrizitätswirtschafts-Aktiengesellschaft (Verbund), Vienna                                 | EVN                       | 12.50      | EUR      | 1,087,386                | 157,474                | 31.12.2005         | N                       |

| Company, registered offices   | Shareholder | Interest % | Currency | Shareholders' equity Tsd | Last year's result Tsd | Balance sheet date | Method of consolidation |
|---|-------------|------------|----------|--------------------------|------------------------|--------------------|-------------------------|
| <b>R 138-Fonds, Vienna</b><br>EVN AG/evn naturkraft/<br>EVN Netz/evn wasser/WTE         |             | 100.00     | EUR      | 86,813                   | 4,308                  | 30.09.2006         | F                       |
| <b>RAG Beteiligungs Aktiengesellschaft ("RBG"), Maria Enzersdorf</b>                    | EVN         | 50.05      | EUR      | 101,341                  | 50,854                 | 30.06.2006         | F                       |
| <b>Rohöl-Aufsuchungs-Aktiengesellschaft, Vienna</b>                                     | RBG         | 75.00      | EUR      | 101,161                  | 66,807                 | 31.12.2005         | E                       |
| <b>Utilitas Dienstleistungs- und Beteiligungs-Gesellschaft m.b.H., Maria Enzersdorf</b> | EVN         | 100.00     | EUR      | 33,633                   | 6,620                  | 30.09.2006         | F                       |
| <b>VCK Betonschutz + Monitoring GmbH, Mainz, Germany<sup>1)</sup></b>                   | V&C         | 50.00      | EUR      | –                        | –                      | –                  | N                       |
| <b>V&amp;C Kathodischer Korrosionsschutz Gesellschaft m.b.H. (V&amp;C), Pressbaum</b>   | Utilitas    | 100.00     | EUR      | 430                      | 176                    | 31.03.2006         | F                       |
| <b>Wiener Stadtwerke Management Beta Beteiligungs GmbH, Vienna</b>                      | Utilitas    | 47.37      | EUR      | 916                      | –3                     | 30.11.2005         | N                       |

F Fully consolidated company (subsidiary)

E Company included at equity (associated company)

N Not consolidated

<sup>1)</sup> The company was newly established in the financial year under review.

### ► 68. Information on management and staff

The average number of employees during the 2005/06 financial year amounted to 9,973 (previous year: 6,654). On the balance sheet date, the Group employed 9,798 people (previous year: 6,575).

The total remuneration paid to active members of the Executive Board in the 2005/06 financial year amounted to TEUR 1,075.0 (previous year: 987.7); payments to former members of the Executive Board and their dependents totalled TEUR 834.8 (previous year: TEUR 1,231.3). In addition, pension commitments amounting to TEUR 6,152.0 (previous year: TEUR 5,419.5) apply to current members of the Executive Board.

The corporate bodies of EVN AG are:

#### Executive Board

Burkhard Hofer – Speaker

Peter Layr

Herbert Pötttschacher

#### Supervisory Board

Rudolf Gruber – Chairman

Stefan Schenker – Vice-Chairman

Traude Dierdorf (until November 21, 2005) – Vice-Chairman

Gerhard Posset – Vice-Chairman (from January 12, 2006)

Walter Aigner

Edgar Führer (until January 12, 2006)

Amir Ghoreishi (from January 12, 2006)

Norbert Griesmayr

Gottfried Holzer

Reinhard Jordan (until January 12, 2006)

Helmut Krünes (until January 12, 2006)

Dieter Lutz (from January 12, 2006)

Franz Madl (until January 12, 2006)

Reinhard Meissl (from January 12, 2006)  
Bernhard Müller (from January 12, 2006)  
Wolfgang Peterl  
Leopold Richentzky (until January 12, 2006)  
Martin Schuster (from January 12, 2006)  
Michaela Steinacker  
Franz Hemm – employee representative  
Rudolf Rauch – employee representative  
Manfred Weinrichter – employee representative  
Otto Mayer – employee representative  
Helmut Peter – employee representative  
Leopold Rösler (until January 12, 2006) – employee representative  
Peter Ruis – employee representative  
Franz Ziegelwagner – employee representative

Maria Enzersdorf,  
November 22, 2006

EVN AG

The Executive Board



Burkhard Hofer  
(Speaker)



Peter Layr



Herbert Pötttschacher

# Auditors' report

We have audited the consolidated financial statements of EVN AG, Maria Enzersdorf, for the fiscal year from October 1, 2005, to September 30, 2006. The company's management is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the group is in accordance with the consolidated financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and International Standards on Auditing (ISAs). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement and whether we can state that the management report for the group is in accordance with the consolidated financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the group as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the consolidated financial statements on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the group as of September 30, 2006, and of the results of its operations and its cash flows for the fiscal year from October 1, 2005, to September 30, 2006, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The management report for the group is in accordance with the consolidated financial statements.

Vienna,  
November 22, 2006

**KPMG Austria GmbH**  
**Wirtschaftsprüfungs- und Steuerberatungsgesellschaft**

Rainer Hassler m.p.  
Maximilian Schreyvogel m.p.

Austrian Chartered Accountants

This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditors' opinion may only be made if the financial statements are identical with the audited version attached to this report. § 281 Abs 2 öHGB applies.

# Glossary

|  |  |
|--|--|
| <b>American Depositary Receipts (ADR)</b>                    | Certificates for non-American shares tradable in the USA.  |
| <b>Basic load/peak load</b>                                  | Basic load is the constant energy consumption throughout the entire day. In contrast, peak load represents a high demand for energy in the electricity distribution network for short periods of time.   |
| <b>Beta factor (<math>\beta</math>)</b>                      | A measurement for the relative risk of a share in comparison to the overall market.  |
| <b>Biomass</b>   | Biomass represents the total mass of organic material (living creatures, dead creatures, intermediate catabolic products, and organic residue materials). Certain parts can be used in combined cycle heat and power plants in order to produce electricity and heat.  |
| <b>Book value/share</b>                                      | Book value of share capital divided by the number of shares at the balance sheet date.   |
| <b>Capital Employed</b>                                      | Equity plus liabilities subject to interest.   |
| <b>CO<sub>2</sub></b>  | Chemical designation for carbon dioxide.   |
| <b>CO<sub>2</sub> emission certificate trading</b>           | Within the framework of the EU-wide emission certificate trading system, the Member States distribute CO <sub>2</sub> emission rights to companies. Those firms whose actual CO <sub>2</sub> emissions exceed the volume of the allocated certificates must purchase additional emission rights.   |
| <b>Cash flow</b>   | Balance of the flows (inflows and outflows) of cash and cash equivalents. Serves as an indicator for the assessment of the financial strength of a company, as well as its ability to make dividend payments, debt repayments and investment financing from its own funds. The cash flow is divided into cash flow from operating, investing and financing activities.   |
| <b>Cash generating unit (CGU)</b>                            | The smallest, identifiable group of assets to generate independent cash flows, which are largely autonomous from the cash flows of other assets, or asset groups. The cash value of future cash flows can be employed for the valuation of the respective CGU.   |
| <b>Combined cycle heat and power generation/cogeneration</b> | Simultaneous generation of electrical energy and heat in an energy generating facility. The combined production enables the plant to achieve a high level of efficiency, and thus to optimally use the primary energy used.  |
| <b>Consolidation range</b>                                   | The consolidation range includes every company incorporated in the consolidated financial statements. The precondition is a dominating influence of the parent company. This is given if the parent company is either directly or indirectly in a position to determine the financial and business policy of the subsidiary. The inclusion of a subsidiary commences with the beginning of the dominating influence by the parent company and ends with its termination. |
| <b>Corporate Governance Code</b>                             | A code of behavioural guidelines for companies, which define the principles for the management and controlling of a company. They do not represent a compilation of legal statutes, but rather a set of guidelines which companies voluntarily adhere to.  |
| <b>Coverage ratio</b>  | Ratio of the volume of electricity produced in own power generating facilities and the total electricity sales volumes of a company.   |
| <b>Degree of efficiency</b>                                  | The efficiency of a plant comprised by the ratio of input to output (e.g. the quantity of electrical energy generated in ratio to the primary energy employed).  |

|  |  |
|--|--|
| <b>Derivative financial instruments</b>  | Financial instruments, which create rights and commitments derived from securities, e.g. options, swaps and futures. The use of such financial instruments can be used to minimise financial risks.  |
| <b>Diversification</b>   | Expansion of the product and service portfolio of a company. EVN has successfully extended its core business in the electricity, gas and heating segments to encompass water, wastewater treatment, and waste incineration.  |
| <b>Dividend yield</b>  | Ratio of the distributed dividends to the share price.   |
| <b>Earnings before interest and taxes (EBIT)</b>                               | Earnings before interest and taxes, also known as the results from operating activities. Parameter for the earnings capacity of a company.   |
| <b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b> | Earnings before interest, taxes, depreciation and amortisation of intangible assets and property, plant and equipment. Serves as simple cash flow parameter.   |
| <b>Earnings per share</b>  | Group net profit divided by the weighted number of shares.   |
| <b>Economic value added (EVA)</b>  | Difference between the yield spread (ROCE less WACC) multiplied by the average capital employed. Parameter for the shareholder value created in a company.   |
| <b>Equity ratio</b>  | Ratio between equity and total capital.  |
| <b>Emission certificates</b>   | Emission certificates were introduced in the European Union effective January 1, 2005, as part of the drive to implement the Kyoto accords, which aim to reduce the emission of greenhouse gases. The certificates are allotted in Austria within the framework of the "National Allocation Plan", depending on the level of a company's emissions. Firms requiring more than their designated volume have to acquire additional certificates from companies which have met the commitments to reduce emissions and thus require fewer such emission certificates. |
| <b>Energy units</b>  | <p>kWh     Kilowatt hour: 1 Watt hour (Wh) x 10<sup>3</sup></p> <p>MWh     Megawatt hour: 1 Wh x 10<sup>6</sup></p> <p>GWh     Gigawatt hour: 1 Wh x 10<sup>9</sup></p> <p>Natural gas – energy content: 1 Nm<sup>3</sup> of natural gas equals 11.07 kWh</p>  |
| <b>Equity consolidation</b>  | Accounting method integrating the interests held in companies, which are not fully incorporated into the consolidated financial statements with all assets and liabilities. At acquisition, they are reported at the cost of acquisition, and adjusted in accordance with the pro rata equity. The share of the annual results of the companies included at equity is incorporated into the income statement.  |
| <b>Fair value</b>  | The fair value in efficient markets is the price determined by considering all relevant price-determining factors, used as the basis for transactions which could be concluded by independent, expert business partners potentially willing to enter into a contractual agreement.   |
| <b>Free cash flow</b>  | Net cash flow from operating activities from investments. It is available for payments from financing activities (distribution of the dividends, payment of outstanding liabilities).  |
| <b>Funds from operations (FFO)</b>   | Net cash flow from operating activities, adjusted for interest income.   |

|                                   |   |
|-----------------------------------|---|
| <b>Gearing</b>                    | Ratio of net debt to equity.  |
| <b>Heating degree total</b>       | Parameter for the temperature-related energy requirement for heating purposes.  |
| <b>Horizontal integration</b>     | In the business world, horizontal integration is understood as meaning the grouping of companies on the same production level under a single management. For example, in the energy industry, a company operates or offers various forms of supply or services (e.g. electricity, gas, heat, water, wastewater, and waste incineration).  |
| <b>IFRS or IAS</b>                | International Financial Reporting Standards/International Accounting Standards. The designation IAS was changed to IFRS in 2001. However, the standards published prior to 2001 are still designated as IAS. They are published by the International Accounting Standards Board (IASB).   |
| <b>Impairment test</b>            | Recoverability test, comparing the carrying amount of an asset to its fair value. If the fair value of an asset falls below the carrying amount, then an exceptional write-off (impairment) is to be carried out. This instrument is particularly important for the calculation of goodwill, which may not be subjected to scheduled amortisation since the 2004/05 financial year, but must be subject to an annual impairment test. |
| <b>Incentive regulation model</b> | A regulatory model designed as an incentive to improve certain parameters. Applied to network tariffs, it aims at boosting the productivity of the network operators. The regulator defines a general upper limit for network tariffs for a specified regulatory period. In order to achieve productivity gains, this upper limit is reduced for the individual operators by corresponding deductions.                                |
| <b>Interest cover</b>             | Ratio of the funds from operations to interest expenses.  |
| <b>Kyoto protocol</b>             | International climate protection agreement concluded by the UNFCCC, a U.N. organisation. It defines goals relating to the reduction of greenhouse gas emissions, which are considered the catalyst for global warming. Adopted in 1997, it officially went into effect on February 16, 2005.  |
| <b>Mark-to-market</b>             | Valuation of securities at current market prices.   |
| <b>Multi-service utility</b>      | Company that offers various supply and infrastructure services (electricity, gas, heat, water, waste incineration, etc.) on a one-stop shopping basis.  |
| <b>Management approach</b>        | Presentation of the management and controlling aspects of a company.  |
| <b>Net debt coverage</b>          | Ratio of funds from operations to interest-bearing debt.  |
| <b>Net debt</b>                   | Balance from interest-bearing asset and liability items (issues and liabilities to credit institutes less loans, securities and liquid funds).  |
| <b>Network loss</b>               | The difference between the current supplied or fed into an electricity network and the electrical energy, which is actually delivered. Network losses basically arise due to the physical characteristics of the transmission lines.  |
| <b>Payout ratio</b>               | Ratio between the dividends distributed and the earnings/share.   |
| <b>OTC</b>                        | “Over the Counter” – share trading on the external market.  |

**Quota (pro rata) consolidation**

Quota or pro rata consolidation only includes the assets and debts of the subsidiary in the consolidated financial statements in accordance with the level of the shareholding of the parent company in the particular subsidiary.

**Rating**

Evaluation of issuers and borrowers in relation to their economic strength. Internationally recognised rating agencies include Standard & Poor's and Moody's.

| <b>Rating systems</b>              |                  |                |
|------------------------------------|------------------|----------------|
|                                    | <b>S&amp;P's</b> | <b>Moody's</b> |
| <b>"Investment Grade"</b>          |                  |                |
| <b>Best quality/very good/good</b> | AAA...AA         | Aaa...Aa3      |
| <b>Satisfactory</b>                | A+...BB+         | Baa1...Baa3    |
| <b>"Non-Investment Grade"</b>      |                  |                |
| <b>Inadequate</b>                  | BB+...B-         | Ba1...B3       |
| <b>Poor standing</b>               | CCC+...CCC-      | Caa1...Caa3    |
| <b>In default</b>                  | D                | -              |

**Renewable energy**

Energy won from regenerative sources (solar energy, biomass, hydroelectric and wind generating power).

**Return on capital employed (ROCE)**

The return on capital employed (ROCE) determines the return on the capital utilised within a company. For the calculation of this parameter, the net profit for the period and the interest expenses less tax effects are compared with the average booked capital employed. In order to consistently show the development of the value contribution, the operating ROCE (OpROCE) is adjusted for impairments and one-off effects.

**Return on equity (ROE)**

Return on equity is a parameter used for the calculation of the value creation of a company on the basis of equity. For the calculation of this parameter, the net profit for the period is compared with the average booked equity.

**Syndicated loan**

A binding commitment on the part of a banking consortium to provide a line of credit, which a company can draw upon in varying amounts, repayment terms and currencies.

**Unbundling**

Within the framework of the liberalisation process in Europe's electricity and gas markets, utilities are required to carry out an unbundling (separation, spin-off) of their network operations from the rest of the functions carried out by energy supply companies. Various models are to be considered: the fully-functional model (transfer of network property and operation management to a company subsidiary); the leasing model (leasing of the network to a company subsidiary), or operation management model (management of network operations by a company subsidiary). EVN chose to implement the fully functional approach, and has already transferred its electricity and gas distribution networks as well as the pertaining management operations to EVN Netz GmbH.

**Vertical integration**

In the business world, vertical integration is understood as meaning the grouping of companies on different production levels of the value-added chain under a single management. For example, in the energy industry, a single company carries out sourcing/generation, transmission/network operations and sales.

**Value-at-Risk (VaR)**

Process to calculate the potential loss arising from price changes of a specified trading position by assuming a certain level of probability.

**Waste incineration**

Controlled, large technical incineration of refuse, carried out at temperatures surpassing 1,000°C, leading to the destruction or disposal of toxic substances. At the same time, the energy contained in the refuse is released, and used to produce electricity or for district heating purposes.

**Weighted average cost of capital (WACC)**

The weighted average cost of capital (WACC) of a company consists of debt and equity capital costs, weighted according to their share in total capital. The actual, average credit interest is used as debt capital costs, while the equity costs correspond with the return on a risk-free investment plus a risk markup, which is individually calculated for every company.



- I would like to receive detailed information about EVN. Please send me your Letters to Shareholders and future Annual Reports.
- Please send me invitations to your events for retail investors.
- I do not require further information. Please delete my name from your mailing list.

## The EVN share – basic information

|                             |  |
|-----------------------------|--|
| Share capital, denomination | EUR 99,069,392.62<br>40,881,455 non-par value shares                       |
| ISIN security code number   | AT0000741053   |
| Tickers                     | EVNV.VI (Reuters); EVN AV (Bloomberg);<br>AT; EVN (Dow Jones); EVNVY (ADR) |
| Stock exchange listing      | Vienna   |
| ADR programme; depository   | Sponsored level one ADR program<br>(5 ADR = 1 share); Bank of New York     |
| Ratings                     | A1, stable (Moody's)<br>A, stable (Standard & Poor's)                      |

## Financial calendar 2006/07<sup>1)</sup>

|                        |                   |
|------------------------|-------------------|
| 78 <sup>th</sup> AGM   | January 18, 2007  |
| Ex-dividend day        | January 23, 2007  |
| Dividend payment       | January 29, 2007  |
| Results Q1 2006/07     | February 27, 2007 |
| Results H1 2006/07     | May 31, 2007      |
| Results Q1–3 2006/07   | August 28, 2007   |
| Annual results 2006/07 | December 13, 2007 |

<sup>1)</sup> Preliminary

## EVN Online Annual Report 2005/06

[www.investor.evn.at/gb/ar2006](http://www.investor.evn.at/gb/ar2006)



Name

Address

Post code

City

Country

**EVN AG**  
**Investor Relations**

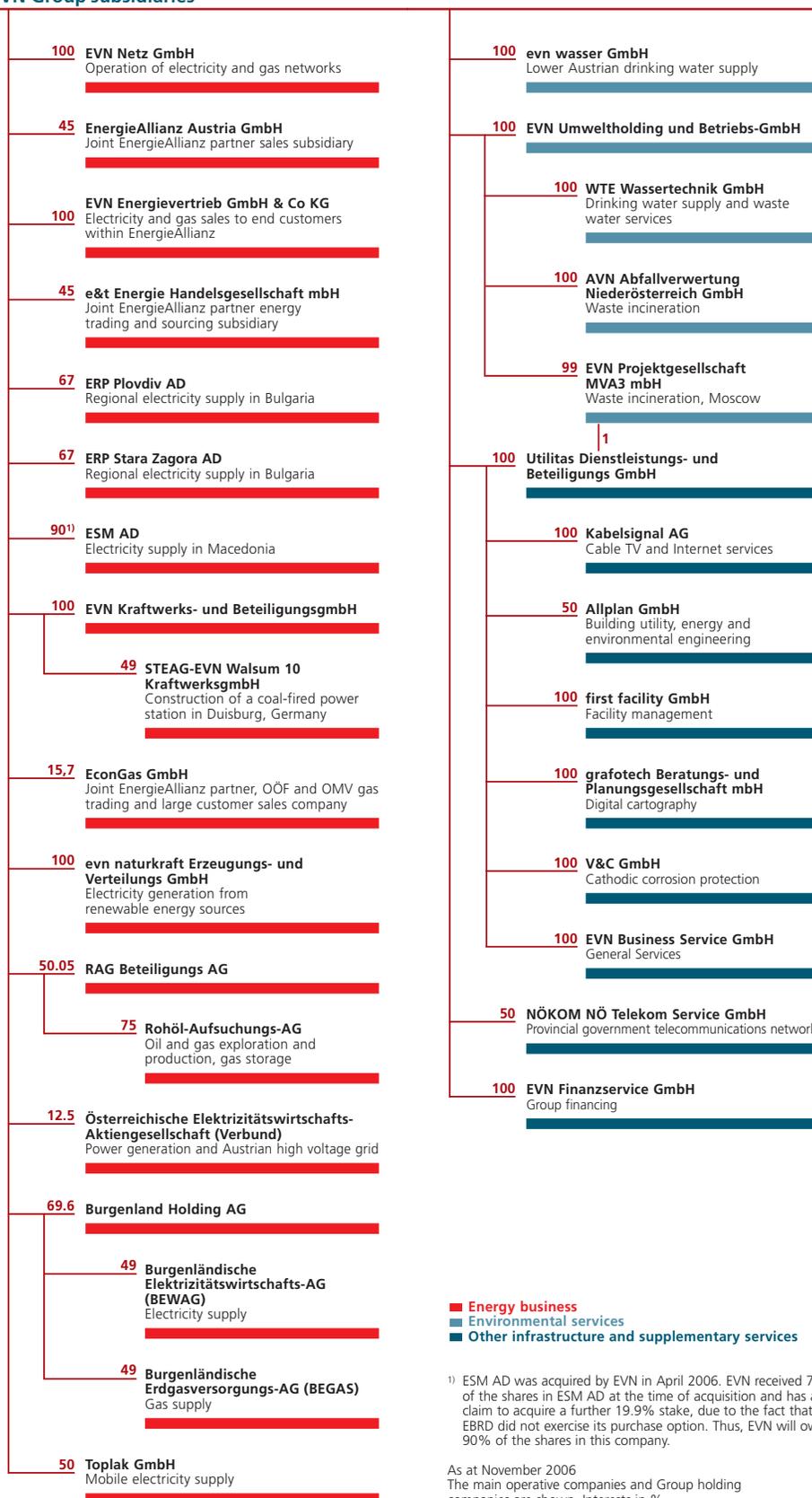
EVN Platz  
A-2344 Maria Enzersdorf  
Austria

Our service to investors includes the postage of all written company information. Should you be interested, please return the adjacent reply card.

In addition, we cordially invite you to visit our investor homepage at [www.investor.evn.at](http://www.investor.evn.at), where you will find a wealth of information.

# The EVN Group

## Main EVN Group subsidiaries



**Published by**

EVN AG  
EVN Platz  
A-2344 Maria Enzersdorf

We have put together this annual report with the greatest possible diligence, and have checked the data. Nevertheless, rounding off, compositor's or printing errors can not be excluded. In the summing up of rounded amounts and percentages, the application of automatic calculating devices could result in rounding-off differences.

This annual report also contains forward-looking statements, estimates and assumptions which are based on all the information available to us at the time when this document was completed. Such statements are typically made in connection with terms such as "expect", "estimate", "plan", "anticipate" etc. We would like to point out that, due to a variety of different factors, the performance and results achieved by the company may differ from the expectations and forward-looking statements contained in this report.

This annual report is also available in German. In case of doubt, the definitive version is the German one.

Editorial deadline: November 23, 2006

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◀ [EVN Group chart](#)

