PETRUSADVISERS

Members of the Supervisory Board
Cc: Stefan Szyszkowitz (CEO), Franz Mittermayer (CFO)
EVN AG (“**EVN**”)
EVN Platz
2344 Maria Enzersdorf

London, 2 April 2023

Dear Ladies and Gentlemen of the EVN Supervisory Board,

Since our letter of 14 December 2022, we have noted very limited fundamental operational progress, and your management team has said very little in respect of our proposals:

Corporate communication
EVN's investor communication continues to be very vague and lacks transparency. Extraordinary costs and income are not disclosed in a transparent and useable way. The EVN team even brags about leaving it up to the readers to calculate the recurring sales and earnings figures from the confusing set of numbers it reports. In light of the disastrously long list of historical and mostly negative 'one-off effects', especially regular impairments in project engineering and the South East Europe segment, this can easily be perceived as a strategy of disguise.

The 2023 guidance seems irrelevant after just one quarter. Given an unadjusted Q1 net profit of EUR 149 million, it makes little sense to stick to a 2023 guidance of only EUR 190 to 250 million. Even when adjusting for non-recurring effects, it is hard to assume an annualised net profit of much less than EUR 500 million. Either management does not have the business under control or there are significant problems expected for the rest of the year.

WTE – High risk and so far nothing but losses
In response to our criticism that EVN is getting bogged down in high-risk international project business in countries such as Kuwait, Bahrain and Russia, CEO Stefan Szyszkowitz announced that EVN's Environment segment should not account for more than 10% of group sales (in the 2022 financial year the contribution was 15%). He provided no detail on what exactly this means for the various business fields of the segment, namely the high-margin and stable Austrian water supply business on the one hand and the high-risk plant engineering business on the other hand. We cannot understand that these fundamentally different businesses can even be reported in a single segment.

Our opinion on this topic is clear: operating a water supply business in Austria makes a lot of sense. However, there is no place for WTE Wassertechnik GmbH (“WTE”), your German plant engineering subsidiary, in the EVN Group. The engineering company operates without proprietary technology in a low-tech segment and predominantly in developing countries. Projects are won primarily by taking enormous business risks and often only by involving questionable intermediaries. Sustainable profitability in the long-term is quasi-impossible. Accordingly, WTE has reduced its equity ratio from 58% in 2018 to just 4% in 2021[1]. This value destruction reflects WTE's severe operating losses – including from activities in Russia – combined with the build-up of enormous debt: WTE's liabilities grew from EUR 73 million in 2018 to more than EUR 550 million in 2021. In addition, EVN has issued guarantees of almost EUR 700 million on behalf of WTE and its high-risk business. Compared to 2018 (EUR 54 million), the guarantee volume has literally exploded since entering into the high-risk contracts in Tubli (Bahrain) and Umm Al Hayman (Kuwait).

We urge you as the Supervisory Board to launch a comprehensive review of WTE's role and, if possible, to sell or close the business. EVN’s valuable core business must be ring-fenced from the enormous risks of the plant engineering business.

[1] *Per annual report of WTE Wassertechnik GmbH in Bundesanzeiger.*

Capital structure
CEO Stefan Szyszkowitz is targeting an absolute net debt level of EUR 1 billion and justifies this with EVN's credit rating. Commercially, this approach makes no sense. A target debt level must logically be based on the risk of the underlying operations and the cash flows they generate.

As described above, EVN's risk profile is primarily distorted by the plant engineering business. Ring-fencing WTE without cross-subsidisation by EVN is crucial. It cannot be that the progress of the Umm Al Hayman project has resulted in EUR 300-500 million in additional liabilities (plus corresponding guarantee volume) when management is targeting EUR 1 billion in net debt for the group. This commercial nonsense also causes the rating agencies to shake their heads and jeopardises EVN's creditworthiness.

EVN's core business has to finance the excess WTE-related liabilities. Accordingly, the net debt of EVN's stable core business with an estimated EUR 1.1 billion[2] as of Q1 2023 or approximately 1.4x EBITDA is significantly lower than the industry average of approximately 3x. The core business can therefore raise ca. EUR 1-1.5 billion in additional funds to fulfil its mandate as an energy and water supplier.

Capital allocation
Given the strength and stability of EVN's core business, the dividend of EUR 0.52 per share is rather meagre. So far, management has refused to comment on the use of the expected Verbund dividend of an implied additional EUR 0.89 / EVN share[3]. We demand that the Verbund dividend be passed on one-to-one to the EVN shareholders, in addition to the EVN dividend.

Your management urgently needs oversight and guidance. EVN could raise billions of capital in order to deliver on its growth potential in its core business, without ignoring industry norms of caution. Project risks are however not part of international utilities' business practices and as such we expect a speedy resolution and communication.

Sincerely,

Klaus Umek
Managing Partner

Till Hufnagel
Partner

[2] *Assuming that 50% of the liabilities in the Environment segment are net debt.*
[3] *The Verbund dividend is EUR 3.60 per share. Based on the 12.63% EVN stake, this implies a dividend per EVN share of EUR 0.89.*