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Research Update:

**S&PCORRECT: Vattenfall 'A-/A-2'
Ratings Affirmed After €8.5 Billion
Bid For NUON's Generation And
Supply Businesses**

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(**Editor's Note:** This article, issued earlier today, has been republished to amend a previously misstated subordinated debt rating for Vattenfall Treasury AB shown in the Ratings List. A corrected version follows.)

Rationale

On Feb. 25, 2009, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' ratings on Sweden-based utility Vattenfall AB following its bid for the unregulated generation and supply operations of Dutch utility N.V. NUON (A+/Watch Neg/A-1) for an enterprise value of €8.5 billion. The outlook is stable.

Vattenfall will initially acquire 49% of the shares in NUON's generation and supply (G&S) businesses and obtain operational and strategic control. The remaining 51% of shares will be acquired in the coming six years under fixed terms. We understand that Vattenfall intends to fully consolidate the G&S businesses retroactively as of Jan. 1, 2009.

We expect Vattenfall's business risk profile to remain largely unchanged following the proposed acquisition. The deal would provide Vattenfall with some diversification benefits by establishing Benelux (Belgium, The Netherlands, and Luxembourg) as a new core market within the group. Furthermore, it would render Vattenfall a meaningful position in Continental gas trading and provide opportunities for improved portfolio optimization. These positive rating factors would partly be offset by Vattenfall's increased exposure to upstream gas production (albeit on a limited scale) and the execution and integration risks related to the acquisition.

We view the debt-financed acquisition as negative for Vattenfall's financial risk profile, although this is partly offset by its planned divestment of noncore assets before year-end 2009. Furthermore, the deferred payments of acquisition proceeds will help to moderate the impact on the company's near-term funding needs.

We expect Vattenfall to post significant negative free operating cash flow over the near term following its ambitious capital expenditure plan, which in combination with the debt funding of the NUON acquisition is expected to create significant near- to medium-term funding needs. However, we expect Vattenfall to proactively manage its upcoming funding and liquidity requirements to keep refinancing and funding risks within a level commensurate with the 'A-' rating category. Incorporating the proposed acquisition of NUON's G&S operations, we expect Vattenfall's debt protection ratios of funds from operations (FFO) to debt and FFO interest coverage to remain above 20% and 4.5x, respectively, over the medium term, with the lowest point in 2009. We adjust these ratios by adding to Vattenfall's debt the present value of

remaining payments of acquisition proceeds.

Vattenfall's earnings for full-year 2008 benefited from a continued good performance in its Nordic generation business, mainly based on higher achieved prices. Meanwhile, earnings in the company's Central European operations weakened compared with the previous year due to the higher cost of carbon dioxide allowances, reduced availability of coal-fired plants, and continued standstill at two of the company's German nuclear power plants. The sharp drop in electricity prices in the fourth quarter has had a limited effect on Vattenfall's earnings due to hedging arrangements in place, but any sustained weakness in power prices would negatively affect its earnings.

Short-term credit factors

The short-term rating is 'A-2'. Vattenfall's liquidity is currently adequate, supported by its proven cash generation capacity. Due to significant planned capital expenditures, we expect the company's free operating cash flow to be about negative Swedish krona (SEK) 4.5 billion in 2009, however. Although Vattenfall operates in highly competitive and volatile markets, movements in spot power prices are unlikely to have a material negative effect on the company's liquidity and financial performance over the short term as a result of hedging arrangements.

The company's liquidity position is supported by:

- Reported cash and short-term investments of SEK40.2 billion, as of Dec. 31, 2008, of which SEK32.8 billion was accounted for as available, which compares with SEK34.5 billion of reported short-term debt and interest-bearing provisions;
- Access to unused committed credit facilities of SEK15.4 billion as of Dec. 31, 2008;
- Good access to public debt markets;
- An absence of rating triggers or onerous covenants in financing agreements; and
- A policy of maintaining the equivalent of 10% of turnover in cash or committed credit lines, or the equivalent of the next 90 days' debt maturities--whichever is greater.

Vattenfall has put in place a €5.0 billion committed bridge facility to fund part of the initial acquisition of 49% of shares in NUON's G&S operations. The term of the bridge facility is one year with an option to prolong 50% of the initial facility amount for a further one year. We expect Vattenfall to put in place longer-term funding of the acquisition well ahead of the facility's maturity.

Outlook

The stable outlook reflects our expectations that Vattenfall's business and financial risk profiles will remain in line with the 'A-' rating category following the proposed acquisition of NUON's G&S businesses.

Any material negative changes to terms and conditions related to the proposed acquisition from those incorporated into the current ratings could

put pressure on the ratings, as could any additional large debt-financed acquisition or further expansion of Vattenfall's already significant investment program. The ratings could also come under pressure from any prolonged deterioration of power prices resulting in weaker-than-expected medium-term earnings performance.

An upgrade does not appear likely over the medium term as Vattenfall's headroom under the 'A-' rating would be exhausted if the acquisition of NUON's G&S operations materializes as expected.

Ratings List

Ratings Affirmed

Vattenfall AB

Corporate Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

Vattenfall Treasury AB*

Senior Unsecured	A-
Subordinated	BBB+
Commercial Paper	A-2
Commercial Paper Nordic National Scale	K-1

*Debt guaranteed by Vattenfall AB.

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