

Vattenfall AB

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Major Rating Factors

Strengths:

- Strong position in the northern European electricity market.
- Large and diverse operations.
- Competitive generation portfolio.
- Prudent trading and hedging policies.
- Significant share of stable, regulated and monopoly-like operations.

Corporate Credit Rating

A/Negative/A-1

Weaknesses:

- Weakened financial profile following a large debt-funded acquisition in a difficult market environment.
- Exposure to competitive markets and volatile electricity prices.
- Operating risk of nuclear operations.
- Significant capital expenditure program.

Rationale

The ratings on Swedish-based power utility Vattenfall AB reflect its strong position in the northern European electricity market, large and diverse operations, and competitive generation portfolio. In addition, Vattenfall generates relatively stable cash flow from electricity distribution and heating operations. These strengths are balanced by Vattenfall's exposure to competition and price volatility in power generation, risks related to nuclear and coal-fired generation, and a weakened financial profile, in Standard & Poor's Ratings Services' view, following the acquisition of 49% of Dutch generation and supply company N.V. Nuon Energy (Nuon; not rated). In addition, we consider Vattenfall's medium-term capital-expenditure program, which will be partly debt funded, to be aggressive.

The 'A' long-term rating is based on Vattenfall's stand-alone credit profile, which we assess at 'A-', as well as on our opinion that there is a "moderate" likelihood that the government of the Kingdom of Sweden (AAA/Stable/A-1+) will provide timely and sufficient extraordinary support to Vattenfall in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view of a "moderate" likelihood of extraordinary government support is based on our assessment of Vattenfall's:

- "Strong" link with the Swedish government, given the company's 100% state ownership and the government's influence on high-level strategic decision-making; and
- "Limited" role, given the company's strong, but not dominant, market position in Sweden, increasing exposure to non-Nordic markets, and its operations in a fully liberalized electricity market.

Key business and profitability developments

Vattenfall's earnings in the first three quarters of 2009 were pressured by falling demand for electricity, lower electricity prices, and lower electricity generation volumes, in particular from the company's hydro- and nuclear power plants. Vattenfall's hedging contracts mitigated the negative impact on profitability from falling electricity prices, but the company's operating margin (before depreciation and amortization) fell to less than 20% in the third

quarter of 2009, compared with 27% for 2008.

Nordic electricity prices recovered in the fourth quarter of 2009, reflecting a cold winter, a gradual increase in industrial production, and lower hydro reserves. This is demonstrated by strengthening forward prices, which may support Vattenfall's profitability on electricity sales not covered by hedging contracts (about 25%-30% in 2010 according to Vattenfall's interim third-quarter 2009 report). Nevertheless, Vattenfall believes the current economic downturn in its core Nordic and Continental European markets is likely to prevent a swift revival of electricity demand to levels seen before 2008. We will monitor the extent to which Vattenfall's management will be able to offset the effects of recession by implementing announced cost savings and efficiency improvements.

Key cash flow and capital-structure developments

The acquisition of Nuon in mid-2009 significantly added to Vattenfall's debt burden, which, combined with lower earnings, has weakened the company's financial profile. Vattenfall paid about Swedish krona (SEK) 52 billion (about €4.8 billion) to acquire the first 49% of Nuon. It has also consolidated about SEK49 billion (about €4.8 billion) for the remaining 51% as interest-bearing debt.

For the 12 months ended Sept. 30, 2009, funds from operations (FFO) to debt fell to about 17% (compared with about 25% in the previous corresponding period), which is below our target ratio for Vattenfall's 'A-' stand-alone credit profile of more than 20%. This, however, only incorporates one-quarter of the cash flow contribution from Nuon.

We understand that Vattenfall is looking to bolster cash flow by reducing capital spending and by executing planned asset disposals, including that of its German electricity transmission business and ownership stakes in five German utilities (Stadtwerke). These measures, we believe, will be important to support Vattenfall's efforts to strengthen cash-flow-related credit measures.

Short-term credit factors

The short-term rating is 'A-1'. Vattenfall's adequate liquidity position is supported by available cash and short-term investments of SEK37.8 billion on Sept. 30, 2009. Vattenfall also had access to an unused €1.0 billion committed credit facility maturing in February 2013, which contains no rating triggers or onerous covenants. This compares with SEK37.8 billion of reported short-term debt and interest-bearing provisions on the same date. Vattenfall has a policy of maintaining the equivalent of 10% of the group's turnover in cash or committed credit lines (currently equates to about SEK18 billion-SEK20 billion) or the equivalent of the next 90 days' debt maturities, whichever is greater. The group faces significant maturities in 2011 (about SEK26 billion) and 2013 (about SEK35 billion), however, which will need to be addressed in the coming years to reduce refinancing risk. This is in addition to about SEK200 billion that Vattenfall plans to spend on investments in 2010-2014. A significant part of these investments are likely to be debt funded.

Outlook

The negative outlook reflects Vattenfall's weaker-than-expected earnings performance for the first nine months of 2009 and our expectation that the company's financial profile is not likely to be consistent with an 'A-' stand-alone credit profile over the near term.

We could lower the rating by one notch if we believe that Vattenfall is likely to be unable to reach and maintain a ratio of FFO to debt of more than 20%. The ratings could also come under pressure if we see that market conditions

or government support are weakening, or if Vattenfall undertakes any further debt-financed acquisitions or expands its already significant investment program. The latter, however, appears unlikely in the near term.

Conversely, the outlook could be revised to stable if Vattenfall were to undertake measures to restore its financial profile to a level commensurate with an 'A-' stand-alone credit profile.

Business Description

With a turnover of about SEK187 billion (about €18 billion) in the 12 months ended Sept. 30, 2009, Vattenfall is the largest electricity and heat generator in the Nordic region, with significant coal-fired, nuclear, and hydropower production capacity. The company generated about 162 terawatt-hours (TWh) of electricity and 35.6TWh of heat in 2008, making it the largest heat producer in Europe. Vattenfall has a strong market position in its core market areas, which include the Nordic region, Germany, and Poland. Vattenfall has, through the acquisition of Nuon's generation and supply (G&S) business in 2009, established a strong presence in Belgium, the Netherlands, and Luxembourg (Benelux).

Government Support And GRE Methodology Impact

We assess Vattenfall's link to the Swedish government as "strong", mainly based on the company's 100% state ownership through the Ministry of Enterprise, Energy, and Communications. Although Vattenfall has a clear corporate governance setup, with an independent management that makes autonomous business decisions, we expect the government to continue to have an influence on the company's high-level strategic decision-making.

Vattenfall has previously been subject to political pressure on issues such as environmental investment, investment strategy, and power prices and political intervention during periods of high power prices cannot be ruled out.

Our assessment of Vattenfall's limited importance to the government is based on what we regard as Vattenfall's strong, but not dominant, market position in Sweden. Moreover, Vattenfall operates in a fully liberalized market, so it could conceivably be replaced by a private-sector entity or another GRE.

Business Risk Profile: Risks From Nuclear And Coal-Fired Generation Constrain Vattenfall's Large And Diverse Operations

Vattenfall's business risk profile, which we currently assess as "strong", is manifested by its strong position in the northern European electricity market, large and diverse operations, and competitive generation portfolio, as well as relatively stable cash flow from electricity distribution and heating operations. Vattenfall's stability is underpinned by its regulated electricity distribution and monopoly-like heating operations, which accounted for about 32% of EBITDA in 2008. The high share of base-load nuclear and lignite-based generation in the company's German and Polish operations brings further stability to Vattenfall's credit profile, in our view.

Vattenfall's business risk profile is constrained by exposure to competition, price volatility in power generation, and risks related to nuclear and coal-fired generation.

Strategy

Vattenfall has outlined five strategic ambitions that focus on profitable performance, environmental friendliness, and customer and employee satisfaction. Vattenfall's vision is "to be a leading European energy company". Over the medium to long term, we expect the company to expand through organic investments--including capacity replacements and life-time extensions--as well as via acquisitions. Management's near-term goals will likely be the integration of Nuon's G&S business into the Vattenfall group, capital-expenditure reductions, and the improvement of groupwide operational efficiency.

Vattenfall has announced selected asset disposals in connection with its acquisition of Nuon, including that of its German electricity transmission network and shares in German utilities. Standard & Poor's expects these disposals to bring in more than €1.5 billion, and to be finalized in 2010.

Regulation

Regulatory models vary among the countries in which Vattenfall operates, and each presents different hurdles. In Germany, regulatory and political constraints have increased in recent years, as demonstrated by significant tariff cuts alongside the increasing need to undertake investments in the high-voltage networks. However, given Vattenfall's intention to sell its German electricity transmission assets, we expect the company's exposure to adverse regulatory actions to decrease.

In Sweden, where Vattenfall mainly operates regional electricity distribution networks, regulatory restrictions have eased over recent years. The regulator's claims of alleged overcharging by several regional network operators in 2008--including Vattenfall--have been significantly lowered or withdrawn. We understand a new regulatory model should be implemented by 2012.

Vattenfall's Nordic and German district heating businesses benefit from their loosely regulated status, being de facto monopolies. We expect the noncyclical, albeit weather-dependent, heating operations to continue to support Vattenfall's business position, although regulation in the heating business could become stricter and potentially allow third-party access.

Nuclear operations remain exposed to inherent political risks as well as stricter environmental and safety requirements. Political developments in Sweden and Germany could result in life-time extensions at existing facilities and, in the longer term, the construction of new nuclear power plants.

Markets

Vattenfall benefits from the prosperous and stable markets of the Nordic countries, Germany, and Benelux. Long-term volume growth prospects in these mature markets are generally modest, however, and we expect growth in the Nordic region and Germany to be less than 1% per year. Annual long-term growth in the Polish electricity consumption will likely be slightly higher at about 2.0%.

Vattenfall is, through its long-standing position in electricity generation, exposed to intense competition in its key north European electricity markets, which are fully deregulated. The company's geographic coverage provides some diversification benefits, however, and the acquisition of Nuon's G&S business, which is a net buyer of electricity, should reduce this exposure. A tight supply-demand balance for a prolonged period could be another mitigating factor.

Electricity consumption in the Nordic region fell by about 6% in the first nine months of 2009 compared with the

same period in 2008, mainly on the back of lower industrial consumption as a result of the economic downturn. Consequently, at €31.28 per megawatt-hour (MWh), the average system spot price on NordPool for the third quarter of 2009 was considerably below that for the same period the previous year (€55.51 per MWh).

Nordic power prices have historically been lower than Continental European prices, largely because of good hydropower availability. In the longer term, however, prices could harmonize with the higher Continental European price level following a gradual integration of the power systems. At €37.06, the average European Power Exchange base-load spot price in Germany was significantly lower in the third quarter of 2009 than the €73.33 recorded in the second quarter of 2008. Over the medium term, however, German wholesale prices will likely remain higher than €35 per MWh, influenced by the pricing of carbon-dioxide (CO₂) emissions and fuel (including coal and gas).

Competitive position

Vattenfall's competitive position is supported by its low-cost generation and ability to exploit economies of scale in all areas of operations. Negative factors include Vattenfall's long position in power generation, the imbalance between generation and end-user sales (although offset by a prudent hedging policy and asset diversity), and the increasing cost of CO₂ emissions.

Operations

Generation: We regard asset quality as fairly high and a support to the ratings. Vattenfall has a modern, flexible, competitive generation portfolio, which is well diversified geographically and in terms of generation mix. It comprises lignite plants, nuclear plants, and significant low-cost and low-risk hydro-generation plants. The acquisition of Nuon's G&S business added significant gas-fired capacity to Vattenfall's generation portfolio as well as some wind power (including a portfolio of wind-development projects) and bio-mass capacity. We believe that, through the acquisition, Vattenfall will be able to exploit Nuon's G&S business' gas expertise and position in Continental European gas trading to optimize its portfolio. Vattenfall will also have proximity and connectivity to other interesting growth markets, including the U.K., Belgium, and France.

Vattenfall has made significant investments in renewable energy and has constructed large wind farms, mainly in Sweden and Denmark, but also in the U.K. According to the company's roadmap for investments in renewable energy, Vattenfall aims to add significant wind power capacity over the medium to long term as a part of its vision of becoming climate neutral.

We regard Vattenfall's lignite-fired plants in Germany and Poland as low cost, given the company's control over its fuel supply, which reduces operational risks. CO₂-intensive production is a negative rating factor, however, because free emission allowances are likely to be cut back after 2012. We expect Vattenfall's German operations to record an average deficit of CO₂ certificates corresponding to 26 million tonnes per annum in 2009-2012. Vattenfall expects to spend about €500 million on allowances during this period, assuming a CO₂ price of €20 per tonne.

Slightly more than half of Vattenfall's generation portfolio was CO₂-free by 2008, and the company is actively looking to reduce its CO₂ emissions. Vattenfall's stated ambition is to develop the so-called "carbon-capture-storage" technology on a fully commercial scale as of 2020.

In both Sweden and Germany, Vattenfall is an experienced nuclear operator. A high proportion of nuclear generation has mixed implications: Although it supports Vattenfall's strategy to reduce CO₂ emissions, it also carries a higher operating risk compared with other sources of power. Repeated, unplanned outages at the company's Swedish and German nuclear power plants over recent years have resulted in increasing calls from politicians and the general public for operators to improve safety measures.

Vattenfall is a major Nordic hydropower producer that owns and operates 112 hydropower plants, mainly in Sweden. The low cost profile of its significant hydropower assets supports the ratings. Vattenfall's investments are generally aimed at upgrading existing plants, and environmental restrictions prevent any large-scale capacity additions.

Trading: Vattenfall's extensive in-house trading and portfolio-management operations are integrated into a single trading organization, which functions as a separate business unit. The unit manages internal risk exposures across different portfolios and commodities within the Vattenfall group and provides services for external customers, including portfolio management. Risk-management practices appear adequate. Trading is focused on hedging Vattenfall's generation and supply activities to reduce exposure to price volatility and generate stable revenues. This creates a time lag before price fluctuations fully affect cash flows, which means that cash flows can be sustained, or even increased, despite falling spot-market prices.

The acquisition of Nuon's S&G business will, in our view, add competence and a meaningful market position for Vattenfall within gas trading in Continental Europe.

Electricity transmission and distribution: We believe that Vattenfall's regulated electricity distribution operations enhance its business risk profile, owing to their resilience to economic fluctuations. The Nordic operations are generally efficient, in our view, despite some quality problems related to severe, weather-related interruptions.

The majority of Vattenfall's approximately 1.3 million Nordic customers live in rural areas, and its 3.2 million German customers are mainly located in the urban areas of Hamburg and Berlin, which we consider positive. The Polish electricity distribution operations, with about 1.1 million customers, carry higher market risk, but are still too limited to materially affect Vattenfall's market risk, in our view. With the acquisition of Nuon on July 1, 2009 Vattenfall has gained 2.6 million new electricity customers and 2 million new gas customers.

Heating: Vattenfall is a major district and industrial heating supplier in the Nordic region. Outside the region, its operations are dominated by heat supplies to the major urban areas of Warsaw, Berlin, and Hamburg. Most of this generation comes from coal-fired combined heat and power plants, but the company has conducted the required environmental upgrades. We expect Vattenfall to maintain stable and profitable heating operations.

Table 1

Vattenfall AB--Operating Statistics					
	--Year ended Dec. 31--				
	2008	2007	2006	2005	2004
Total capacity, electricity and heat (MW)	34,572	35,230	35,114	32,448	32,918
Generation (TWh)	162.0	167.6	164.4	169.1	167.1
Of which nuclear (%)	28.0	31.0	33.0	35.0	37.0
Of which fossil based (%)	47.0	46.0	45.0	41.0	43.0
Of which hydro (%)	24.0	22.0	21.0	24.0	20.0
Purchases (TWh)	52.8	56.7	56.7	64.4	52.0
Electricity sold (TWh)	189.3	193.8	191.1	200.3	186.4
Retail customers (000s)	4,790	4,702	4,917	4,973	5,040
Type of network (kV)	up to 440	up to 440	up to 440	up to 440	up to 440
District-heating deliveries (TWh)	35.6	36.2	35.2	34.1	34.5

MW--Megawatts. TWh--Terawatt-hours. kV--Kilovolts.

Profitability

Profitability is sound, albeit fairly volatile, reflecting fluctuations in electricity prices and weather-related influences on its cost base.

At a divisional level, the earnings performance of recent years has been largely fueled by Vattenfall's power generation and heat segments, which benefited from high wholesale electricity prices and a relatively sizable share of CO₂-free generation. Decreasing network tariffs--particularly in Germany--have resulted in deteriorating profitability within Vattenfall's electricity transmission operations. Gross margins in electricity retail sales, which contribute a minor share of group earnings, remain subdued by fierce competition in Vattenfall's main markets.

Financial Risk Profile: Under Pressure From Weaker Earnings and Large Investments

We view Vattenfall's financial risk profile as "intermediate", reflecting healthy cash flow from operations and modest leverage over the cycle. This is restricted by an aggressive investment plan, including large debt-funded acquisitions, which are putting pressure on Vattenfall's credit measures.

Accounting

Vattenfall's consolidated accounts are prepared under International Financial Reporting Standards. Our key analytical adjustments of Vattenfall's accounts relate to postretirement benefit obligations, asset-retirement obligations (AROs), surplus cash, hybrid capital, and operating lease adjustments (see table 2):

- Unfunded postretirement obligations added about SEK21.4 billion to our broader measure of financial obligations at the end of 2008, with minimal tax effects because most of the unfunded obligations were in Germany.
- We added SEK24.7 billion to reflect future decommissioning liabilities relating to Vattenfall's nuclear and mining operations. We calculate the ARO related to Vattenfall's Swedish nuclear operations net of the company's share of the Swedish nuclear decommissioning fund. The ARO is based on Vattenfall's legal obligation to assume 100% of the decommissioning liabilities related to the Ringhals plant and 66% of the liabilities related to the Forsmark plant. Vattenfall consolidates one German nuclear plant, Brunsbüttel, in which it has a 66.7% stake. Vattenfall has consolidated the cash set aside for Brunsbüttel's future decommissioning, although we view the minority owners' share of this cash as restricted, and therefore exclude it in our debt calculation.
- Vattenfall's German minority-owned nuclear plants have set aside cash to cover future nuclear decommissioning liabilities. This cash is deposited with Vattenfall and appears on the company's balance sheet as loans from associated companies (SEK16.9 billion as of Dec. 31, 2008). Vattenfall's actual decommissioning liability for these plants was SEK11.9 billion at the end of 2008. Consequently, we deducted SEK4.9 billion--the amount by which the affiliates were overfunded at year-end 2008--from Vattenfall's debt.
- We give Vattenfall credit for surplus cash (SEK25.3 billion on Dec. 31, 2008), which we view as readily available, and deduct it from gross debt.
- We reclassified to equity from debt 50% of the nominal value of capital instruments (SEK10.8 billion) that we consider to have intermediate equity content.
- Operating lease adjustments amounted to SEK3.2 billion.
- We adjust Vattenfall's debt with the market value of currency derivatives (a positive value of SEK3.1 billion as at year-end 2008).

Table 2

Reconciliation Of Vattenfall AB Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. SEK)*							
--Fiscal year ended Dec. 31, 2008--							
Vattenfall AB reported amounts							
	Debt	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	107,347	45,960	29,895	4,151	36,194	36,194	30,100
Standard & Poor's adjustments							
Operating leases	3,187	625	153	153	472	472	744
Intermediate hybrids reported as debt	(5,406)	--	--	(287)	287	287	--
Postretirement benefit obligations	21,439	113	113	944	(48)	(48)	--
Surplus cash and near cash investments	(25,329)	--	--	--	--	--	--
Capitalized interest	--	--	--	155	(155)	(155)	(155)
Capitalized development costs	--	(122)	68	--	(122)	(122)	(122)
Asset retirement obligations	24,666	--	--	1,012	576	576	--
Reclassification of nonoperating income (expenses)	--	--	1,763	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	(5,459)	--
Minority interests	--	--	--	--	--	--	--
Other	8,036	(1,551)	(248)	--	--	--	--
Other consists of:							
Currency derivatives	(3,131)						
Loans from associated companies	(16,881)						
Pro rata adjustment of on-balance sheet nuclear provisions	11,976						
Total adjustments	10,522	(936)	1,849	1,976	1,011	(4,448)	467
Standard & Poor's adjusted amounts							
	Debt	Operating income (before D&A)	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	117,869	45,025	31,744	6,127	37,205	31,746	30,567

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. SEK--Swedish krona.

Corporate governance/Risk tolerance/Financial policies

Vattenfall's track record of allowing its financial profile to recover after larger debt-funded acquisitions is a positive rating factor.

According to the company's financial targets, revised in 2006, dividends will amount to 40%-60% of net income. Over the past three years, dividends have been in the low end of the range. We view Vattenfall's full state ownership as positive because it may allow for some flexibility in dividend payouts if the company experiences financial difficulty.

Other financial targets include cash flow interest coverage after maintenance investments of 3.5x-4.5x and an 11% return on net assets, which is derived from the company's 15% post-tax return on equity. Vattenfall has stated its commitment to maintaining a rating in the 'A' category.

Cash flow adequacy

In addition to lower operating earnings, the consolidation of about SEK51 billion in remaining payment installments related to the Nuon acquisition as interest-bearing debt caused cash flow protection measures to weaken significantly in the second half of 2009. Vattenfall's debt-to-EBITDA ratio increased to a high 4.7x in the 12 months ended Sept. 30, 2009, and is likely to remain aggressive in the near term.

Vattenfall's SEK200 billion capital expenditure program, including Nuon's G&S business, mainly focuses on investments within its power generation and heat segments. Despite recent reductions in capital spending, however, Vattenfall is likely to post negative free operating cash flow over the near to medium term.

Capital structure/Asset protection

In our view, the steep increase in Vattenfall's debt in 2009 is putting pressure on the ratings. As of Sept. 30, 2009, debt to capital increased to 61% from 42% at the end of 2008. Despite several planned divestments, debt leverage is not expected to immediately recover, given our assumption that Vattenfall's high investment levels will continue. We therefore expect Vattenfall's credit measures to have remained below what we consider commensurate with our rating at the end of 2009 and we believe this could continue into 2010.

Vattenfall is a well-established borrower with strong banking relationships and good access to public debt markets. The company uses a wide variety of funding alternatives.

Liquidity and financial flexibility are supported by various factors:

- On Sept. 30, 2009, the average time to maturity was 7.4 years (excluding capital securities and loans from associated companies and minority owners) against Vattenfall's target of a minimum of five years.
- On Sept. 30, 2009, debt maturities were reasonably well spread, although with some concentration in the medium term.
- Interest exposure is adequate, in our view. The average interest duration on Sept. 30, 2009, was four years, which is within the company's policy range of 3-5 years.
- Foreign exchange exposure is adequate. Vattenfall's interest-bearing debt is hedged in Swedish krona or euros. The German and Dutch operations provide the company with a natural hedge in the Eurozone.
- Vattenfall's debt and committed back-up facilities do not include any rating triggers, onerous financial covenants, or material adverse change clauses.

Table 3

Vattenfall AB--Peer Comparison*					
	Vattenfall AB†	Fortum Oyj	DONG Energy A/S†	Statkraft AS	Eesti Energia AS
Corporate credit ratings	A/Negative/A-1	A/Stable/A-1	A-/Stable/A-2	A-/Negative/A-2	A-/Negative/--

Table 3

Vattenfall AB--Peer Comparison* (cont.)					
--Fiscal year ended Dec. 31, 2008--					
(Mil. €)					
Revenues	14,959	5,636	8,158	2,577	677
Operating income (before D&A)	4,145	2,429	1,942	1,441	214
Net income from continuing operations	1,554	1,542	640	3,395	87
Funds from operations (FFO)	2,889	2,114	1,442	1,503	225
Capital expenditures	2,739	1,047	1,279	214	228
Free operating cash flow	647	965	75	968	-54
Discretionary cash flow	(113)	(233)	(152)	105	-96
Debt	11,000	8,126	3,837	4,443	382
Equity	13,228	8,361	5,657	7,437	1,160
Debt and equity	24,228	16,487	9,494	11,880	1,542
Adjusted ratios					
Operating income (before D&A)/revenues (%)	27.7	43.1	23.8	55.9	31.5
EBIT interest coverage (x)	5.2	5.4	4.3	5.9	5.3
EBITDA interest coverage (x)	7.4	6.0	6.8	6.0	10.6
Return on capital (%)	11.9	12.7	12.2	13.1	7.1
FFO/debt (%)	26.2	26.0	37.6	33.8	58.8
Free operating cash flow/debt (%)	5.5	11.9	2.0	21.5	(14.2)
Discretionary cash flow/debt (%)	(1.4)	(2.9)	(4.0)	2.1	(25.1)
Debt/EBITDA (x)	2.7	3.4	2.0	3.1	1.8
Total debt/debt plus equity (%)	45.4	49.3	40.4	37.4	24.8

*Fully adjusted (including postretirement obligations). †Excess cash and investments netted against debt. \$As of Feb. 5, 2010. D&A--Depreciation and amortization.

Table 4

Vattenfall AB--Financial Summary*					
	12 months to	--Fiscal year ended Dec. 31--			
	Sept. 30, 2009	2008	2007	2006	2005
(Mil. SEK)					
Revenues	186,872	164,549	143,639	135,802	129,158
Operating income (before D&A)	47,092	45,025	45,287	42,875	38,557
Net income from continuing operations	14,932	17,095	19,769	18,729	19,235
Funds from operations (FFO)	37,543	31,746	34,362	36,652	31,886
Capital expenditures	N.A.	30,567	18,798	16,037	12,699
Free operating cash flow	11,439	6,637	13,846	20,032	11,324
Discretionary cash flow	4,173	(1,716)	5,991	13,903	5,424
Debt	219,364	117,869	90,160	97,644	106,327
Equity	141,949	145,509	129,279	110,119	92,710
Debt and equity	361,314	263,378	219,439	207,763	199,037
Adjusted ratios					
Operating income (before D&A)/revenues (%)	25.2	27.4	31.5	31.6	29.9

Table 4

Vattenfall AB--Financial Summary* (cont.)					
EBIT interest coverage (x)	3.7	5.2	6.0	6.1	6.4
EBITDA interest coverage (x)	5.6	7.3	8.9	8.8	8.4
Return on capital (%)	9.4	11.9	12.6	12.4	12.4
FFO/debt (%)	17.1	26.9	38.1	37.5	30.0
Free operating cash flow/debt (%)	5.2	5.6	15.4	20.5	10.7
Discretionary cash flow/EBITDA (%)	2.0	(3.9)	13.3	32.7	14.2
Debt/EBITDA (x)	4.7	2.6	2.0	2.3	2.8
Debt/debt and equity (%)	60.7	44.8	41.1	47.0	53.4

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. SEK--Swedish krona. D&A--Depreciation and amortization. N.A. Not available

Ratings Detail (As Of February 5, 2010)*

Vattenfall AB

Corporate Credit Rating	A/Negative/A-1
Commercial Paper	A-1
<i>Nordic National Scale Rating</i>	K-1
Senior Unsecured (19 Issues)	A
Subordinated (1 Issue)	A-
Subordinated (1 Issue)	BBB

Corporate Credit Ratings History

23-Dec-2009	A/Negative/A-1
30-Jun-2009	A/Stable/A-1
06-Sep-2006	A-/Stable/A-2
21-Jun-2005	A-/Positive/A-2

Business Risk Profile

Strong

Financial Risk Profile

Intermediate

Debt Maturities

As of Sept. 30, 2009 (excluding loans from minority owners and associated companies of SEK24.4 billion)

2009*: SEK1.0 bil.

2010: SEK6.8 bil.

2011: SEK25.5 bil.

2012: SEK2.4 bil.

2013: SEK35.0 bil.

2014 and thereafter: SEK136.0 bil.

*Due in fourth-quarter 2009.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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