



Rating Action: **Vattenfall AB**

MOODY'S CHANGES OUTLOOK ON VATTENFALL'S A3/Baa1 RATINGS TO STABLE FROM NEGATIVE

London, 10 October 2003 -- Moody's Investors Service today changed the rating outlook for A3 senior unsecured and Baa1 senior subordinated debt ratings of Vattenfall AB and its guaranteed subsidiaries to stable from negative. The change in outlook reflects (i) the solid progress achieved on integrating the German operations into the Vattenfall group; (ii) the group's strong cash flow and progress in debt reduction in the first half of 2003, which have resulted in a improving financial profile; and (iii) Moody's expectation that the advances as regards business integration and debt reduction will continue.

Further positive ratings developments could occur provided the company fully completes its integration programme, continues to reduce debt and demonstrates a good track record of sustainable strong core cash flows within the enlarged group. However, any further large debt-funded acquisitions (not expected in the intermediate term) that could absorb free cash flow or the event risk associated with such a possibility could serve to keep the ratings at their current levels. Indeed, a large debt-funded acquisition could, depending on its scale and pace, translate into negative ratings pressure.

The current ratings reflect not only Vattenfall's strong market position as the leading Scandinavian electric utility and its position as the third largest player in Germany following a series of acquisitions during 2000-2 but also the fact that these large acquisitions (which have resulted in Vattenfall almost trebling in size) have presented very significant execution and integration challenges.

However, in Moody's opinion, the company's integration of its German operations has proceeded well -- although the work on cultural, business and financial integration will continue -- which is reflected in the strong cash flow and reducing debt levels in the H1 2003 results. At the same time, Moody's recognises that, despite very good recent results, there is still a degree of volatility in Vattenfall's financial performance, reflecting in particular the more volatile Nordic generation sector -- risks which are tempered by both greater diversification into Germany and profits derived from more stable networks and district heating businesses.

Vattenfall has healthy liquidity, as a result of free cash flow, strong cash and marketable securities positions, and back-up facilities. However, it also has a significant number of provisions (including unfunded pensions provisions) which could represent a drain on cash flow, if and when they materialise.

The following ratings are affected by the change in outlook to stable from negative:

- A3 senior unsecured and Baa1 senior subordinated ratings on the USD\$6 billion EMTN programme of Vattenfall Treasury AB under the guarantee of Vattenfall AB and all debt issued thereunder.

Vattenfall AB is the parent company of one of the largest energy groups in the northern European region and is headquartered in Stockholm, Sweden. The group had revenues of SEK101 billion at FYE 2002.

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