

Research Update:

Sweden-Based Utility Vattenfall AB Upgraded To 'A-' On Business And Financial Strengths; Outlook Stable

October 7, 2026

Rating Action Overview

- We expect Vattenfall AB to maintain a robust financial profile, with FFO to debt forecast to range between 40% and 50% through 2027-2028, and at least 30% beyond. Strong internal cash generation from power generation and distribution supports Vattenfall's large investment program, while containing debt.
- There will be a material reduction in Vattenfall's uncertainties regarding new nuclear investments. This will support a strong business risk profile, together with its well-integrated business model and dominant position in Sweden, where it generates nearly 50% of electricity.
- Therefore, we raised our long-term issuer credit rating on Vattenfall AB to 'A-' from 'BBB+', we raised our rating on the junior subordinated debt to 'BBB-' and our rating on the senior unsecured debt to 'A-'. We affirmed our 'A-2' short-term issuer credit rating and the 'K-1' Nordic regional scale rating.
- The stable outlook reflects our expectation that Vattenfall's prudent financial profile will remain, with funds from operations (FFO) to debt well above 30%. Nordic electricity prices are elevated and Vattenfall is in a position to capture large parts of the elevated prices thanks to its fossil free generation and its low-cost hydro generation.

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Rating Action Rationale

Resilient credit metrics amid ambitious investment program drives the upgrade. A robust financial profile with significant credit headroom, which we expect to persist despite a massive capital expenditure (capex) program, drives our upgrade of Vattenfall. We expect FFO to debt to remain in the 40%-50% range at least through 2027-2028. This is well above the company's minimum financial policy threshold of 25% and provides ample flexibility to fund Vattenfall's planned net investments of approximately Swedish krona (SEK) 165 billion over 2026-2030. Vattenfall's strong historical track record, with FFO to debt averaging approximately 80% over the last five years, bolstered by high price realizations and strategic asset sales, support our assessment.

Vattenfall will structurally limit its exposure to new nuclear projects through cutting its stake in its project company, Videberg Kraft AB.

Vattenfall has applied for government support via Videberg to develop approximately 1.5 gigawatt (GW) of new nuclear capacity. The potential rating impact of nuclear developments will likely be limited but we will have more visibility once the final investment decision has been made, which we anticipate will occur in three to four years. Recently, Vattenfall announced that they have agreed to divest a 60% stake in the project company to the Swedish state and an additional 20% to a joint venture owned by several industrial companies--Industrikraft i Sverige AB. Industrikraft already owns its 20% stake, but the finalization of the transaction is planned for 2027. Therefore, we expect that the minority stake in Videberg will materially reduce Vattenfall's nuclear-related uncertainties and materially lower both its business and financial risk exposure. This move is particularly prudent given the industry-wide tendency for large-scale nuclear projects to encounter significant cost overruns, which has often exceeded initial budgets by 50% or more. Furthermore, we anticipate the project to be based on the Swedish government's risk-sharing framework, with a large state loan and a contract for difference structure designed to insulate the project from market volatility.

Vattenfall's ambitious investment program is designed to diversify its generation portfolio and enhance long-term cash flow stability.

In our base case, we assume capex of SEK40 billion--SEK45 billion annually in 2027 and 2028; up from SEK28 billion in 2025. About 56% of the capex is dedicated to growth investments. A key component of this expansion is the on balance-sheet development of large-scale offshore wind, specifically the Nordlicht I and II projects in Germany (approx. 1,600 megawatt [MW]), expected to be commissioned in 2028 and 2029, and Zeevonk Phase 1 (1,000 MW) in 2030. Once operational, the Nordlicht projects alone are expected to increase Vattenfall's total power production by 5%-6% (approximately 6 terawatt-hour [TWh] annually) and should provide a meaningful boost to cash flow generation. To mitigate merchant risk, Vattenfall has secured 15-year power purchase agreements (PPAs) for part of the Nordlicht output with strong counterparties. Although we have limited visibility into the PPAs' pricing and clauses, the PPAs provide a significant layer of predictability of cash flow.

Increased investment in regulated activities will enhance the stability of Vattenfall's business risk profile.

Over 2026-2030, approximately one-third of Vattenfall's net investment will be directed toward the Swedish power distribution grid. We expect this to drive regulated asset base growth from SEK92 billion as of end-2025 to approximately SEK110 billion by 2028. This expansion will nearly double the absolute contribution from regulated activities to approximately SEK10 billion increasing their share of total EBITDA to between 15%-20% from about 10% of total EBITDA. This shift toward regulated, inflation-linked earnings provides buffer against merchant price volatility.

Elevated electricity prices underpin Vattenfall's near-term cash flow strength.

This price elevation is primarily attributable to decreased regional hydrological generation, nuclear output, and high European natural gas prices affecting the southern Nordic region via interconnectors. We expect elevated prices to remain at about the yearly average of €70 per megawatt hour (/MWh) to €80/MWh for 2026, and then decreasing to €40/MWh to €50/MWh during 2027 and 2028. Performance in 2025 and first-half 2026 has been robust, with system prices of €78/MWh significantly exceeding our previous assumptions of €35/MWh--€40/MWh. This enabled Vattenfall to achieve average realized prices of €54/MWh in first-half 2026, compared to €39/MWh in the corresponding period of 2025. There is an inherent price volatility and, while the current trajectory supports Vattenfall's financial position during its intensive capex period, we assume power prices over the medium term will soften. Should electricity prices revert to the €30/MWh--€35/MWh range, we anticipate annual FFO to reduce to approximately SEK5 billion--SEK10 billion relative to our base case for excluding hedges.

Vattenfall maintains a strong position in Sweden, accounting for nearly 50% of national production.

Its generation assets are almost exclusively fossil-free, with a portfolio heavily weighted to hydro and nuclear. Hydro assets are primarily located in northern price zones (SE1 and SE2), while nuclear assets are concentrated in the mid-to-southern zones (SE3). Although much of the hydro production is run-of-river--offering less flexibility than reservoir-based hydro--Vattenfall benefits from very low production costs and operational flexibility. Furthermore, Vattenfall holds majority stakes in five nuclear facilities totaling approximately 5.7 GW in Sweden. The combination of these assets, and the increasing share of the regulated operation, underpin a strong business risk profile, although at the lower end.

Outlook

The stable outlook reflects our view of Vattenfall's ability and willingness to maintain a strong credit profile despite an ambitious investment program. We expect elevated electricity prices to support annual EBITDA of SEK50 billion-SEK60 billion over the next two years, with FFO to debt at approximately 60% in 2026 and moderating toward 40% through 2028. A growing share of regulated earnings and continued, strong support from the Swedish government underpin the stability. In our view, the risk of reducing the one-notch rating uplift as a government-related entity over the next two years is remote. There is potential earnings volatility from merchant price fluctuations, and we think that Vattenfall's diversified asset base and regulated growth provide sufficient headroom to maintain its current rating profile.

Downside scenario

A negative rating action would reflect a weaker stand-alone credit profile (SACP), which could be triggered by a deterioration in Vattenfall's credit metrics, specifically if FFO to debt falls below the 30% threshold. Such a decline could result from sustained lower-than-expected electricity prices, or material cost over-runs related to its capex programs.

Upside scenario

We see the potential of a positive rating action as remote (except if we perceived a stronger willingness from the government to provide exceptional support) given the recent upgrade and the company's financial policy.

We could revise up Vattenfall's SACP by one notch if we conclude that:

- Vattenfall's regulated earnings would increase substantially, and at the same time increase its share of total earnings;
- The company's financial risk profile has sustainably strengthened, with FFO to debt well above 40% and sufficient visibility on the long-term debt trajectory; and
- Management is committed to keeping a strong financial risk profile. This could occur if the current headroom is not consumed by additional capex as expected, potentially due to a lack of meaningful and profitable projects to invest in.

We could also raise the rating by one notch if the relationship with the government strengthens, potentially through changes to Vattenfall's ownership directive.

Company Description

Vattenfall, wholly owned by the Swedish government, is one of the largest electricity and heat producers in Europe. Although the majority of its earnings come from hydro, nuclear, and wind power generation, the company also operates regulated power distribution and offers customer solutions, including retail. Recently, Vattenfall began divesting its district heating assets, selling its Berlin business for €1.4 billion in 2024, with the remaining district heating operations currently under strategic review.

As of end-2025, Vattenfall reported a total installed electricity capacity of 23.4 GW on a consolidated basis, reflecting full operational control of assets, while the pro rata capacity, representing its ownership share, stood at 20.1 GW. Correspondingly, electricity generation reached 102 TWh consolidated and 85 TWh pro rata. During the same period, it sold a total of 165 TWh of electricity, 4.5 TWh of heat, and 65 TWh of gas.

The company reported year-end 2025 revenue of approximately SEK234 billion, down from SEK245 billion in 2024, alongside a reported underlying EBITDA of SEK49 billion during 2025.

Our Base-Case Scenario

Assumptions

- Swedish GDP growth of 2.1% and consumer price index (CPI) inflation of 1.0% in 2026. In 2027, we expect GDP growth of 2.5% and CPI growth of 2.0%.
- System prices in the Nordic region are expected to stabilize between €45/MWh-€50/MWh over 2027-2028, down from the elevated levels of €70/MWh-€80/MWh expected through the end of 2026.
- Vattenfall's generation segment hedges cover approximately 53% at €40/MWh for 2026, 43% at €42/MWh in 2027, and 15% at €41/MWh in 2028.
- Capex of SEK40 billion-SEK45 billion on average over 2026-2028.
- Weighted average cost of capital under the Swedish regulatory framework for the distribution system operator during 2024-2027 set at 4.53%.
- Dividend in line with Vattenfall's 40%-70% policy target of adjusted profit for the period, which excludes fair values and return from the Swedish Nuclear Waste Fund.
- Vattenfall's district heating business will remain consolidated in our analysis, although Vattenfall announced assessing the ownership of the district heating operations, including potential divestment.
- No other assets sales or farm downs.
- No major acquisitions.

Key metrics

Vattenfall AB--Forecast summary

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. SEK)	2024a	2025a	2026e	2027f	2028f
EBITDA	46,897	49,564	50,000-55,000	50,000-55,000	58,000-63,000
Funds from operations (FFO)	40,403	47,008	40,000-45,000	40,000-45,000	48,000-53,000
Capital expenditure (capex)	29,286	28,438	33,000-38,000	45,000-50,000	38,000-43,000

Vattenfall AB--Forecast summary

Dividends	5,892	8,949	8,000	10,000-11,000	9,000-10,000
Discretionary cash flow (DCF)	26,600	(14,606)	(2,000)-3,000	(20,000)-(25,000)	(3,000)-(8,000)
Debt	68,286	77,384	70,000-80,000	100,000-110,000	110,000-120,000
Adjusted ratios					
Debt/EBITDA (x)	1.5	1.6	1.2-1.7	1.8-2.3	1.7-2.2
FFO/debt (%)	59.2	60.7	55-60	40-45	40-45

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Vattenfall's liquidity as strong, with liquidity sources exceeding liquidity uses by about 1.9x over the 12 months started June 30, 2026, and by 1.5x over the 12-24 month period.

Vattenfall's liquidity is supported by SEK58 billion of cash and short-term investments, as well as a committed revolving credit facility of €3 billion (about SEK33 billion), which matures in more than 12 months and is fully undrawn.

We assume liquidity sources will exceed uses even if EBITDA decreases by 30%, and we understand that the company's credit facilities are free from onerous financial covenants. We think that Vattenfall has solid relationships with banks. Its status as a state-owned company and the largest utility in the Nordic region further supports this position and facilitates market access.

Principal liquidity sources	Principal liquidity uses
- Available cash and marketable securities of about SEK58 billion; - Access to committed undrawn credit lines of about SEK33 billion; - Cash FFO of about SEK35 billion; and - Assumed working capital inflows of about SEK3.6 billion.	- Reported debt maturities of SEK16 billion due within one year; - Capex of SEK43 billion over the next 12 months; and - Dividends of about SEK9 billion over the next 12 months.

Issue Ratings--Subordination Risk Analysis

Capital structure

Vattenfall's capital structure consisted of SEK59.2 billion of unsecured debt and SEK20.5 billion of hybrids as of Dec. 31, 2025.

Analytical conclusions

We rate Vattenfall's senior unsecured debt at the same level as the 'A-' long-term issuer credit rating because the parent company issues all the debt.

We rate Vattenfall's commercial paper program at 'A-2' global scale and 'K-1' Nordic regional scale, which aligns with our 'A-' long-term issuer credit rating on Vattenfall. We rate Vattenfall's

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euro medium-term note program (senior unsecured at issuer credit rating level and senior subordinated one notch below the issuer credit rating), although Vattenfall has not issued any subordinated debt under the program. All senior unsecured debt is rated at the issuer credit rating level.

Vattenfall's hybrid bonds (SEK20.5 billion), which we assess as having intermediate equity content (50%), are rated 'BBB-', two notches lower than our assessment of the company's SACP. The difference stems from our deduction from the 'bbb+' SACP level of:

- One notch for the notes' subordination; and
- Another notch for payment flexibility to reflect that the deferral of interest is optional.

Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Strong
Country risk	Very low risk
Industry risk	Moderately high risk
Competitive position	Excellent
Financial risk (standard volatility table)	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb+

Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb+
Government Related Entity	Moderate (+1 notch)

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology - January 07, 2024](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019

- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Related Research

- [Industry Credit Outlook Update Europe: Utilities](#), July 16, 2026
- [Vattenfall AB](#), April 22, 2026
- [Industry Credit Outlook 2026: EMEA Utilities](#), Jan. 14, 2026
- [Sweden's Electricity Distribution Regulatory Framework: Supportive](#), July 9, 2025
- [Credit FAQ: How Europe's Utilities Are Financing The Energy Transition](#), Oct. 13, 2025

Ratings List

Ratings List

Upgraded: Ratings Affirmed

	To	From
Vattenfall AB		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Stable/A-2
Senior Unsecured	A-	BBB+
Junior Subordinated	BBB-	BB+

Ratings Affirmed

Vattenfall AB		
Issuer Credit Rating		
Nordic Regional Scale	--/--/K-1	
Commercial Paper	A-2	

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