

# Vattenfall Q3 and 9M results 2015

Magnus Hall, CEO and Ingrid Bonde, CFO

Presentation 27 October 2015

# Financial highlights

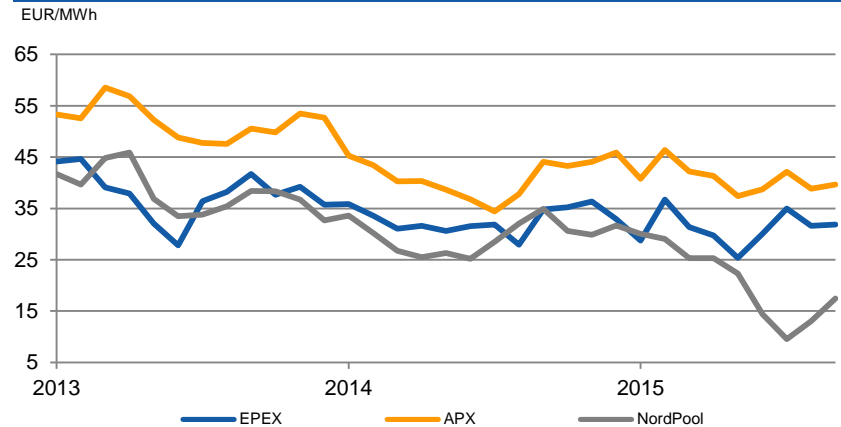
SEK bn	Q3 2015	Q3 2014	9M 2015	9M 2014	FY 2014
Net Sales	37.5	34.7	119.0	117.2	165.9
Underlying EBIT	3.4	2.8	14.1	15.9	24.1
EBIT	3.0	-19.4	-26.7	-9.2	-2.2
Profit after tax	1.6	-18.1	-22.2	-12.2	-8.3
Return on capital employed (ROCE), %	-7.1*	-1.9*	-7.1*	-1.9*	-0.7
Return on capital employed (ROCE) excl. items affecting comparability, %	8.1*	8.1*	8.1*	8.1*	8.2

\* Last twelve months

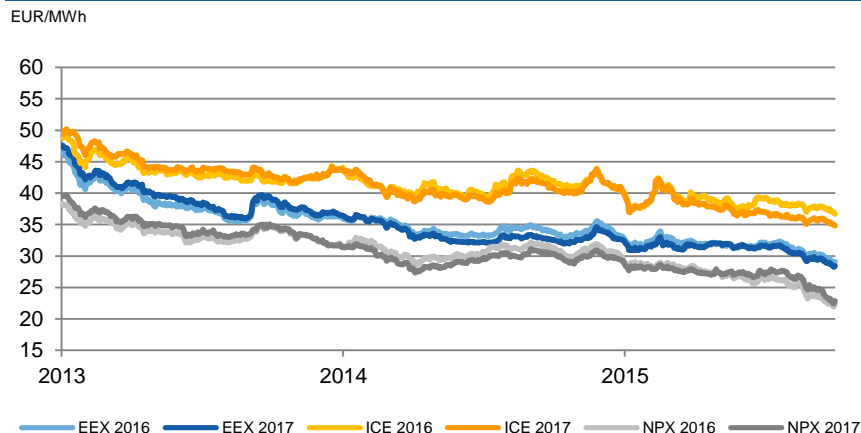
# Pricing environment

- Nordic spot prices 58% lower vs Q3/2014, mainly due to high precipitation
- German and Dutch spot prices approx. 5% higher vs Q3/2014, mainly due to higher exports
- Electricity futures prices lower on all Vattenfall's markets
- Lower prices on oil (Brent crude), coal and gas. Higher prices on CO<sub>2</sub> emission allowances

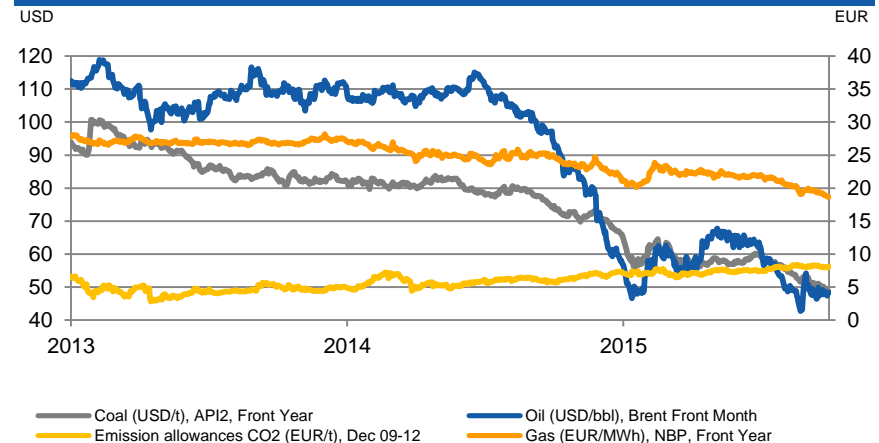
## Monthly spot power price average



## Electricity futures

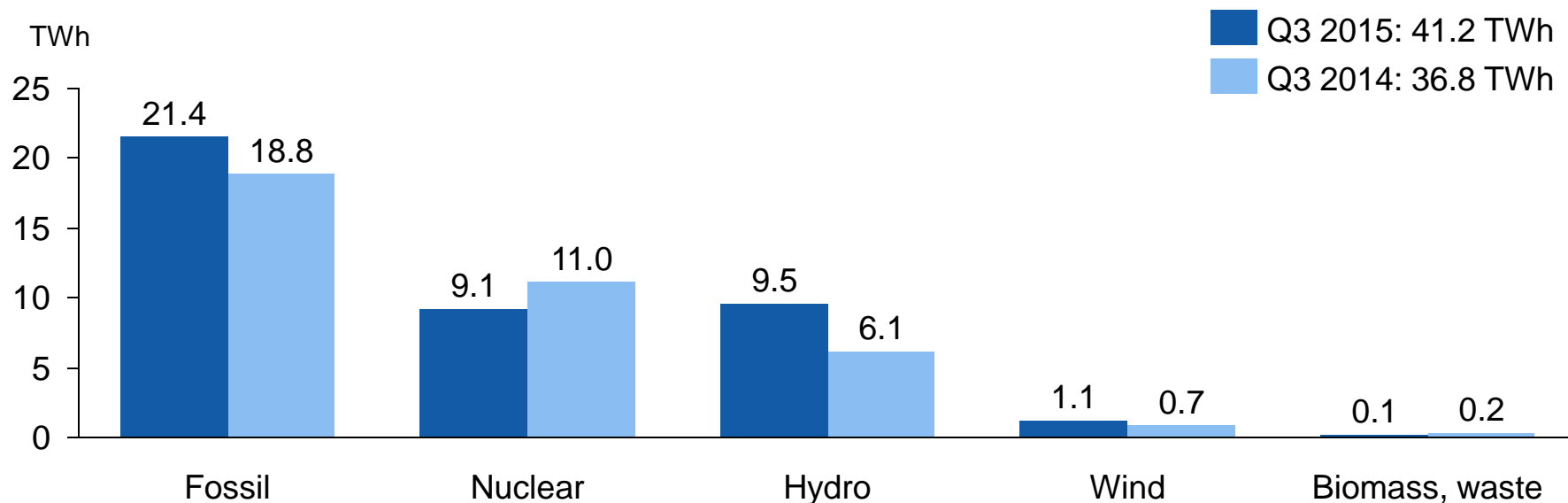


## Commodity prices



# Increased electricity generation in Q3

- Total electricity generation output increased by 4.4 TWh vs. Q3/2014
  - Fossil based generation increased due to the commissioning of German Moorburg Block A
  - Nuclear generation decreased, mainly due to extended outages at Rinhals 2 and Forsmark 3
  - Hydro power increased due to higher precipitation
  - Wind power generation increased, mainly thanks to the new wind farms DanTysk (Ger) and Clashindarroch (UK)



# Regulatory development

## Lignite standby capacity reserve

- Bilateral agreements between lignite operators and the German government on establishment of a standby capacity reserve of lignite plants with a total capacity of 2,700 MW and their subsequent decommissioning. Vattenfall to contribute 1,000 MW

## German nuclear stress test

- Provisions for nuclear decommissioning deemed within acceptable range according to stress test carried out by the German government. Nuclear Commission appointed to look into fund/foundation solution, work starts in November

## Structural reforms to strengthen the EU ETS system

- Market Stability Reserve (MSR) in place by 1 January 2019.
- Legislative proposal to further revise the EU ETS directive tabled by the European Commission on 15 July and currently in the legislative process

# Lignite standby capacity reserve

- Bilateral agreements reached between lignite operators and the government to establish a temporary standby capacity reserve of lignite plants with a combined capacity of 2,700 MW. Plants will gradually be transferred to the reserve during 2016 and 2019. After four years the plants shall be shut down completely
- With Jänschwalde units F and E (each 500 MW) Vattenfall will contribute 1,000 MW to the reserve. Units to be placed in standby mode on 1 October 2018 and 2019 respectively, and subsequently shut down in 2022 and 2023
- 1,000 MW corresponds to approx. 13% of Vattenfall's total installed lignite capacity of 7,800 MW. The closure of the two units corresponds to a reduction of 8 million tonnes of CO<sub>2</sub> emissions
- Plant owners will be remunerated for keeping the plants in the standby reserve. According to the government, remuneration for all plants in the reserve will amount to approximately EUR 230 million per year over seven years, to be paid by the transmission system operator. The detailed design and the mechanisms of the remuneration scheme are still to be worked out by the legislative bodies

# Ongoing process to divest lignite assets

- On 22 September Vattenfall announced the next step in the lignite sales process by publicly inviting potential bidders to state their interest in acquiring Vattenfall's German lignite assets
- By 20 October Vattenfall has received statements of interest from a number of potential bidders
- Qualification process is now ongoing
- Vattenfall's ambition is to reach an agreement in H1 2016



# Update on early phase out of Ringhals 1 and 2

- **28 April** Vattenfall changed direction for operational lifetimes of Ringhals 1 and 2, meaning an early closure by 2020 instead of, around 2025 as previously announced
- **28 August** Ringhals AB Board of Directors decided to limit investments in the reactors 1 and 2
- **15 October** An extraordinary general meeting of Ringhals AB decided to phase out Ringhals 2 in 2019 and Ringhals 1 in 2020
- The existing plans of at least 60 years of operation remain unchanged for Vattenfall's five other nuclear reactors Ringhals 3 and 4 and Forsmark 1,2 and 3

	Ringhals 1	Ringhals 2
Commercial start up (year)	1976	1975
Installed capacity (MW)	879	809
Average annual generation (TWh)	6.3	5.9



# Update on German nuclear provisions

- On 10 October the German government published a stress-test prepared by the government appointed auditing firm Warth & Klein Thornton AG
- The auditing firm reported that they have found no reason to dispute the nuclear power operator's principles for calculating their nuclear provisions
- The government has appointed a special commission to issue recommendations, by January 2016, on how to secure the long-term financing of nuclear decommissioning costs, including a possible fund/foundation solution
- Vattenfall has made provisions of approximately EUR 3bn for the decommissioning of its partly owned nuclear plants in Germany, including the disposal of nuclear waste

## Other important events

- Decision to invest approx. SEK 1.2bn in Ray Wind Farm, a new, 54 MW, onshore wind farm in the UK
  - To be commissioned in early 2017
- Vattenfall's largest wind repowering project, Klim, was completed. With 70.4 MW Klim is Denmark's largest onshore wind farm
- Final payment for shares in N.V. Nuon Energy
  - On 1 July EUR 2,071.3 million (approx. SEK 19bn) was paid for the remaining 21% of the shares
- Rating changes
  - Moody's affirmed long-term "A3" rating, but changed outlook from stable to negative
  - S&P changed long-term rating from "A-" to "BBB+" and changed outlook to negative

# Financials

## Ingrid Bonde, CFO

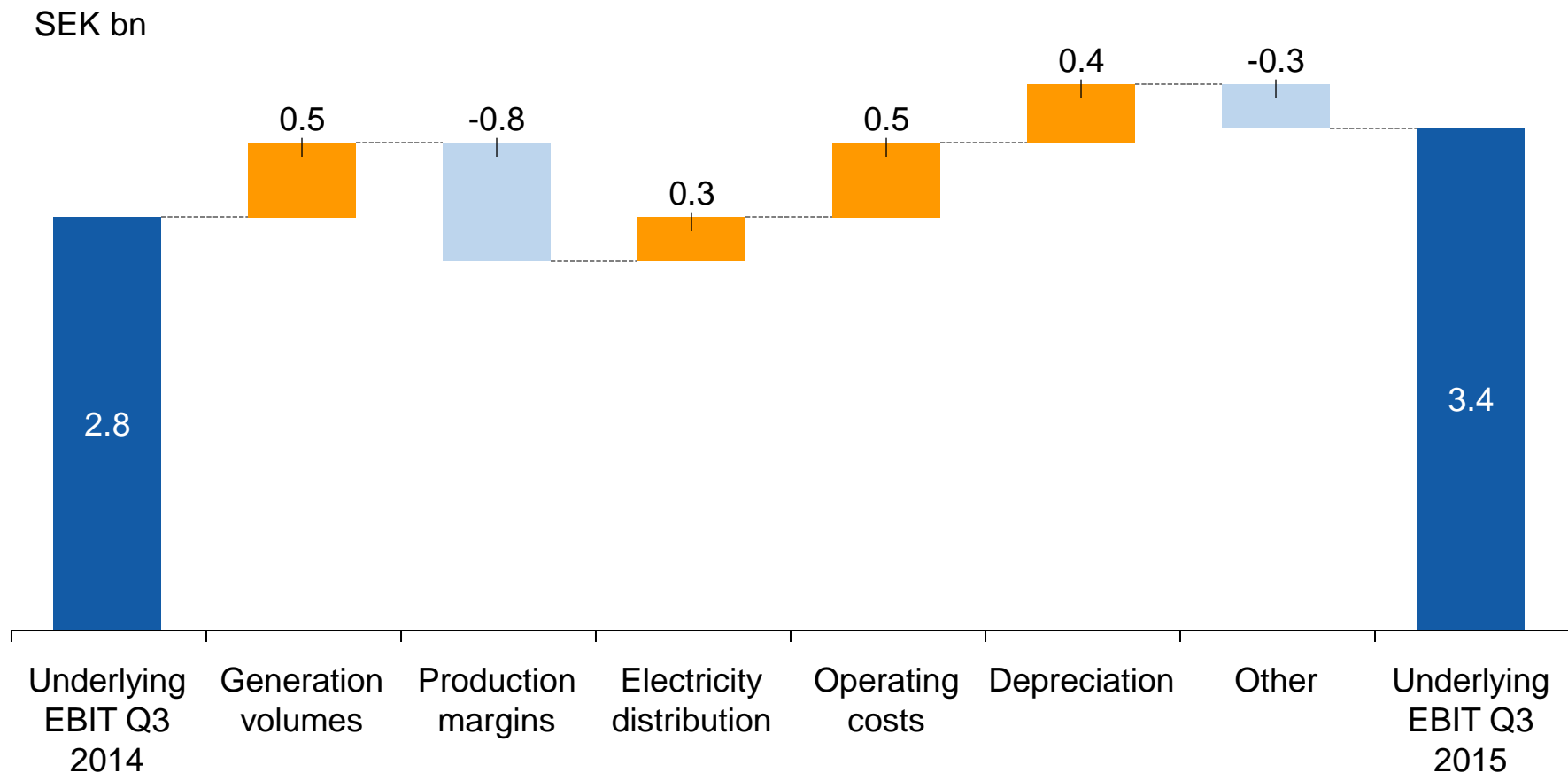
# Q3 2015 Financial highlights

SEK bn	Q3 2015	Q3 2014
Net Sales	37.5	34.7
EBITDA	7.5	8.4
Underlying EBITDA (excl. items affecting comparability)	7.8	7.5
EBIT	3.0	-19.4
Underlying EBIT (excl. items affecting comparability)	3.4	2.8
Financial items, net	-1.1	-1.4
Profit after tax	1.6	-18.1
Cash flow (FFO)	5.7	5.0
Operating cash flow (after change in working capital)	14.9	10.0
Net debt	65.4	79.5*
Adjusted net debt	143.1	158.3*
FFO/Adjusted net debt (%)	22.5**	17.3**
Adjusted net debt/EBITDA (times)	4.0**	4.0**

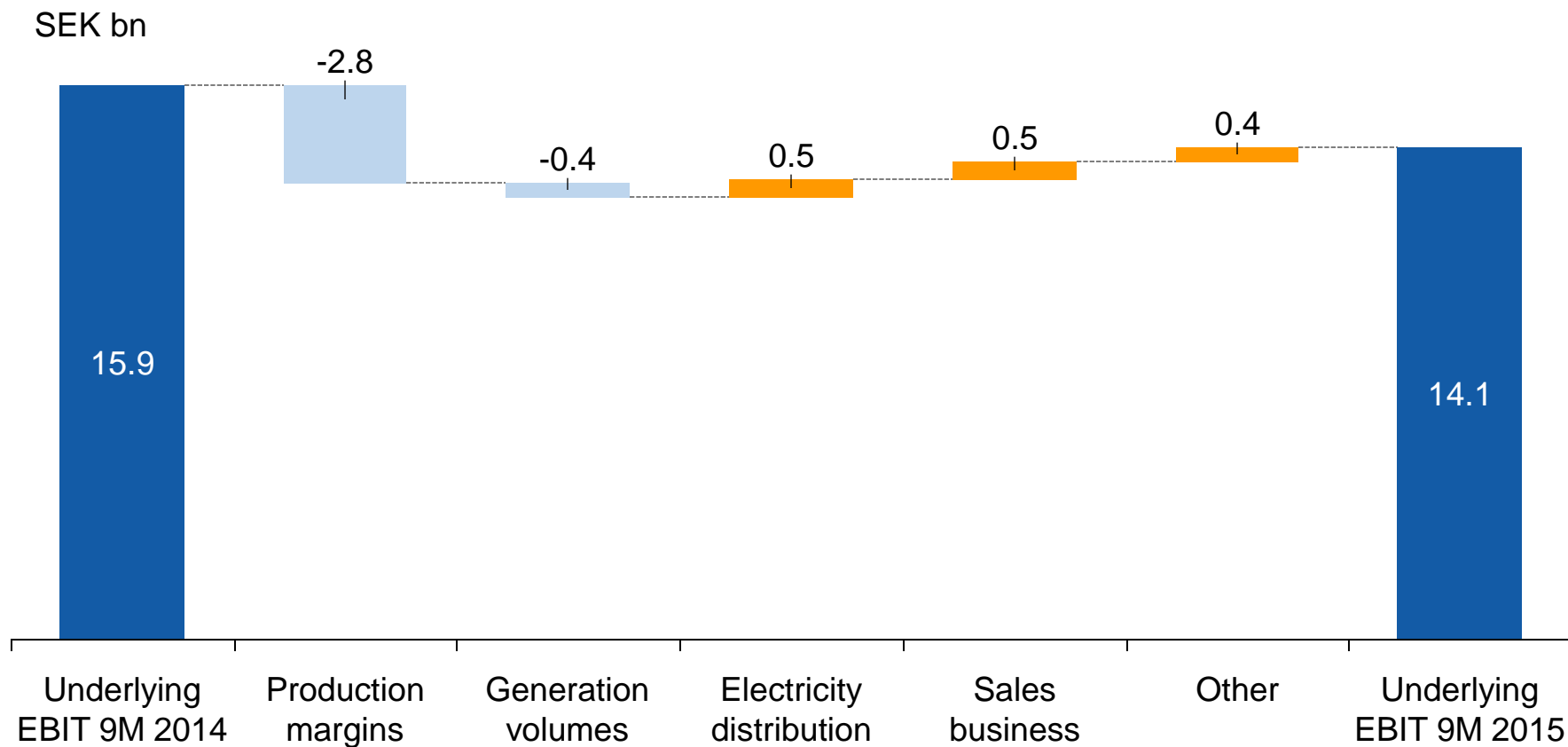
\* As of 31 December 2014

\*\* Last twelve months

# Development of underlying EBIT Q3 2015



# Development of underlying EBIT 9M 2015

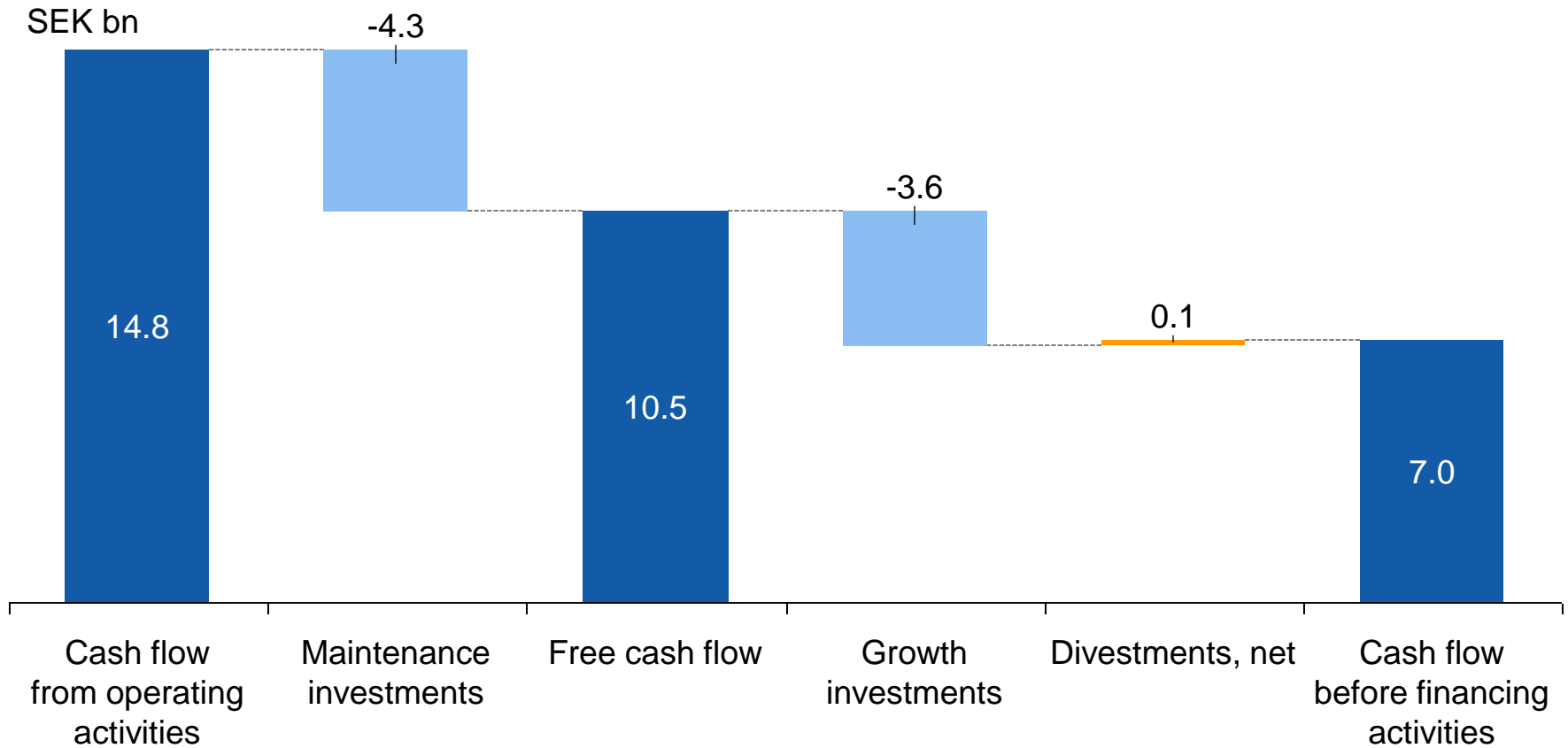


# Underlying EBIT per operating segment – Q3 2015

SEK bn	Q3 2015	Q3 2014	FY 2014
Customers & Solutions	0.2	0.1	1.0
Power Generation	2.9	2.6	15.6
Wind	0.1	0.1	1.7
Heat	-0.5	-0.4	2.4
Distribution	1.1	0.8	4.4
Other*	-0.4	-0.3	-1.0
Eliminations	–	-0.1	-
<b>Total</b>	<b>3.4</b>	<b>2.8</b>	<b>24.1</b>

\* Other pertains mainly to all Staff functions including Treasury activities and Shared Service Centres

# Cash flow development Q3 2015



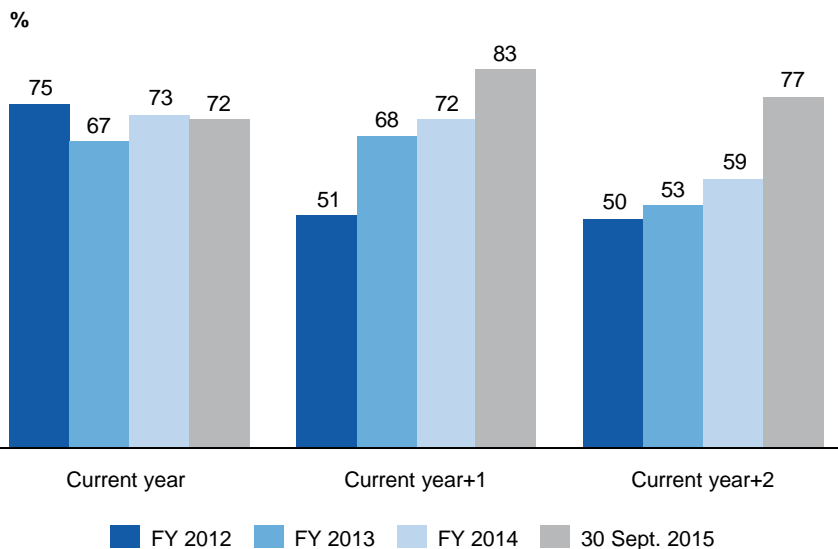


# Capital expenditures

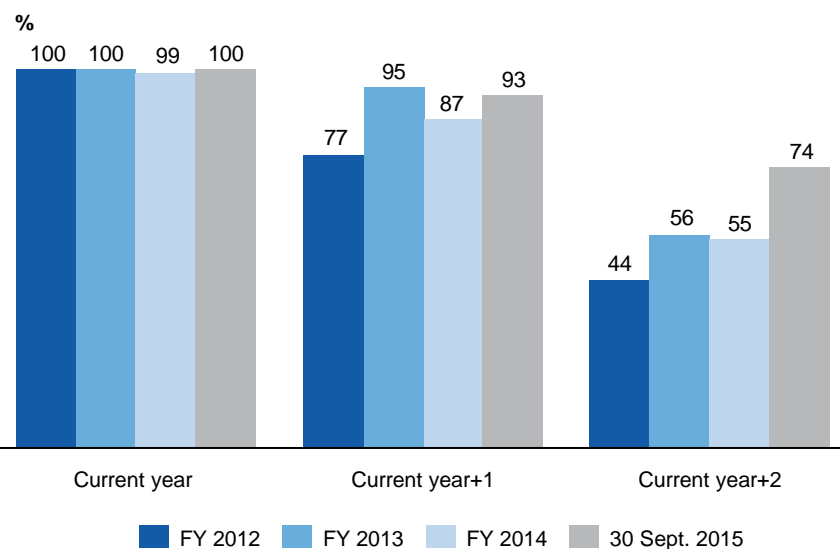
SEK bn	Q3 2015	Q3 2014	Change %	9M 2015	9M 2014	Change %	FY 2014
Electricity generation	4.6	4.6	–	12.6	11.9	5.9	17.9
CHP/Heat	1.0	0.9	11.1	2.0	2.1	-4.8	3.7
Electricity networks	1.0	1.0	–	2.8	3.0	-6.7	5.0
Other	1.4	1.4	–	2.9	2.2	31.8	2.4
<b>TOTAL</b>	<b>8.0</b>	<b>7.9</b>	<b>1.3</b>	<b>20.3</b>	<b>19.2</b>	<b>5.7</b>	<b>29.0</b>
<i>- of which maintenance and replacement</i>	4.3	3.9	10.3	10.6	10.7	-0.9	16.9
<i>- of which growth</i>	3.6	4.0	-10.0	9.7	8.5	14.1	12.1

# Development of hedge ratios and hedge prices

## Hedge ratios - Nordic



## Hedge ratios – Continental Europe



	Current year			Current year +1			Current year +2		
	Ratio	Price	Year	Ratio	Price	Year	Ratio	Price	Year
Dec 2012	75%	45	2012	51%	42	2013	50%	41	2014
Dec 2013	67%	40	2013	68%	39	2014	53%	37	2015
Dec 2014	73%	36	2015	72%	34	2016	59%	32	2017
<b>Sept. 2015</b>	<b>72%</b>	<b>37</b>	<b>2015</b>	<b>83%</b>	<b>33</b>	<b>2016</b>	<b>77%</b>	<b>31</b>	<b>2017</b>

	Current year			Current year +1			Current year +2		
	Ratio	Price	Year	Ratio	Price	Year	Ratio	Price	Year
Dec 2012	100%	55	2012	77%	52	2013	44%	50	2014
Dec 2013	100%	50	2013	95%	44	2014	56%	40	2015
Dec 2014	99%	45	2015	87%	39	2016	55%	36	2017
<b>Sept. 2015</b>	<b>100%</b>	<b>44</b>	<b>2015</b>	<b>93%</b>	<b>39</b>	<b>2016</b>	<b>74%</b>	<b>36</b>	<b>2017</b>

Note: hedge ratios in % and hedge prices in EUR/MWh

# Financial and sustainability targets

Financial metrics	Target	Outcome 30 Sept. 2015	Outcome FY 2014
Return on Capital Employed (ROCE) (Return on capital employed excl. items affecting comparability)	9.0%	-7.1%* (8.1%)	-0.7% (8.2%)
Net debt/Equity	50-90%	57.2%	61.9%
FFO/Adjusted net debt	22-30%	22.5*	20.3%
Dividend policy (% of profit after tax)	40-60%	–	zero
Sustainability metrics & targets		Outcome Jan-Sept 2015	Outcome FY 2014
<b>Reduce CO<sub>2</sub> exposure</b> to 65 Mtonnes by 2020 (93.7 Mtonnes in 2010)		61.4 Mtonnes	82.3 Mtonnes
<b>Growth in renewable electricity generation capacity</b> to be higher than the average rate of growth for ten reference countries		11.8%	6.3% (Preliminary growth rate for reference countries: 9.1%)
<b>Energy efficiency</b> to save 440 GWh in 2015		992 GWh	435 GWh

\* Last twelve months

# Summary and conclusions

# Summary and conclusions

- Increased Q3 results compared to last year but market conditions remain challenging, with a considerable capacity surplus and low electricity prices, which squeezes production margins
- Despite having lowered annual controllable costs by 27% since 2010, our cost-cutting efforts must continue
- Provisions for German nuclear decommissioning deemed within acceptable range according to stress test
- Lignite sale process continues. We expect to reach an agreement in H1 2016
- Vattenfall to transfer 1,000 MW lignite capacity to a standby reserve, subject to financial compensation

## Vattenfall's new Vision

*Vattenfall is a dedicated partner to our customers and society at large, providing convenient and innovative energy solutions. We are a leader in sustainable production, ensuring reliable and cost-efficient energy supply. We call this "Energy You Want"*

# Appendix

# 9M 2015 Financial highlights

SEK bn	9M 2015	9M 2014
Net Sales	119.0	117.2
EBITDA	23.9	28.9
Underlying EBITDA (excl. items affecting comparability)	28.7	30.3
EBIT	-26.7	-9.2
Underlying EBIT (excl. items affecting comparability)	14.1	15.9
Financial items, net	-4.1	-4.5
Profit after tax	-22.2	-12.2
Cash flow (FFO)	19.6	19.7
Operating cash flow (after change in working capital)	31.3	25.8
Net debt	65.4	79.5*
Adjusted net debt	143.1	158.3*
FFO/Adjusted net debt (%)	22.5**	17.3**
Adjusted net debt/EBITDA (times)	4.0**	4.0**

\* As of 31 December 2014

\*\* Last twelve months

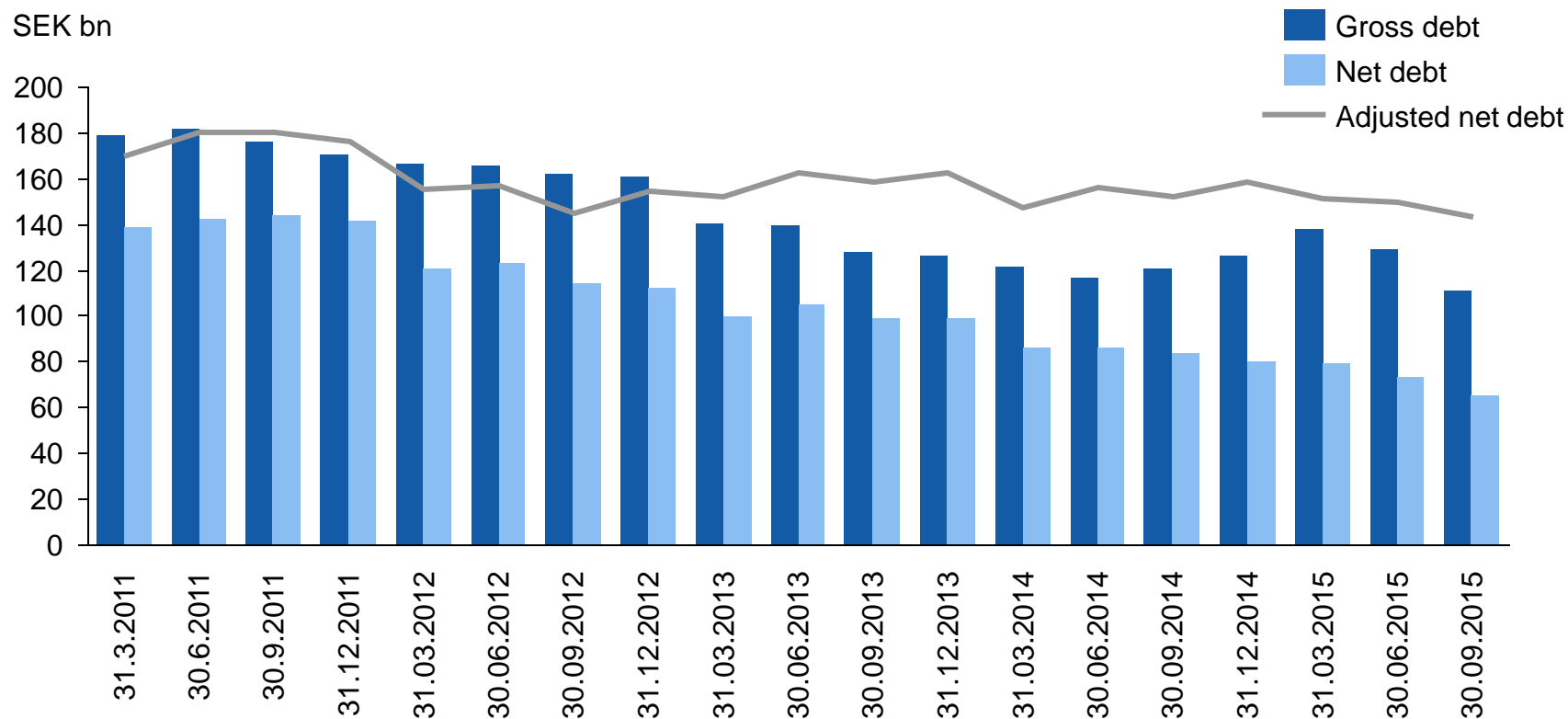
# Underlying EBIT per operating segment – 9M 2015

SEK bn	9M 2015	9M 2014	FY 2014
Customers & Solutions	1.3	0.6	1.0
Power Generation	8.8	11.6	15.6
Wind	0.8	0.6	1.7
Heat	1.4	1.2	2.4
Distribution	3.8	3.0	4.4
Other*	-1.8	-0.9	-1.0
Eliminations	-0.2	-0.2	-
<b>Total</b>	<b>14.1</b>	<b>15.9</b>	<b>24.1</b>

\* Other pertains mainly to all Staff functions including Treasury activities and Shared Service Centres



# Debt development



Net debt decreased by SEK 14.1bn compared with 31 December 2014. Adjusted net debt decreased by SEK 15.2bn, compared with 31 December 2014. For the calculation of adjusted net debt, see Appendix.

# Continued strong liquidity position September 2015

Group liquidity	MSEK
Cash and cash equivalents	12,497
Short term investments	30,867
<b>Reported cash, cash equivalents &amp; short term investments</b>	<b>43,364</b>
Unavailable liquidity*	-6,810
<b>Available liquidity</b>	<b>36,555</b>

Committed credit facilities	Facility size	MSEK
RCF (maturity Dec 2019)	2,000 MEUR	18,817
<b>Total undrawn</b>		<b>18,817</b>

Debt maturities**	MSEK
Within 90 days	6,135
Within 180 days	16,510

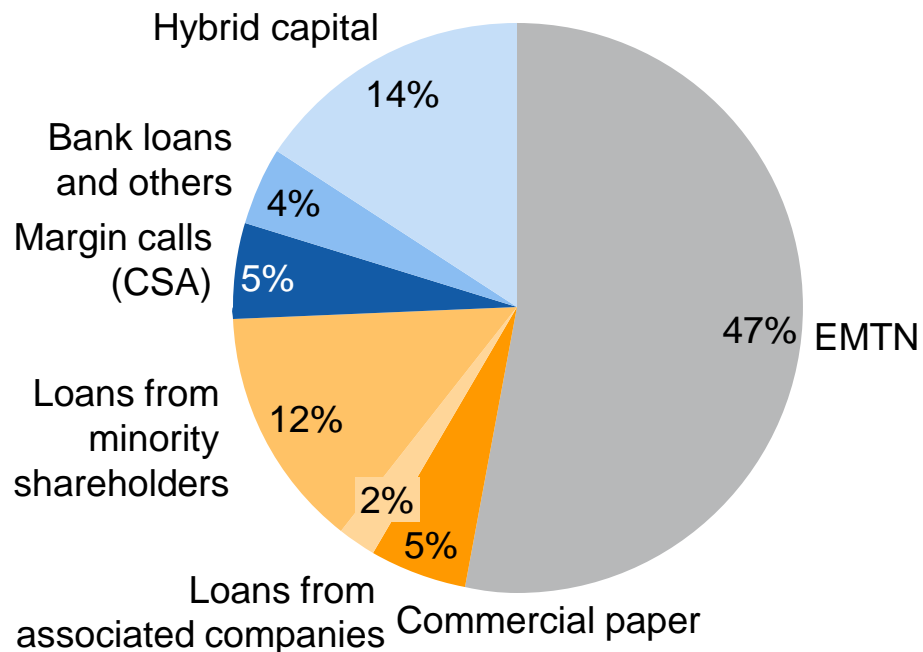
\* German nuclear "Solidarvereinbarung" 3,203 MSEK, Margin calls paid (CSA) 2,555 MSEK, Insurance" Provisions for claims outstanding" 1,030 MSEK and Margin accounts 22 MSEK

\*\* Excluding loans from minority owners and associated companies.

# Breakdown of gross debt as of 30 September 2015

**Total debt : SEK 111bn (EUR 12bn)**

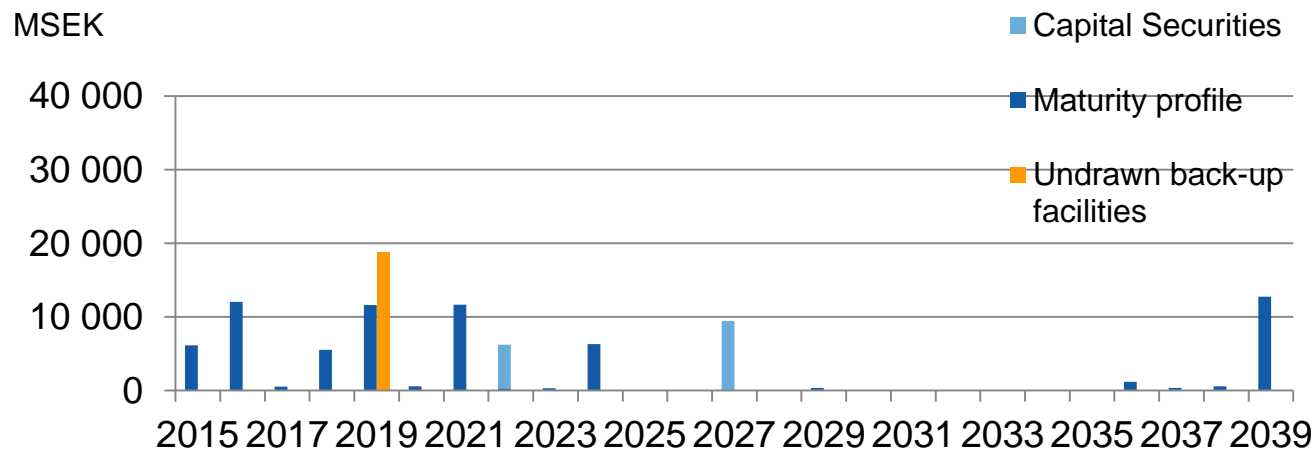
**External market debt: SEK 95bn**



Debt issuing programmes	Size (MEUR)	Utilization (MEUR)
EUR 15bn Euro MTN	15,000	6,041
EUR 2bn Euro CP	2,000	460
SEK 15bn Domestic CP	1,594	160
<b>Total</b>	<b>18,594</b>	<b>6,607</b>

- All public debt is issued by Vattenfall AB
- The main part of debt portfolio has no currency exposure that has an impact on the income statement. Debt in foreign currency is either swapped to SEK or booked as hedge against net foreign investments
- No structural subordination

# Debt maturity profile\*



	30 Sept 2015	31 Dec 2014
Duration (years)	3.7	2.8
Average time to maturity (years)	8.4	5.6
Average interest rate (%)	4.0	3.6
Net debt (SEK bn)	65.4	79.5
Available group liquidity (SEK mn)	36,555	37,796
Undrawn committed credit facilities (SEK mn)	18,817	18,786

\* Loans from associated companies, minority owners, margin calls received (CSA) and valuation at fair value are excluded and currency derivatives for hedging debt in foreign currency are included

\*\* The maturity of Capital Securities (hybrid bonds) in 2022 and 2027 reflects first call date of the respective bond.

# Reported and adjusted net debt

Reported net debt (SEK billion)	Sep 30 2015	Dec 31 2014
Hybrid capital	-15.4	-9.4
Bond issues and commercial papers and liabilities to credit institutions	-71.5	-72.5
Present value of liability pertaining to acquisition of subsidiaries	-	-19.3
Liabilities to associated companies	-2.7	-2.6
Liabilities to minority shareholders	-13.2	-12.4
Other liabilities	-8.3	-9.8
<b>Total interest-bearing liabilities</b>	<b>-111.0</b>	<b>-125.9</b>
Reported cash, cash equivalents & short-term investments	43.4	45.1
Loans to minority owners of foreign subsidiaries	2.3	1.4
<b>Net debt</b>	<b>-65.4</b>	<b>-79.5</b>

Adjusted net debt (SEK billion)	Sep 30 2015	Dec 31 2014
<b>Total interest-bearing liabilities</b>	<b>-111.0</b>	<b>-125.9</b>
50% of Hybrid capital	7.7	4.7
Present value of pension obligations	-42.3	-45.3
Mining & environmental provisions	-18.0	-14.5
Provisions for nuclear power (net)	-34.0	-33.7
Margin calls received	6.0	7.0
Liabilities to minority owners due to consortium agreements	12.1	11.6
<b>= Adjusted gross debt</b>	<b>-179.6</b>	<b>-196.1</b>
Reported cash, cash equivalents & short-term investments	43.4	45.1
Unavailable liquidity	-6.8*	-7.3*
<b>= Adjusted cash, cash equivalents &amp; short-term investments</b>	<b>36.6</b>	<b>37.8</b>
<b>= Adjusted net debt</b>	<b>-143.1</b>	<b>-158.3</b>

\* Of which: German nuclear "Solidarvereinbarung" 3.2, Margin calls paid (CSA) 2.6, Insurance "Provisions for claims outstanding" 1.0

# Discount rates used in calculation of provisions

Type of provision	Discount rate	Inflation rate	Real discount rate
Nuclear, Germany	4.0%	3.0%	1.0%
Nuclear, Sweden	4.0%	2.0%	2.0%

Type of provision	Discount rate
Pensions, Germany	2.0%
Pensions, Sweden	2.5%

Discount rates for pensions in Sweden and Germany were raised in Q2 2015 as a result of increased market interest rates.

# Nuclear provisions as per 31 Dec 2014

Reactor	Net capacity (MW)	Start (year)	Vattenfall share (%)	Vattenfall provisions, SEKbn (IFRS accounting)	Vattenfall provisions, SEKbn (pro rata)	Sw nuclear waste fund (Vattenfall pro rata share)
Ringhals 1	879	1976	70.4	Total Ringhals: 21,672	Total Ringhals: 21,672 <sup>1)</sup>	
Ringhals 2	809	1975	70.4			
Ringhals 3	1,070	1981	70.4			
Ringhals 4	942	1983	70.4			
Forsmark 1	984	1980	66.0	Total Forsmark: 19,545	Total Forsmark: 12,900	
Forsmark 2	1,120	1981	66.0			
Forsmark 3	1,170	1985	66.0			
<b>Total Sweden</b>	<b>6,974</b>	<b>-</b>		<b>41,217</b>	<b>34,572</b>	<b>26,808 <sup>2)</sup></b>
Brunsbüttel	771	1977	66.7	17,730	11,817	
Brokdorf	1,410	1986	20.0	0	4,133	
Krümmel	1,346	1984	50.0	10,576	10,576	
Stade <sup>3)</sup>	640	1972	33.3	0	2,019	
<b>Total Germany</b>	<b>4,167</b>	<b>-</b>	<b>-</b>	<b>28,306</b>	<b>28,545</b>	
<b>Total Sw &amp; Germ</b>	<b>11,141</b>			<b>69,523</b>	<b>63,117</b>	

1) Vattenfall is 100% liability of Ringhals decommissioning, while owning only 70.4%

2) Vattenfall's share of the Nuclear Waste Fund (book value). IFRS consolidated value is SEK 31,985mn

3) Stade is being dismantled

# Overview of Vattenfall's lignite operations

<b>Lignite production</b>	<b>60-65mn tonnes/a</b>
<b>Installed power plant capacity</b>	<b>8,095 MW<sub>gross</sub></b>
Jämschwalde	3,000 MW
Schwarze Pumpe	1,600 MW
Boxberg	2,575 MW
Lippendorf R* (Vattenfall share)	920 MW
<b>Electricity generation</b>	<b>approx. 55 TWh/a</b>

\* Outside of the Lusatian portfolio

- Operating opencast mine areas
- Recultivation areas
- Approved mining fields
- Continuation
- Future fields
- Lignite-fuelled power plants
- Refining plant
- Central railway operation VEM

