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1. Overview
Strong position in Northern Europe

Sweden
89.3 TWh electr. and 5.6 TWh heat output
0.9 million customers

Denmark
6 TWh electr. and 6 TWh heat

Germany
76 TWh electr. and 15 TWh heat output
3.4 million customers

Finland
0.5 TWh electr. and 1.5 TWh heat output
0.4 million customers

Poland
3.4 TWh electr. and 11.4 TWh heat output
1.1 million customers

- Hydro power
- Nuclear power
- Thermal power/other
- Thermal power/lignite
- Network operations
- Transmission operations
- Partly-owned networks
Total Assets increased from SEK 115 to 330 billion
Net debt development over last six years

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt (SEK millions)</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>43,311</td>
</tr>
<tr>
<td>2001</td>
<td>55,736</td>
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<tr>
<td>2002</td>
<td>75,207</td>
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<tr>
<td>2003</td>
<td>66,890</td>
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<tr>
<td>2004</td>
<td>55,411</td>
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<tr>
<td>2005</td>
<td>64,343</td>
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<tr>
<td>30 June 2006</td>
<td>54,179</td>
</tr>
</tbody>
</table>
Strong increase in estimated equity value

EUR billion

Sources: Based on various investment bank estimates
2. Industry trends
Macro industry developments

- Continued liberalization and privatisation, albeit in Poland stalled privatisation
- Increased M & A activity
- Increased protectionism
- Regulatory pressure on grids
- Increased concern for security of supply, fuel supply and risk for black-outs
- Increased debate on electricity price increases
Consolidation of large players

Continued industry consolidation

Creation of Mega-players

Left graph: Announced deals larger than 200 MEUR. Source: Mergermarket
Right graph: Stock market capitalisation as at March 2006.
Vattenfall market cap calculated as an average of 2004 & 2005 Net profit * P/E 14
Developments in value chain steps

Regulatory and general developments:
- Increased importance of climate change
- Greater uncertainties
- Tighter regulation
- Increasing demands to handle new sources
- Public & political opinions on price levels
- Discussed CHP support schemes could increase profitability

Commercial developments:
- Higher input and product prices
- Improved financial performance
- Squeezed between price and cost pressures
- Squeezed between price and cost pressures
- Further squeeze on margins
- Remarkable differences between profitability in UK vs. Nordic/DE
- Increased profitability due to rising fuel and consequently heat prices

Mining & Generation > Transmission > Distribution > Sales (Supply) > Heat
Vattenfall’s view on network regulation

- Vattenfall is positive to a regulation based on the performance
- A regulatory model should reflect customers and societies demand for high quality of supply and good service
- Vattenfall believes tariffs shall be fair
  - Reasonable return for required quality
  - Reasonable return – all cost incurred shall be reflected in the tariffs
Ruling on German network regulation (1)

6 June 2006  
Ruling from German regulator Bundesnetzagentur (BNetzA).
- Vattenfall must cut transmission tariffs by 17.9 % for July-Dec. 2006 (EBIT and cash flow impact of 459 MSEK)
- In addition, retroactive cut of tariffs for November 2005 – June 2006 (EBIT and cash flow impact of 507 MSEK)

BNetzA disapproved certain costs, primarily:
- costs for network losses,
- costs for balancing power in conjunction with increased feed in of wind power
- certain depreciation items

June 2006  
Vattenfall appealed against the ruling of BNetzA at the Higher Regional Court in Düsseldorf
- Application for interim relief
- Formal filing of complaint (Hauptsacheverfahren)
21 July 2006

The court issues an interim relief:
- the court sees no substantial reason to delay the implementation of tariff cuts for the period July – December 2006 but
- rejects BNetzA:s demand on retroactive tariff cuts

Main court decision (Hauptsacheverfahren) is estimated to be issued within in 9-12 months

August 2006

Expected BNetzA ruling on the Distribution business (for tariffs until 2007)

End of 2006

Approval of transmission tariffs for the year 2007
Network regulation in Sweden

Ex-post regulatory framework
(The Network Performance Assessment Model)

• A theoretical network model.

• Penalty/award for “customer benefits”.

• Key assumptions for revenue:
  - Capital return
  - O&M

• In Febr. 2006 the Regulator ordered Vattenfall to repay 236 MSEK in network tariffs for 2003

Based on a notional network which does not fully reflect actual location of network (i.e. capital base different from reality).

Penalty. Extremely high quality expectation.

Low (assumed low L-T interest rates)
Unrealistic low expectation (50% cut)

Vattenfall has appealed against the decision
4. Price development
Uncertainty about future fuel prices

Increasing fuel and CO2 prices… ...have caused electricity prices to increase correspondingly
Time table (CO₂)
5. Strategic Focus
Overall strategic direction

With the consolidation programme successfully completed, Vattenfall is currently focusing on the realisation of its vision – of becoming a leading European energy company – and remains committed to the same five ambitions, that were defined two years ago.

• To continue the profitable growth
• To become the benchmark for the industry
• To become “Number One for the Customer”
• To become “Number One for the Environment”
• To be the employer of choice
To continue the profitable growth through a proactive expansion program
- Driven by generation of heat and electricity. Gas is an opportunity
- Geographic focus on core and selected target markets
- Implemented through M&A as well as plant investments

Ambition

Key strategies
- Continue to identify, evaluate and pursue potential M&A candidates
- Prepare for integration and consolidation of acquired or merged entities
- Enhance efforts to evaluate attractiveness of increased investments in new or refurbished generation capacities
Developments in European markets

**Current core markets**

Target markets
Recent focus on:
- **UK**: Market restructuring again, opportunities open up but very large targets (except some IPPs)
- **NL**: It is recognised that the companies are too small in an integrated European market, but new legislation development is pending

**Non-target countries**

- **Baltic countries**: Too small
- **South East Europe**: Oversupply Uncertain market situation and legal framework
- **Russia and Ukraine**: Uncertain market situation and legal framework
- **Iberia**: Consolidated market Unattractive regulatory development (Spain)
- **Italy**: More fragmented market. Low sophistication and liquidity in the market functioning

**Attractiveness**

- Business climate
- Growth and profitability
- Strategic fit and competitive advantage

Current core markets
Target markets
To be the benchmark for the industry

**Ambition**

Vattenfall should be the benchmark for the industry in selected areas

**Key strategies**

- Continue to pursue performance and cost effectiveness everywhere in the organisation
- Begin to work effectively with KPI’s* in all relevant areas of the company
- Pursue cross border synergies in the IT area under the responsibility of the Group CIO team
- Allow the Group Purchasing Function to be responsible for management and purchasing synergies within the Group
- Work extensively with synergies in the area of capacity management, investment management and fuel purchasing

* KPI = Key Performance Indicator
To become “Number One for the Customer”

Ambition

Vattenfall should become number one for the customer manifested through
- Increasing market share
- Improved customer satisfaction
- Maintained or increased profitability

Key strategies

- Guarantee competitive pricing while providing the best possible service
- Increase the customer base
- Measure and monitor the status of being "Number one" through regular CSI measurements
- Simplify the process of becoming a Vattenfall customer
- Evaluate opportunities to further increase coordination of customer management between different entities
To become “Number One for the Environment”

**Ambition**

Vattenfall should be Number One for the environment

- Finding new and better solutions which reduces CO2-emission
- Having a leading role in developing renewable electricity and heat generation
- Acting more environmentally responsible than what could reasonably be expected from any other power company

**Key strategies**

- Increase investments in generation which emits little or no CO2, including the recently defined package of renewables
- Increase capacity in existing assets which do not emit any CO2
- Increase efficiency in existing power and heat production as well as in distribution
- Continue development of Vattenfall’s CO2-free Power Plant Project
- Create better systems to measure and steer the environmental performance and systematically integrate environmental aspects in all business operations
To be the Employer of Choice

Ambition

Vattenfall should be the Employer of Choice

Key strategies

• Secure excellent leadership by first class management planning and development
• Ensure access to the competence that meets our long-term requirements
• Secure strong employee commitment
Curbing climate change
On today’s technical and economic terms, it is possible to extract:

- At least 95 % of coal
- 40-70 % of oil
- 35 % of gas
- Less than 2 % of uranium
Vattenfall’s proposal – curbing climate change

Vattenfall’s report can be downloaded from www.vattenfall.com
Basic principles (1):

- All countries should participate
- No poor country shall be denied its right to economic development
- Richer countries shall pull a larger weight
- No country shall have to go through disruptive change
- Fair effects on competitiveness
Vattenfall’s adaptive global burden-sharing model

Basic principles (2):

• The system shall be robust. As new knowledge is accumulated parameters may change, but not the basic principles

• Emission caps should be binding

• Emission allowances are allocated to each country in relation to its share of total global GDP (PPP)

• The final allocation will be made at the national level
Curbing climate change is about combining technology, finance and policy in a wise way. If that is done by the international community a worldwide carbon dioxide market will follow.
Why should emissions be priced at all?

• Efficiency / technology choice
• Incentives for development
• Create resources for investment
• Signal correct order of exploitation
Curbing Climate Change – Summary

- A very long time perspective must be applied - 100 years
- Convergence towards a common goal should be prioritised
- Knowledge available is still fragmented – adaptation must be built in
- Efficient use of resources and strong incentives for R&D are crucial
- A global pricing mechanism for emissions must be created
7. Conclusions
Vattenfall - Conclusions

- Strong market position in Northern Europe
- Well diversified production mix
- Growth ambitions, both M&A and organic
- Increased cap ex programme, including renewables
- Strong financial development, but no access to equity market
- Major threats from harsher regulation and taxation
- CO2 emissions crucial for electricity price development
- Curbing Climate Change – Vattenfall takes a leading role
- Current customer perception trend must be changed
Back-up slides
### Vattenfall’s installed capacity (Megawatts)

#### IFRS consolidation

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<tr>
<th></th>
<th>Nordic Countries</th>
<th></th>
<th>Germany</th>
<th></th>
<th>Poland</th>
<th></th>
<th>Total</th>
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<tbody>
<tr>
<td>Electricity &amp; heat generation capacity, MW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Hydro power</td>
<td>8,399</td>
<td>8,386</td>
<td>2,894</td>
<td>2,894</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Nuclear power</td>
<td>6,697</td>
<td>7,242</td>
<td>771</td>
<td>771</td>
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<td>–</td>
<td>7,468</td>
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<tr>
<td>Fossil-based power</td>
<td>1,068</td>
<td>1,004</td>
<td>11,371</td>
<td>11,371</td>
<td>981</td>
<td>928</td>
<td>13,420</td>
<td>13,303</td>
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<tr>
<td>Wind power</td>
<td>31</td>
<td>31</td>
<td>41</td>
<td>41</td>
<td>–</td>
<td>–</td>
<td>72</td>
<td>72</td>
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<tr>
<td>Biofuel, waste</td>
<td>160</td>
<td>215</td>
<td>35</td>
<td>35</td>
<td>–</td>
<td>–</td>
<td>195</td>
<td>250</td>
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<tr>
<td>Total electricity</td>
<td>16,355</td>
<td>16,878</td>
<td>15,112</td>
<td>15,112</td>
<td>981</td>
<td>928</td>
<td>32,448</td>
<td>32,918</td>
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<tr>
<td>Total heat</td>
<td>3,440</td>
<td>3,523</td>
<td>7,528</td>
<td>9,096</td>
<td>4,996</td>
<td>4,824</td>
<td>15,964</td>
<td>17,443</td>
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#### Proportional consolidation

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<th>Total</th>
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<tr>
<td>Electricity &amp; heat generation capacity, MW</td>
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<tr>
<td>Hydro power</td>
<td>8,155</td>
<td>7,935</td>
<td>2,894</td>
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<td>–</td>
<td>–</td>
<td>11,049</td>
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<td>Nuclear power</td>
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<td>–</td>
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<tr>
<td>Fossil-based power</td>
<td>1,054</td>
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<td>732</td>
<td>692</td>
<td>13,157</td>
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<td>Wind power</td>
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<td>41</td>
<td>–</td>
<td>–</td>
<td>71</td>
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<tr>
<td>Biofuel, waste</td>
<td>160</td>
<td>160</td>
<td>35</td>
<td>35</td>
<td>–</td>
<td>–</td>
<td>195</td>
<td>195</td>
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<tr>
<td>Total electricity</td>
<td>13,976</td>
<td>14,234</td>
<td>15,750</td>
<td>15,750</td>
<td>732</td>
<td>692</td>
<td>30,458</td>
<td>30,676</td>
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<tr>
<td>Total heat</td>
<td>3,300</td>
<td>3,380</td>
<td>7,528</td>
<td>9,096</td>
<td>3,727</td>
<td>3,597</td>
<td>14,555</td>
<td>16,073</td>
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Lower hydro production in Q2 2006

Q2 2006 Total: 37.7 TWh

Q2 2005 Total: 39.4 TWh

H1 2006 Total: 85.5 TWh

H1 2005 Total: 85.6 TWh
Increased heat sales in H1 2006

H1 2006
Total: 21.3 TWh

H1 2005
Total: 19.6 TWh
## Major market trends

<table>
<thead>
<tr>
<th>Trend</th>
<th>Comments</th>
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</thead>
</table>
| Liberalisation and integration of EU energy markets                   | • Continuous reforms towards the IEM, in particular in Eastern Europe  
• DG Comp Sector Inquiry more severe  
• Convergence of price levels between different markets  
• Increased correlation between price levels of fuels and electricity and between different geographical markets  
• Increased protectionism from national governments (-)  
• Increased political debate on the price developments and, in particular, in the grid area tougher regulation (-) |
| Consolidation of large players                                        | • Continued high M&A activities  
• Creation of Mega-players  
• Tendency towards establishment of national champions |
| Convergence of electricity, gas and heat but departure from multi utility | • Integration of value chain01  
• Strengthened linkage between gas and electricity prices  
• Increasing level of dual fuel sales in gas/electricity (plus heat) |
| Increased uncertainty about future fuel prices                        | • Potential for very high oil prices  
• Possibility of decoupling gas/oil  
• Possible gas bubble over next years  
• Uncertainty whether the coal price will come back down to 40 USD/ton |
| Increased concerns for and actions to deal with climate change        | • Uncertain support for a continued CO2 emission trading system after 2012  
• Increased investments in CO2 free technologies for fossil fuels  
• Continued interest in renewable capacities |
| Major resumption of construction of generation assets                 | • Increased number of expansion projects  
• Price level on equipment going up |
Convergence of gas and electricity

1. Gas has the largest share of power generation capacity
2. Gas directly price setting in many power markets and also has impact on power prices through CO2 prices
3. Most trading houses trade both gas and power (economies of scale, better informed, arbitrage opportunities)
4. Dual fuel offers increasing

**Linking value-chains**

**Gas**
- Exploration & Production
- Trading
- Transmission & Distribution
- Sales

**Electricity**
- Generation
- Trading
- Transmission & Distribution
- Sales

**Gas – power mergers**

- Endesa potentially being acquired by E.ON
- E.ON acquired Ruhrgas in 2002/03
- Suez/Electrabel potentially merging with GdF
- Suez acquired 99% of Electrabel in 2005
Convergence between gas and electricity

Linkages between gas and electricity

- Gas for power generation
- Price relationship
- Joint trading operations
- Retail operations

Benefits from electricity/gas consolidation

- Growth opportunities
- Cost synergies
- Risk diversification
- Trading/arbitrage opportunities
- Know-how
Atmospheric CO₂ content (ppm)

Source: W. Broecker
Allocation of CO2 emission allowances for emissions from fuel combustion – ”Early peak”
Allocation of CO2 emission allowances for emissions from fuel combustion – ”Late peak”

Mt CO2