Vattenfall Capital Markets Day 2007

Presentation by

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Content

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1. Overview
Vattenfall’s development

2000

- EBIT: 4.5 SEK bn
- TWh: 83
- Customers: 2.2m
- Employees (thousands): 13

Large acquisitions
- HEW (Ger)
- Veag/Laubag (Ger)
- Bewag (Ger)
- EW (Pol)
- GZE (Pol)
- Elsam/E2 assets (Dk)

2007

- EBIT: 26.7 SEK bn
- TWh: 165 (+99%)
- Customers: 5.0m (+150%)
- Employees (thousands): 32 (+300%)
### Strong market positions in our core markets

<table>
<thead>
<tr>
<th></th>
<th>Sweden</th>
<th>Finland</th>
<th>Denmark</th>
<th>Germany</th>
<th>Poland</th>
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</thead>
<tbody>
<tr>
<td><strong>Electricity Generation</strong></td>
<td>1 4)</td>
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<td>7 1)</td>
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<tr>
<td><strong>Electricity Trading</strong></td>
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<td><strong>Electricity Distribution</strong></td>
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<td>6 2)</td>
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<td><strong>Electricity Sales</strong></td>
<td>1 3)</td>
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<td><strong>District Heating</strong></td>
<td>4 3)</td>
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</table>

1) 4th market position if only privatised companies are included
2) 1st market position if only privatised companies are included
3) Only heat generation
4) In the Nordic countries
Vattenfall’s estimated equity value

EUR billion

Source: Based on various investment bank estimates
Well diversified electricity generation mix

Electricity output 2006
164.5 TWh

Installed capacity Dec. 2006:
35,114 Megawatts

Hydro
Nuclear
Fossil
Other

Other = wind, biofuels, waste
2006 total heat production: 35.2 TWh

- 35% for Nordic
- 24% for Germany
- 11.2% for Poland
- 15.5% for Germany (not clearly labeled)
Recent events

- Satisfactory earnings and strong cash flow in H1 2007 despite very low electricity spot prices
- Increased focus on nuclear safety
- Major efforts underway to regain trust in Germany
- Gaining market share in Sweden but increased retail customer churn in Germany
- Further increased tax on hydro and nuclear generation announced by Swedish government
- Vattenfall is largely unaffected by current turmoil in credit markets
2. Industry trends
Long-term trends and current main issues

**Liberalisation and industry consolidation**
- Reduced trust in the energy industry
  - Capability to explain price and profit development
  - Confidence in environmental commitment
- Resistance to liberalisation and consolidation
  - National champions
  - Delay in implementation
  - Limited integration
- Increasing costs for emitting CO₂
  - New allocation phase
  - Higher level of auctioning

**Concerns for climate change**
- Increasing regulatory pressures
  - Primarily a result of increasing prices
  - In all areas, in particular networks (ownership unbundling)
  - In Germany also questioning of the generation market
- Increasing need for new capacity and changing preferences
  - Upswing for renewables, CHP, CCS and nuclear
  - Increased concern for nuclear safety

**Impact of construction cycles**
- Resistance to liberalisation and consolidation
  - National champions
  - Delay in implementation
  - Limited integration
- Increased attention from the public and political arena
  - Capability to explain price and profit development
  - Confidence in environmental commitment
  - Reduced trust in the energy industry
- Uncertainty around security of supply
## Summary of M&A situation in Europe

Several cash rich buyers but few targets available (high price level)

### Netherlands
- Essent/Nuon merger failed, options being investigated
- Eneco?

### Germany
- Iberdrola/Scottish Power
- Other consolidation (BE, Centrica, Drax, SSE)
- Stadtwerke Leipzig
- Network unbundling

### United Kingdom
- Iberdrola/Scottish Power
- Other consolidation (BE, Centrica, Drax, SSE)

### France/Benelux
- Gaz de France/Suez merger
- GDF/Suez asset swaps
  - SPE
  - Distrigas
  - Generation assets

### Ireland
- ESB privatisation

### Poland
- PSE/BOT restructuring
- PAK
- Generation privatisations on hold

### Russia
- IPOs/strategic sales of OGKs and TGKs
- E.ON acquired OGK4
- Enel acquired OGK5

### Nordic
- Dong IPO-2007/2008

### Czech Republic
- Government sale of CEZ shares
- Distribution privatisations

### Turkey
- Distribution privatisations

### Romania
- Privatisations
  - generation
  - distribution

### UK
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Continued consolidation - fewer and larger players

Announced deals larger than 200 MEUR. Source: Mergermarket

Enterprise value (M Euro)

Number of transactions

- 1992: 4
- 1993: 4
- 1994: 20
- 1995: 7
- 1996: 23
- 1997: 20
- 1998: 22
- 1999: 21
- 2000: 39
- 2001: 44
- 2002: 13
- 2003: 31
- 2004: 32
- 2005: 19
- 2006: 3

Announced deals larger than 200 MEUR. Source: Mergermarket
5. Strategic Focus
Key arguments for Vattenfall’s vision and growth strategy are still valid

**Main motives**
On a liberalized European energy market where companies are consolidating it is important to be leading in terms of

- **Having size**
  - Only long-term sustainable way to create value
  - Providing a series of operational advantages such as
    - Economies of scale
    - Financial strength
    - Risk diversification
  - Creating benefits in terms of market position

- **Operational excellence**
  - Yielding more resources for growth
  - Improves image and trust
  - Increases competitive strength

**Vision**
- To be a leading European energy company

**Main strategic ambitions**
- Profitable growth
- Benchmark of the industry
- Number One for the customer
- Number One for the environment
- Employer of choice
Strategic focus for Vattenfall

**2000 - 2002**
- Growth

**2003 - 2006**
- Consolidation (with price increases)

**2007 -**
- Focus on vision to become a leading European energy company

**OPPORTUNITIES**
- Continued consolidation
- Convergence electricity, gas & heat
- Increased need for new capacity
- Possible consolidation of sales
- Major unexploited synergies and performance improvements
- Established CCC position

**THREATS**
- Sellers’ market in M&A
- Increased cost pressures in particular for CO₂
- Strengthened regulatory environment
- Intensified competition
- Continued low brand image and trust
- Failure with the CCS technology
Vattenfall’s five strategic ambitions – all of which contribute to value creation

Contribution to value creation

- Profitable growth
  - Market position
  - Financial strength and risk capacity
  - Economies of scale, scope and skill
  - Expansion into new business areas

- Benchmark of the Industry
  - Improved performance
  - Reduced costs
  - Extraction of synergies

- Number One for the Customer
  - Increased loyalty, lower churn and improved tendency for recommendation
  - Better acceptance in the media and among the public for reasonable financial returns and reduced demands for tougher regulation
  - Good customer contact, which is a basis for understanding the market development

- Number One for the Environment
  - Enhanced competitiveness, as costs and requirements for climate are likely to increase in the future
  - Positive brand and image impact
  - Contribution to efficient utilisation of resources and development of low CO₂-emitting technologies (in particular through the CCS technology)

- Employer of Choice
  - Excellent leadership
  - Access to the right competence
  - Employee commitment
Profitable Growth – Strategies

• Remain vertically integrated along the value chain and focus growth on generation and heat

• Build within our existing markets and expand in geographically close markets as and where value can be created

• Use both M&A and greenfield investments as tools for growth
Prioritisation of growth markets

- Market attractiveness
  - Commercial conditions
  - Need for change
  - Market design
  - Regulatory situation

- Strategic fit with Vattenfall core business

- Perceived risk

<table>
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<tr>
<th>Markets</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>UK</td>
<td>• Stable well-functioning market</td>
</tr>
<tr>
<td></td>
<td>• Relatively high margins</td>
</tr>
<tr>
<td></td>
<td>• Major need for replacements</td>
</tr>
<tr>
<td></td>
<td>• Increasing interest in nuclear</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>• Major growth and price increases ahead</td>
</tr>
<tr>
<td></td>
<td>• Substantial replacement needs</td>
</tr>
<tr>
<td></td>
<td>• Attractive opportunities in Vattenfall’s key plant technology areas</td>
</tr>
<tr>
<td>Benelux</td>
<td>• Strong well-functioning market</td>
</tr>
<tr>
<td></td>
<td>• Depending on imports resulting in higher prices</td>
</tr>
<tr>
<td></td>
<td>• Strong demand growth</td>
</tr>
<tr>
<td></td>
<td>• Major restructuring ahead (SUEZ, Electrabel, Nusent etc)</td>
</tr>
<tr>
<td>France</td>
<td>• One dominating player today but major restructuring ahead</td>
</tr>
<tr>
<td></td>
<td>• Emission-free nuclear and hydro</td>
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</table>
Benchmark of the Industry – Strategies

- Clarify Vattenfall’s performance position in relation to the competition
- Set improvement targets in order to reach upper quartile performance against the competition
- Continue to extract cross-border synergies
- Measure, monitor and reward performance improvement
Number One for the Customer – Strategies

• Secure that we have the best products and services in relation to customers’ requirements at the right prices

• Increase awareness among customers of our environmentally and socially responsible position across the whole energy field and value chain

• Develop consistency of our offerings and use best practices across borders

• Continue to grow the customer base

• Strengthen the customer perspective in all areas of our operations
Number One for the Environment – Strategies

- Reduce CO₂ emissions
  - Increase share of investments in generation assets that emit little or no CO₂
  - Increase efficiency in existing power and heat production as well as in networks
  - Reduce carbon intensity in non-generation areas

- Accelerate technology development to combat climate change, e.g. CCS (both CO₂ capture and storage) and renewables

- Measure and steer the environmental performance and systematically integrate environmental aspects in all business operations

- Work for global and market-oriented climate solutions
Employer of Choice – Strategies

• Secure excellent leadership by first class management planning and development

• Ensure access to the competence that meets our long-term requirements, e.g. through competence planning

• Secure strong employee commitment, e.g. through the My Opinion Process
Curbing climate change
EU’s largest emitting countries and companies

CO₂ emissions

- Germany
- UK
- Italy
- France
- Spain
- Poland
- Netherlands
- Belgium
- Czech Rep
- Greece
- Sweden
- RWE
- E.ON
- Vattenfall

1) Country and company emissions 2005 (except for Vattenfall estimated emissions 2007 including its Danish operations are shown).

We aim to reduce our emissions by 50% by 2030.

**Reduction of CO₂**

- **EU’s ambition**: Reduce emissions by 20% from 1990 to 2020.
- **Vattenfall’s ambition**: Reduce emissions by 50% from 1990 to 2030.

- **g/KWh**

Starting year for EU and Kyoto:

- **1990**
- **2010**
- **2030**
- **2050**

Questions:
- technology?
- policy?
- finance?
... and we will meet the CO₂ challenge on broad front

By co-operating with other companies and industries, around the world

By increasing energy efficiency for our customers

By improving our own energy production

Global emission trading system

CCS - the pilot “CO₂ free” power plant
CO2 reduction - five focus areas

- Improvements of old power plants
- Enhance efficiency in new plants
- Power generation without fossil fuels
- CCS, carbon capture and storage
- R & D
International engagements to raise awareness and propose solutions for combating climate change

Key engagements

- Abatement Map
- The 3C initiative
- World Economic Forum
- Advisor to the German government on climate change and energy policy
- Member of the Swedish Commission on Sustainable Development
- GLOBE
- Tällberg Forum

3C – a global opinion group consisting of business leaders demanding integration of climate control measures in markets and trade

- ABB
- AIG
- Alcan
- Alstom
- Areva
- Bayer
- BP
- British Sky Broadcasting
- Centrica
- CEZ Group
- China National Offshore Oil Corp.
- Citigroup
- Deutsche Bahn
- Deutsche Post
- DONG Energy
- Duke Energy Corporation
- E.ON
- EnBW
- Endesa
- Enel
- Eskom
- Fortum
- General Electric
- Hitachi
- Iberdrola
- Lufthansa
- Munich Re Group
- MVM Group
- Norske Skog
- NRG Energy
- Nuon
- Otto Group
- PG & E
- PNM Resources
- RAO UESR
- Reuters
- SAP
- SAS
- Siemens
- SUEZ
- The Tata Power Company Ltd.
- Vattenfall
- Veolia
- Wallenius Lines
7. Conclusions
Summary & conclusions (1)

- Vattenfall has during the last 3-4 years strategically focused on the consolidation of its major acquisitions in Germany, Poland and Denmark.

- Major change developments in the last year have primarily been related to the impacts of the climate change issue, increasing regulatory pressures, continued low trust and, for Vattenfall, a slowdown of profit growth. The trend towards an integrated European energy market and the consolidation of the industry remain unchanged.

- The strategic focus for Vattenfall over the next 5-7 years will be to address its vision to be a leading European energy company.
Summary & conclusions (2)

• Given opportunities and threats Vattenfall will **reiterate and refine our strategy based on the 5 strategic ambitions** which it has defined in recent years.

• Within the growth ambition, which represents Vattenfall’s central strategic objective, Vattenfall will
  
  – **continue to be an integrated company** and focus on generation of electricity and heat
  
  – **expand in core and geographically close markets** as and where value can be created
  
  – **use both M&A and greenfield investments** as tools for growth

• In terms of production-capacities there will be more **focus on renewables, CCS, nuclear and CHP**.

• Vattenfall will over the next years increase its **attention to the benchmark ambition** and in this context on **operational performance**