

Vattenfall Capital Markets Day 2005

Presentation by

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1. Overview Business Group Vattenfall Europe

- Key facts – Market position
- Financial development

- Business Units – Strategies and challenges

- Investments

- Legal and political framework in Germany

- Challenges and outlook

Business Group Vattenfall Europe - Key facts

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- **Turnover:** € 10.7 billion (2004)
- **Employees:** 20,039 (FTE)
- **Customers:** Electricity: 3 million
Network: 3.3 million
Heat: 1.2 million residential units
- **Generation:** 75.5 TWh
- **Km Network:** 10,000 km (transmission)
75,000 km (distribution)
- **Mining:** 59 million tons of lignite coal
- **Energy mix** Lignite (77%), nucl. (14%), water (5%), hard coal (4%), gas, waste
- **Capacity:** approx. 16,000 MW

Sales and EBIT

- **Net sales** H1 2005: € 6.006 million
H1 2004: € 4.926 million / +21,9 %
- **EBIT** H1 2005: € 708 million (excl. IAC)*
H1 2004: € 500 million / + 41,7 %

Cost-cutting programme

- Staff reduction programme completed
- Continued optimization and streamlining of processes

Projects

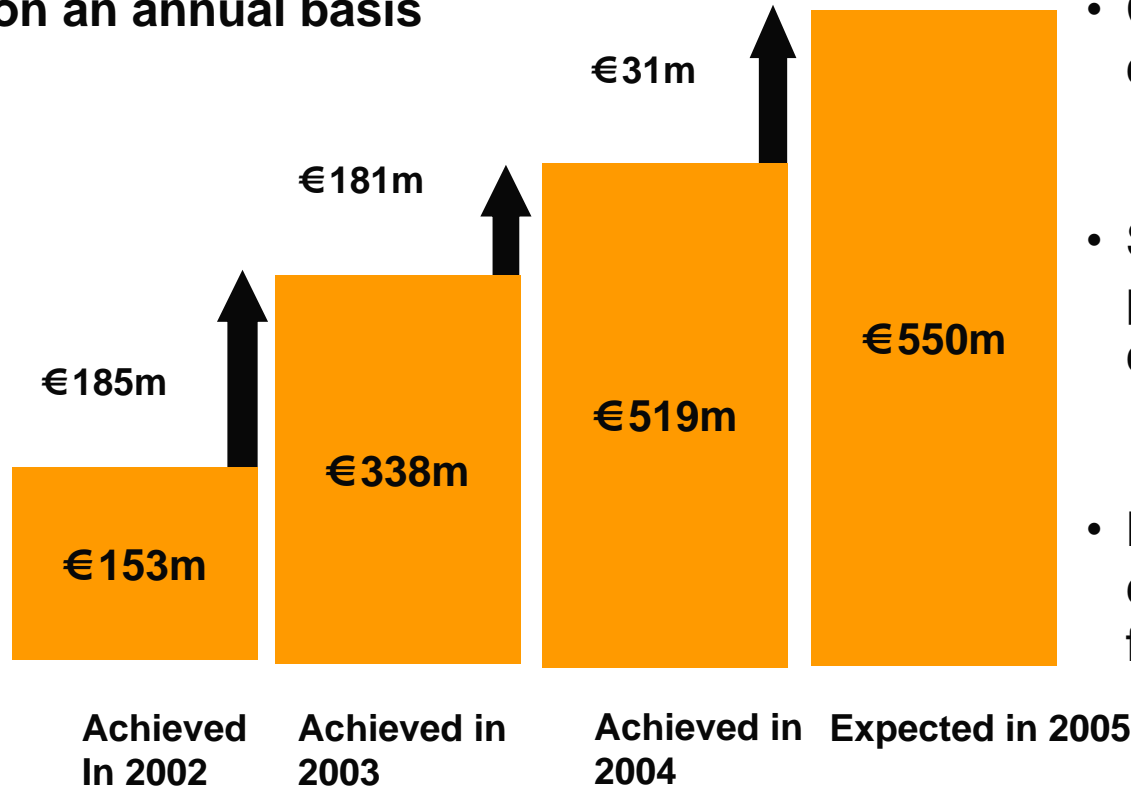
- Investment projects in power plants
- Grid reinforcement projects
- Total sum planned: € 4 bill. in coming years

* IAC: Items affecting comparability

Cost-cutting programme 2002-2005

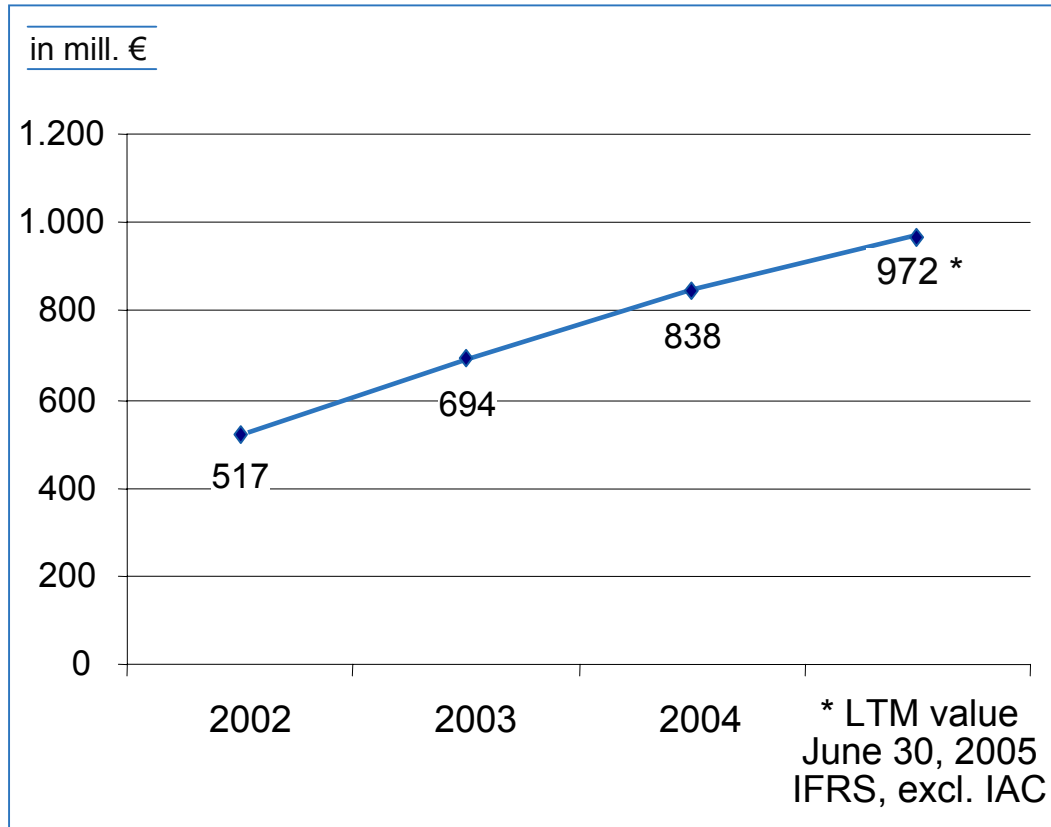
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Cost reductions on an annual basis



- Cost-cutting programme completed successfully
- Staff reduction programme largely completed
- Processes and structures continue to be reviewed for efficiency

EBIT development 2002 - 2005



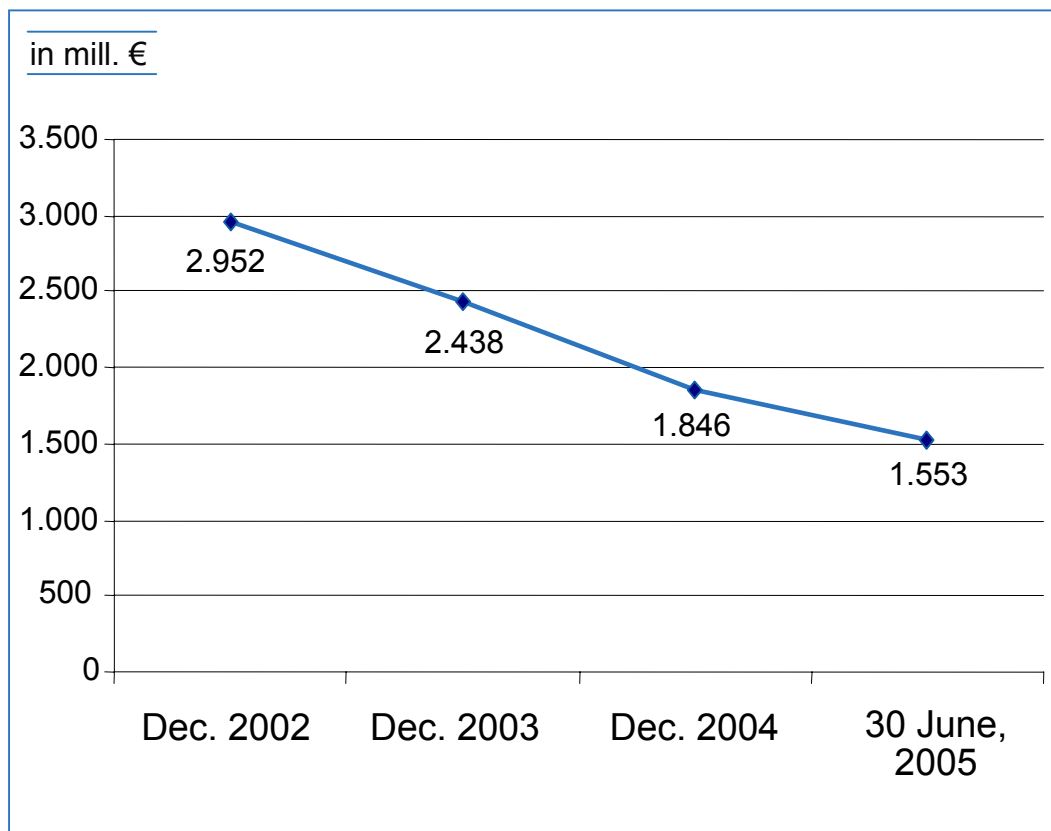
Performance figures 2005 (in mill. €)

Requirements	960
Target figure	1.009



Almost¹⁾ doubled EBIT within three years due to cost savings, higher electricity prices (Generation) and improved margin situation (Sales)

Net debt development 2002 - 2005



Target figure

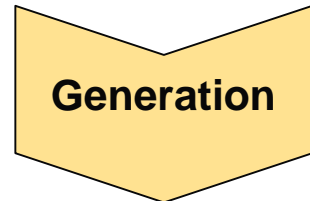
1.609 Mill. €

Vattenfall Europe has no public debt outstanding

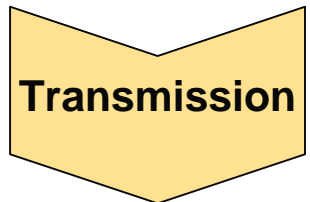
All public debt is being issued by Vattenfall Treasury AB



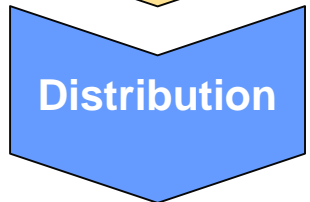
Net debt reduced by half within three years



- Rising wholesale price level
- Further development of power plant park, investment projects



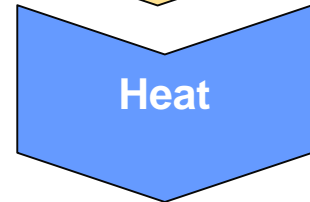
- Political framework
- Investment projects in grid reinforcement



- Unbundling implementation
- Increasing regulatory influence



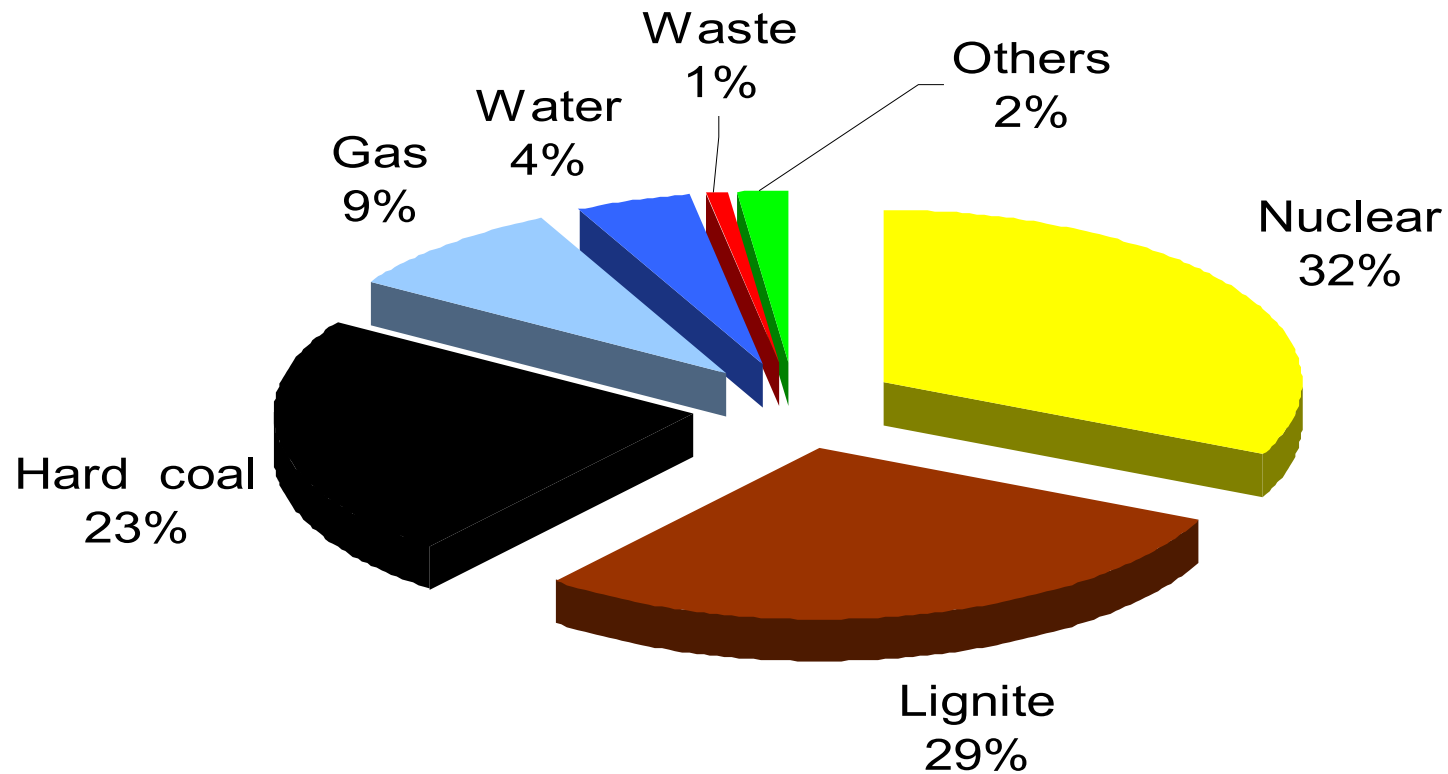
- Price development
- Margin priority over volume



- Stable market position
- Organic growth strategy
- Plant development

Generation: Structure of German market

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Source: VDEW, 2004



Investments 2004: €560 million (IFRS)

€ 250 million - Electricity and Heat

€ 160 million - Mining

€ 120 million - Transmission and Distribution

Potential investment projects during the coming years:

Approx. € 4 billion

- Power plant construction: Boxberg, Moorburg
- Grid projects: North and South West line
- CHP, biomass and Renewables



Two power lines planned

North line

Hamburg-Schwerin
Investment volume:

75 km
€ 50 million

South-West line

Halle-Schweinfurt
Investment volume:

210 km
€ 210 million

Other line projects in the preparatory stage

Hard coal power CHP plant: Moorburg/Hamburg
(Twinned generation unit)

Capacity: 1,640 MW electric
450 MW thermal

Lignite power plant: Boxberg/Saxonia

Capacity: 675 MW

Further potential projects:

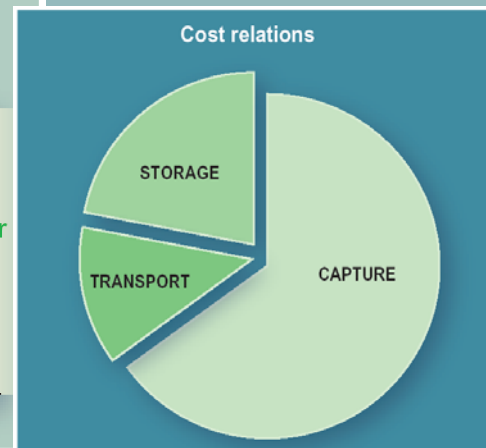
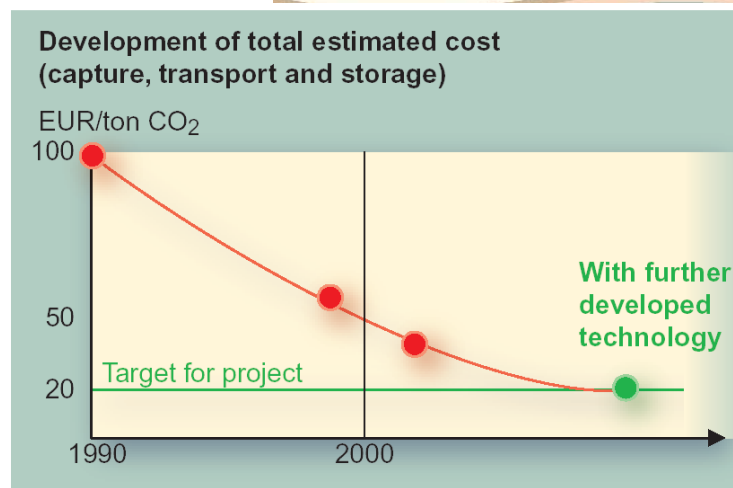
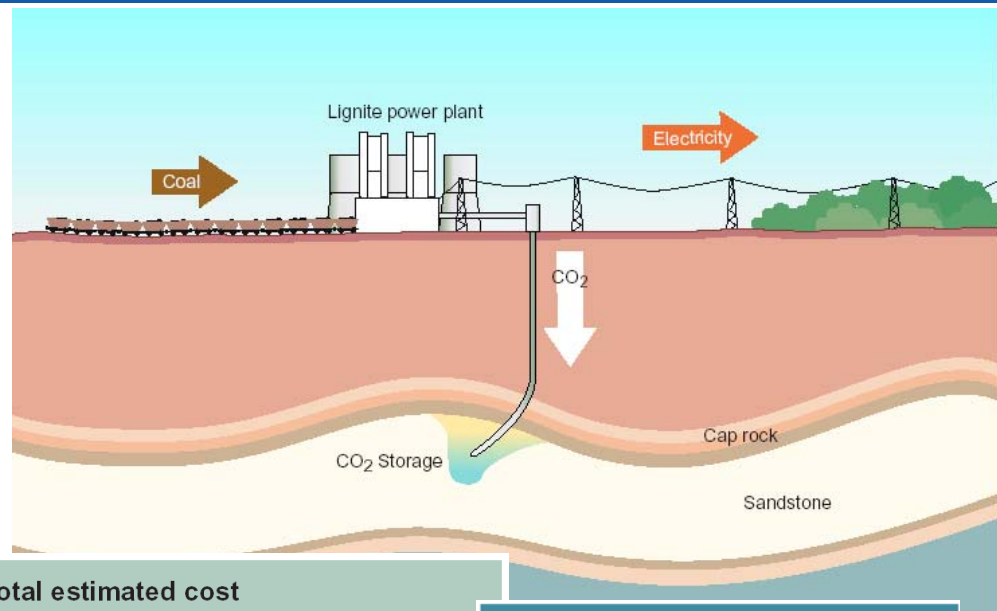
- Biomass-fired thermal power plant in Billbrook
- New combined-cycle plant in Tiefstack
- Extension of the local electricity system and district heating pipelines
- Offshore wind farm pilots in the Baltic and the North Sea

CO₂ - free power plant project

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Pilot plant to be built

- Investment volume: 40 mill. €
- worldwide first pilot plant for CO₂-free coal-fired power plant using Oxyfuel engineering.
- will be located next to German coal-fired power plant Schwarze Pumpe (south of Berlin).
- will be operative in 2008.

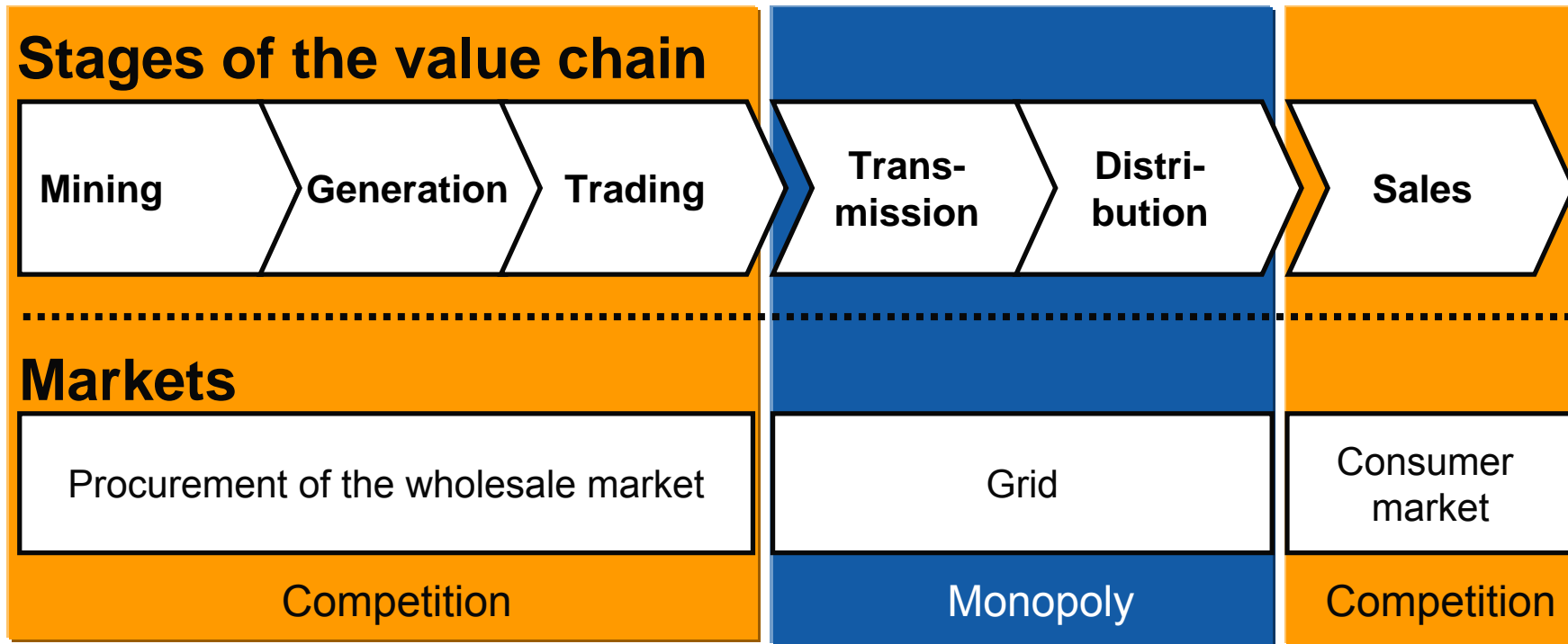


Current situation:

- Ongoing debate about level of energy prices
- Highly critical attitude towards energy companies
- Demands by energy-intensive industry to lower prices
- Intensified pressure from politicians to disclose price components
- Political uncertainty after unclear outcome of election on 18 September
- Nuclear phase-out on political agenda again

Vattenfall Europe's stance:

- Clear commitment to market
- Power exchange prices represent the correct reference
- No political price interference as this would distort market function



Coming changes for network business under the New Energy Act:

- Network tariffs to be approved by the Regulator in advance (ex-ante). Within 3 months subsequent to the entry into force of new regulations, network tariffs must be calculated according to new rules and submitted to the Regulator for approval. The Regulator has six months to carry out an examination of tariffs.
- Calculation principles are regulated in detail by a statutory order for calculation of network tariffs (depreciation methods, interest charges, declining balance, income taxes...).
- Regulation commences with a cost-plus system for network tariffs (with a comparison market). The Regulator makes a comparison of the costs of the network operators.
- Within one year a system for an incentive based regulation of networks has to be developed by the Regulator.
- The new system has to be introduced to the market by a statutory order.



Challenges

- Implementation of the Energy Industry Act
- Development and optimization of power plant park in Eastern Germany, Hamburg and Berlin.
- Thus: Investments in strategically important locations
- Optimizing structures and processes
- Further development of BU-structure

Outlook

- Well positioned to meet further challenges
- Continued high-level electricity generation given stable conditions.



Thank you for your attention