

# Vattenfall Capital Markets Day 2006

## Financial Review

Presentation by

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CFO

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1. Q2 results 2006 & Gap analysis
  2. Regulated vs competitive business
  3. Capital expenditures
  4. Financial targets & Credit rating
  5. Funding & Bond performance
- *Appendices*

## Net sales increased

by 30.0 % to 38,070 MSEK (29,292)

## EBIT increased

by 15.5 % to 5,697 MSEK (4,933) \*

## Profit after tax increased

by 16.5 % to 3,399 MSEK (2,917)

## Net debt decreased

by 2,295 MSEK during Q2 to 54,179 MSEK

\* Excl IAC = items affecting comparability

## Net sales increased

by 22.0 % to 78,502 MSEK (64,328)

## EBIT increased

by 29.5 % to 18,132 MSEK (14,002) \*

## Profit after tax increased

by 34.1 % to 11,378 MSEK (8,486)

\* Excl IAC = items affecting comparability

# Highlights – H1 results 2006

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Return on Net Assets excl. IAC\* was  
17.7 % LTM (FY 2005: 15.8)

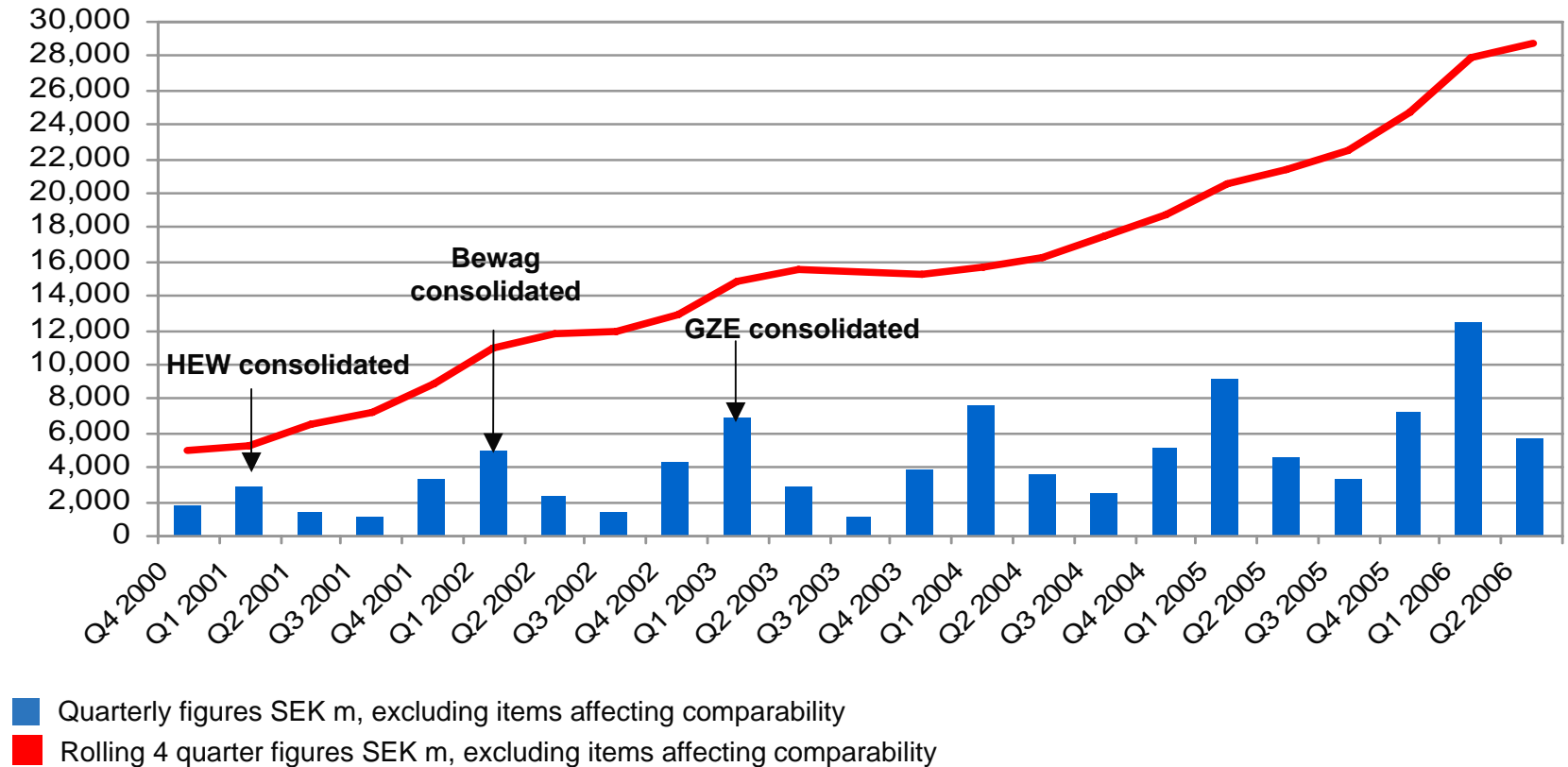
Return on Equity excl IAC\* was  
20.2 % LTM (FY 2005: 19.4)

Decrease in net debt by SEK 10.1 bn to  
SEK 54.2 bn (64.3 at 31 Dec. 2005)

\* IAC = items affecting comparability

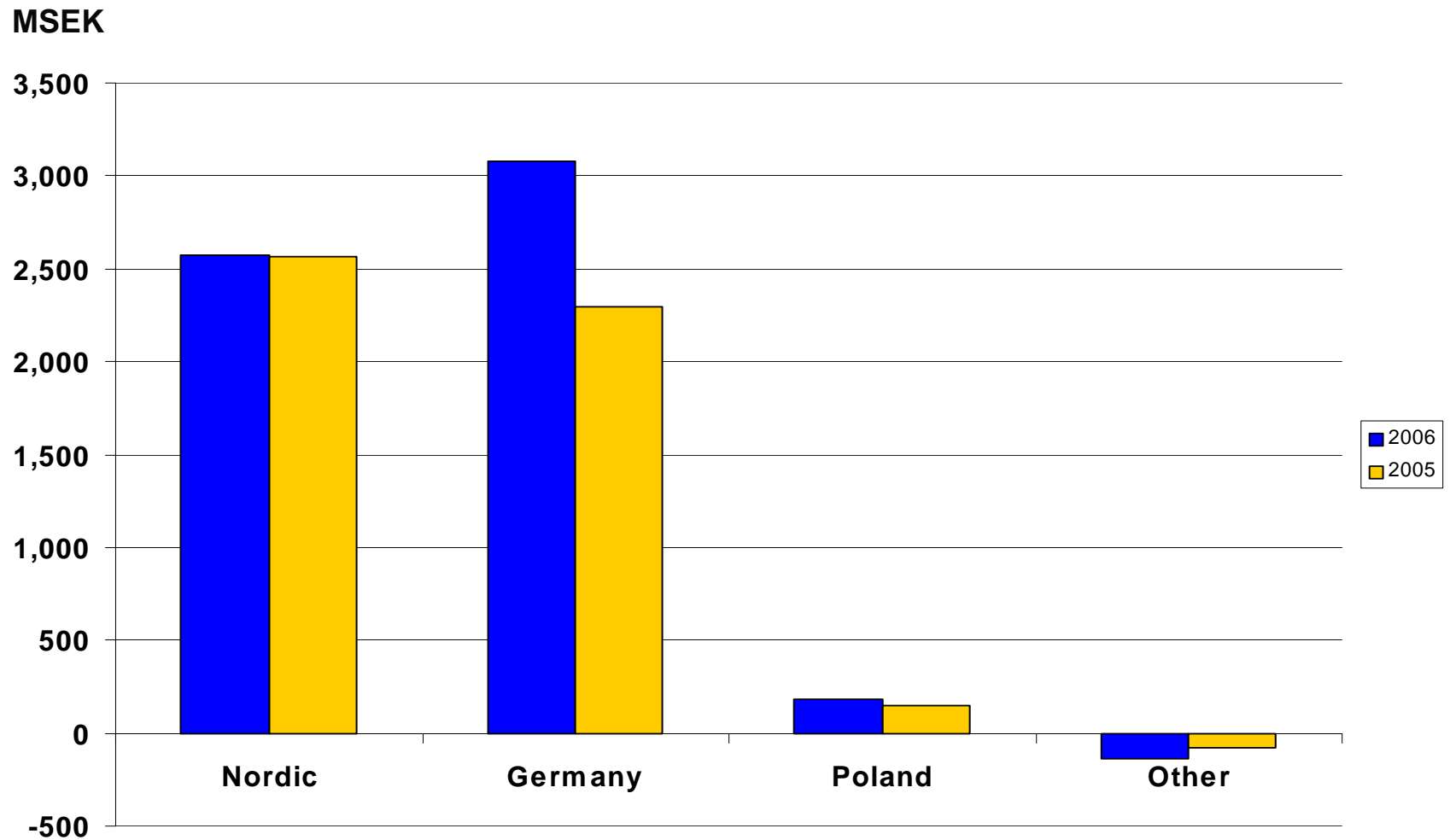
# Best second quarter ever

## Quarterly figures, SEK million

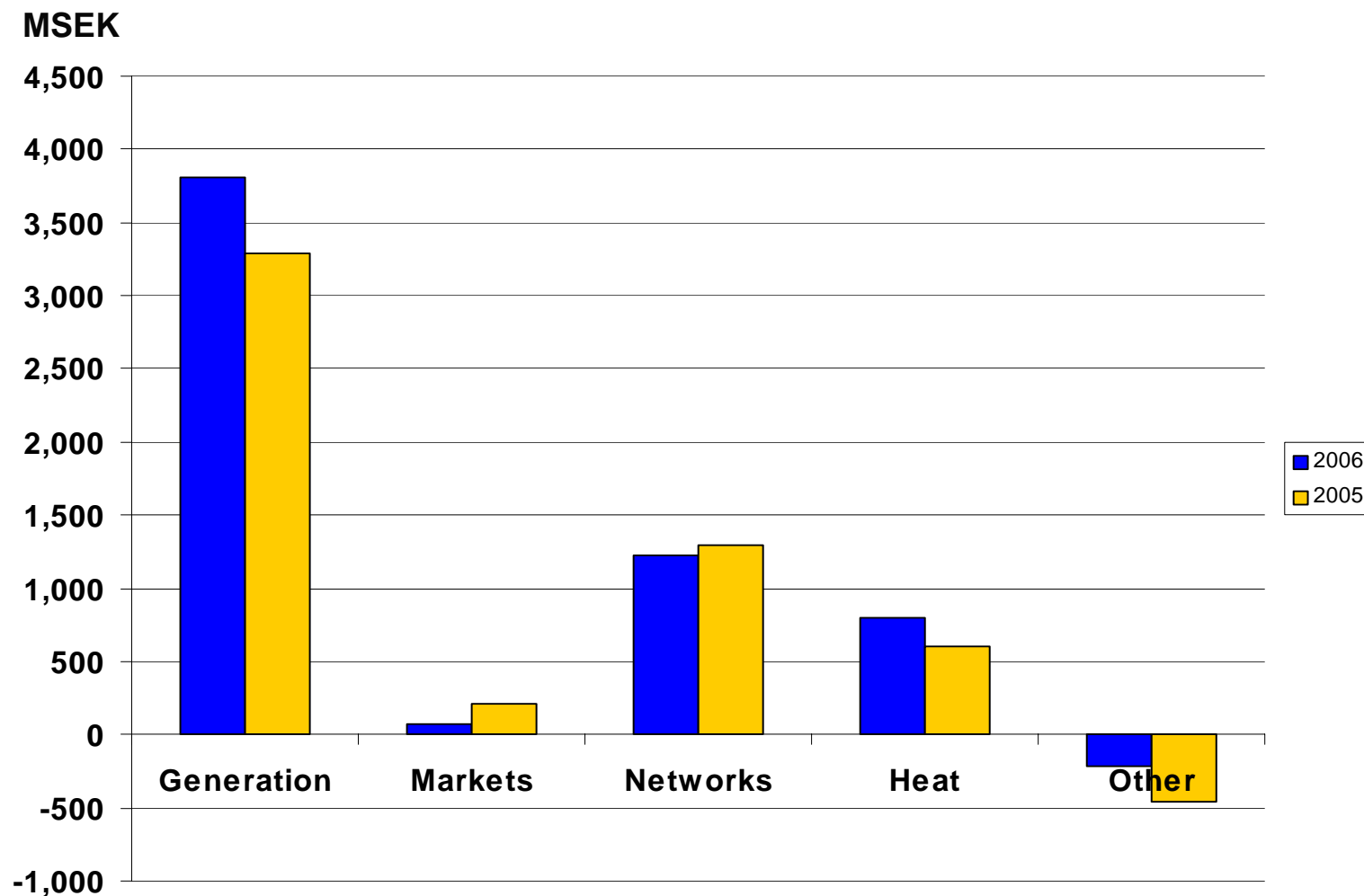


# Q2 2006 – EBIT by primary segment (regions)

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# Q2 2006 – EBIT by secondary segment (businesses) <sup>8</sup>





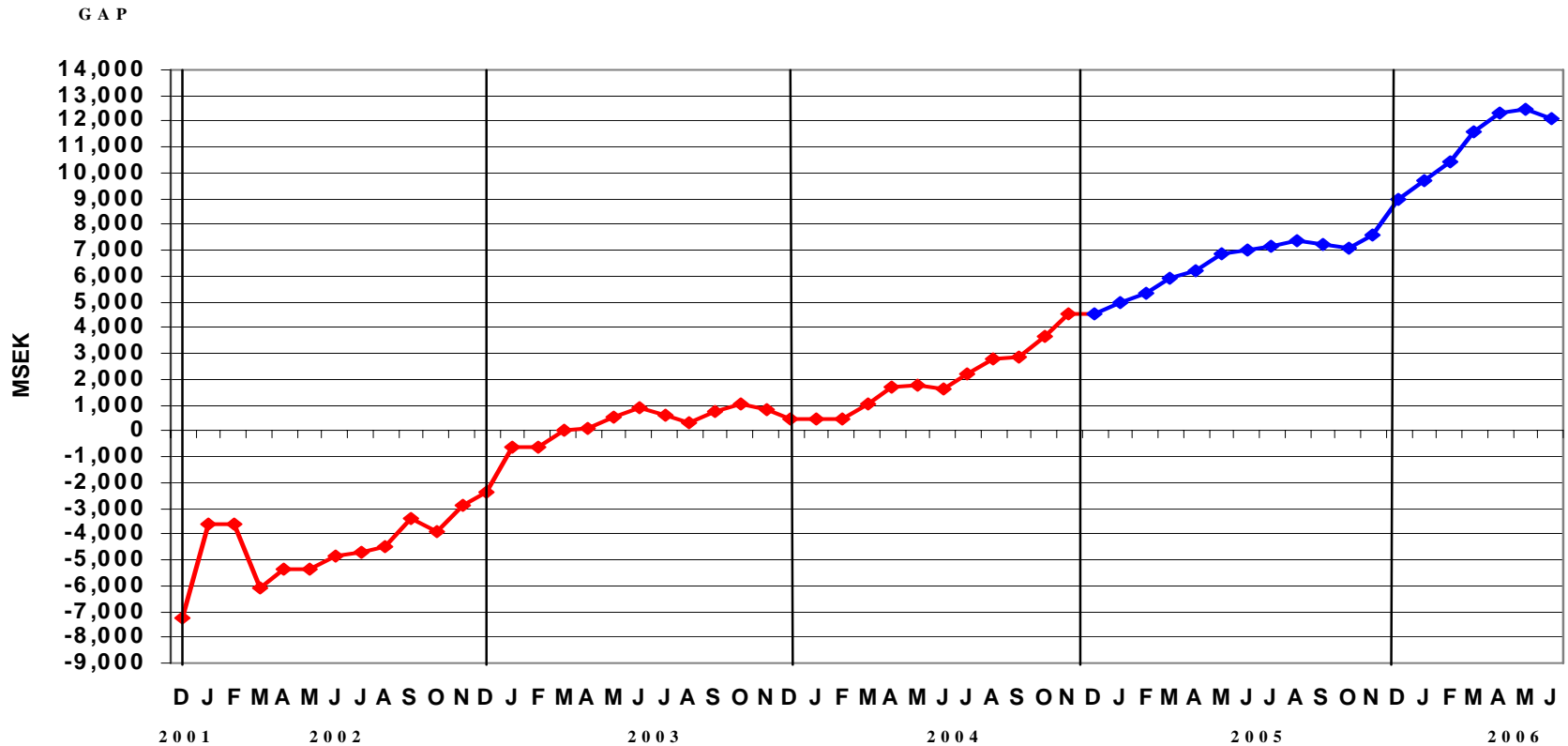
# Consolidated income statement - Q2 2006

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Amounts in MSEK	Q2 2006 IFRS	Q2 2005 IFRS	Change %
Net sales	38,070	29,292	30.0
Cost of products sold	-29,583	-20,275	43.3
<b>Gross profit</b>	<b>8,487</b>	9,017	-5.9
<b>Operating profit (EBIT)</b>	<b>5,834</b>	4,906	18.9
<b>Operating profit, excl. IAC</b>	<b>5,697</b>	4,933	15.5
Financial income	681	592	15.0
Financial expenses	-1,240	-1,375	-9.8
<i>Financial net</i>	<i>-559</i>	<i>-783</i>	<i>28.6</i>
<b>Profit before taxes</b>	<b>5,275</b>	4,123	27.9
Taxes	-1,876	-1,206	-55.6
<b>Profit for the period</b>	<b>3,399</b>	2,917	16.5

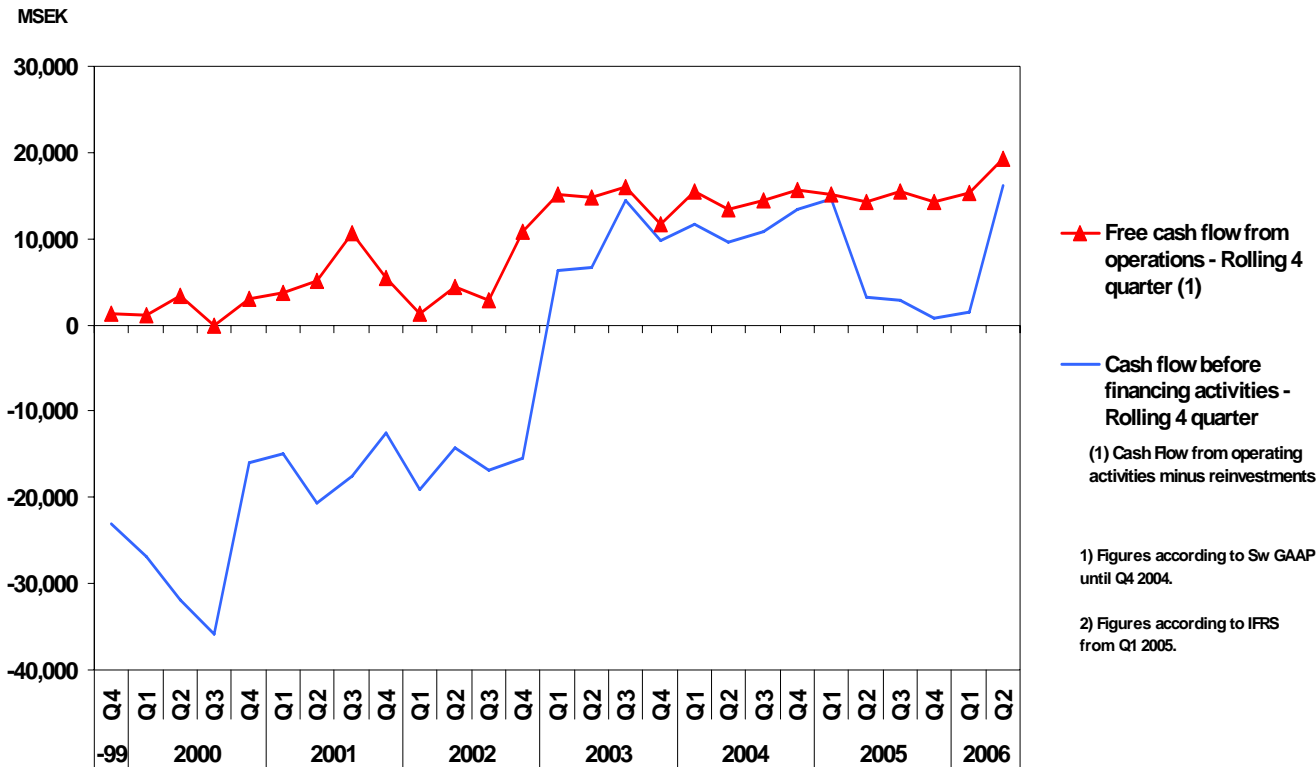
\* IAC = items affecting comparability

## GAP-analysis ( annualised) vs. long term requirement : 11% RoNA



# Cash Flow Development

Group - Six months interim accounts  
**Cash Flow**



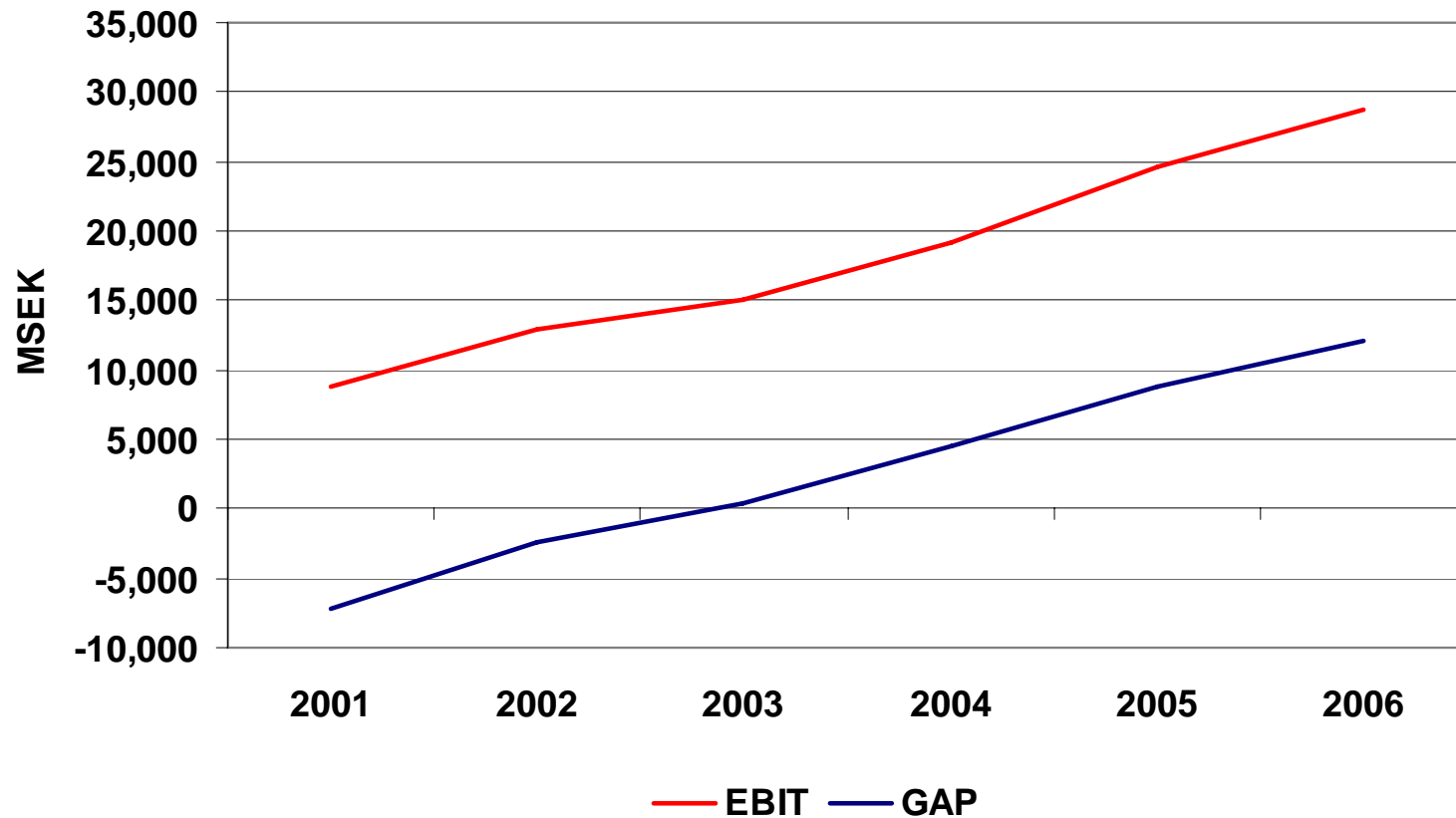
- Gross cash flow has continued to improve.
- 2005: growth acquisition in Denmark (Elsam).

▲ Free cash flow from operations - Rolling 4 quarter (1)  
 — Cash flow before financing activities - Rolling 4 quarter  
 (1) Cash Flow from operating activities minus reinvestments

1) Figures according to Sw GAAP until Q4 2004.

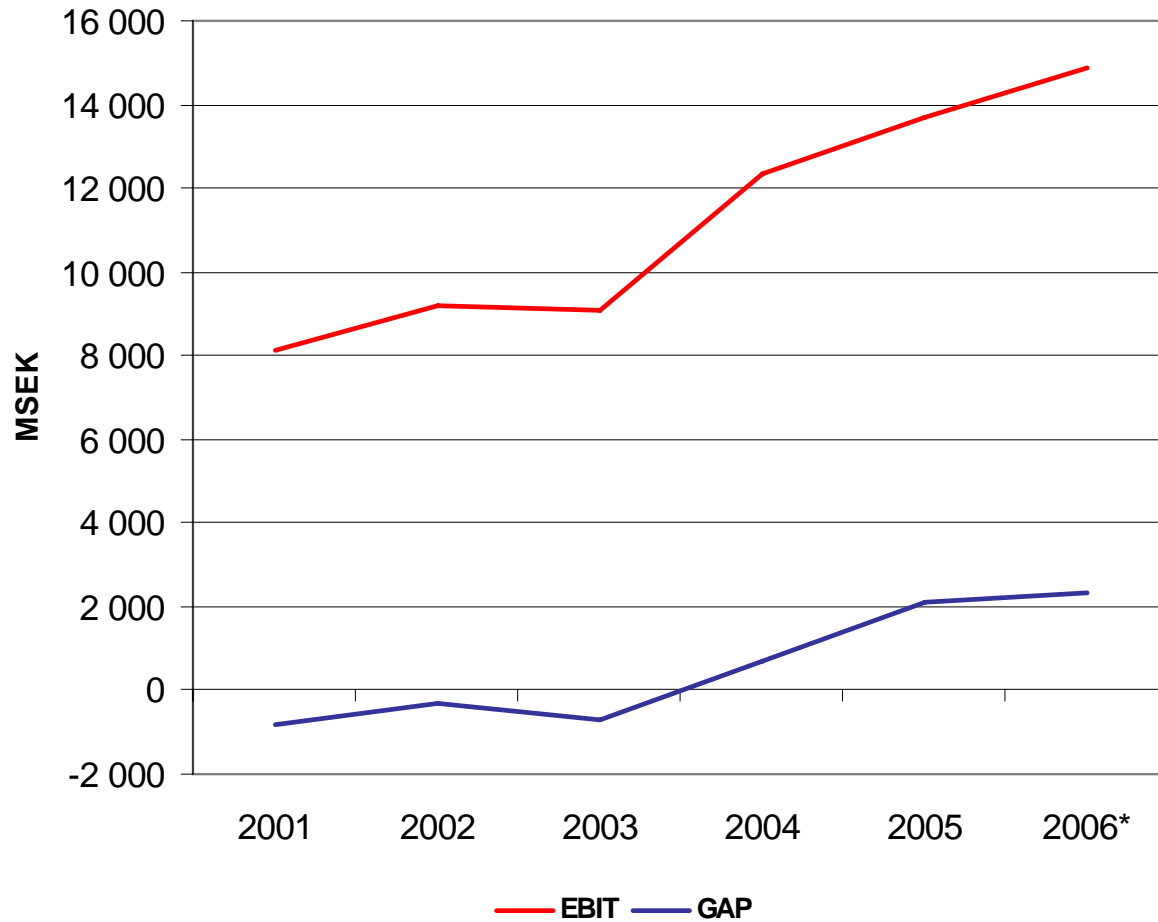
2) Figures according to IFRS from Q1 2005.

# EBIT and GAP – total Group



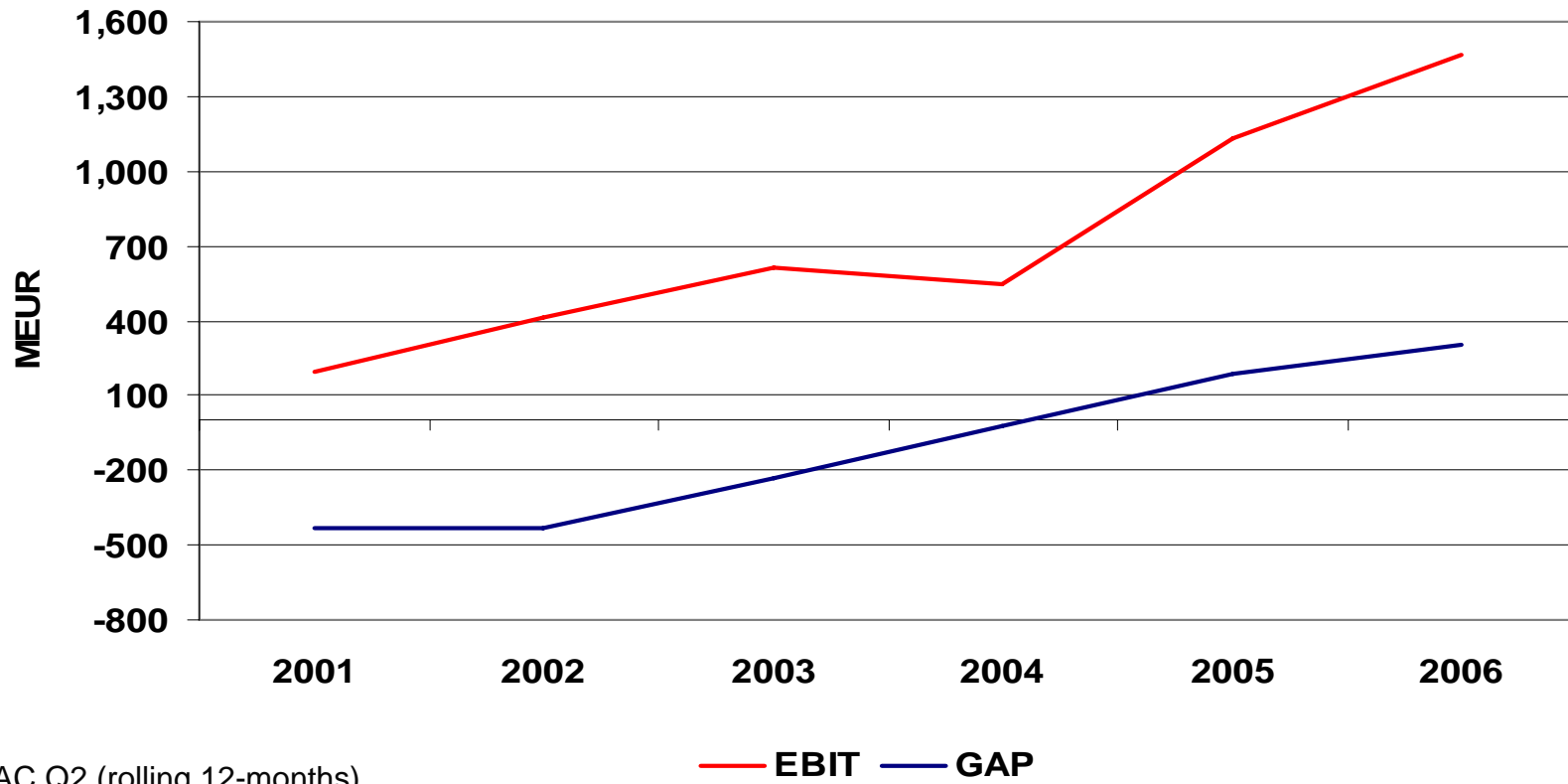
AC Q2 (rolling 12-months)

# EBIT and GAP - BG Vattenfall Nordic



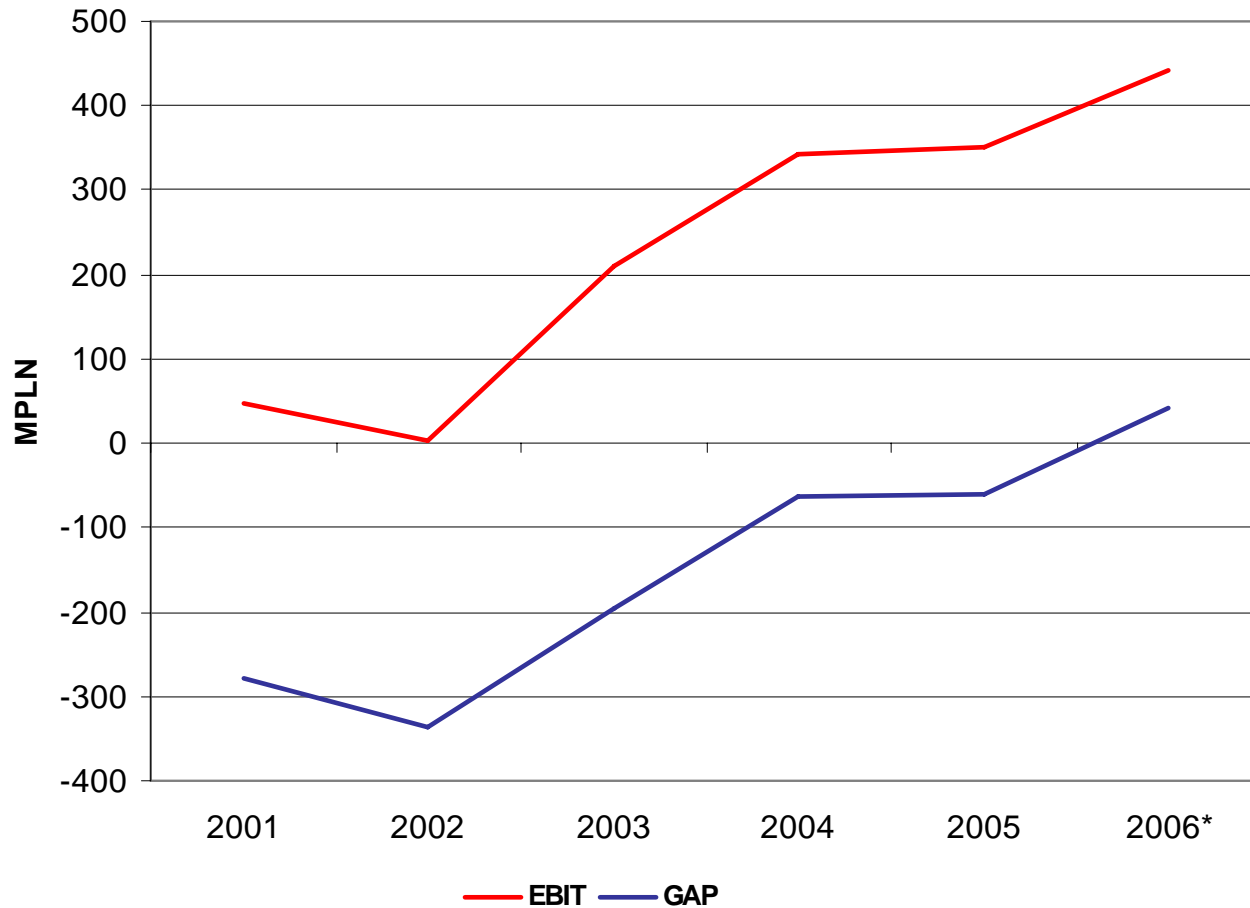
\* AC Q2 (rolling 12-months)

# EBIT and GAP - BG Vattenfall Europe



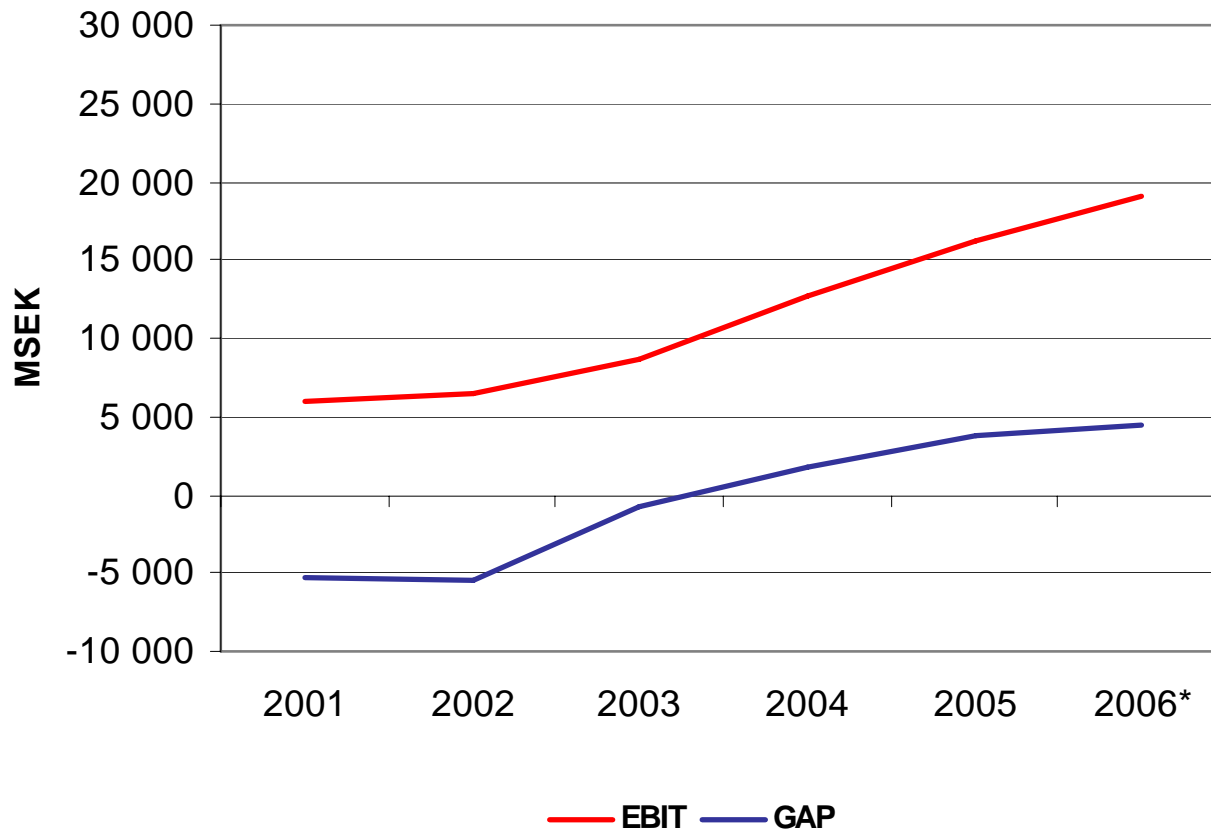
AC Q2 (rolling 12-months)

# EBIT and GAP - BG Vattenfall Poland



\* AC Q2 (rolling 12-months)

# EBIT and GAP - Electricity Generation

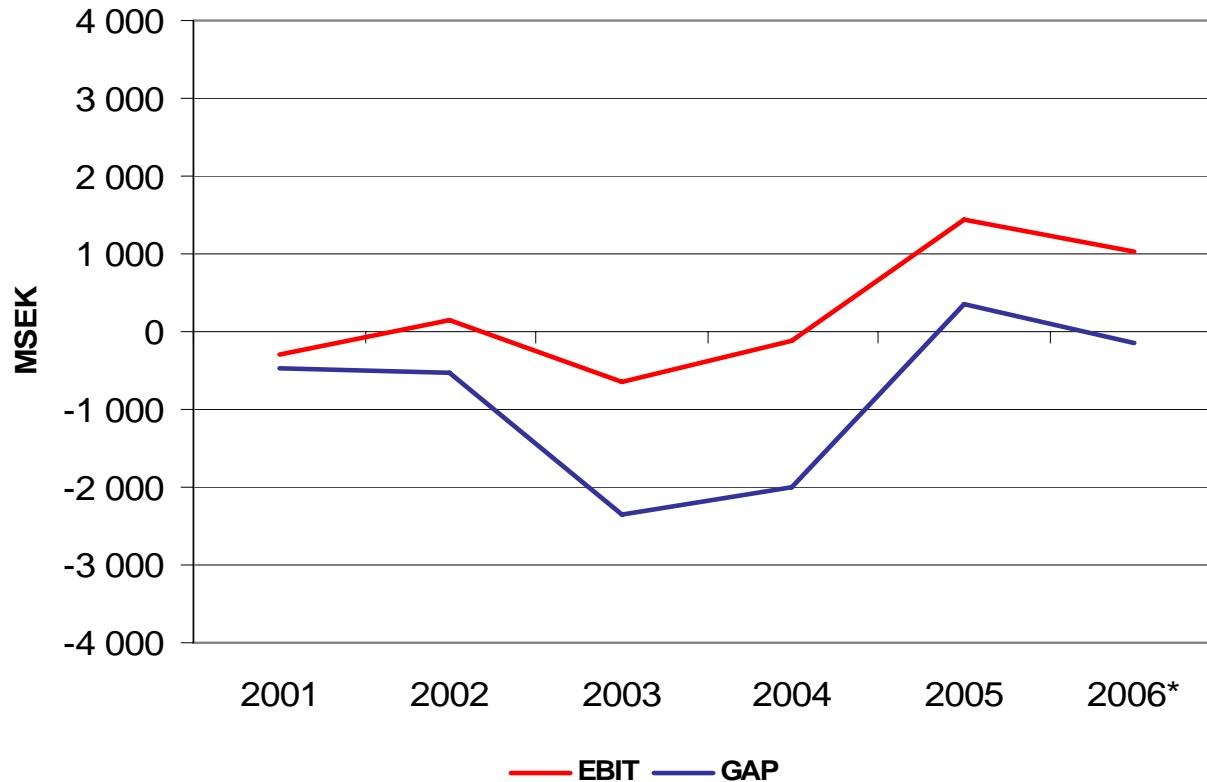


\* AC Q2 (rolling 12-months)



# EBIT and GAP - Electricity Markets

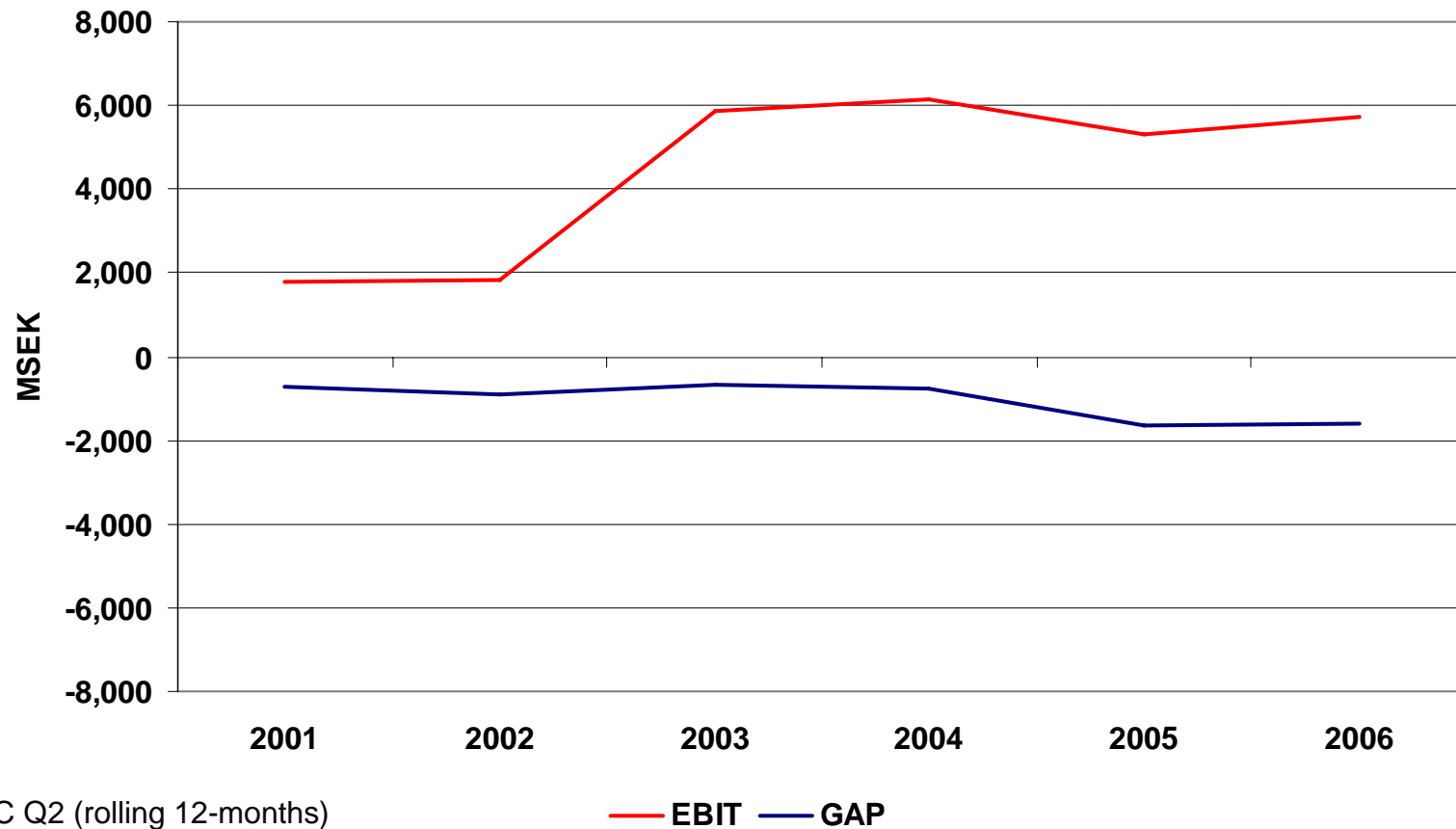
(incl. Sales & Energy Trading)



\* AC Q2 (rolling 12-months)

# EBIT and GAP - Electricity Networks

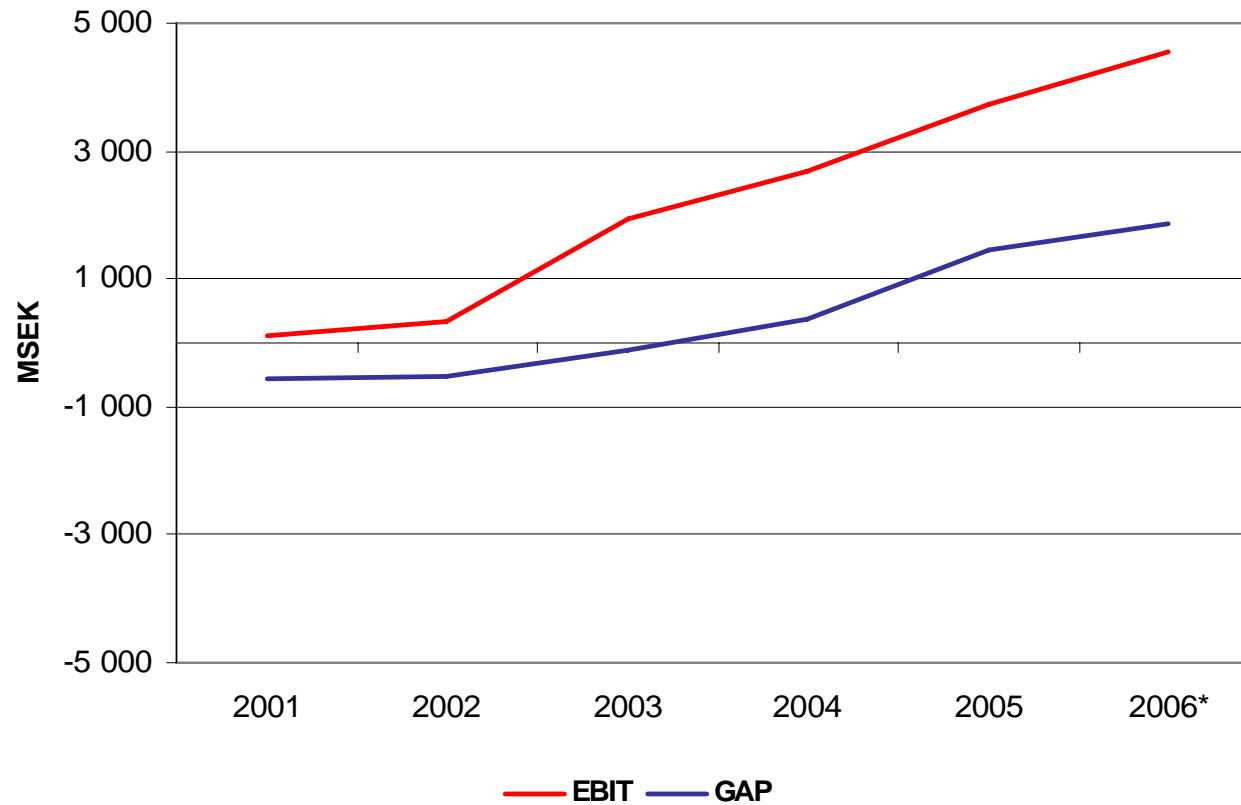
18



AC Q2 (rolling 12-months)

— EBIT — GAP

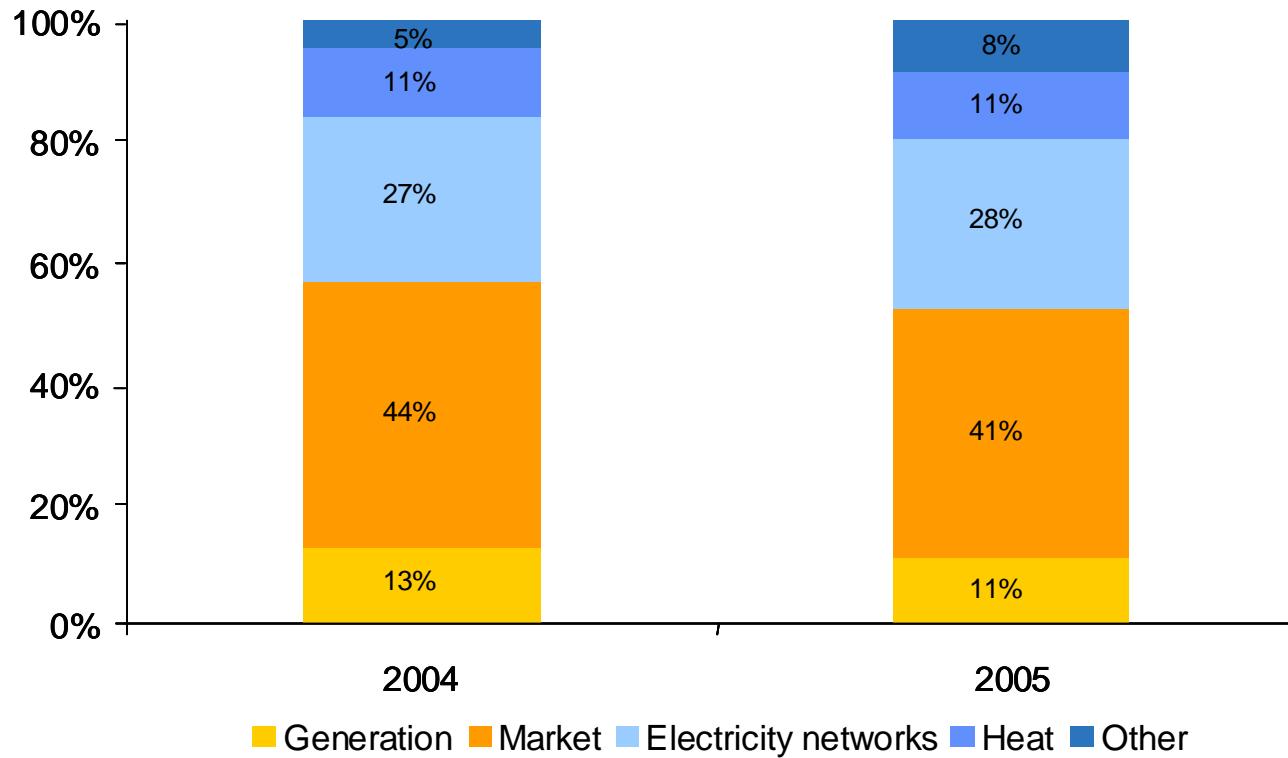
# EBIT and GAP - Heat



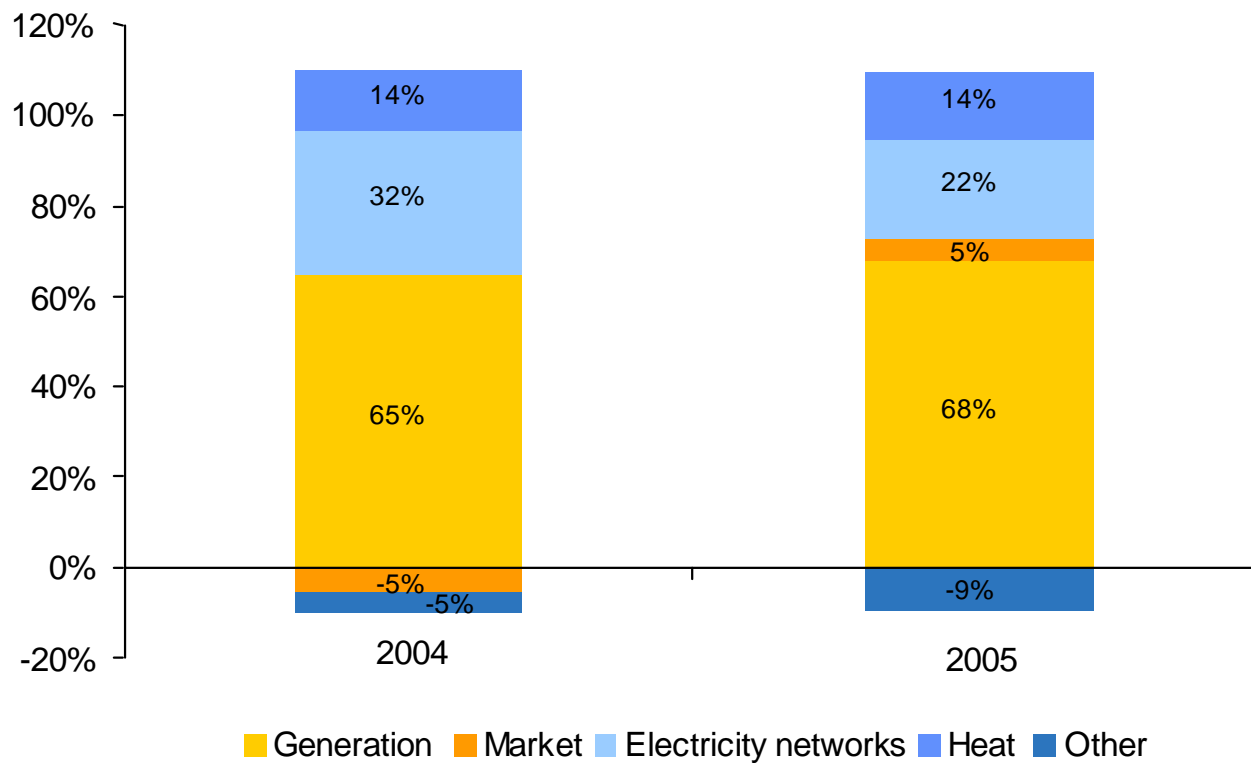
\* AC Q2 (rolling 12-months)

## 2. Regulated vs. competitive business

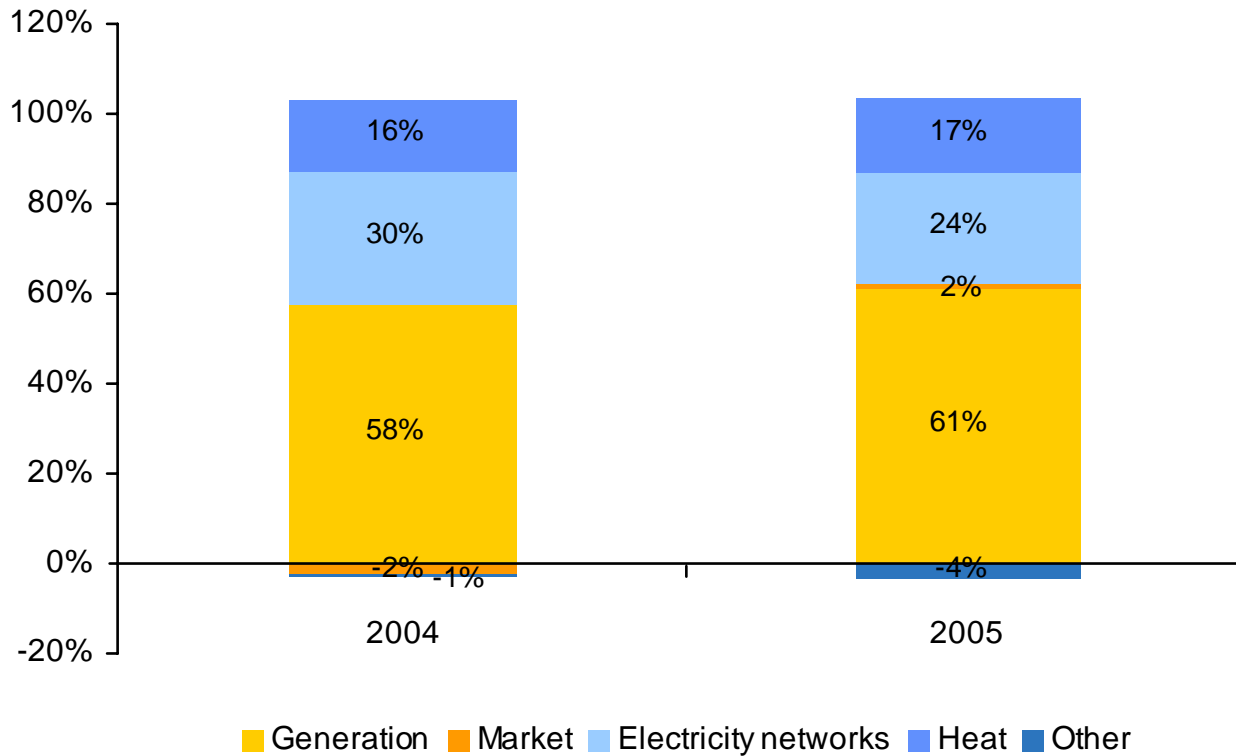
# External Sales 2004-2005



# EBIT (excl IAC), 2004-2005



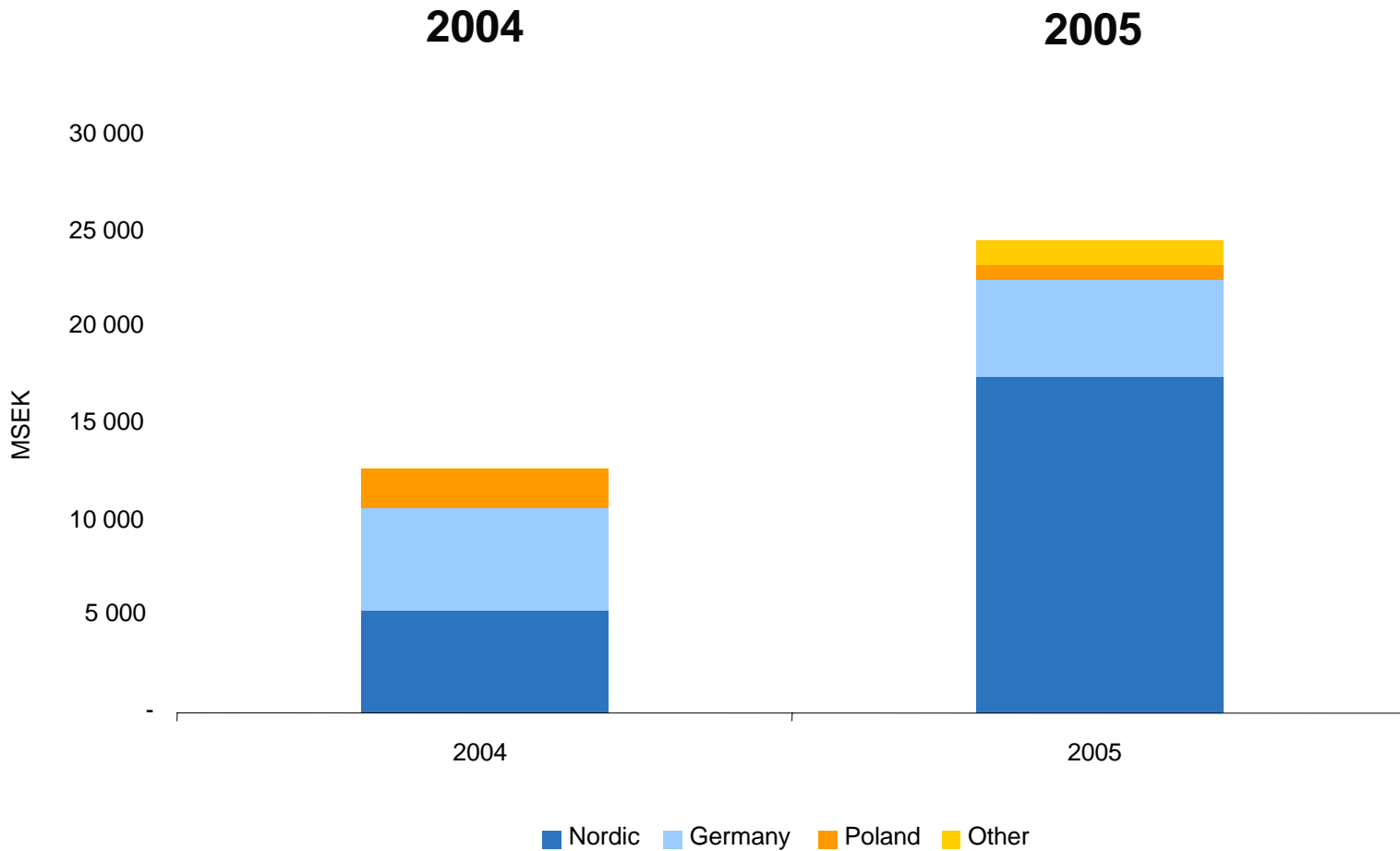
# Cash flow (EBITDA), 2004-2005



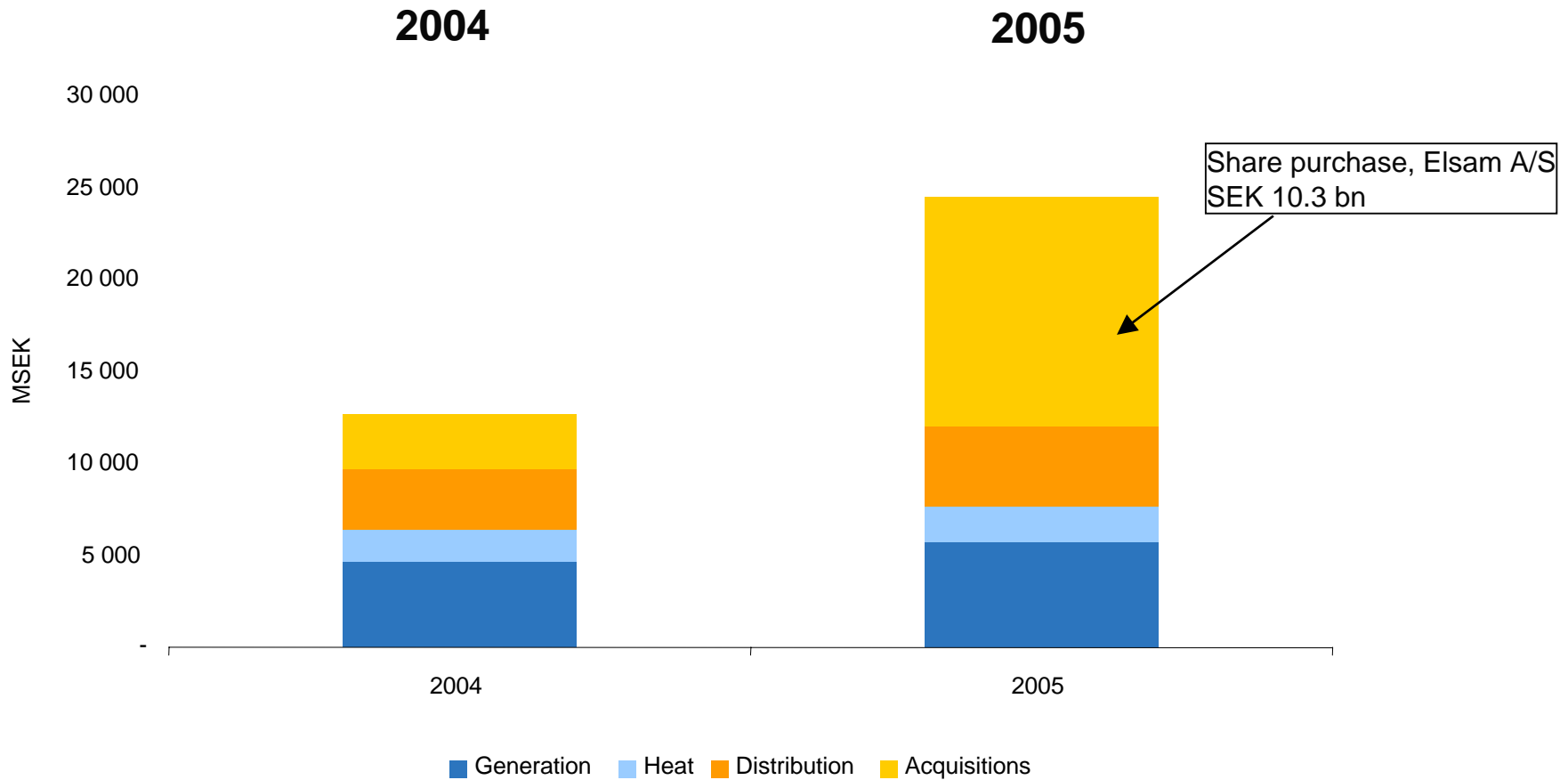
# 3. Capital expenditures



# Investments – break down by regions

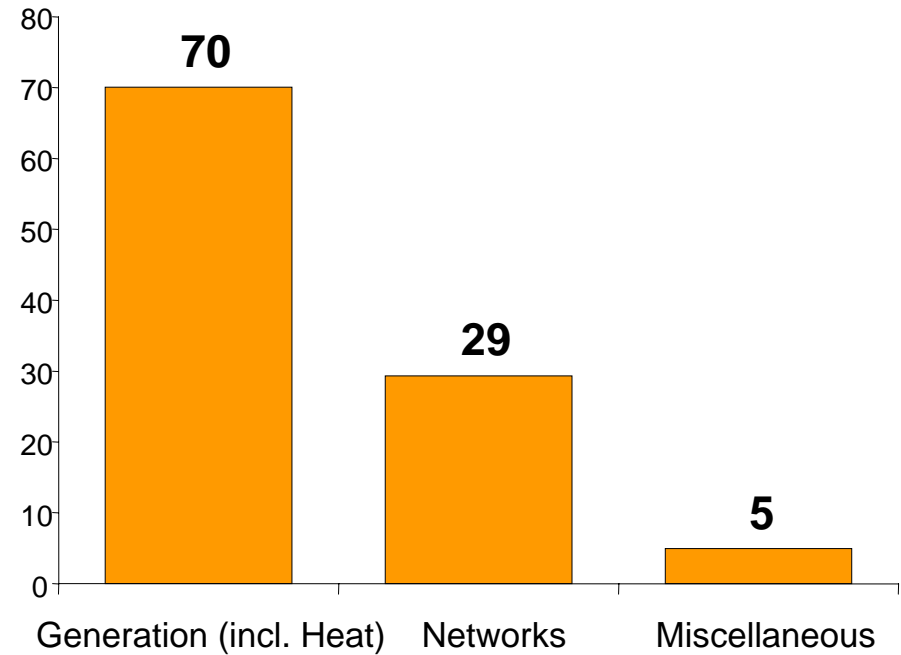
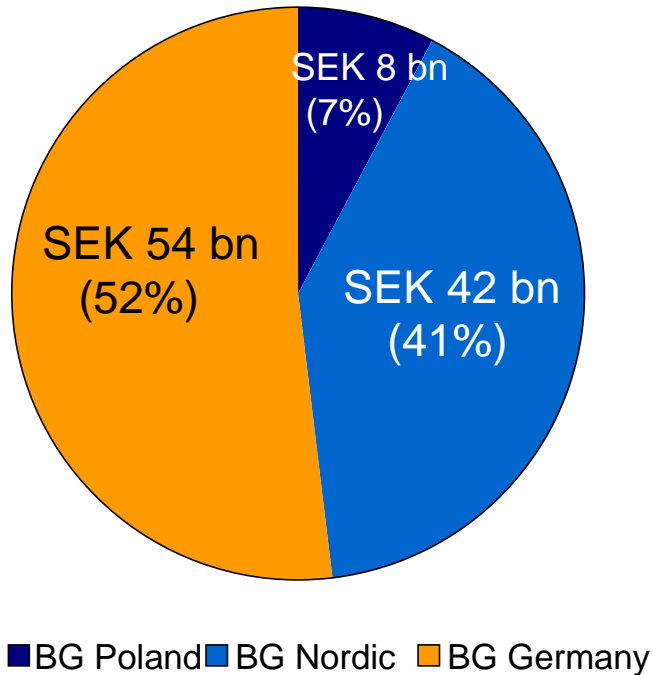


# Investments – break down by category



# Sharply increased cap ex programme

## 104 MSEK 2006-2010



# Furthermore, increased ambition within renewables 28

- 18 May 2006, Vattenfall announced its ambition to invest 10 TWh renewable electricity production until 2016

Identified possible projects:

- Hydro power approx. 2 TWh
- Biofuel based approx. 0,5 TWh
- Wind power 7 - 8 TWh



- Total investment sum approx. SEK 40 billions

- Profitability
- Stable support systems (electricity certificates)
- Necessary approvals
  - Ownership issues
  - Wind power
    - Geographical area instead of exact coordinates
    - Co-ordination re. areas identified by the Sw. Energy Agency and County governments
  - Hydro power
    - Reappraisal instead of new approval process
  - Heat
    - Harmonization and education among local county governments
- Faster handling times in connection with approvals and appeals
- Transmission capacity on the national grid
- Sufficient resources with all authorities concerned
- Supplier's resources and delivery capacities



# 4. Financial targets & Credit rating

# New financial targets decided by AGM 27 April 2006 <sup>31</sup>

- Dividend policy:

“The dividend payout ratio shall, in the long-term, correspond to **40- 60 %** of the profit for the year. However, at annual dividend decisions, the company's strategy implementation, financial position and other financial targets shall be taken into consideration” Previously: 1/3 of profit for the year.

- Return on equity:

Long-term profitability goal 15% on **average equity** after tax. Previously: 15 % on equity position as of 1 January.

- Interest coverage:

New ratio: **cash flow interest coverage ratio after maintenance investments** of 3.5-4.5 times. Previously: EBIT interest coverage of 3.5 to 5 times.

- Rating target

To maintain a credit rating in the single A category. Unchanged

# Financial targets – outcome Q2 2006

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Key Ratio	Targets	Q2 2006	Q1 2006
Return on Equity (RoE)	15 % on average equity	20.2*	20.9*
Return on Net Assets (RoNA, excl. IAC)	11 % before tax (= 15 % RoE recalculated into the Groups RoNA requirement)	17.7*	17.4*
Cash flow interest coverage after maintenance investments	3.5 – 4.5 times	10.2	10.3
Credit Rating	Single A category rating	Unchanged **)	A2/A- Positive outlook

\*) Last 12 Months

\*\*\*) Moody's rating outlook changed to stable on 27 July 2006



# Moody's changed rating outlook to stable

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On 27 July 2006, Moody's has changed the rating outlook from positive to stable to reflect:

1. the company's recently announced large-scale SEK104 billion investment programme
2. additional investments associated with Vattenfall's intention to invest in renewable assets;
3. the impact of an expected harsher regulatory regime in Germany and, to a lesser extent, Sweden; and
4. the growth strategy of the group.

## **Credit Strengths for Vattenfall are:**

- Strong market position as Scandinavia's largest electric utility and a leading player in Northern Europe
- Diversified business mix including regulated network and district heating business
- Significant financial flexibility.

## **Credit Challenges for Vattenfall are:**

- Event risk related to growth-oriented management strategy
- Commodity risk exposure, as Vattenfall remains long in generation in both Sweden and Germany
- Regulatory, environmental and political risks in a number of markets.

# Moody's - debt adjustments

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SEK billion

2005	Interest expense	Dividends paid	Gross debt	Net debt
As reported (note 1)	2.96	5.78	78.66	64.34
Pensions	0.50	-	14.22	14.22
Operating leases	0.21	-	3.78	3.78
Hybrid securities (note 2)	-0.18	0.18	-6.95	-6.95
Loans to minority owners in foreign subsidiaries (note 3)	-	-	-	0.25
Funds blocked as security for trading on energy exchanges	-	-	-	2.25
Funds set aside as security for nuclear accidents	-	-	-	3.20
As adjusted (note 4)	3.49	5.96	89.71	81.09

**Difference vs reported by Vattenfall:**

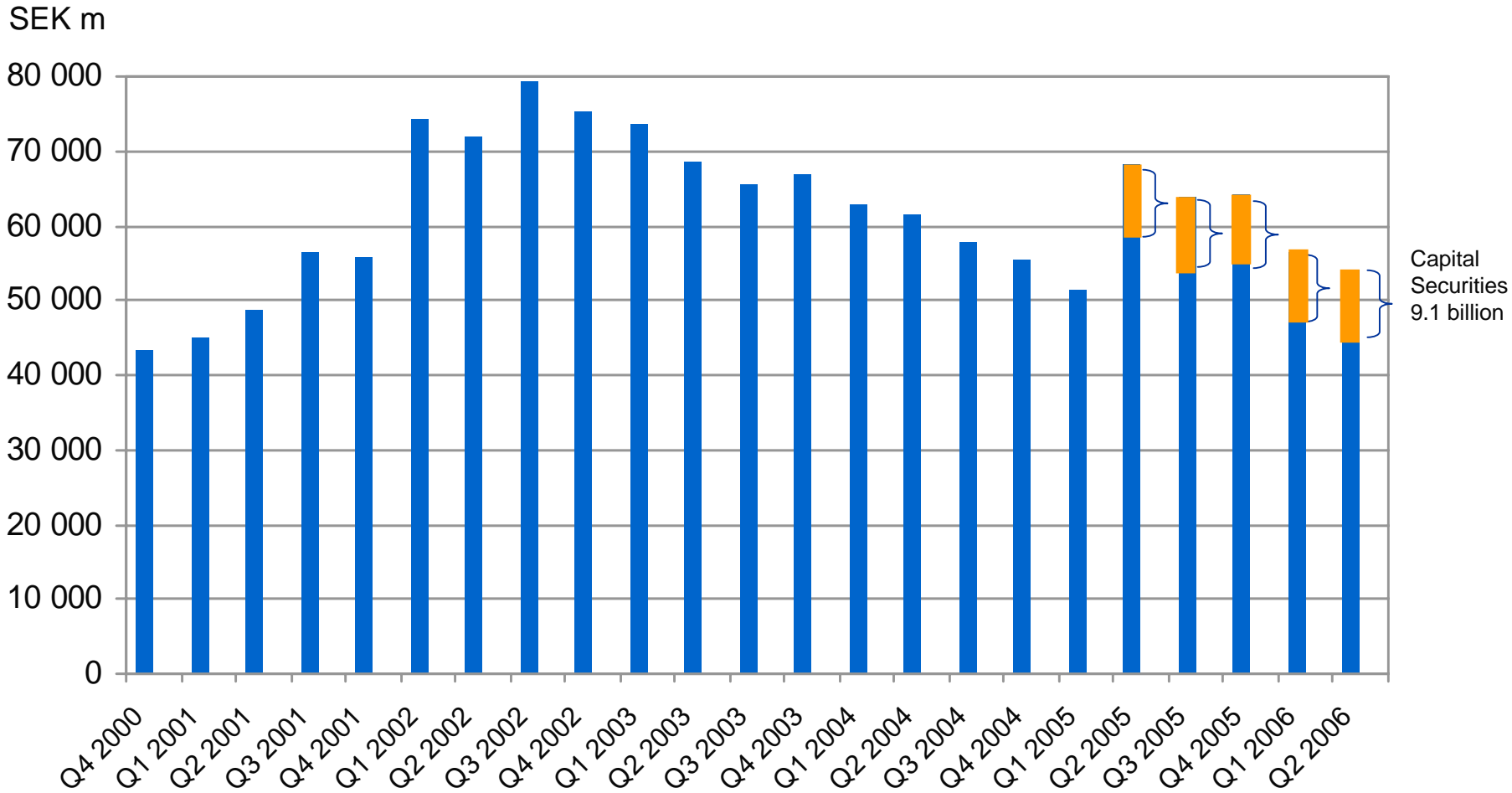
**+ 11.05**

**+ 16.75**

Source: Moody's report 2006

# 5. Funding

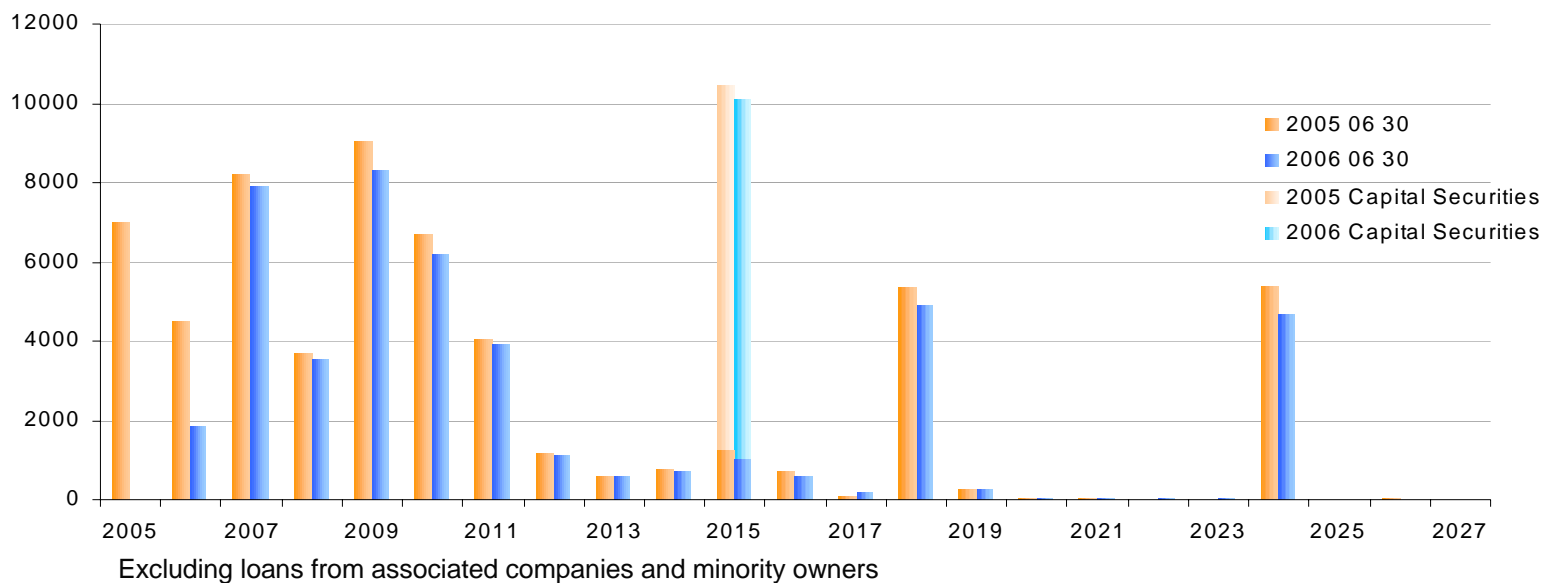
# Net debt continued to decrease in Q2 2006



# Vattenfall debt maturity profile

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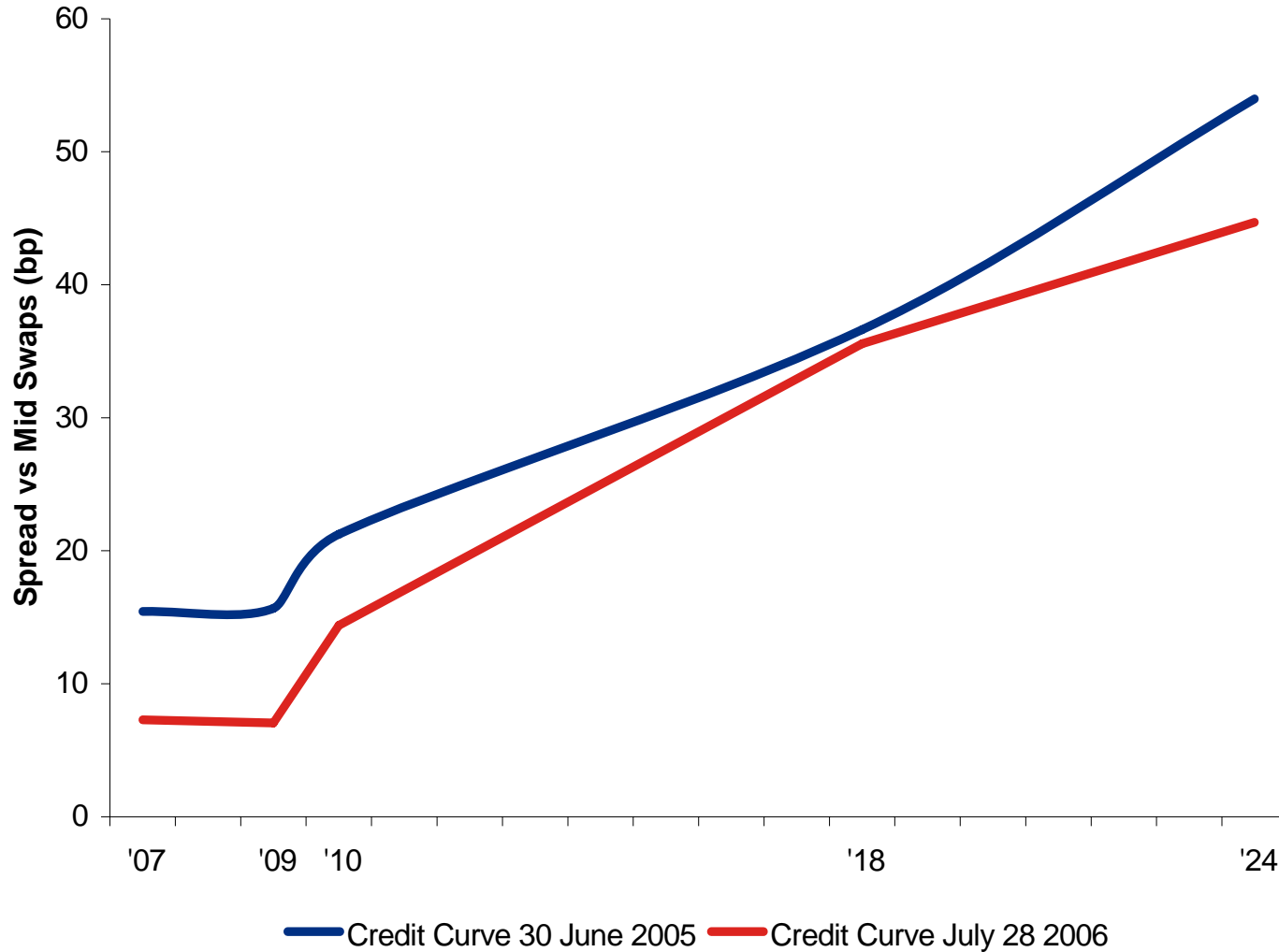
SEK million



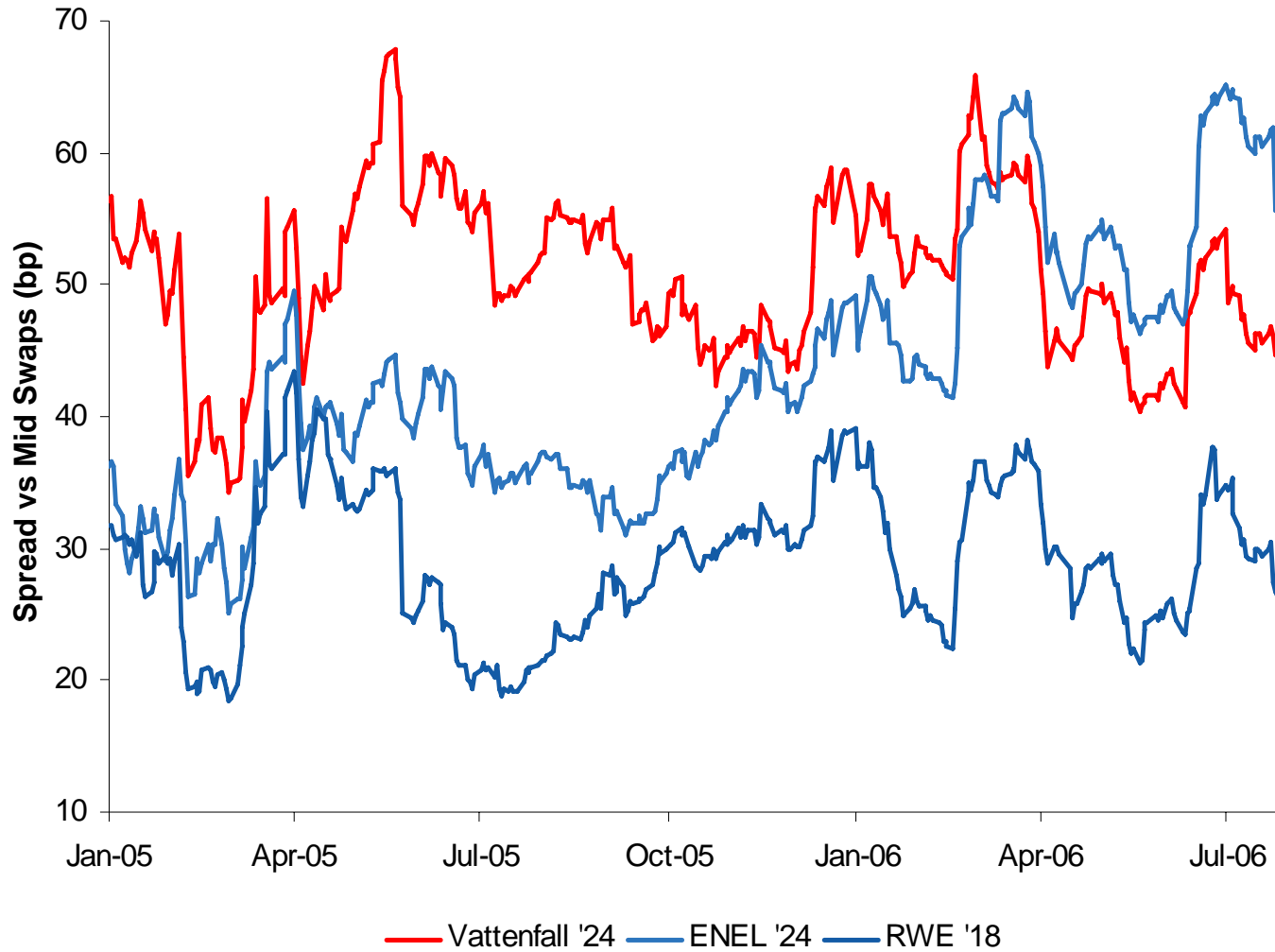
	June 30, 2006	June 30, 2005
Duration (years)	3,4 <sup>1)</sup>	3,3
Average time to maturity (years)	6,3 <sup>1)</sup>	6,4
Net debt (SEK bn)	54,2	68,3

1) Based on external debt. Excluding Capital Securities the duration is 2,6 years and average time to maturity 5,8 years.

# Vattenfall historical and current credit curves

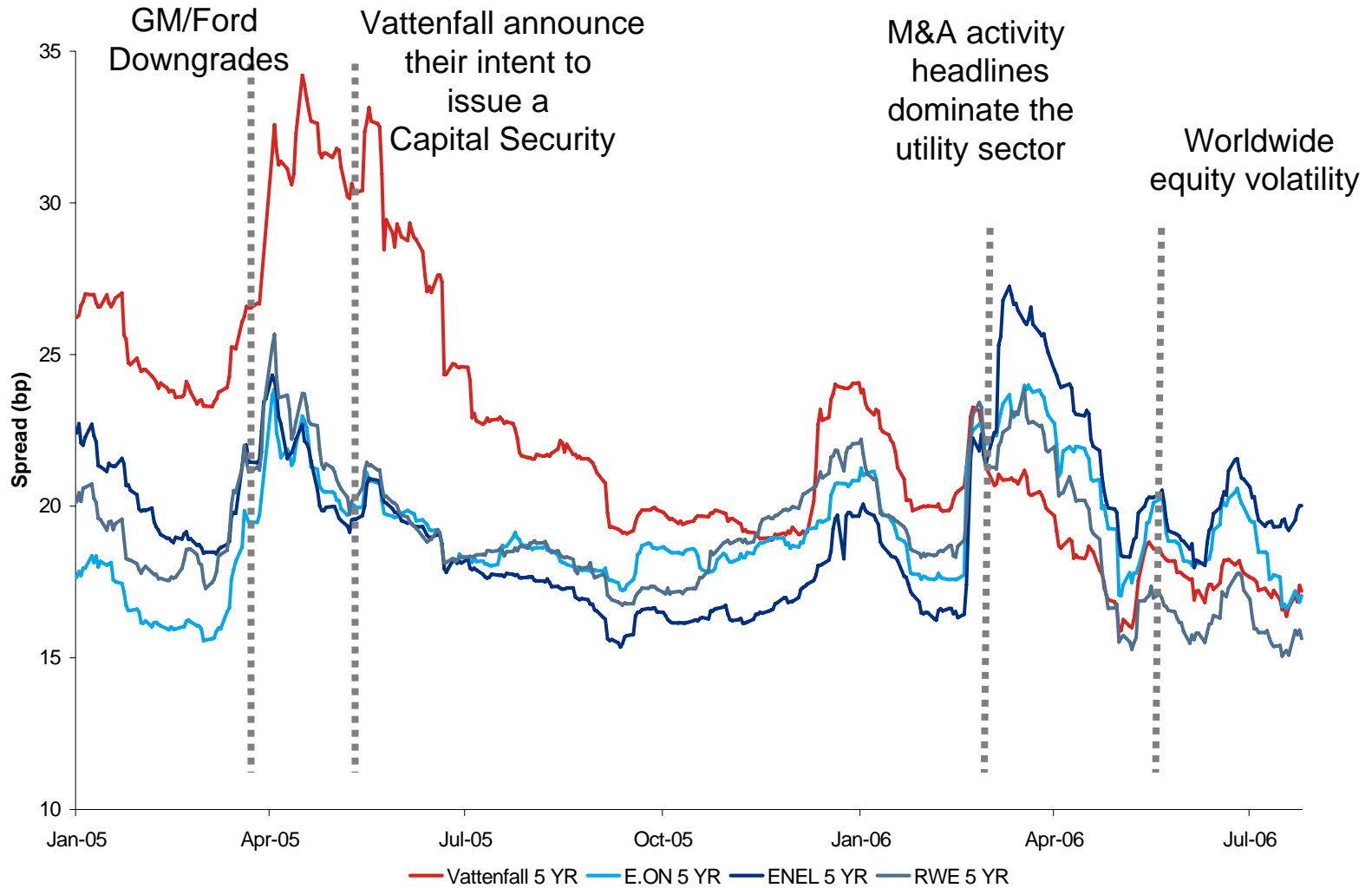


# Comparable utility bond performance

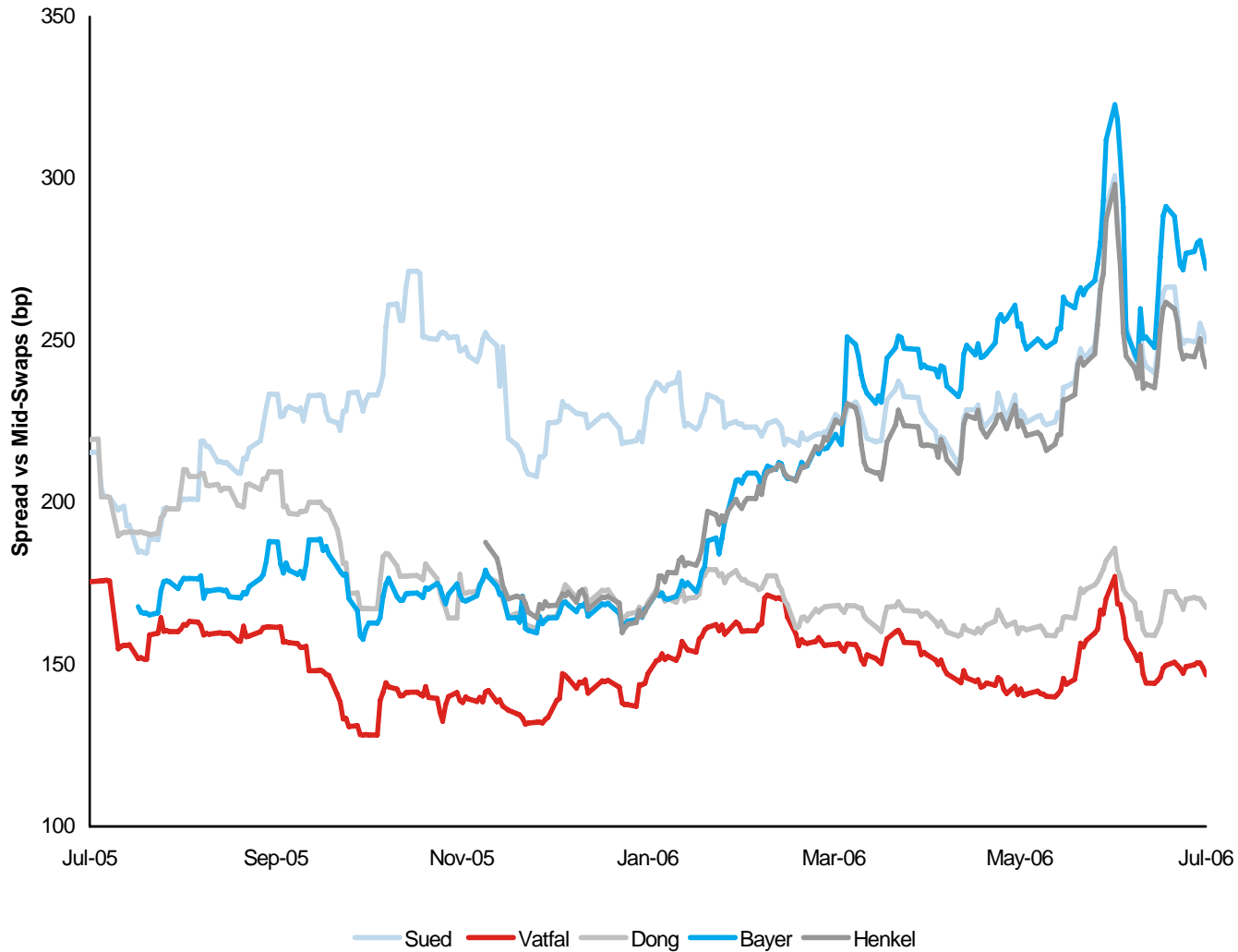




# Utility CDS performance



# Hybrid bond performance



- Strong financial position
- Continued strong earnings but sharply higher cap ex going forward
- Harsher grid regulation and higher taxes expected to burden profits & cash flow
- No immediate funding need
- Vattenfall bonds have performed well
- Commitment to maintain single A category rating

# Back-up slides

# Consolidated income statement - H1 2006

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Amounts in MSEK	H1 2006 IFRS	H1 2005 IFRS	Change %	LTM
Net sales	78,502	64,328	22.0	143,332
Cost of products sold	-55,342	-45,190	22.5	-103,788
<b>Gross profit</b>	<b>23,160</b>	19,138	21.0	39,544
<b>Operating profit (EBIT)</b>	<b>18,523</b>	13,998	32.3	32,096
<b>Operating profit, excl. IAC</b>	<b>18,132</b>	14,002	29.5	28,715
Financial income	1,478	1,136	30.0	4,152
Financial expenses	-2,516	-2,509	0.3	-5,228
<i>Financial net</i>	<i>-1,038</i>	<i>-1,373</i>	<i>24.4</i>	<i>-1,076</i>
<b>Profit before taxes</b>	<b>17,485</b>	12,625	38.5	31,020
Taxes	-6,107	-4,139	47.5	-7,610
<b>Profit for the period</b>	<b>11,378</b>	8,486	34.1	23,410

\* IAC = items affecting comparability

# Consolidated balance sheet

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Amounts in MSEK	30/6/06 IFRS	30/6/05 IFRS	Change %	31/12/05 IFRS
Non-current assets	259,325	260,230	0.3	259,964
Current assets	79,962	64,806	23.4	70,457
<b>Total assets</b>	<b>339,287</b>	<b>325,036</b>	10.4	<b>330,421</b>
Equity	92,865	82,041	13.2	90,909
Capital Securities	9,074	9,248	-1.9	9,268
Interest-bearing liabilities	59,968	78,110	-23.2	69,395
Interest-bearing provisions	46,899	45,787	2.4	47,691
Pension provisions	17,211	17,337	-0.7	17,432
Deferred tax liabilities	45,935	44,745	2.7	42,002
Other non-interest-bearing liabilities	67,335	47,768	40.9	53,724
<b>Total equity and liabilities</b>	<b>339,287</b>	<b>325,036</b>		<b>330,421</b>

# Break down of group debt, 30 June 2006

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Amounts in SEK million

	Treasury	Germany	Poland	Nordic	Total	%
<b>Subordinated perpetual Capital Securities</b>	9,074				<b>9,074</b>	13
<b>Commercial papers</b>						
<b>MTN</b>	1,238				<b>1,238</b>	2
<b>EMTN</b>	36,119				<b>36,119</b>	52
<b>Liabilities to assoc. companies</b>		9,211			<b>9,211</b>	13
<b>Liabilities to minority shareholders</b>		122		4,635	<b>4,757</b>	7
<b>Bank loans and others</b>	461	7,867	5	310	<b>8,643</b>	13
<b>Total</b>	<b>46,892</b>	<b>17,200</b>	<b>5</b>	<b>4,945</b>	<b>69,042</b>	<b>100</b>

# Break down of group liquidity

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Amounts in SEK million

As of

June 30, 2006

	Treasury	Germany	Poland	Nordic	Total	%
<b>Cash and bank</b>	577	683	691	768	<b>2,719</b>	19
<b>Interest-bearing investments</b>	471	4,959		192	<b>5,622</b>	38
<b>Special Funds</b>		2,671			<b>2,671</b>	18
<b>Brunsbüttel</b>		3,648			<b>3,648</b>	25
<b>Shares</b>		45			<b>45</b>	0
<b>Total</b>	<b>1,048</b>	<b>12,006</b>	<b>691</b>	<b>960</b>	<b>14,705</b>	<b>100</b>

Unused committed credit facilities amount to 9,431 SEK million and other unused credit- and overdraft facilities amount to 9,943 SEK million.



# Consolidated cash flow statement

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Amounts in MSEK	Q2 2006 IFRS	Q2 2005 IFRS	Change %	FY 2005	LTM
<b>Funds from operations (FFO)</b>	<b>7,240</b>	<b>6,020</b>	20.3	31,386	37,116
Change in working capital	1,889	-816		-6,963	-7,597
<b>Cash Flow from operating activities</b>	<b>9,129</b>	<b>5,204</b>	75.4	24,423	25,519
Investments	-3,233	-13,515	-76.1	-24,497	-14,830
Divestments	704	141		785	1,664
Cash and cash equivalents in aquired/divested companies	-118	-		17	-176
<b>Cash Flow from investing activities</b>	<b>-2,647</b>	<b>-13,374</b>	-80.2	-23,695	-13,342
<b>Cash Flow before financing activities</b>	<b>6,482</b>	<b>-8,170</b>		728	16,177
<b>Cash Flow from financing activities</b>	<b>-9,528</b>	<b>5,233</b>		-796	-14,694
<b>Cash Flow for the period</b>	<b>-3,046</b>	<b>-2,937</b>	3.7	-68	1,483
Net debt at the end of the period	-54,179	-68,307	20.7	-64,343	-54,179

- **Rating Rationale**

The A2 senior unsecured ratings of Vattenfall AB reflect the baseline credit assessment (BCA) of the group and the credit enhancement (one notch) resulting from the 100% ownership by the Government of Sweden.

- **Assessment of business risk factors**

The BCA of 7 (on a scale from 1 to 21, where 1 represents the equivalent risk of a Aaa, 2 a Aa1 and so forth, with 7 mapping to an A3) reflects Vattenfall's overall Medium risk business profile.

- **RCF to Net Adj. Debt target**

Moody's expects to shift the target ratio range of Retained Cash Flow (RCF) to Net Adjusted Debt from currently mid-to-high teens (13% to 17%) to high teens (15% to 19%) for its current rating category.