

Vattenfall Q2 and H1 results 2015

Magnus Hall, CEO and Ingrid Bonde, CFO

Presentation 21 July 2015

Financial highlights

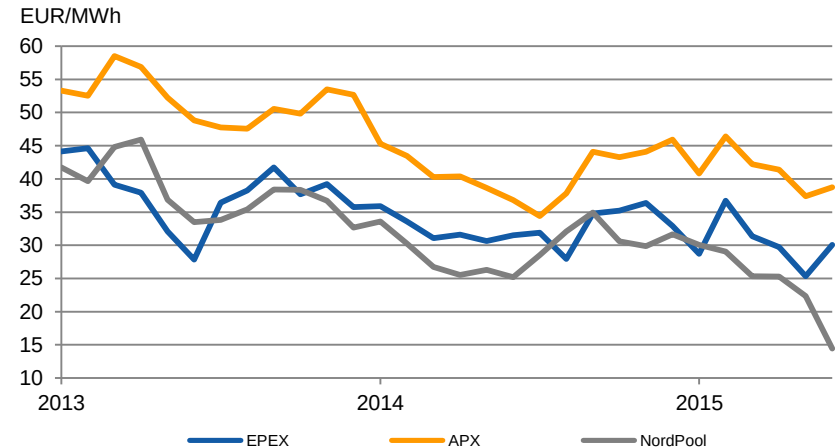
SEK bn	Q2 2015	Q2 2014	H1 2015	H1 2014	FY 2014
Net Sales	36.1	36.6	81.5	82.5	165.9
Underlying EBIT	3.0	4.1	10.7	13.2	24.1
EBIT	-38.0	-1.6	-29.7	10.2	-2.2
Profit after tax	-28.8	-2.3	-23.8	5.9	-8.3
Return on capital employed (ROCE), %	-14.6*	6.4*	-14.6*	6.4*	-0.7
Return on capital employed (ROCE) excl. items affecting comparability, %	7,5*	8.2*	7,5*	8.2*	8.2

* Last twelve months

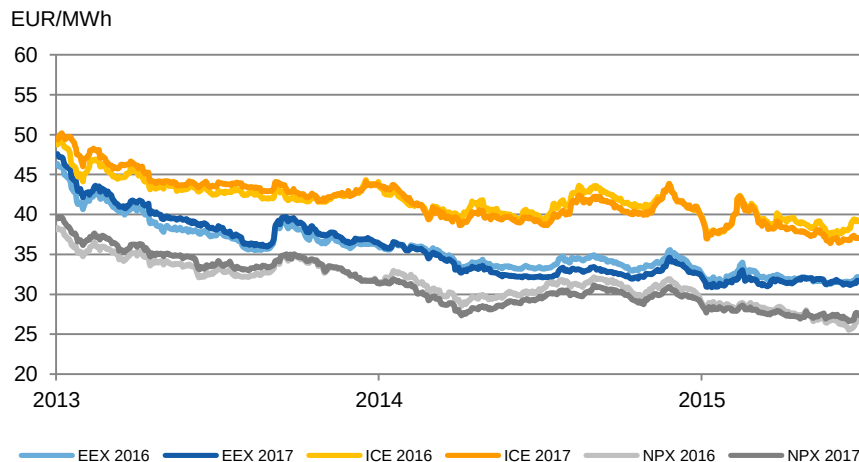
Pricing environment

- Nordic spot prices decreased, mainly due to high precipitation
- German spot prices decreased on average, mainly on the back of lower commodity prices
- Electricity futures prices lower on all Vattenfall's markets
- Lower prices on oil (Brent crude), coal and gas. Higher prices on CO₂ emission allowances.

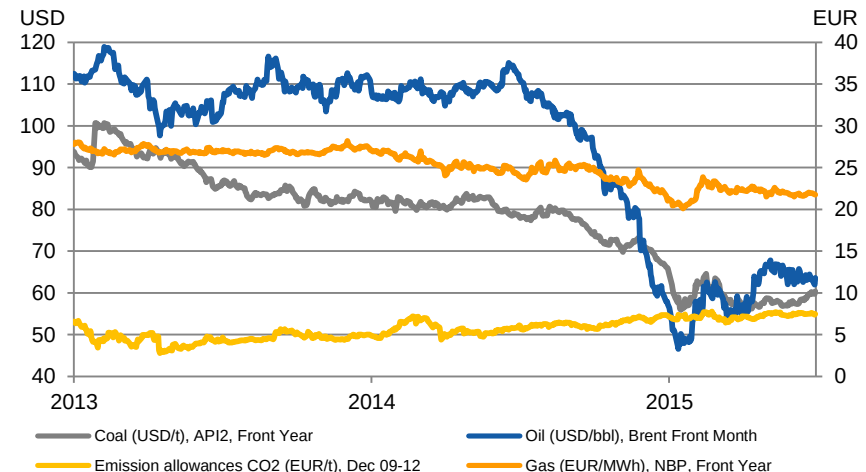
Monthly spot power price average



Electricity futures

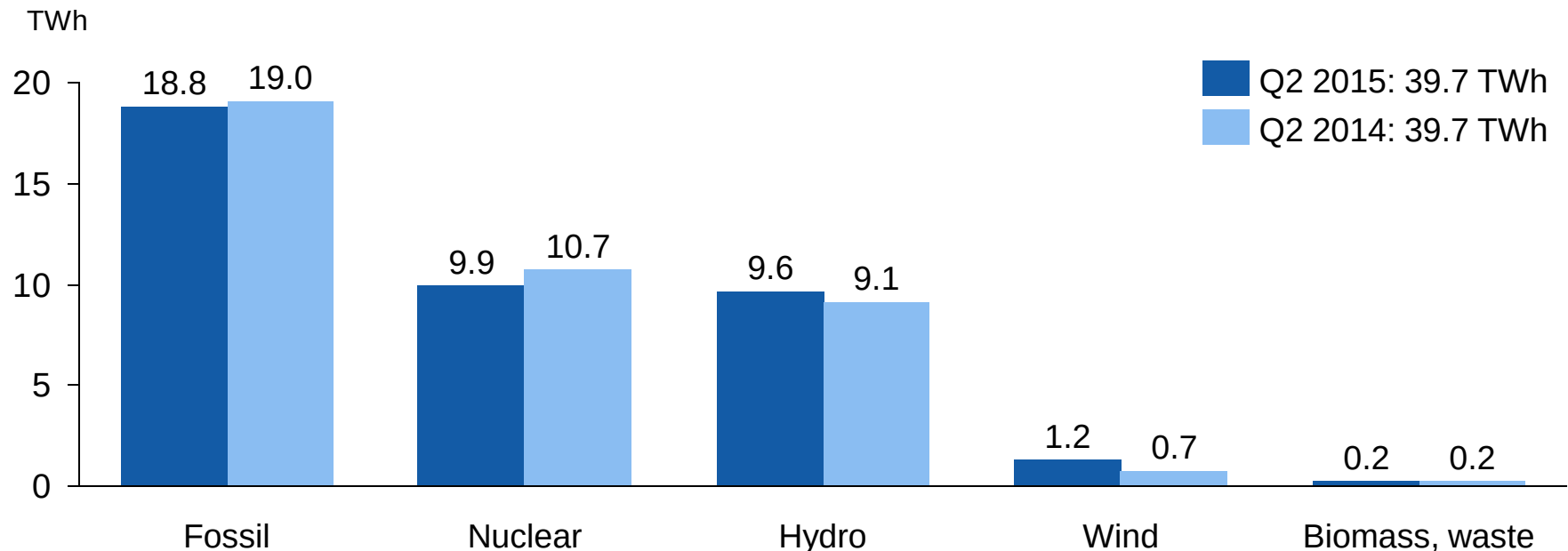


Commodity prices



Electricity generation output stable in Q2

- Total electricity generation output unchanged at 39.7 TWh
 - Fossil based generation essentially unchanged
 - Nuclear generation decreased, mainly due to an extended outage at Ringhals 2
 - 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

Proposal to establish a lignite capacity reserve

- Proposal by the German government to create a lignite capacity reserve and transfer 2.7 GW of lignite capacity to the reserve. This replaces previous proposal for a climate levy. Lignite operators will be remunerated through a cost-based compensation scheme. Details are still pending.

Structural reforms to strengthen the EU ETS system

- Agreement reached on the implementation of a Market Stability Reserve (MSR) by 1 January 2019. The “backloaded” volumes of CO₂ allowances will be transferred to the MSR directly up front.
- A new legislative proposal to further revise the EU ETS directive tabled by the European Commission on 15 July.

German nuclear

- Decision by the German government to carry out a stress test of provisions for nuclear decommissioning.
- Ongoing debate on creation of a public fund for decommissioning.
- Search for permanent nuclear waste repository has restarted.

Business Areas and operating segments from 1 April 2015

Business Areas		Operating Segments
	Customers & Solutions Sales to end customers	Customers & Solutions
	Generation All hydro and nuclear operations	Power Generation *
	Markets Asset optimisation and trading (energy related commodities)	
	Wind All wind power operations	Wind
	Heat Heat operations incl. thermal (excluding lignite operations)	Heat
	Distribution Electricity distribution in Sweden and Germany	Distribution

* Segment Power Generation includes Lignite Mining & Generation

Financials

Ingrid Bonde, CFO

Impairments – background and rationale

Vattenfall has recognised SEK 36.3 billion in impairments of asset values.

- Wholesale electricity prices have continued to fall, margins have deteriorated further and business risk has increased due to adverse political and regulatory development. Vattenfall sees no signs of a recovery of demand and production margins in the foreseeable future.
- To reflect the increased business risk, risk premiums have been added to the discount rates used for calculating net present value of future cash flows.
- The impairment of Ringhals 1 and 2 is warranted by the weak profitability due to low electricity prices and higher costs, which triggered Vattenfall's Board of Directors to decide on a premature phase out of both reactors in 2018-2020.
- The impairment of lignite assets is warranted by poorer production margins (clean lignite spreads) and higher business risk.
- The impairment of Moorburg is warranted mainly by poorer production margins (clean dark spreads).

Breakdown of impairments Q2 2015

Asset split	SEK bn
Swedish nuclear reactors Ringhals 1 and 2	17.0
Lignite assets in Germany	15.2
Moorburg power plant in Germany	4.0
Other assets	0.04
Total impact on EBIT	36.3
Total impact on net income (after tax)	26.8

Geographical split	SEK bn
Sweden	17.0
Germany	19.3
Total impact on EBIT	36.3

- The impairments have no impact on cash flow or debt position
- A reversal of SEK 0.5bn was made in Q2 2015 of a previous impairment loss related to Danish CHP plants, hence the net impairment impact in Q2 2015 was SEK 35.8bn

Increased nuclear and mining provisions

Nuclear provisions

- German nuclear provisions increased by SEK 1.3bn due to an updated calculation of future costs, mainly for handling of spent nuclear fuel.

Mining provisions

- German lignite mining provisions increased by SEK 2.6bn due to an updated plan for re-cultivation of the post-mining landscape.

Breakdown of items affecting comparability

Items affecting comparability	Impact on EBIT in Q2, SEK bn
Impairment of Ringhals 1 and 2	17.0
Impairment of lignite assets in Germany	15.2
Impairment pertaining to German power plant, Moorburg	4.0
Reversed impairment pertaining to CHP stations in Denmark	-0.5
Provisions pertaining to nuclear in Germany	1.3
Provisions pertaining to lignite mining in Germany	2.6
Other items affecting comparability	1.4
Total:	41.0

- Impact on net profit amounts to SEK 30.0bn in Q2 due to positive tax impact

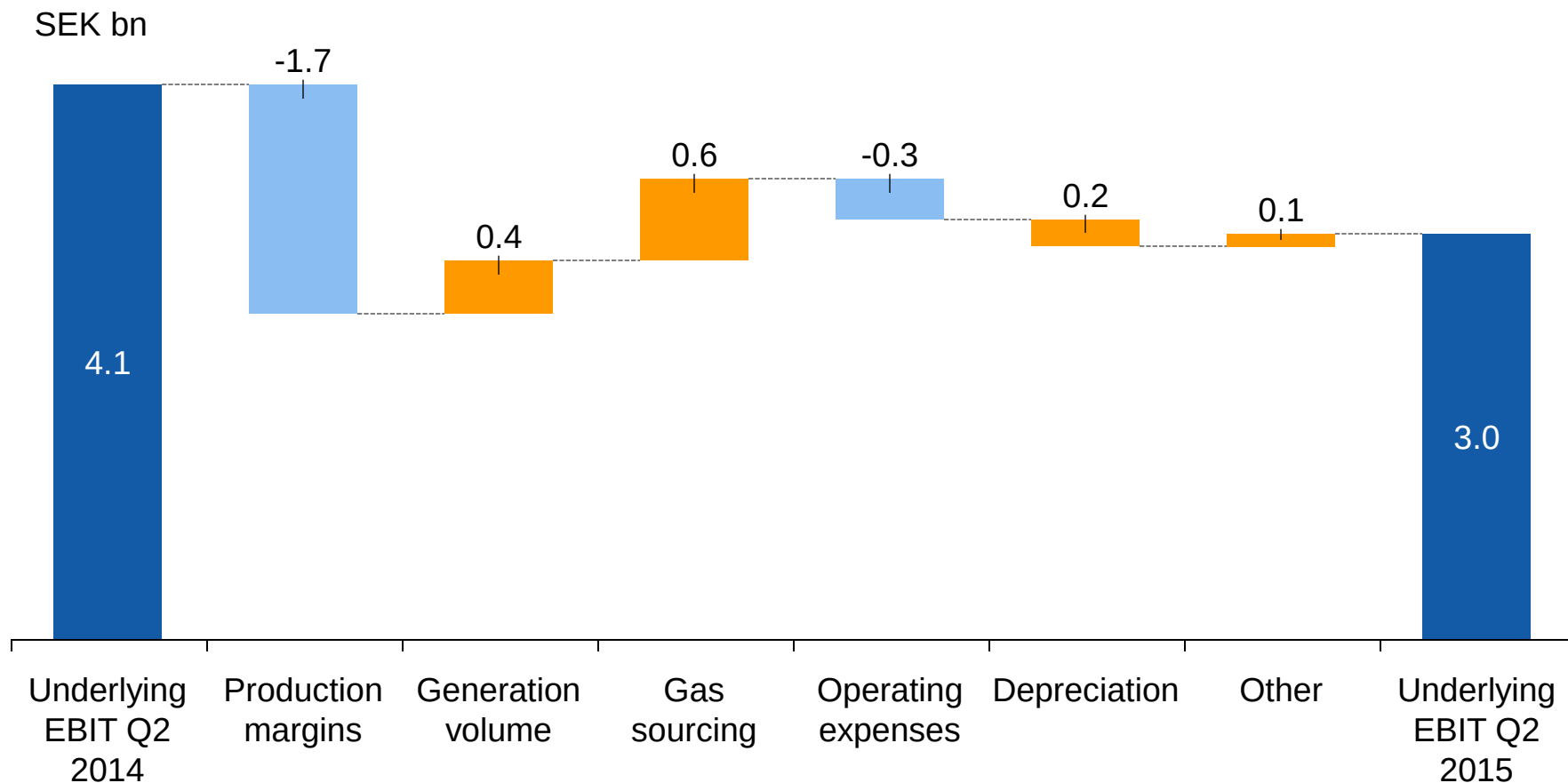
Q2 2015 Financial highlights

SEK bn	Q2 2015	Q2 2014
Net Sales	36.1	36.6
EBITDA	2.9	3.9
Underlying EBITDA (excl. items affecting comparability)	8.1	8.9
EBIT	-38.0	-1.6
Underlying EBIT (excl. items affecting comparability)	3.0	4.1
Financial items, net	-1.4	-1.4
Profit after tax	-28.8	-2.3
Cash flow (FFO)	4.2	3.9
Operating cash flow (after change in working capital)	9.7	8.3
Net debt	72.8	79.5*
Adjusted net debt	149.1	158.3*
FFO/Adjusted net debt (%)	21.1**	17.9**
Adjusted net debt/EBITDA (times)	4.0**	4.0**

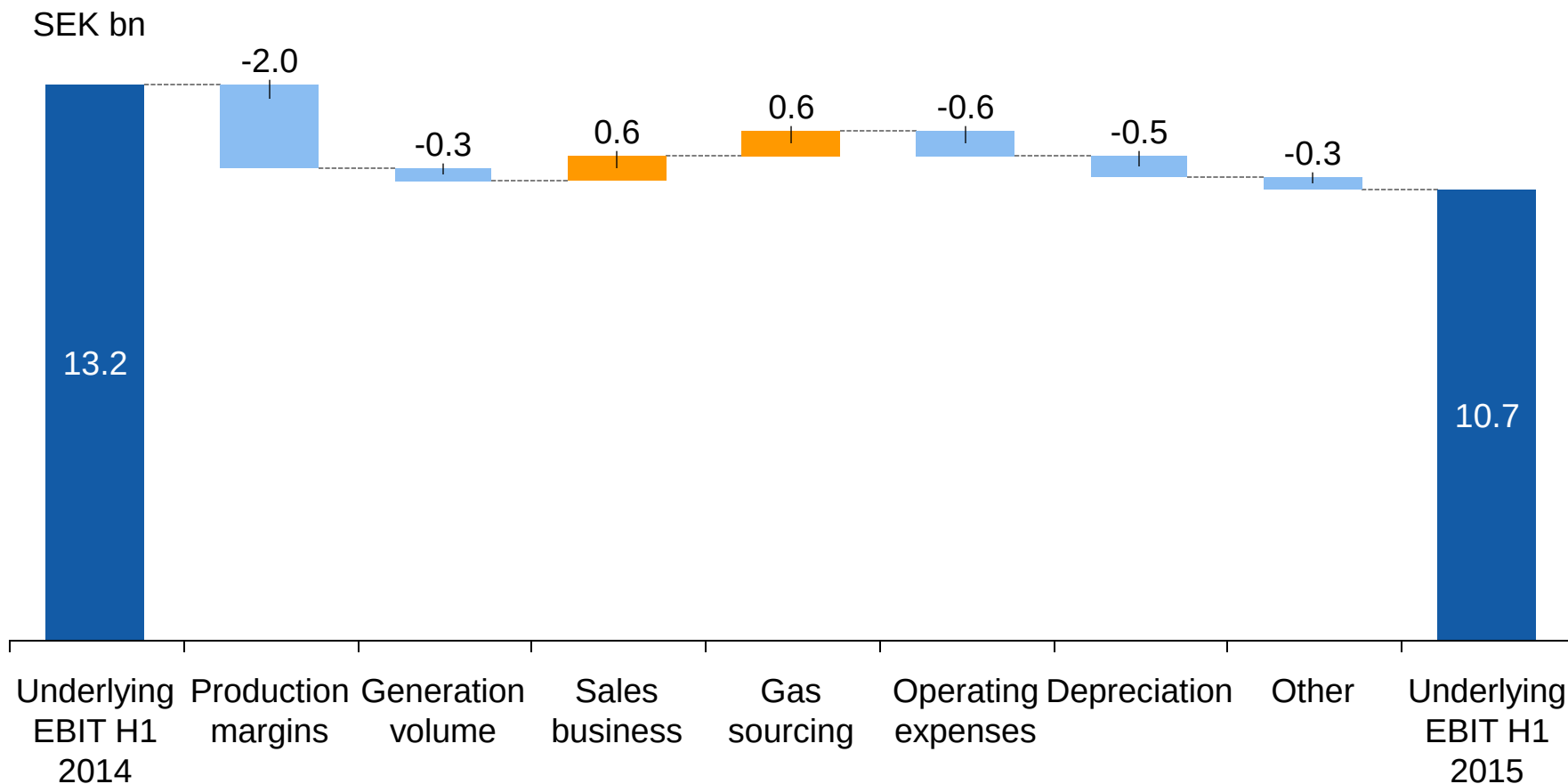
* As of 31 December 2014

** Last twelve months

Development of underlying EBIT Q2 2015



Development of underlying EBIT H1 2015

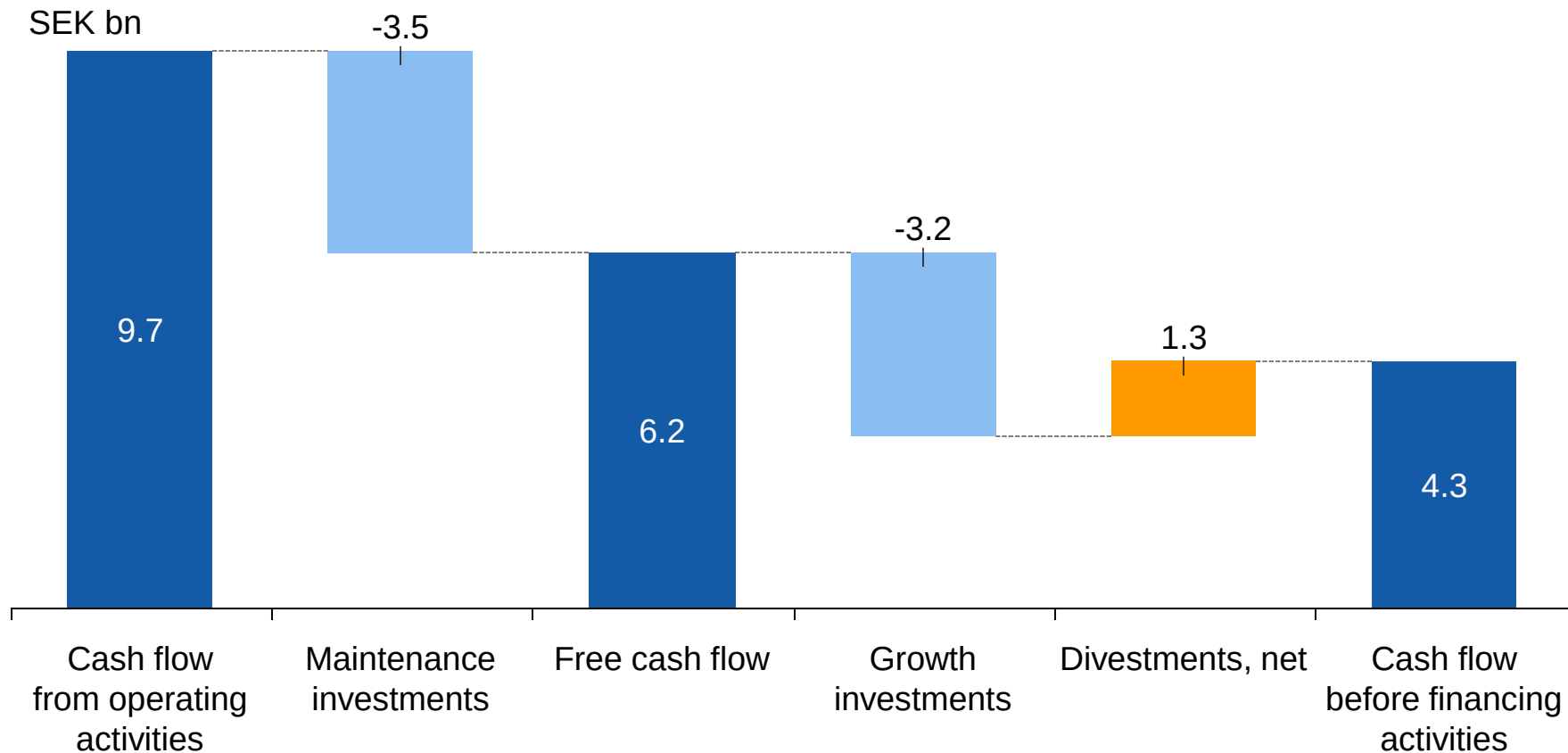


Underlying EBIT per operating segment – Q2 2015

SEK bn	Q2 2015	Q2 2014	FY 2014
Customers & Solutions	0.4	0.2	1.0
Power Generation	1.9	3.3	15.6
Wind	0.2	0.1	1.7
Heat	0.1	0.0	2.4
Distribution	1.1	0.7	4.4
Other*	-0.7	-0.2	-1.0
Eliminations	–	-	-
Total	3.0	4.1	24.1

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

Cash flow development Q2 2015



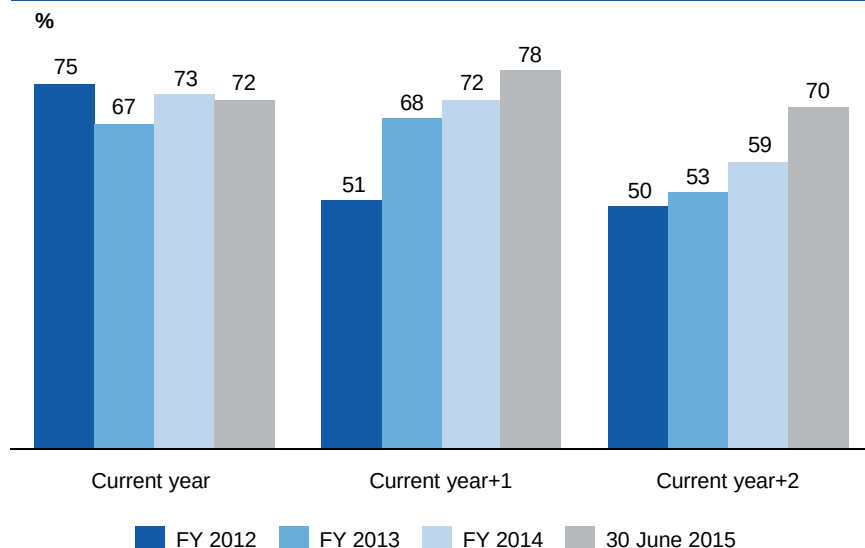
Capital expenditures

SEK bn	Q2 2015	Q2 2014	Change %	H1 2015	H1 2014	Change %	FY 2014
Electricity generation	4.4	4.3	2.3	7.9	7.3	8.2	17.9
CHP/Heat	0.6	0.7	-14.3	1.1	1.2	-8.3	3.7
Electricity networks	1.0	1.2	-16.7	1.8	2.0	-10.0	5.0
Other	0.7	-0.2	—	1.5	0.8	87.5	2.4
TOTAL	6.7	6.0	11.7	12.3	11.3	8.8	29.0
<i>- of which maintenance and replacement</i>	3.5	4.0	-12.5	6.3	6.8	-7.4	16.9
<i>- of which growth</i>	3.2	2.0	60.0	6.0	4.4	36.4	12.1

- Investments in wind power of SEK 2.1bn in Q2 2015 compared to SEK 1.5bn in Q2 2014

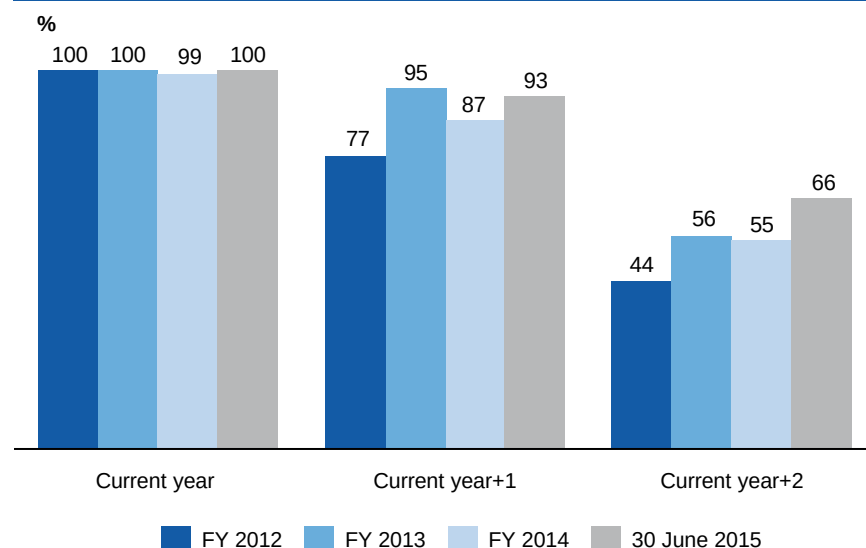
Development of hedge ratios and hedge prices

Hedge ratios - Nordic



	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
June 2015	72%	37	2015	78%	34	2016	70%	32	2017

Hedge ratios – Continental Europe



	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
June 2015	100%	45	2015	93%	39	2016	66%	36	2017

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

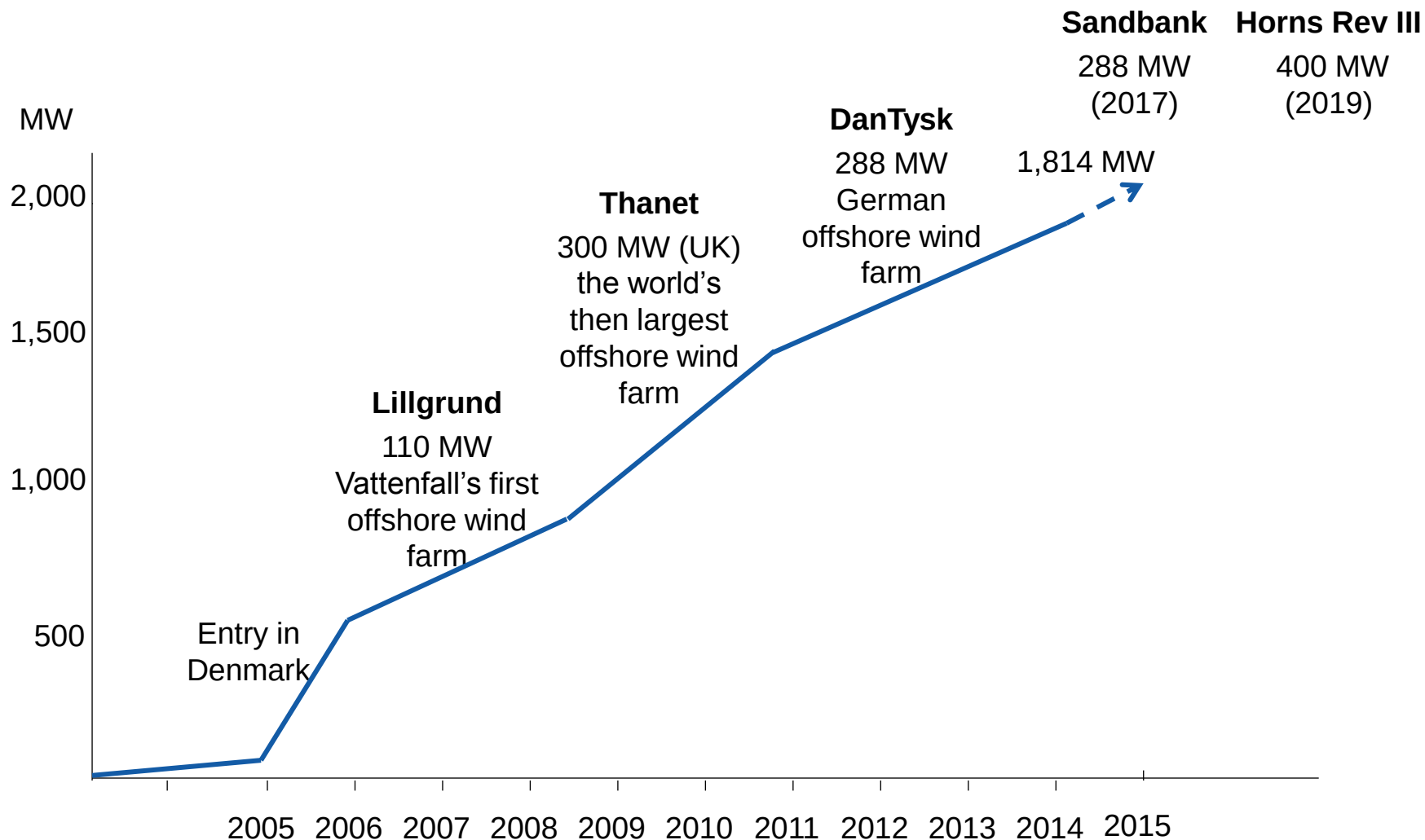
Financial and sustainability targets

Financial metrics	Target	Outcome 30 June 2015	Outcome FY 2014
Return on Capital Employed (ROCE) (Return on capital employed excl. items affecting comparability)	9.0%	-14.6%* (7.5%)	-0.7% (8.2%)
Net debt/Equity	50-90%	67.3%	61.9%
FFO/Adjusted net debt	22-30%	21.1*	20.3%
Dividend policy (% of profit after tax)	40-60%	-	zero

Sustainability metrics & targets	Outcome Jan-June 2015	Outcome FY 2014
Reduce CO₂ exposure to 65 Mtonnes by 2020 (93.7 Mtonnes in 2010)	40.8 Mtonnes	82.3 Mtonnes
Growth in renewable electricity generation capacity to be higher than the average rate of growth for ten reference countries	13%	6.3% (Preliminary growth rate for reference countries: 9.1%)
Energy efficiency to save 440 GWh in 2015	313 GWh	435 GWh

* Last twelve months

Vattenfall's growth in wind power capacity 2005-2015



Summary and conclusions

Summary and conclusions

- Our new business-centric organisation provides favourable conditions to accelerate our pace of transformation towards more customer focus and renewable power generation
- Continued fall in wholesale electricity prices puts further pressure on Vattenfall's earnings
- Significant impairments of asset values due to further worsening of market conditions and higher business risks
- Divestment of all fossil based Danish plants now concluded
- Substantial increase of wind power
- Proposed lignite capacity reserve in Germany – better than previous proposal for a climate levy
- Strong liquidity position, positive cash flow and reduction in net debt

Appendix

H1 2015 Financial highlights

SEK bn	H1 2015	H1 2014
Net Sales	81.5	82.5
EBITDA	16.4	20.5
Underlying EBITDA (excl. items affecting comparability)	20.8	22.8
EBIT	-29.7	10.2
Underlying EBIT (excl. items affecting comparability)	10.7	13.2
Financial items, net	-2.9	-3.1
Profit after tax	-23.8	5.9
Cash flow (FFO)	14.0	14.6
Operating cash flow (after change in working capital)	16.5	15.8
Net debt	72.8	79.5*
Adjusted net debt	149.1	158.3*
FFO/Adjusted net debt (%)	21.1**	17.9**
Adjusted net debt/EBITDA (times)	4.0**	4.0**

* As of 31 December 2014

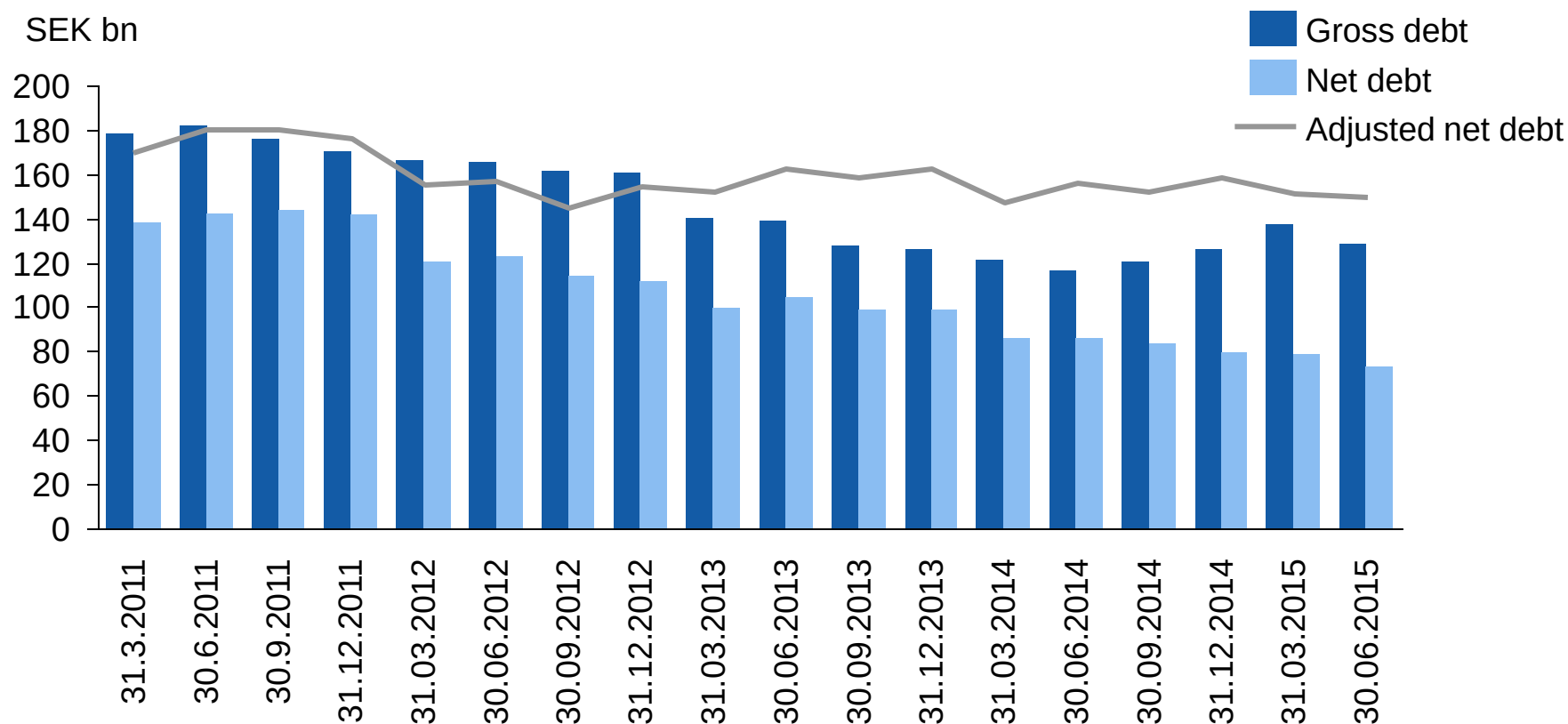
** Last twelve months

Underlying EBIT per operating segment – H1 2015

SEK bn	H1 2015	H1 2014	FY 2014
Customers & Solutions	1.2	0.4	1.0
Power Generation	5.9	9.1	15.6
Wind	0.8	0.6	1.7
Heat	1.9	1.7	2.4
Distribution	2.6	2.2	4.4
Other*	-1.4	-0.6	-1.0
Eliminations	-0.3	-0.2	-
Total	10.7	13.2	24.1

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

Debt development



Net debt decreased by SEK 6.6bn compared with 31 December 2014. Adjusted net debt decreased by SEK 9.2bn, compared with 31 December 2014. For the calculation of adjusted net debt, see Appendix.

Continued strong liquidity position June 2015

Group liquidity	MSEK
Cash and cash equivalents	20,006
Short term investments	34,006
Reported cash, cash equivalents & short term investments	54,012
Unavailable liquidity*	-6,155
Available liquidity	47,857

Committed credit facilities	Facility size	MSEK
RCF (maturity Dec 2019)	2,000 MEUR	18,430
Total undrawn		18,430

Debt maturities**	MSEK
Within 90 days	23,766
Within 180 days	25,530

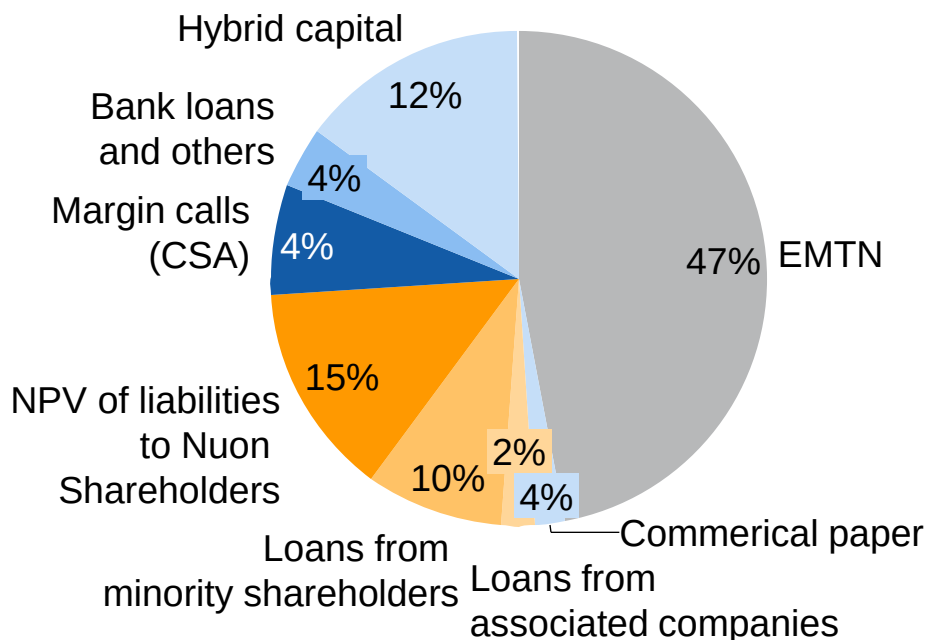
* German nuclear "Solidarvereinbarung" 3,137 MSEK, Margin calls paid (CSA) 2,104 MSEK, Insurance* Provisions for claims outstanding* 890 MSEK and Margin accounts 25 MSEK

** Excluding loans from minority owners and associated companies.

Breakdown of gross debt as of 30 June 2015

Total debt : SEK 128bn (EUR 14bn)

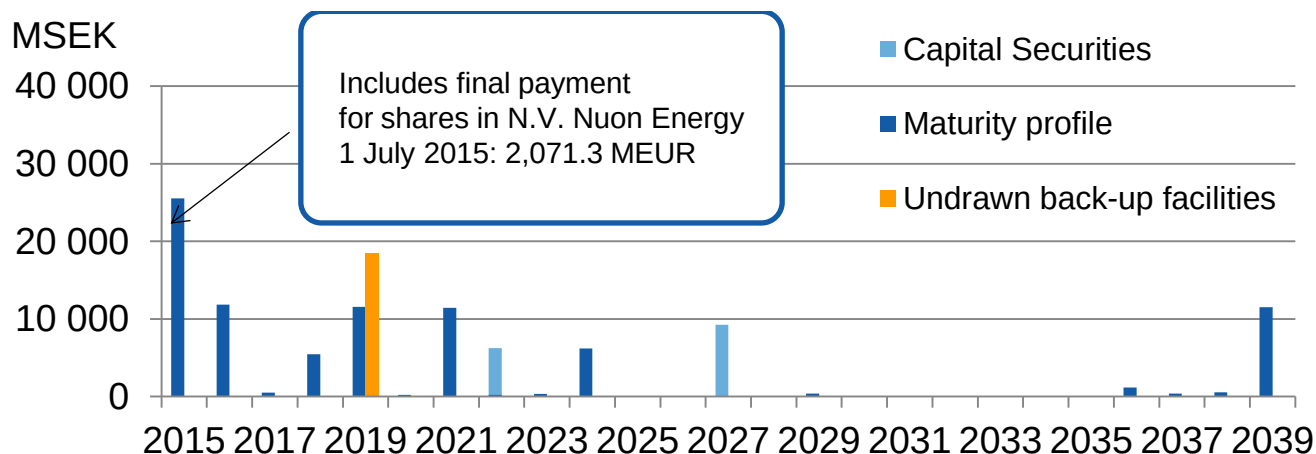
External market debt: SEK 94bn



Debt issuing programmes	Size (MEUR)	Utilization (MEUR)
EUR 15bn Euro MTN	15,000	6,041
EUR 2bn Euro CP	2,000	464
SEK 15bn Domestic CP	1,628	109
Total	18,628	6,613

- All public debt is issued by Vattenfall AB
- The 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 June 2015	31 Dec 2014
Duration (years)	3.2	2.8
Average time to maturity (years)	6.7	5.6
Average interest rate (%)	3.3	3.6
Net debt (SEK bn)	72.8	79.5
Available group liquidity (SEK mn)	47,857	37,796
Undrawn committed credit facilities (SEK mn)	18,430	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 the hybrid capital in 2022 and 2027 is reflecting the first call date of the respective issuances.

Reported and adjusted net debt

Reported net debt (SEK billion)	Jun 30 2015	Dec 31 2014
Hybrid capital	-15.2	-9.4
Bond issues and commercial papers and liabilities to credit institutions	-70.9	-72.5
Present value of liability pertaining to acquisition of subsidiaries	-19.1	-19.3
Liabilities to associated companies	-2.8	-2.6
Liabilities to minority shareholders	-12.4	-12.4
Other liabilities	-7.8	-9.8
Total interest-bearing liabilities	-128.2	-125.9
Reported cash, cash equivalents & short-term investments	54.0	45.1
Loans to minority owners of foreign subsidiaries	1.4	1.4
Net debt	-72.8	-79.5

* Of which: German nuclear "Solidarvereinbarung" 3.1, Margin calls paid (CSA) 2.1, Insurance "Provisions for claims outstanding" 0.9

Adjusted net debt (SEK billion)	Jun 30 2015	Dec 31 2014
Total interest-bearing liabilities	-128.2	-125.9
50% of Hybrid capital	7.6	4.7
Present value of pension obligations	-42.0	-45.3
Mining & environmental provisions	-18.0	-14.5
Provisions for nuclear power (net)	-33.5	-33.7
Margin calls received	5.6	7.0
Liabilities to minority owners due to consortium agreements	11.6	11.6
= Adjusted gross debt	-196.9	-196.1
Reported cash, cash equivalents & short-term investments	54.0	45.1
Unavailable liquidity	-6.2*	-7.3
= Adjusted cash, cash equivalents & short-term investments	47.9	37.8
= Adjusted net debt	-149.1	-158.3

Impairment history 2009-H1 2015 (1)

Impairments	SEK billion
Germany	46.5
- Transmission (2010)	5.1
- Thermal assets	29.5
- 2011(Assets)	0.3
- H1 2013 (Assets)	4.3
- Q3 2014 (Assets)	5.7
- Q2 2015 (Assets)	19.2
- Nuclear assets	10.5
- 2011 (Assets)	10.5
- Other assets	1.4
- Q2 2013 (Assets)	0.1
- Q3 2014 (Assets)	1.1
- Q2 2015 (Wind power assets, other assets)	0.2

Impairment history 2009-H1 2015 (2)

Impairments	SEK billion
Netherlands	52.2
- Thermal assets	30.6
- 2010 (Goodwill)	4.3
- 2011 (Assets, Goodwill)	0.4
- 2012 (Assets, Goodwill)	8.6
- H1 2013 (Assets)	14.7
- Q3 2014 (Assets)	2.6
- Trading	16.5
- H1 2013 (Goodwill)	6.5
- Q3 2014 (Goodwill)	10.0
- Other assets	5.1
- 2010 (Assets)	1.7
- H1 2013 (Assets, Goodwill)	1.5
- Q2 2014 (Assets)	1.9

Impairment history 2009-H1 2015 (3)

Impairments	SEK billion
Nordic	25.5
- Renewable assets	1.4
- Q3 2014 (Assets)	1.4
- Thermal assets	7.1
- 2009 (Assets)	4.1
- H1 2013 (Assets)	3.0
- Nuclear assets (Q2 2015)	17.0
Other (mainly UK)	2.5
Total impairments 2009 – H1 2015	126.7
Reversed impairment losses	-3.5
Total impairments, (net, incl. reversed impairment losses) 2009 – H1 2015	123.2
Poland (2011, 2012, 2013; Shares in Enea S.A.) – accounted for as financial expense	2.4
Liberia (2012, biomass project) – of which 0.8 accounted for as financial expense	1.3
Total impairments, (incl. Poland and Liberia) 2009 – H1 2015	126.9

Production related taxes

- The general trend within Vattenfall's core markets continues towards decreased corporate income tax rates and increased cost for operational taxes due to higher tax rate/ tax base or introduction of new taxes, such as:
 - Increased tax (+16,8 %) on installed nuclear (thermal) capacity in Sweden as of 1 August 2015
- Production related taxes within Vattenfall consist mainly of real estate/property tax, nuclear tax, and energy taxes related to production
- All production related taxes affect EBIT and are accounted for in the consolidated income statement as "Cost of products sold"

Production related taxes within Vattenfall 2014 (MSEK)	Real estate tax*	Nuclear tax total (pro rata)	Coal tax	Other production related taxes
Germany	59	- **	-	80
Sweden	2,897	3,054 (2,087)	-	85
Netherlands	23	-	105	22
Other countries	31	-	-	7
Total	3,010	3,054 (2,087)	105	194

* Mainly hydro power

**Not included here is Vattenfall's part of the nuclear fuel tax for its 20% share of the Brokdorf nuclear power plan (annual amount approx. EUR 34.7 million)

Swedish nuclear capacity tax

- Tax on the reactor's installed thermal generating capacity
- Introduced on 1 July 2000 (previously a tax on generated electricity)
- Current tax rate: SEK 12,648 per installed MW
- If non-operating for a period >90 days, a deduction of SEK 415 per MW is allowed for days exceeding 90 days
- Current tax level corresponds to approx. 55 SEK per generated MWh
- Effective 1 August 2015 the tax will be increased by 16.8% to SEK 14,770 per MW
 - Corresponds to approx. 65 SEK per generated MWh

History	Tax SEK/MW	Deduction, if non-operating
1 July 2000	5,514	181
1 Jan 2006	10,200	335
1 Jan 2008	12,648	415
1 Aug 2015	14,770	485