

# Vattenfall half year 2014 results

Øystein Løseth, CEO and Ingrid Bonde, CFO

Presentation 23 July 2014

# Highlights H1 2014

- Net sales amounted to SEK 82.5bn (88.0)
- Underlying EBIT was SEK 13.2bn (17.1)
- Reported EBIT was SEK 10.2bn (-15.0)
- Net income amounted to SEK 5.9bn (-17.1)
- Good plant availability but slightly lower electricity production at 89.8 TWh (93.9)
- Return on capital employed (ROCE) was 6.4% (on a rolling 12 month basis)
  - 8.2% excluding items affecting comparability
- Adjusted net debt decreased by SEK 6.5bn to 156.1bn compared with 31 December 2013

# Highlights Q2 2014

- Net sales amounted to SEK 36.6bn (38.3)
- Underlying EBIT amounted to SEK 4.1bn (5.4)
- Reported EBIT amounted to SEK -1.6bn (-25.8)
  - Negative impact of increased provisions
  - Large impairments in Q2/13
- Net income amounted to SEK -2.3bn (-23.3)
  - Negative impact of increased provisions
  - Large impairments in Q2/13
- Electricity production slightly lower at 39.7 TWh (41.7)

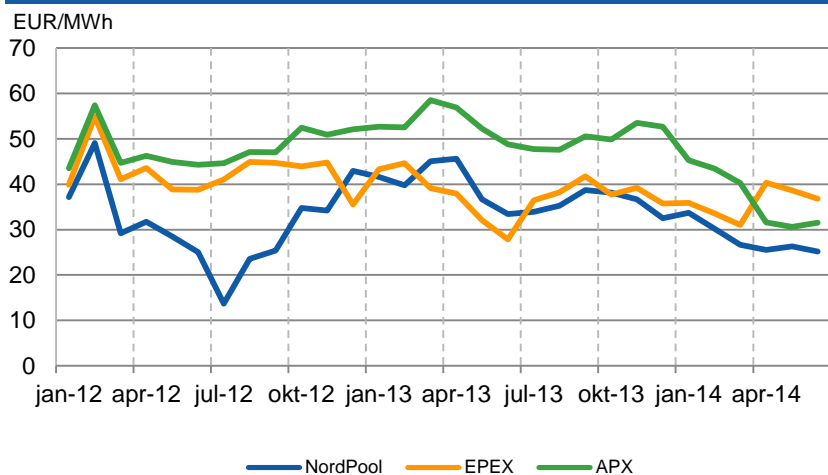
# Lower spot and forward prices on all Vattenfall's markets

## Q2 2014 vs Q2 2013:

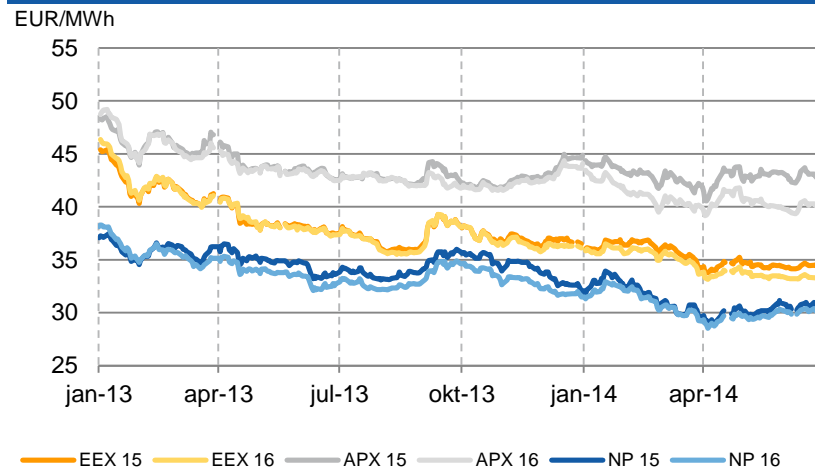
- Nordic spot prices 34% lower
- German spot prices 5% lower
- Dutch spot prices 27% lower
- Futures prices 2% - 13% lower

EUR/MWh	Nord Pool	EPEX	APX
Q2-14 (Q2-13)	25.6 (38.9)	31.2 (32.8)	38.6 (52.8)
%	-34.0	-4.8	-26.8
H1-14 (H1-13)	27.9 (40.4)	32.4 (37.4)	40.8 (53.6)
%	-31.8	-13.5	-24.0

## Monthly spot average

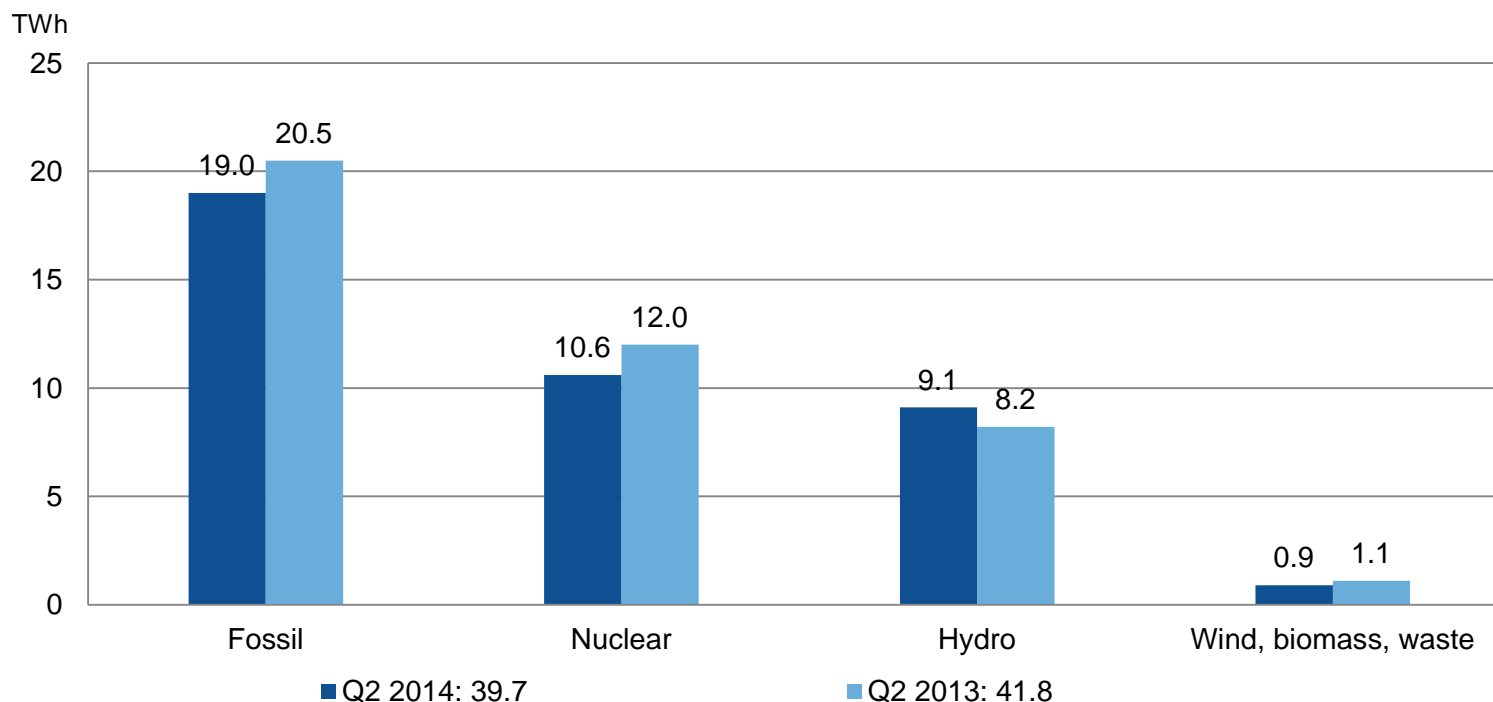


## Electricity futures prices



# Production volumes decreased 5.0% to 39.7 TWh

- Fossil production decreased mainly as a result of the sale of the Danish Amager CHP plant.
- Lower nuclear power production, mainly due to earlier scheduling of this year's plant audits compared with 2013.
- Higher hydro power production due to good hydrological balance.
- Wind power and other renewables almost on par with last year.



# Important events Q2 2014

- Magnus Hall appointed new CEO as of 1 October 2014. Magnus Hall most recently held the position of President and CEO of Swedish forest industry group Holmen
- Divestment of heat supplier Kalix Värmeverk AB (120 GWh)
- Inauguration of Swedish wind farm Hjuleberg (36 MW)
- Start of construction of Berlin-Lichterfelde CHP (replacement investment)
- Purchase of Rimojokk hydro power station in the Lule river. Thereby, Vattenfall will operate all power plants on the biggest river in Sweden.
- Increased provisions for Swedish and German pension obligations, and other provisions, mainly German nuclear provisions (more information on page 10)

# Financials

## Ingrid Bonde, CFO

# Q2 2014 Financial highlights

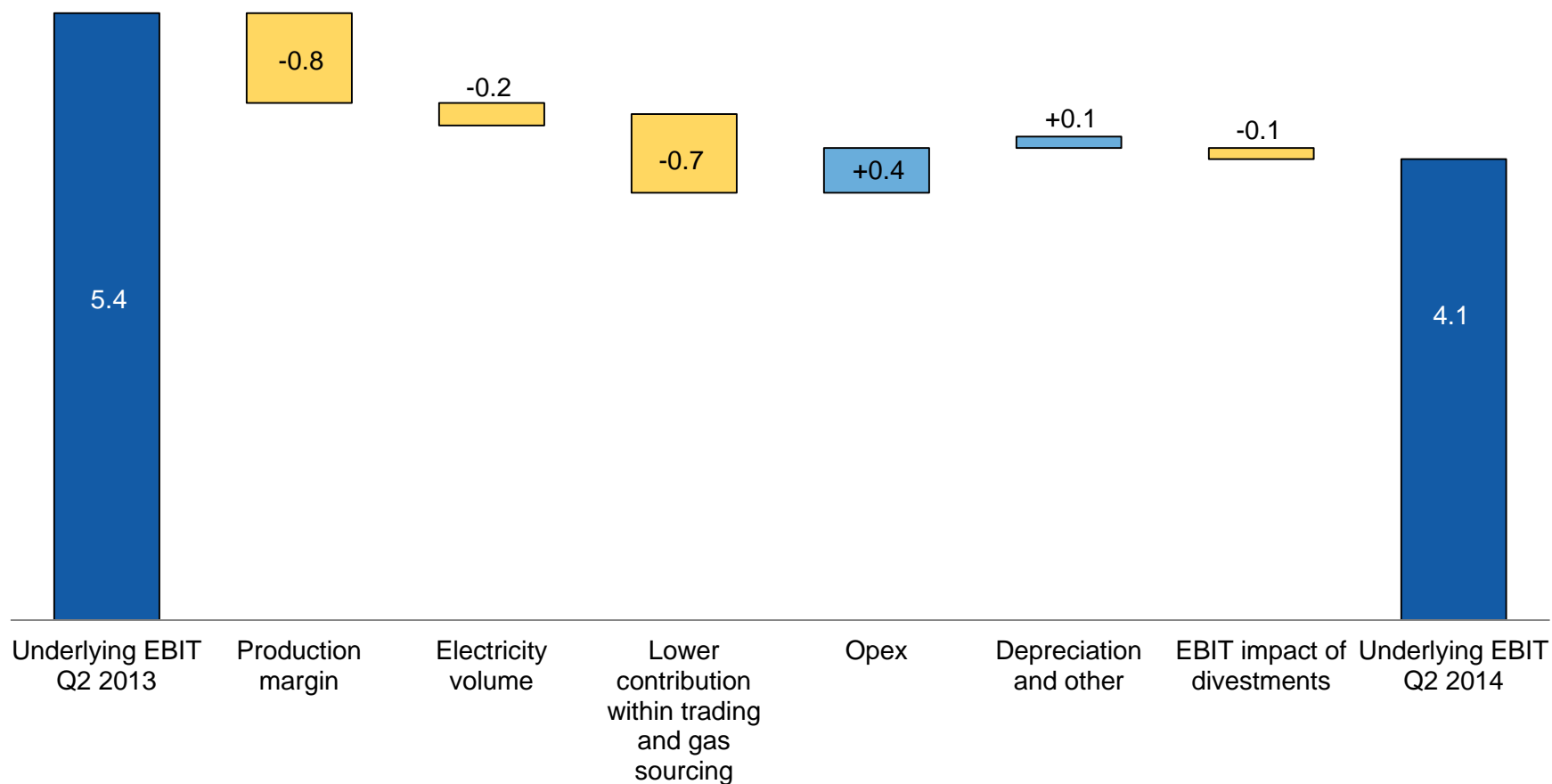
SEK billion	Q2 2014	Q2 2013
Net Sales	36.6	38.3
EBITDA	3.9	8.7
Underlying EBITDA*	8.9	10.4
EBIT	-1.6	-25.8
Underlying EBIT*	4.1	5.4
Financial items, net	-1.4	-2.7
Profit after tax	-2.3	-23.3
Cash flow (FFO)	3.9	6.0
Cash flow after change in working capital	8.3	11.5
Net debt	85.9	104.2
Adjusted net debt	156.1	162.5
FFO/Adjusted net debt (% LTM)	17.9	22.4
Adjusted net debt/EBITDA (times)	4.0	3.6

\* Underlying profit: EBIT excluding Items affecting comparability



# Development of underlying EBIT Q2 2014

SEK billion



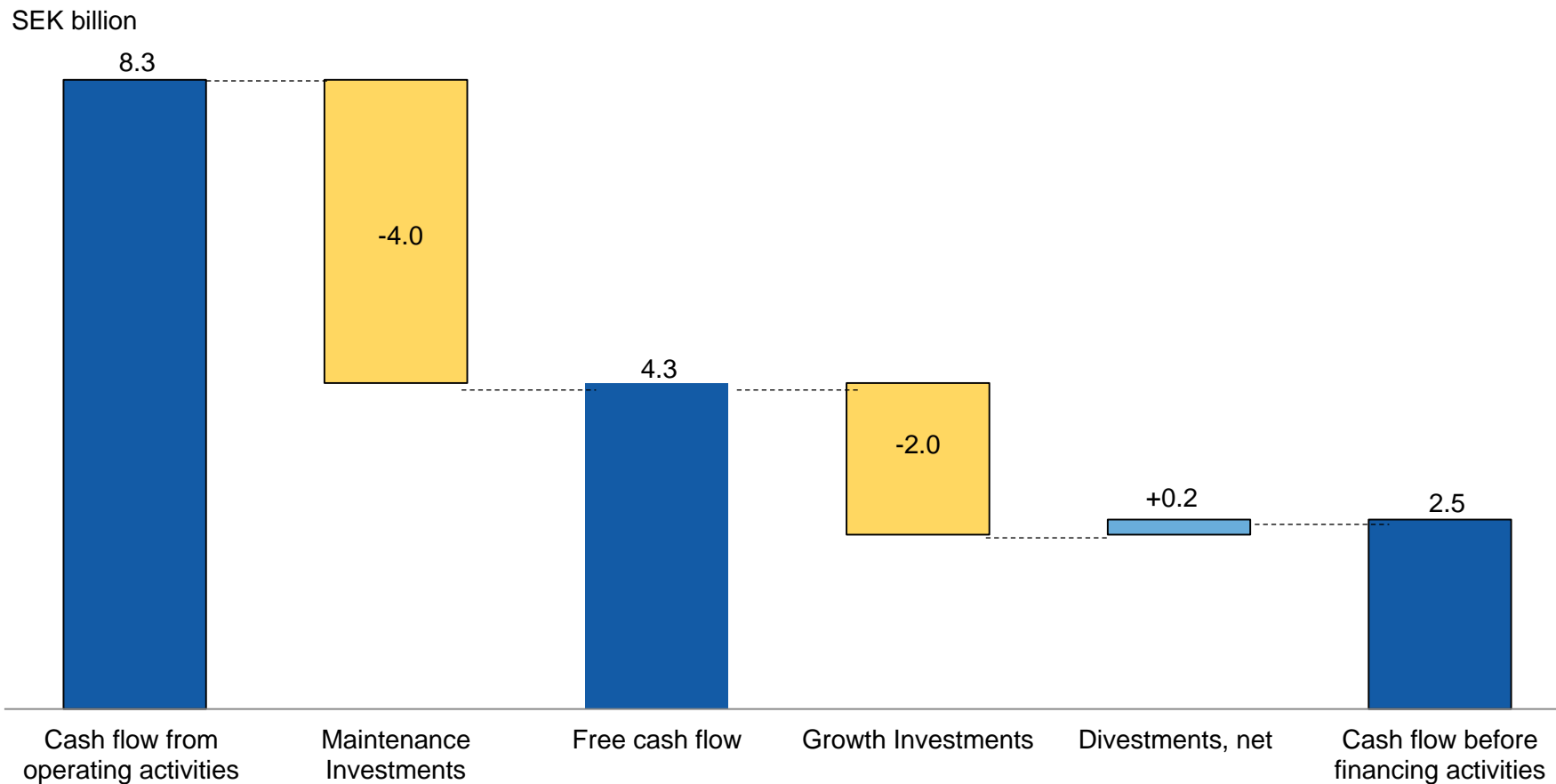
# Impact of increased provisions

Due to continued falling market interest rates Vattenfall has lowered the discount rates it uses for calculating pension provisions in Sweden and Germany as well as other provisions in Germany, mainly nuclear provisions.

Type of provision	New discount rate %	Change % points	EBIT impact SEK bn <sup>1)</sup>	Adj. net debt impact SEK bn
Pensions, Sweden	3.5	-0.50	-	0.8
Pensions, Germany	3.0	-0.50	-	2.6
Nuclear, Germany	4.0	-0.75	-4.9	5.0 <sup>3)</sup>
Mining related and other, Germany	4.0	-0.75	-0.6	0.9
Total Group			-5.5 <sup>2)</sup>	9.3

- 1) The increased provisions are treated as items affecting comparability and therefore have no impact on underlying EBIT
- 2) Impact on net income after tax amounts to SEK -4.0bn
- 3) Calculated pro rata based on Vattenfall's ownership in respective plant

# Cash flow development in Q2



# Breakdown per operating segment Q2 2014

## Nordic

SEK billion	Q2 2014	Q2 2013	Change,%	FY 2013
External net sales	11.5	11.9	-3.3	52.3
Underlying EBIT	2.4	2.8	-14.3	15.4
Electricity generation, TWh	19.5	19.6	-0.5	87.0
Number of FTE	8,467	8,435	0.4	8,395

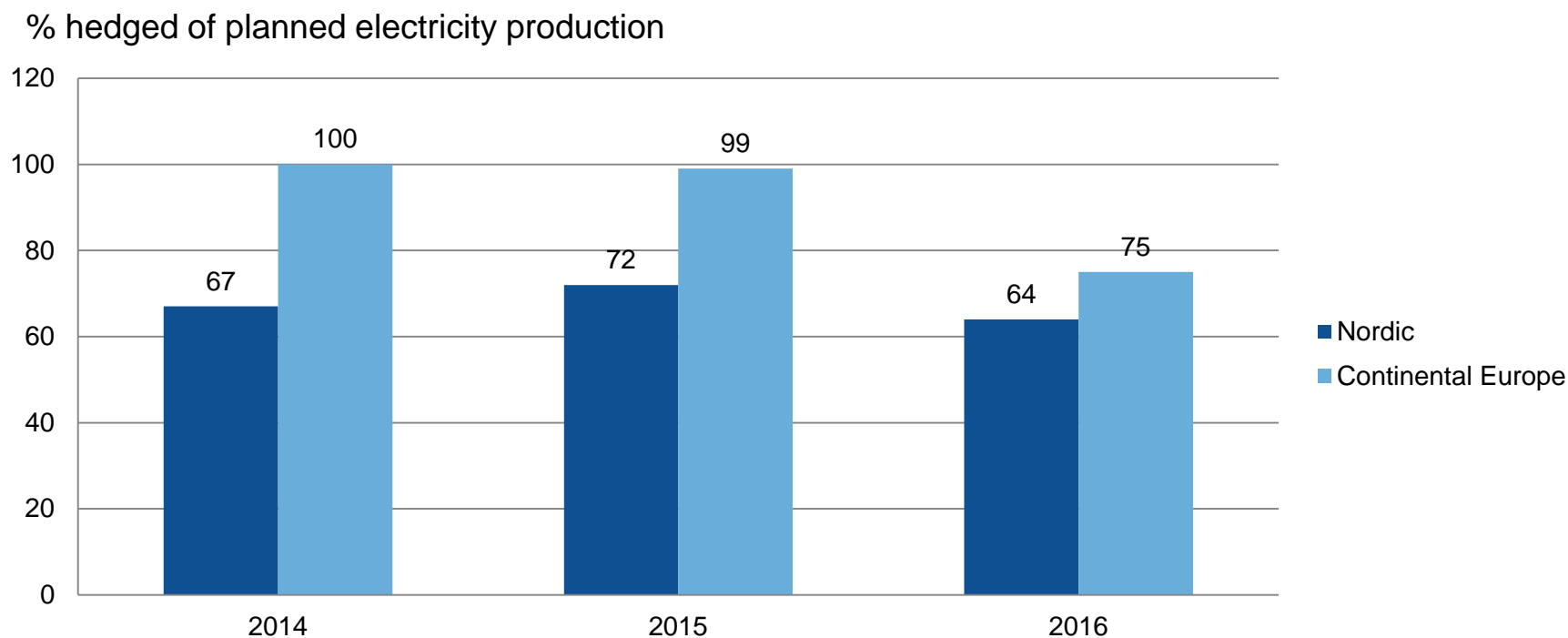
## Continental/UK

SEK billion	Q2 2014	Q2 2013	Change,%	FY 2013
External net sales	25.0	26.4	-5.3	119.8
Underlying EBIT	1.7	2.7	-37.0	13.7
Electricity generation, TWh	20.2	22.1	-8.6	94.7
Number of FTE	20,345	22,332	-8.9	21,811

# Capital expenditures

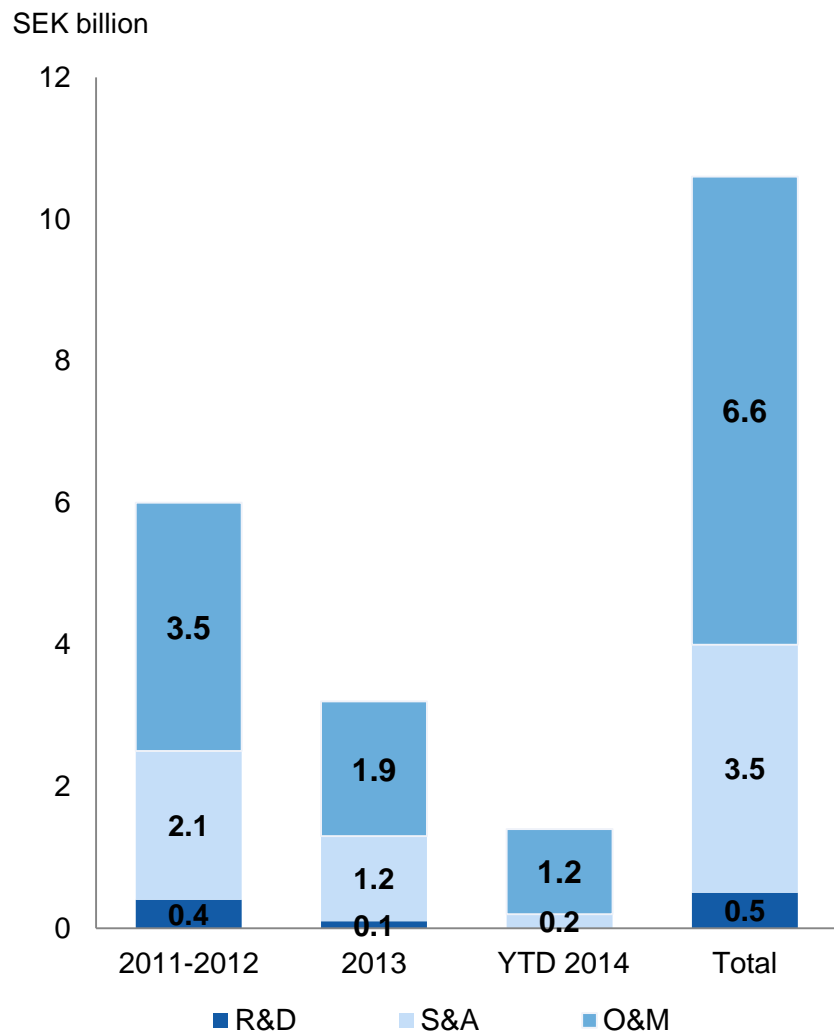
SEK billion	Q2 2014	Q2 2013	Change %	H1 2014	H1 2013	Change %	FY 2013
Electricity generation	4.3	4.3	-	7.3	7.8	-6.4	15.7
CHP/Heat	0.6	0.6	-	1.2	1.0	20.0	3.1
Electricity networks	1.2	1.0	20.0	2.0	1.7	17.6	4.6
Other	-0.2	0.6	-	0.8	1.4	-42.9	4.4
<b>TOTAL</b>	<b>6.0</b>	<b>6.6</b>	<b>-9.0</b>	<b>11.3</b>	<b>11.9</b>	<b>-5.0</b>	<b>27.8</b>
<i>- of which maintenance and replacement</i>	4.0	3.1	28.7	11.3	11.9	32.9	27.8
<i>- of which growth</i>	2.0	3.5	-40.9	4.5	6.7	-50.0	13.5

# Hedge ratios and prices as per 30 June 2014



Hedge prices EUR/MWh	2014	2015	2016
Nordic region	39	37	35
Continental Europe	50	44	39

# Cost reduction programmes on track



## Cost reduction programmes for 2011-2015: SEK 13.5bn

- 2011-2012: SEK 6bn (achieved one year ahead of original plan).
- 2013-14: SEK 5.5bn. (Staff reductions, O&M optimization, procurement savings)
- 2015: SEK 2bn. (Staff reduction, system and process standardization and optimization, selling & administration cost reduction)

## Achieved cost reduction from 2011 to June 2014: SEK 10.6bn

- 60% from Operation & Maintenance
- 35% from Selling & Administration expenses
- 5% from Research & Development
- Cost reductions of SEK 1.4bn YTD 2014 include growth and cost increase of 0.5bn. Net savings are SEK 0.9bn
- At year-end 2014 savings expected to reach approx. 25% versus cost base 2010.

# Financial targets and outcome

Metric	Target	Outcome Q2 2014	Outcome FY 2013
Return on Capital Employed (ROCE)	9.0%	6.4% (8.2% excl.IAC*)	-2.0% (9.2% excl.IAC*)
Net debt/Equity	50-90%	60.3%	75.7%
FFO/Adjusted net debt	22-30%	17.9% LTM**	19.6%

\* IAC = Items affecting comparability

\*\* LTM = Last twelve months



# Q&A

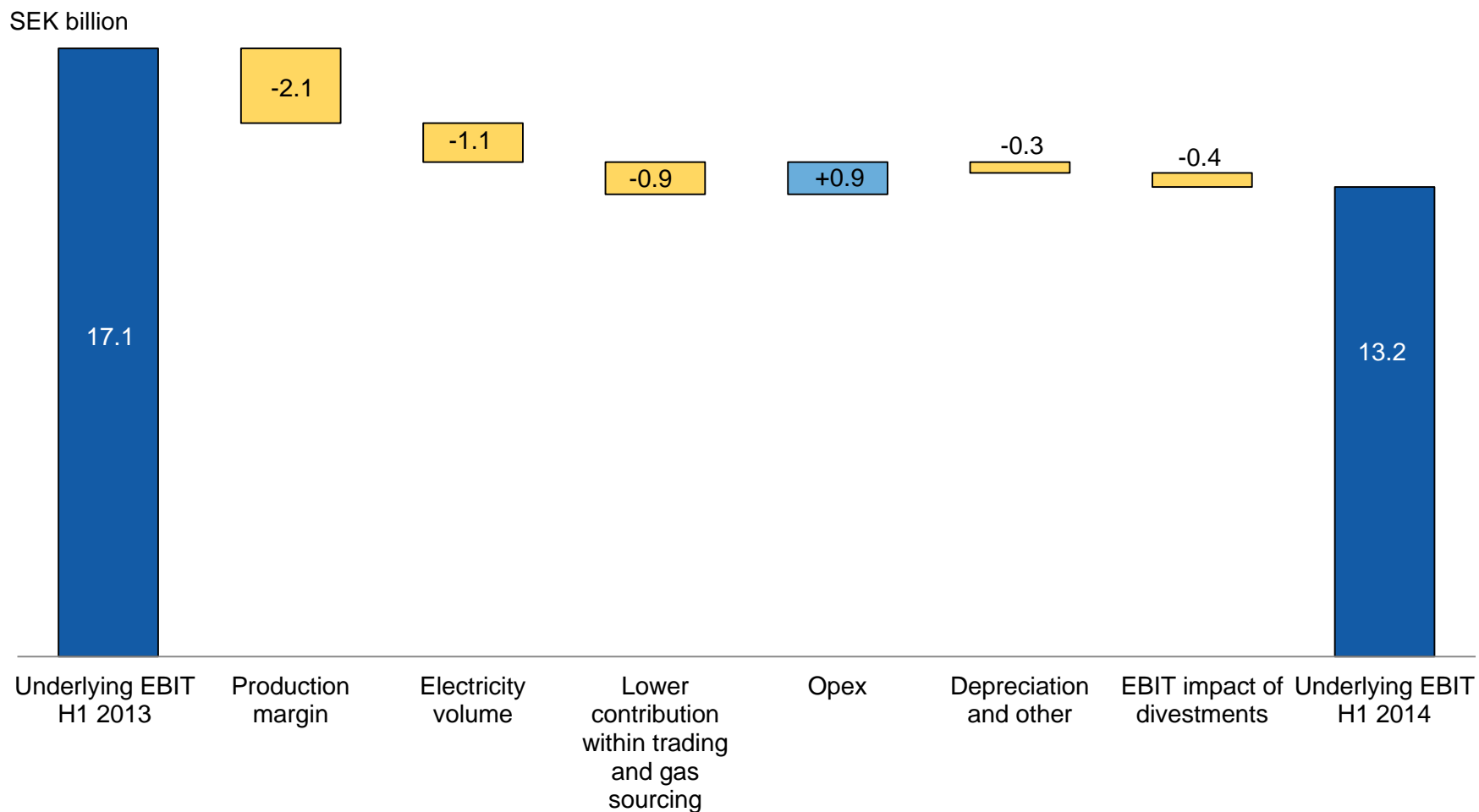
# Appendix

# H1 2014 Financial highlights

SEK billion	H1 2014	H1 2013
Net Sales	82.5	88.0
EBITDA	20.5	24.5
Underlying EBITDA*	22.8	26.9
EBIT	10.2	-15.0
Underlying EBIT*	13.2	17.1
Financial items, net	-3.1	-5.1
Profit after tax	5.9	-17.1
Cash flow (FFO)	14.6	18.6
Cash flow after change in working capital	15.8	16.2
Net debt	85.7	104.2
Adjusted net debt	156.1	162.5
FFO/Adjusted net debt (%)	17.9	22.4
Adjusted net debt/EBITDA (times)	4.0	3.6

\* Underlying profit: EBIT excluding Items affecting comparability

# Development of underlying EBIT H1 2014



# Breakdown per operating segment H1 2014

## Nordic

SEK billion	H1 2014	H1 2013	Change,%	FY 2013
External net sales	25.1	26.8	-6.3	52.3
Underlying EBIT	6.9	8.8	-21.6	15.4
Electricity generation, TWh	44.8	45.2	-0.9	87.0
Number of FTE	8,467	8,435	0.4	8,395

## Continental/UK

SEK billion	H1 2014	H1 2013	Change,%	FY 2013
External net sales	57.4	61.1	-6.1	119.8
Underlying EBIT	6.6	8.8	-25.0	13.7
Electricity generation, TWh	45.0	48.7	-7.6	94.7
Number of FTE	20,345	22,332	-8.9	21,811

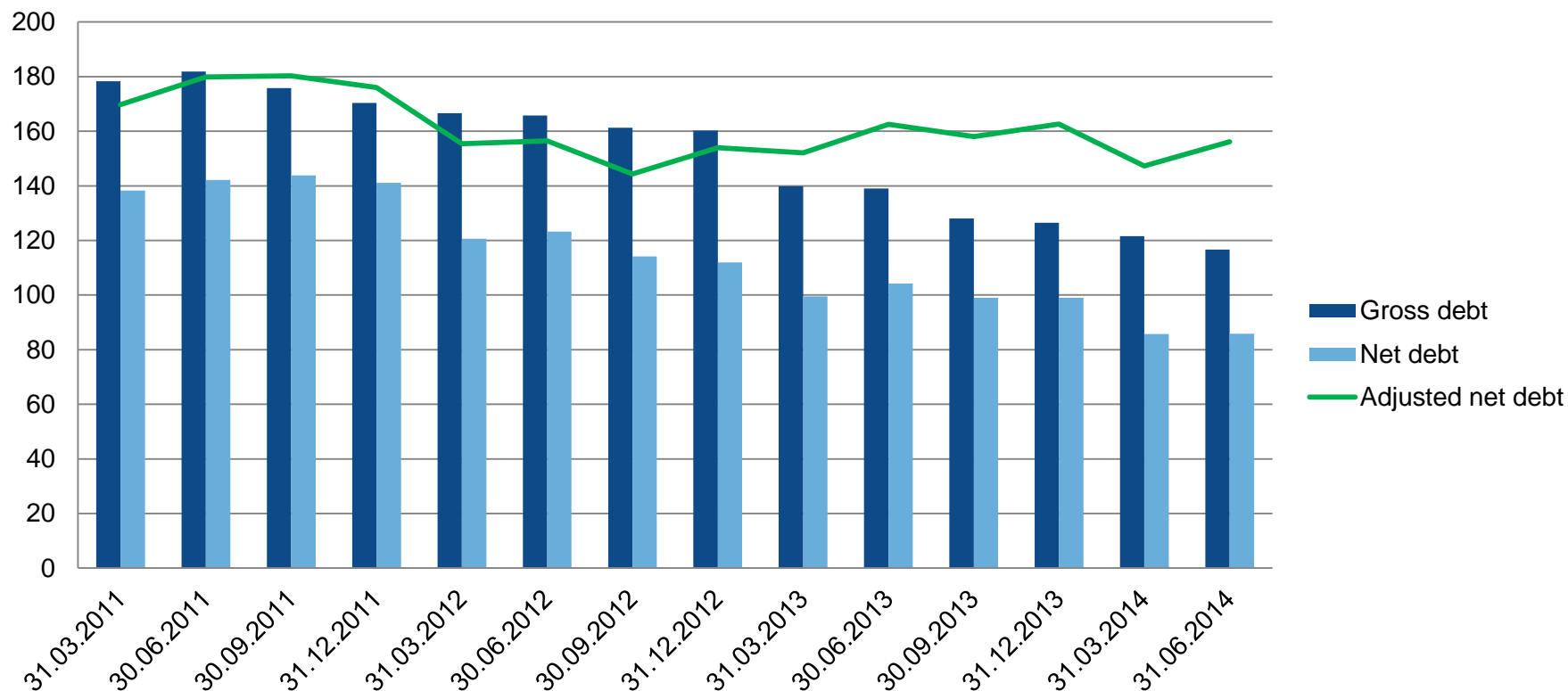
# Underlying EBIT for comparable units

Underlying EBIT (SEK bn)	Q2 2014	Q2 2013	Change %	H1 2014	H1 2013	Change %	LTM
<b>Nordic</b>	2.4	2.9	-15.5	6.9	8.3	-22.4	13.4
Divestment impact	-	-	-	-	-	-	-
Nordic underlying EBIT excluding divestments	2.4	2.9	-15.5	6.9	8.3	-22.4	13.4
<b>Continental /UK</b>	1.7	2.7	-35.5	6.6	8.8	-25.3	11.4
Divestment impact	-	-0.1	-	-	-0.4	-	-0.4
Continental /UK underlying EBIT excluding divestments	1.7	2.6	-33.0	6.6	8.4	-21.7	11.0
<b>Other &amp; eliminations</b>	-	-0.2	50.0	-0.3	-0.6	33.3	-0.6
<b>Group total</b> underlying EBIT excluding divestments	4.1	5.3	-22.9	13.2	16.7	-21.0	23.8

Divestments comprise mainly Hamburg distribution bussiness and Danish CHP plant Amager

# Debt development

SEK billion



Compared with 31 December 2013, net debt decreased by SEK 13.1bn to SEK 85.9bn mainly due to the sales of the electricity grid operation in Hamburg, the minority interest in Enea S.A. and the Danish Amager CHP plant (together totalling SEK 9.1 billion). Adjusted net debt decreased by SEK 6.5 billion, compared with 31 December 2013. Compared with 31 March 2014, adjusted net debt increased by SEK 8.8 billion. For calculation of adjusted net debt, see Appendix slide 27.

# Continued strong liquidity position

As of 30 June 2014

Group liquidity	MSEK
Cash and cash equivalents	10,263
Short term investments	19,884
<b>Reported cash, cash equivalents &amp; short term investments</b>	<b>30,147</b>
Unavailable liquidity*	-5,739
<b>Available liquidity</b>	<b>24,408</b>

Committed credit facilities	Line size	MSEK
RCF (maturity Jan 2016)	2,550 MEUR	23,399
<b>Total undrawn</b>		<b>23,399</b>

Debt maturities**	MSEK
Within 90 days	3,046
Within 180 days	5,695

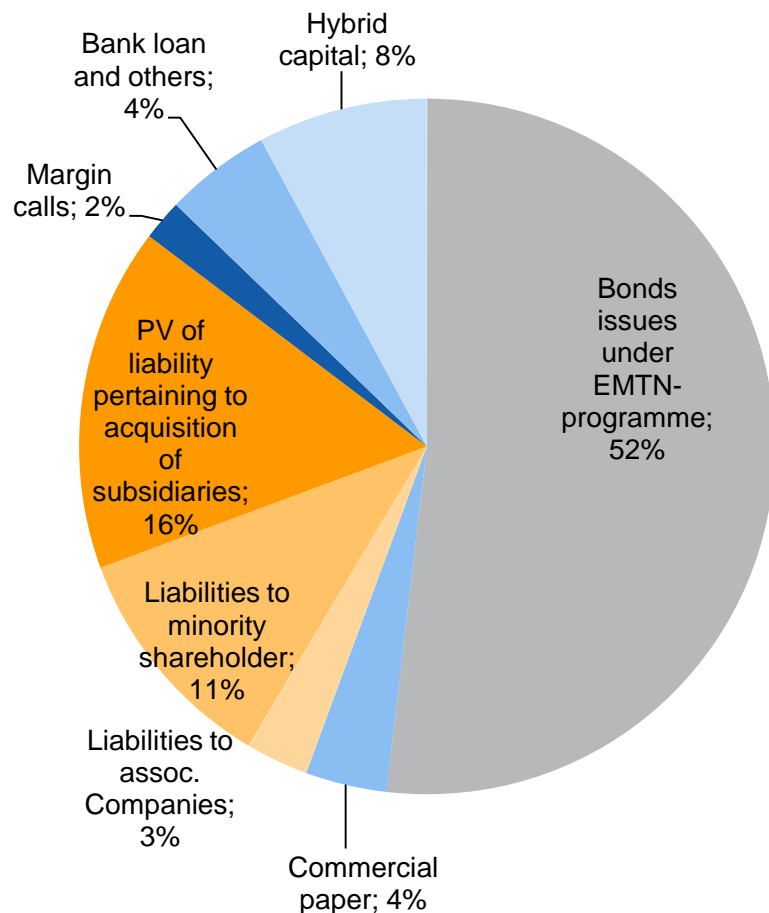
\* German nuclear "Solidarvereinbarung" 3,123 MSEK, Margin calls paid (CSA) 1,811 MSEK, Insurance" Provisions for claims outstanding" 706 MSEK and Margin accounts 99 MSEK

\*\* Excluding loans from minority owners and associated companies



# Breakdown of gross debt

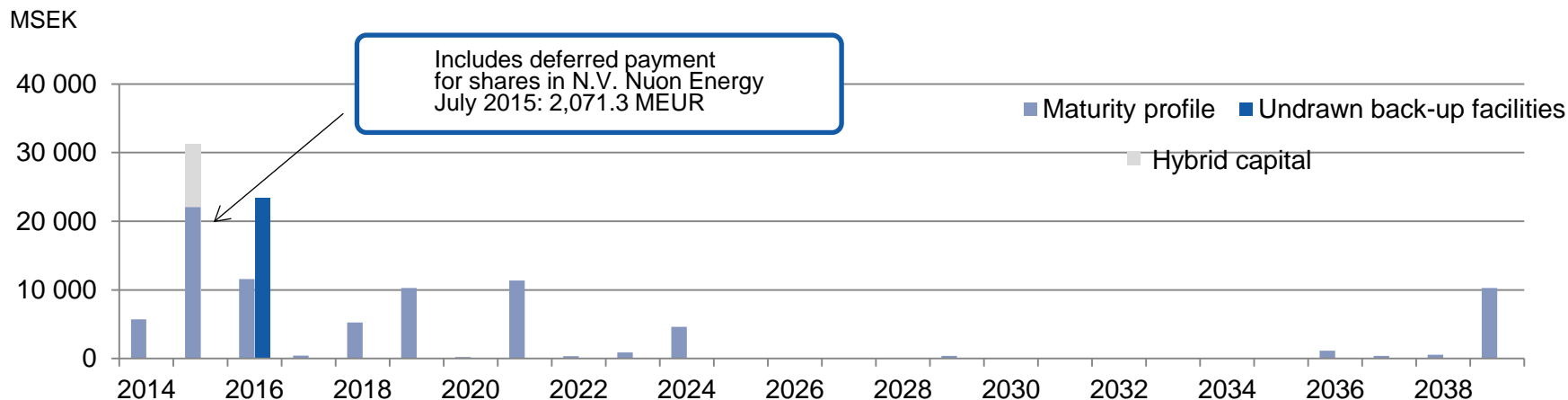
Total debt 30 June 2014: SEK 117 bn (EUR 13bn)  
External market debt (SEK 82bn)



Debt issuing programmes	Size (MEUR)	Utilization (MEUR)
EUR 15bn Euro MTN	15,000	6,219
EUR 2bn Euro CP	2,000	0,483
SEK 15bn Domestic CP	1,635	0
<b>Total</b>	<b>18,635</b>	<b>6,702</b>

- All public debt issued by Vattenfall AB
- The debt portfolio has no currency exposure that has an impact on the income statement. The debt in foreign currency is either swapped to SEK or booked as hedge against net foreign investments
- No structural subordination

# Vattenfall debt maturity profile



These figures differ from the reported interest bearing liabilities as 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.

	30 June 2014	31 Dec 2013
Duration (years)	3.1	2.9
Average time to maturity (years)	6.1	5.7
Average interest rate (%)	3.7	3.5
Net debt (SEK bn)	85.9	99.0*

\* Restated compared to earlier published information due to new accounting rules from 2014 according to IFRS 11.

# Reported and adjusted net debt

Reported net debt (SEK billion)	June 30 2014	Dec 31 2013
Hybrid capital	-9.2	-8.8
Bond issues and commercial papers and liabilities to credit institutions	-67.7	-78.1
Present value of liability pertaining to acquisition of subsidiaries	-18.7	-17.9
Liabilities to associated companies	-3.4	-1.7*
Liabilities to minority shareholders	-12.6	-12.4
Other liabilities	-5.1	-7.5
<b>Total interest-bearing liabilities</b>	<b>-116.6</b>	<b>-126.5*</b>
Reported cash, cash equivalents & short-term investments	30.1	27.3
Loans to minority owners of foreign subsidiaries	0.6	0.1
<b>Net debt</b>	<b>-85.9</b>	<b>-99.0*</b>

\* Restated compared to earlier published information due to new accounting rules from 2014 according to IFRS 11.

\*\* Of which: German nuclear "Solidarvereinbarung" 3.1, Margin calls paid (CSA) 1.8, Insurance "Provisions for claims outstanding" 0.7, Margin accounts 0.1

Adjusted net debt (SEK billion)	June 30 2014	Dec 31 2013
<b>Total interest-bearing liabilities</b>	<b>-116.6</b>	<b>-126.5*</b>
50% of Hybrid capital	4.6	4.4
Present value of pension obligations	-38.8	-35.5
Mining & environmental provisions	-13.3	-11.8
Provisions for nuclear power (net)	-31.7	-28.1*
Cross currency swaps	1.6	1.2
Margin calls received	2.2	2.2
Liabilities to minority owners due to consortium agreements	11.5	10.9
<b>= Adjusted gross debt</b>	<b>-180.5</b>	<b>-183.1</b>
Reported cash, cash equivalents & short-term investments	30.1	27.3
Unavailable liquidity	-5.7**	-6.7
<b>= Adjusted cash, cash equivalents &amp; short-term investments</b>	<b>24.4</b>	<b>20.5</b>
<b>= Adjusted net debt</b>	<b>-156.1</b>	<b>-162.6</b>