

# Our strategy in challenging markets

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# Today's focus

- Vattenfall at a glance
- Market trends & outlook
- Political and regulatory outlook
- Alignment of strategy



# Vattenfall at a glance



## Key data LTM Q3 2012

Net sales	169,829 MSEK
Operating profit	31,155 MSEK
Underlying operating profit	28,353 MSEK
Electricity generation	172.7 TWh
Sales of electricity	191.2 TWh
Sales of heat	33.5 TWh
Sales of gas	52.4 TWh
Number of employees (FTE)	33,071

## Number of customers (2011)\*

Electricity	6.4 million
Gas	1.9 million
Electricity network	4.2 million

\*2011 numbers - excluding divested operations in Belgium (electricity and gas operations), Poland (electricity, network and heat operations) and Finland (network and heat operations)

## Ratings:

- Moody's: A2, negative outlook
- S&P: A-, stable outlook

# Vattenfall's market positions 2011

	Sweden	Germany	Netherlands	Denmark	Finland
Electricity generation	1	3	3	2	>10
Electricity distribution	2	4	-	-	-
Electricity sales	1	4	2	-	3
District heating	4	1	2	2	-
Gas sales	-	-	1	-	-

# Market trends and outlook

- Today's market situation and outlook is bleak driven by low CO<sub>2</sub> prices, significant additions of Renewables and general oversupply
- Towards 2020 the Continental market will show scarcity signals (decommissioning of nuclear power plants in Germany and old fossil fired power plants)
- Recovery of EU ETS will further help to increase electricity price levels
- The Nordic market will benefit from higher price levels on the Continent and export potential
- Having a flexible asset fleet will be important for plants on the Continent

# Previous supply concerns have changed due to strong renewables growth and impact of financial crisis ...

## View in 2008...

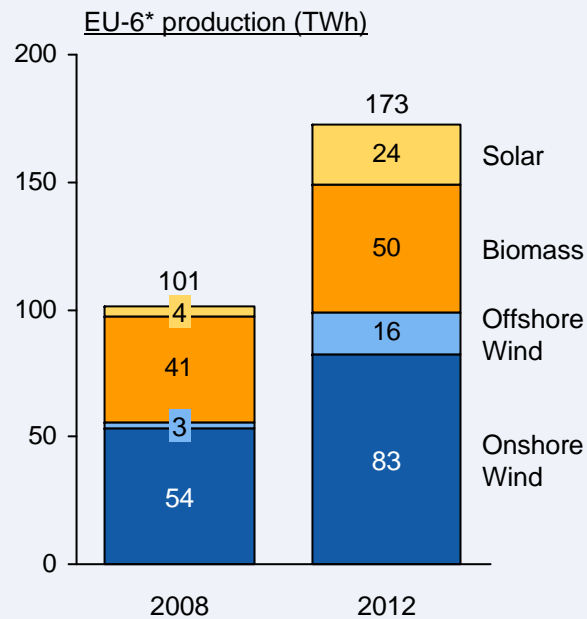
Shortage of 30-50 GW supply in Germany by 2020

Similar perspective in the Netherlands

Finland invests in nuclear to reduce reliance on Russia

## Rapid growth in renewables

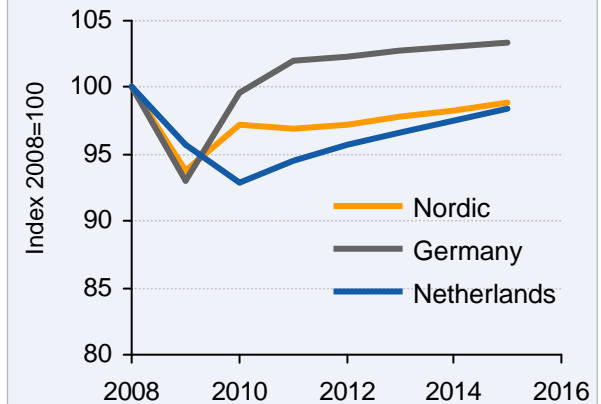
### Renewables production



\*EU-6: Germany, France, Belgium, Netherlands, Poland and Great Britain

## Impact of financial crisis

### Electricity demand

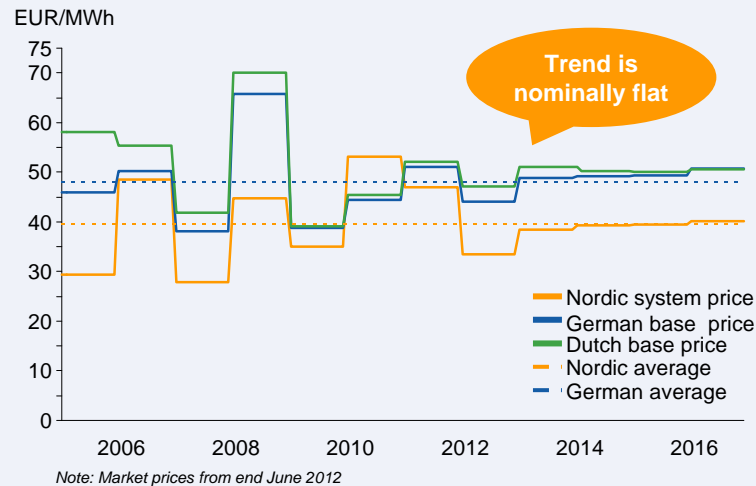


### CO<sub>2</sub> prices

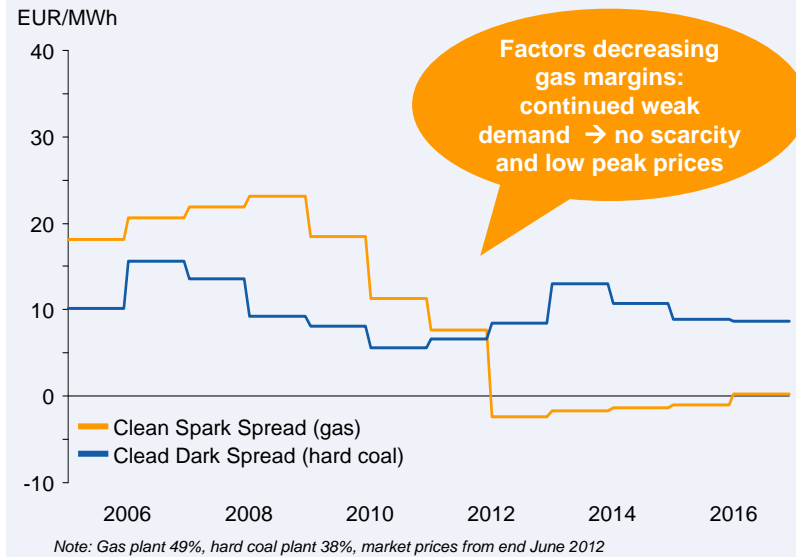


# ... with challenging price development as a result

## Challenging electricity price development



## Clean dark spreads essentially flat, clean spark spread steep decline



## What could change the situation?

### Electricity price



### Demand

Growth in the economy

Recession

### CO<sub>2</sub> price

Political intervention to push up CO<sub>2</sub> prices

Collapse of EU Emissions Trading Scheme

### Capacity

Scarcity signals for post-2020 on the continent. Not likely in the Nordics

Stronger renewables growth (not likely)

### Gas price

Gas price increase (not likely as gas price already high)

Gas price decrease

# Long-term market outlook 1(2)

- Contradicting trends:
  - Decarbonisation of the energy sector but mistrust in the EU ETS to deliver
  - Support for renewables vs. increased awareness of the costs
  - National reregulation efforts vs. European ambitions for competitive market mechanisms and coordinated policies
- 20/20/20 targets continue to drive market developments:
  - 20% renewables target push low marginal cost generation into the market
  - 20% CO<sub>2</sub> reduction probably possible without increased CO<sub>2</sub> prices
  - ETS is affected by energy efficiency policies

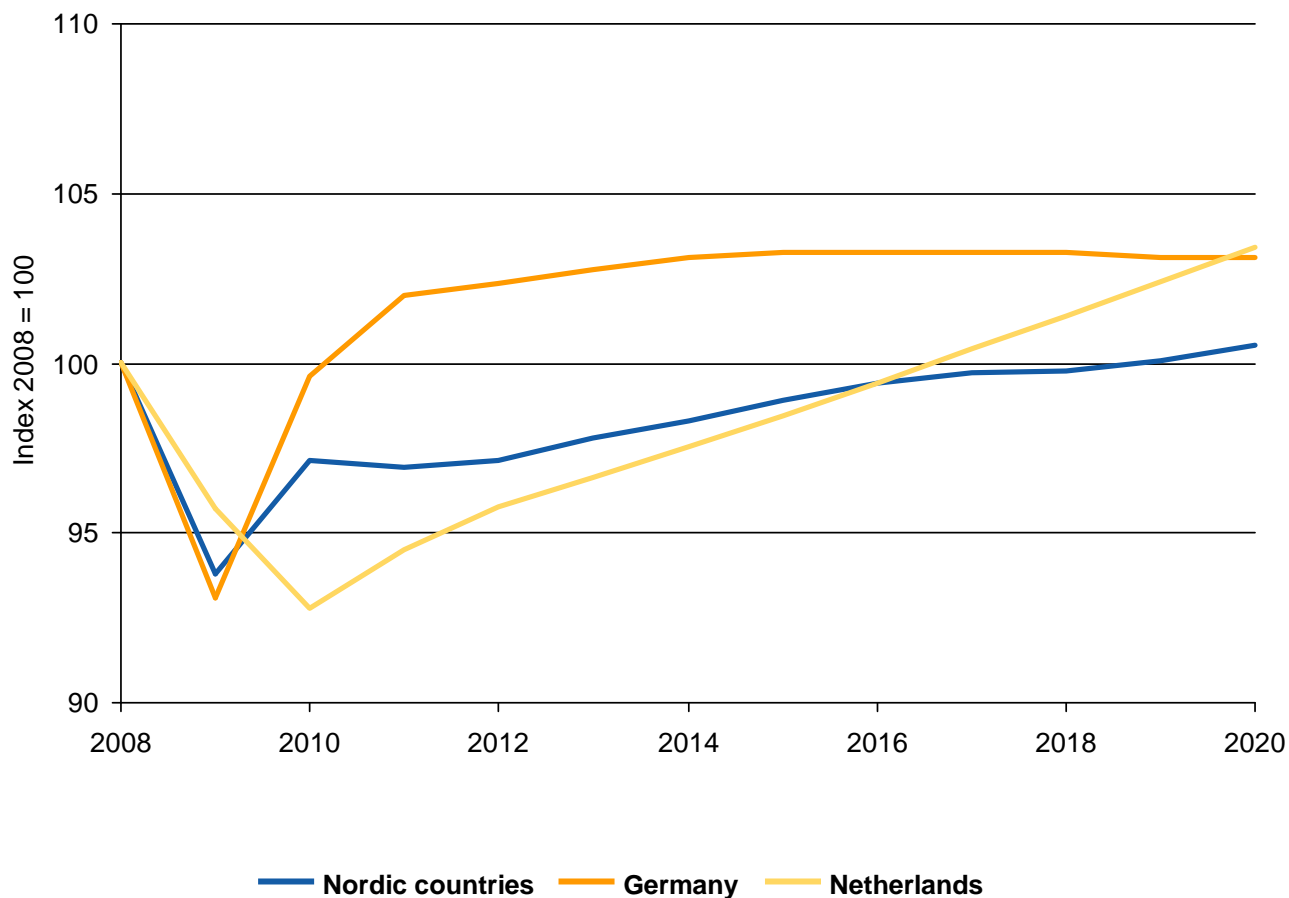


## Long-term market outlook 2(2)

### Going forward we see:

- Renewables share of generation continues growing (photovoltaic in Germany +7,5GW in 2011) and leading to higher end customer prices and reduced running hours of conventional power plants.
- Renewables increasingly facing cost concerns, situation further stressed by generally weak economic environment.
- Need for flexible, or backup, capacity will increase, profitability continued challenge.
- More pessimistic outlook for nuclear power generation with also Switzerland and Belgium deciding on a decommissioning path, delayed permitting process in the Netherlands and questions raised in France.
- Nordic prices will be affected via price development in Continental Europe and the expansion of interconnectors to UK and the Continent.

# Electricity demand development



## Drivers for demand development:

- Population development
- Industry structure and development
- Electrification
- Energy efficiency

## Energy and climate policies are under transformation/development in Europe

- Ongoing discussions within the EU on a possible backloading of allowances in the EU-ETS system to keep up the CO<sub>2</sub>-prices. Possible decision in February 2013.
- In all markets, public discussions regarding pricing of energy. Measures taken to strengthen the consumers rights.
- A number of initiatives from the Commission is expected until summer 2013. Paper on RES beyond 2020 recently presented.
- An Electricity Market Reform (ERM) is under way in the UK.
- Steps towards a competitive market to open up hydro sector in France.

# Political and regulatory issues in Vattenfall's main markets

## Sweden/Nordic



- **No major change in political environment/support for nuclear operations** post Fukushima and the German decision to phase out nuclear.
- **Implementation of the EU water directive** may lead to high initial costs and potentially lower hydro power production.
- The **building of new transmission lines** within Nordic and to continental Europe.
- Measures to strengthen the consumers; hourly metering etc.

## Germany



- **“Energiewende” under construction.** Discussion about energy mix/support schemes after nuclear phase out: biomass, CHP, pumped storage.
- No CCS demonstration plant as a **consequence of “negative” CCS legislation.**
- **Expiring concession agreements:**
  - Vattenfall's concessions for electricity distribution and district heating in Hamburg and Berlin expire in 2014.
  - Possible partnership with the cities of Hamburg and Berlin in order to safeguard prolongation of concessions.

## Netherlands



New Government after elections in September. Highlights in the coalition agreement are:

- Increased **share of renewable energy from 14% to 16%** by 2020.
- **An energy-saving deal with energy companies and housing associations** to speed up measures to make existing homes more sustainable.
- Launch initiatives in partnership with energy companies and the Dutch offshore industry to **reduce cost of offshore wind power.**
- **Small-scale, renewable, decentralised generation of (solar) power will be given a tax incentive**
- **Coal tax**, introduced in the Spring Agreement, is kept as announced.

# Challenging environment requires Vattenfall to align our strategy

## New strategic direction launched in 2010

- Focus on Nordics, Germany and the Netherlands
- Remain an integrated utility active in electricity, heat and gas
- Create financial flexibility
- Improve operating performance
- Focus growth in low CO<sub>2</sub> emitting generation

## Four focus areas in the aligned strategy

1

Strengthen focus on Operational Excellence

2

Ensure continued strong and profitable Nordic position

3

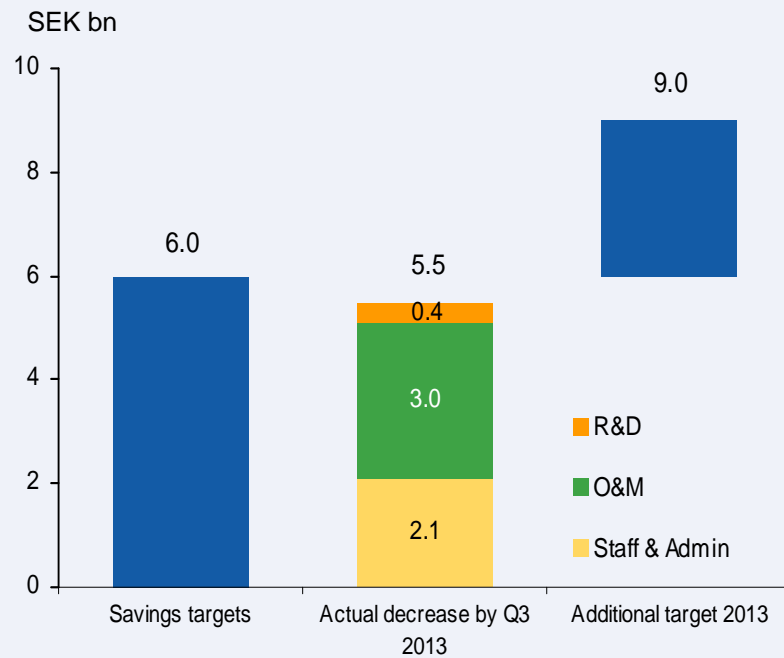
Define options to meet 65 Mtonnes CO<sub>2</sub> target by 2020

4

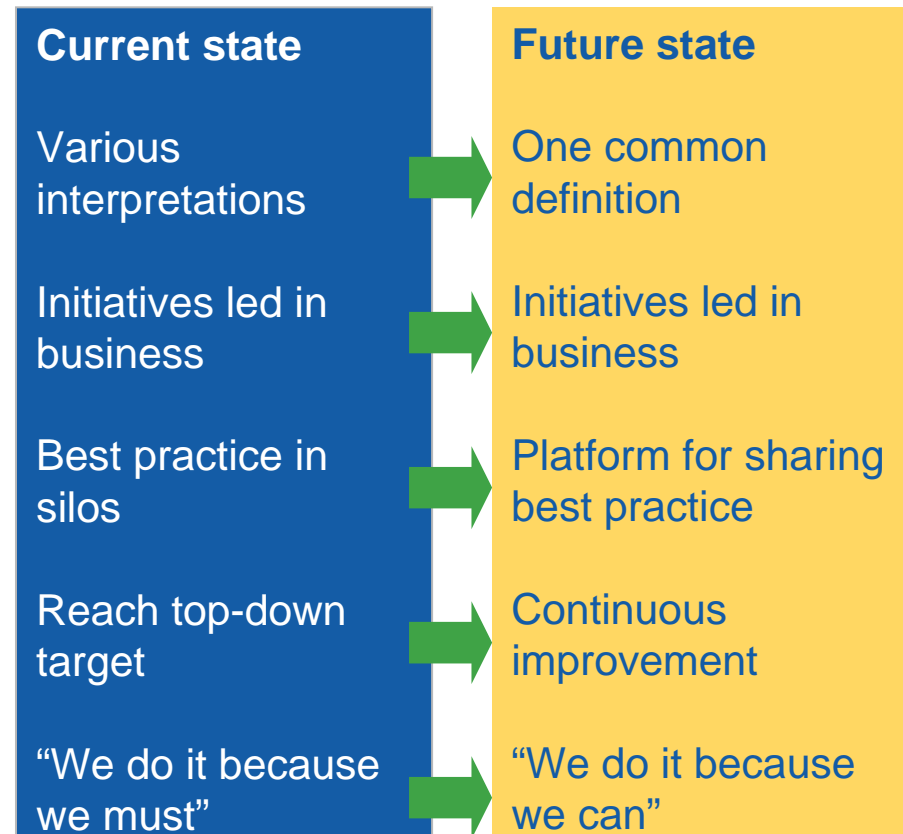
Selected growth in renewables

# 1. Strengthen focus on operational excellence

**Cost savings target of SEK 6 bn will be reached by 2012 (one year earlier than planned). Additional SEK 3 bn run rate at the end of 2013.**

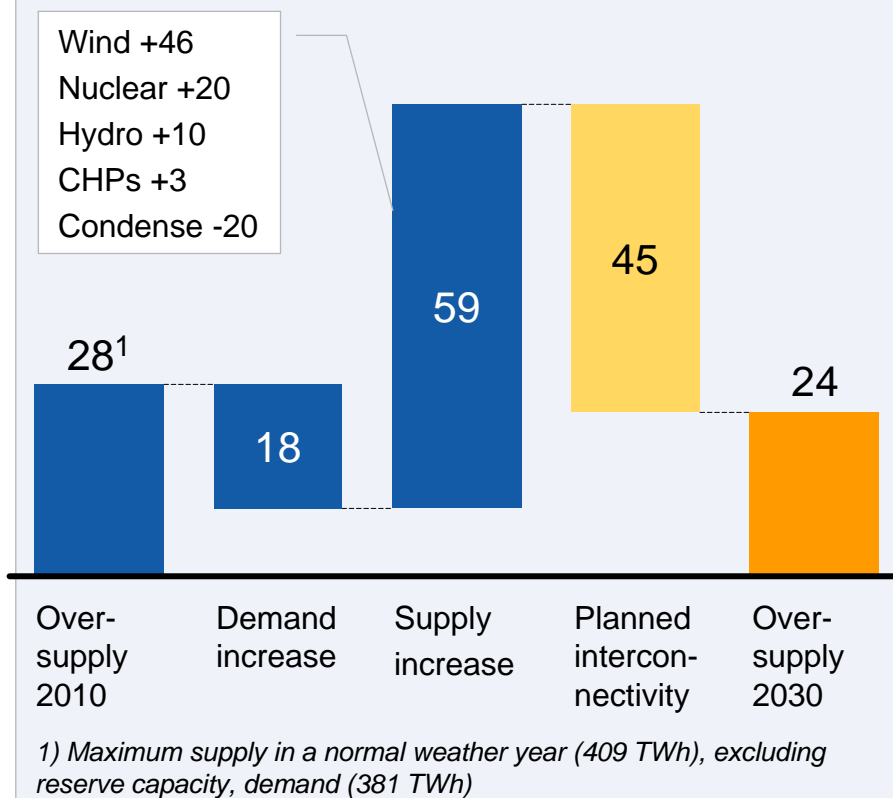


**Operational excellence: “Optimising resources to achieve the greatest results”**



## 2. Ensure continued strong and profitable Nordic position

**There is a risk of 25-70 TWh oversupply in the Nordic market by 2030, relative to a total market of ~400 TWh**



**Vattenfall will protect its position, using three possible levers:**



Encourage the development of interconnectors



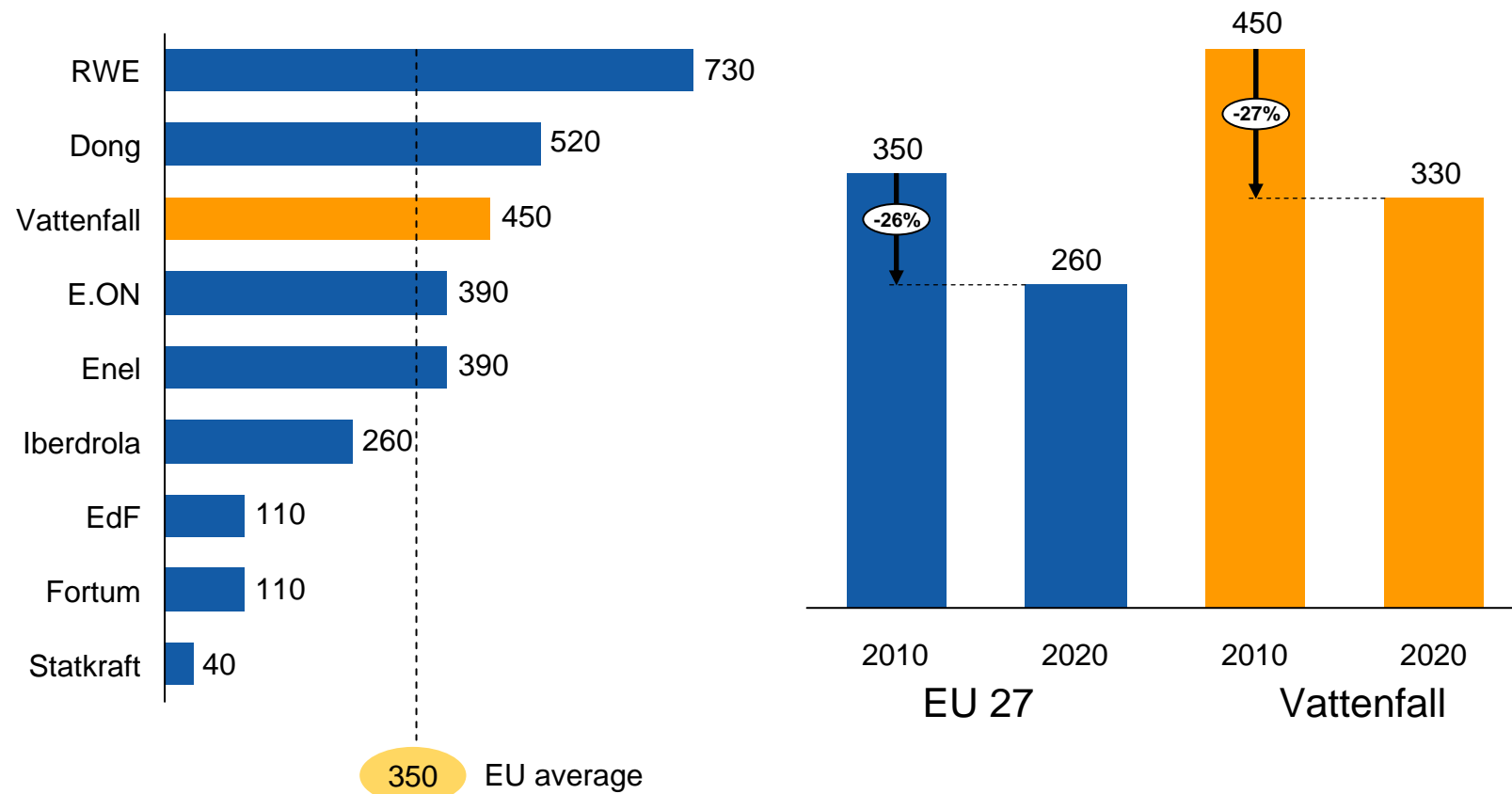
Consolidate the existing renewables growth



Investigate implications on the nuclear portfolio

### 3. Vattenfall must reduce CO<sub>2</sub> exposure to keep pace with the utility industry

Specific CO<sub>2</sub> emissions from European\* electricity and heat generation, gCO<sub>2</sub>/kWh (2010)



Source: The 11-list, Carbon Market Data

\*European: EU 27 + Norway & Switzerland



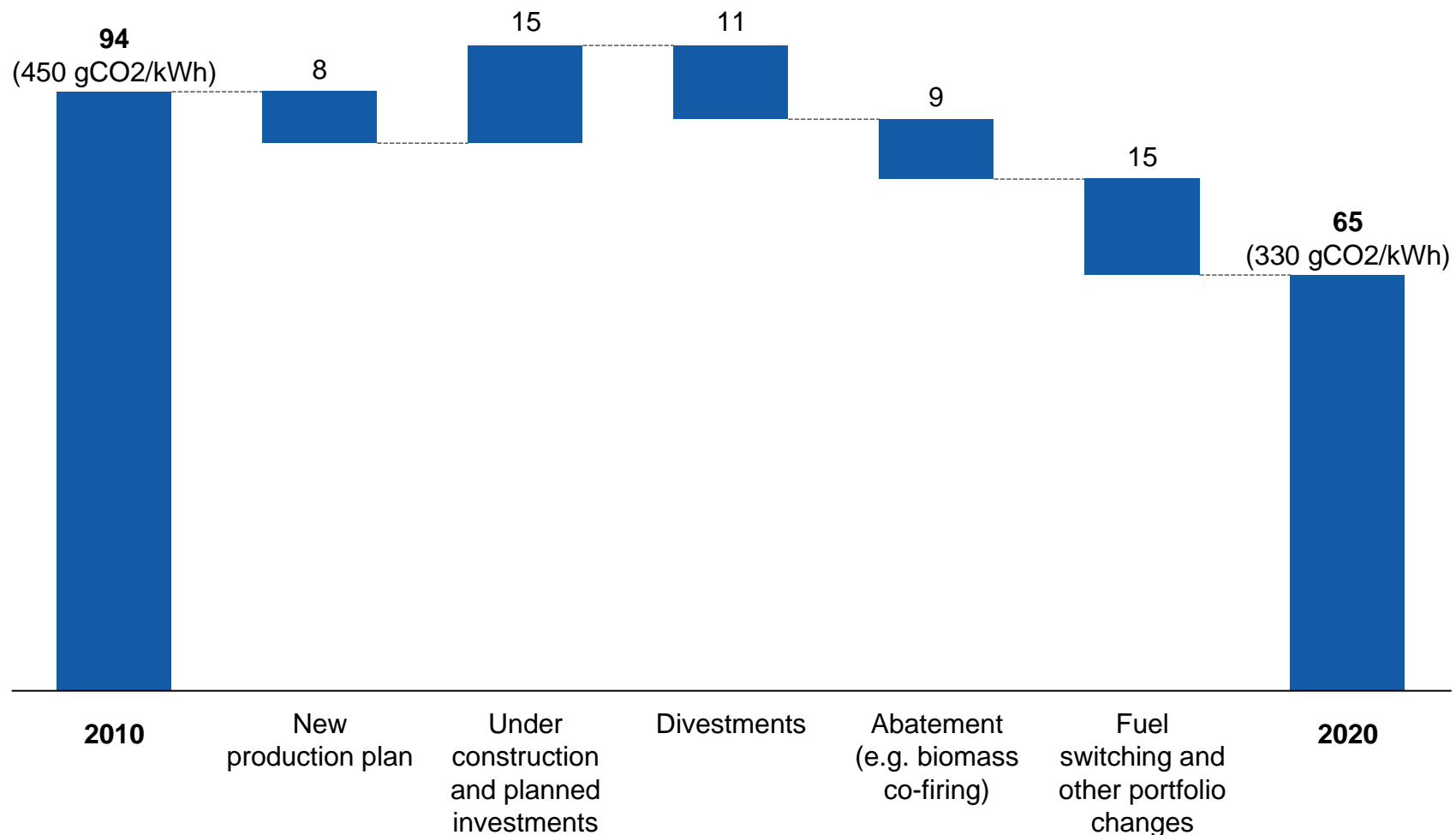
### 3. In light of the changing market environment Vattenfall will redefine options to meet the 65 Mtonnes CO<sub>2</sub> target by 2020

#### Total absolute CO<sub>2</sub> emissions in Vattenfall's portfolio

Mn tonnes, specific emission within brackets

#### Pro-rata ownership share

Electricity and heat



## 4. Selected growth in renewables



**Vattenfall is examining the possibility to grow in equity partnership within onshore and offshore wind to realize industrialization**

- Capex for growth in onshore will be lower than expected
  - Equity partnerships will be explored to realize scale benefits
- Focus on equity partnerships of up to 49% and maintaining Vattenfall control over projects

# New sustainability targets

*“Vattenfall should be among the leaders in developing environmentally sustainable energy production”.*

- **CO<sub>2</sub> emissions**

- Reduce CO<sub>2</sub> exposure to 65 Mtonne to 2020, corresponding to 330 g CO<sub>2</sub>/KWh

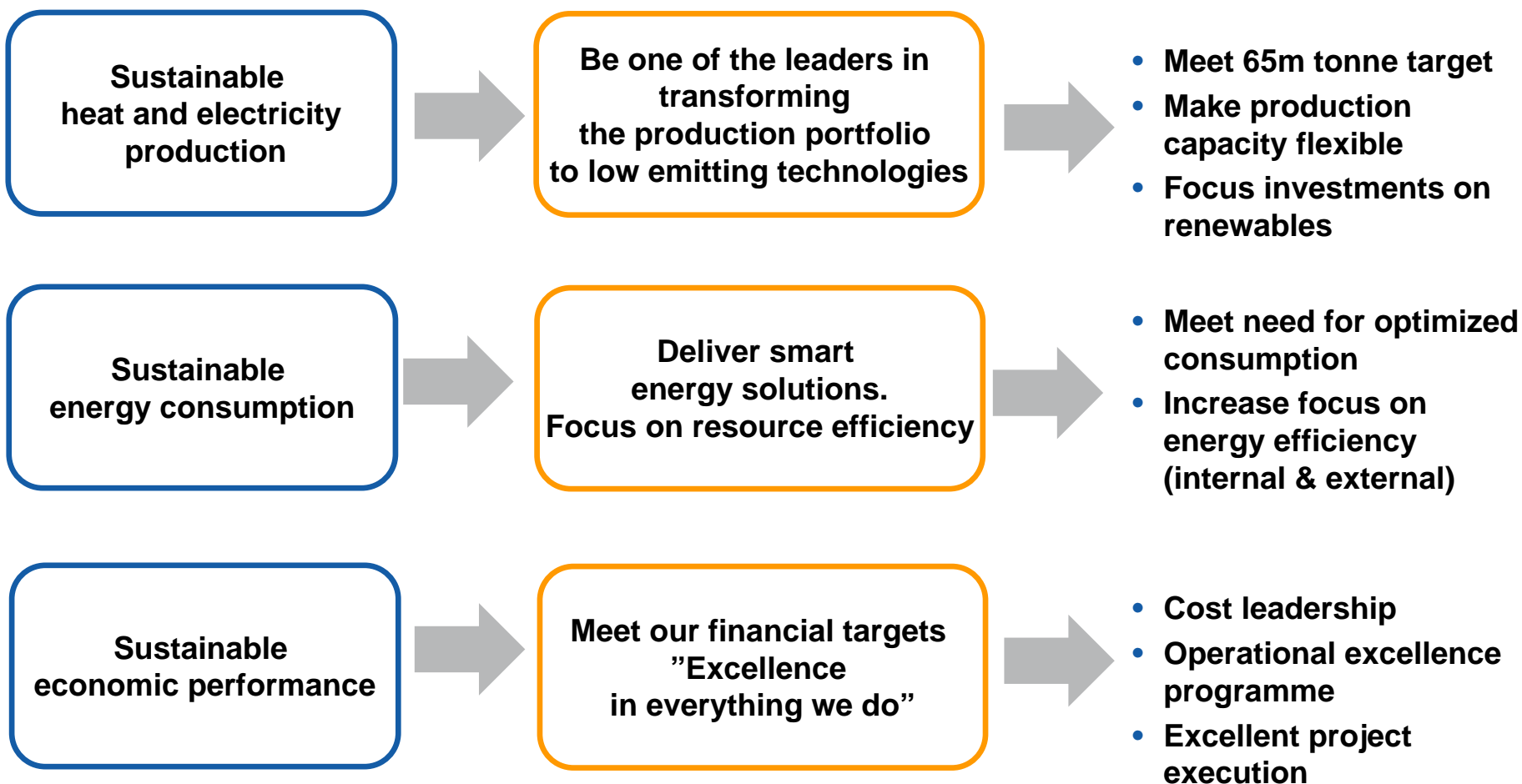
- **Renewables**

- Vattenfall's growth rate of new renewables capacity should be above that of our markets in Northern and Central Europe (excluding hydro power)

- **Energy efficiency**

- Identifying activities in scope – set activity based target 2013
- Set quantitative targets and measure actual savings from internal activities when a measurement system is in place (2014)
- Set quantitative “external” targets as relevant/necessary when national Energy Efficiency Directive targets have been defined

# Vattenfall will deliver



# Appendix

# Vattenfall's six energy sources



## WIND

Vattenfall will continue to expand offshore wind in the North Sea countries and onshore in prioritised markets



## COAL

Vattenfall is investing to enhance efficiency and reduce CO<sub>2</sub> emissions in existing plants, but will not build any new plants without commercially proven CCS.



## BIOMASS

Vattenfall will increase co-firing of biomass in existing coal-fired plants to reduce CO<sub>2</sub> emissions.



## GAS

Vattenfall will maintain its current portfolio and will continuously monitor the potential for growth



## NUCLEAR

Vattenfall aims to maintain its current nuclear positions in Sweden, and will keep its options open for future growth.



## HYDRO

Vattenfall is exploring options to build small-scale hydro power plants and to acquire larger hydro power plants in central and western Europe.

# All energy sources have a role to play

