

2016 was an interesting and eventful year for Vattenfall.

This will be conveyed clearly by the CEO in his address, and I must say that on the whole the right things were done in the right way and in the right order.

At the same time, it must also be said – from a more long-term perspective – that some of what was achieved pertained not only to the 2016 financial year, but had been started earlier, and that measures were started during the year that will not be completed for a few years or even for many years into the future.

Of course, annual reports and annual meeting processes are – for formal reasons, among others – concentrated on the past year. But as everyone knows, the day-to-day reality in a company looks different.

This gives me reason in my AGM address this year to think a bit about this from both the short- and long-term perspectives.

It appears that long-term thinking and long-term ambitions are beginning to be more common and more accepted than previously in business.

This is good, especially if it is combined with stakeholder value considerations – something that I touched upon in my address to last year's AGM.

Short-term thinking and priorities ahead of quarterly reports, especially in the financial area, have been criticised, and often quite rightly.

We are perhaps on our way into a conceptual world in which long-term considerations are regarded as being good, distinguished and sophisticated, and are put in contrast to short-term thinking, which becomes ugly, a bit shady, and unsophisticated.

One should view such a development with some scepticism.

Sometimes I regard the concept of “long term” as a sign of a lack of ambition and capacity to act – as a type of alibi.

Saying that “This should be dealt with over the long term” can mean that right now we are not doing anything even though it is important, and this it is precisely why we actually should have already begun doing something.

Another example is the expression “this should be viewed as a long-term strategic acquisition”. When I hear someone say that, I interpret it to mean that “we will never be able to gain from this deal”.

It is especially unfortunate that long-termism is sometimes used as an alibi in areas where short-term action may be preferable in order to correct an unsatisfactory state of affairs in areas such as equal

opportunity, sustainability and human rights, where long-term ambitions and plans provide little comfort to those who would welcome such short-term action.

What I am arguing for is that both the long- and short-term perspectives must be taken into account, and that the one, by definition, is not better than the other.

What's important is that there is a balance between the long-term plan or vision and the short-term, flexible actions taken.

This reasoning is of significance for Vattenfall's development.

Five years ago I shared my preliminary views of the company with the management of the responsible government department, where I noted the following regarding these areas (I still have my notes):

Structure problematic

- Hydro and nuclear power in Sweden: problems with efficiency
- Taxation – political uncertainty
- Coal-fired power and closed nuclear power plants in Germany = problems
- Costly acquisition in the Netherlands
- A swath of small positions outside Sweden
- Awkward wind power strategy

Earnings falling

- Problems with cash flow
- Excessively high costs
- Remuneration culture low

Balance sheet weak

- High level of debt
- Unclear valuations = imminent impairment losses?
- Goodwill

Operational excellence weak

- Availability of nuclear power
- Lack of benchmarking
- Weak project implementation

Risks large/unclear

- Trading limits, proprietary trading
- Financial risk in coal, nuclear power

Business model unclear

- Poor customer orientation

Politics troubling

- Historically weak owner interest
- Energy policy manoeuvring

- Taxation
- Poor understanding of the Companies Act

Board weak

- Industrial company with millions of customers and vulnerable image

Management sprawling

- Silos, geographical units, legal units
- Lack of respect for the Board (owner)

Sustainability issues unclear

- Phrases, not particularly operational
- Environment – some greenwashing
- Human rights, diversity, supplier controls unclear
- Sustainability issues not integrated

And this is what I read from my manuscript:

“I think we should change our direction to be more of a Swedish/Nordic player with strong international positions in renewable energy”

How are things five years later?

The structure has improved and been refined.

Earnings continue to be weak – as in the industry as whole – but cost-savings of SEK 10 billion have been achieved, earnings- and cost-consciousness have improved, cash flow is under control, and clear improvements have been made in the remuneration culture.

The balance sheet is more stable, the level of debt has decreased, substantial revisions (impairment losses) have been made; in relative terms the rating agencies have valued this higher than for our peer competitors.

Operational excellence has improved, knowledge and awareness has increased; the wind projects are an example of this. Follow-up by management and the Board has become more precise.

Risks are managed better. BA Markets has changed its focus and reduced its limits. The sale of the lignite operations and ongoing settlements surrounding nuclear power in Germany are lowering risks.

The business model does not say that we produce energy that we hope someone will buy, but instead that we have 10 million customers who we are helping to buy energy in a smart way.

In politics, clarity has been created surrounding the operating conditions by the energy agreement in Sweden. There is satisfactory understanding that the Board is working in the company's best interests, in the spirit of the Companies Act.

The Board, by agency of the owner, now has industrial and financial competence complemented with specific expertise in energy, sustainability, communication, digitalisation and societal issues. The Board's evaluation shows good cooperation and high quality in the board's work.

Management has been reinforced and renewed. The CEO has achieved this in a superb manner and has changed the organisation toward being more open and collaborative. Management's interaction with the Board is good, and the General Counsel and secretary to the Board, in particular, has made a fine contribution in this regard.

Sustainability issues have an entirely different level of dignity. On this point I can gladly refer to the extensive narrative provided in the Annual and Sustainability Report.

For all of these achievements, there has not been any detailed long-term plan. In fact, I believe that had such a plan been presented, it would have been ruled out as being unfair, unrealistic, unachievable, and perhaps even politically unacceptable.

But based on the company's general direction which, together with the owner's directives have steered – and steer – the Board's and management's work, quite a bit has been achieved – in fact, precisely through a series of so-called short-term measures that have made Vattenfall today a much better company than it was five years ago. For this I want to thank everyone at Vattenfall as well as the management, my colleagues on the Board, and the owner and its representatives.

The work is continuing in all areas. And although many shortcomings have been remedied, fundamental problems remain in the industry – and thus for us – with overcapacity and the price trend. There is no other future than hard work. But the future also includes trends that we intend to manage as skilfully as we can – in decentralisation, renewables, digitalisation, efficiency improvement, and much more.

Magnus Hall will now share some thoughts on this.

Thank you!