

## **1. A new Vattenfall takes shape**

This is an exciting time for the energy sector and for Vattenfall. Climate change is the most urgent issue of our time, and we at Vattenfall want to drive development towards a fossil-free society by enabling an increasingly climate-smarter life in our production and among our customers. The goal is to have only fossil-free solutions within a generation. We call this Power Climate Smarter Living, which means that everything we do should lead to climate-smart solutions. On these slides you can see a number of important areas where we are contributing to this.

- a) Hydro power is a sustainable and flexible energy source, and of course an extremely important asset both for Vattenfall and for Sweden's energy supply.
- b) Sweden's nuclear power is both climate-neutral and cost effective, and is a key bridge to a renewable energy system.
- c) Heat is a large and significant part of our business, where we also have very good opportunities to drive development towards fossil-free solutions in partnership with large housing companies and cities.
- d) We are raising the quality of our networks and adapting them to new conditions.
- e) We continue to grow in both offshore and onshore wind power which, moreover, is the single largest item in our capex plan.
- f) Parallel with this we are developing new business areas. We are investing in solar energy and battery storage, and we have created one of northern Europe's largest charging systems for electric vehicles.
- g) We are developing solutions for smart homes, private electricity production and storage among our customers. We are giving them opportunities to be climate-smart.
- h) To ensure that the future's quite complex electricity system will work smoothly, we have our Markets business area, which is responsible for optimisation and balancing of production and consumption, such as through price hedging, trading and balancing services.

## **2. 2016 – a turning point for Vattenfall**

Looking back on 2016 we can see that we have made great progress in a number of important areas. Apart from their economic significance, all of these measures have contributed to a lower risk profile for Vattenfall.

- a) We have adapted the portfolio in the right direction through the sale of the lignite operations. We can now channel our resources into the business areas that shape the new Vattenfall and contribute to the transformation of the energy system – all in line with our strategy. The sale has not only reduced our carbon exposure – we now also have an entirely different production mix with considerably lower risk and a higher share of fossil-free energy sources and more stable cash flows. In our investment plan we have earmarked SEK 28 billion in growth, with most in renewable energy production and the infrastructure required by the transformation of the energy system.
- b) In Germany a fund is being established where we and other operators are paying for the state to take over responsibility for intermediate and final storage of nuclear waste. This

affects us positively from a risk perspective, as we will no longer bear responsibility for such long-term and uncertain measures.

- c) The energy agreement in Sweden was definitely the decisive political advancement that has made the future less uncertain for Vattenfall. We fully share the ambition of achieving a fossil-free future in which we at the same time safeguard our existing nuclear and hydro power operations in order to be able to manage the transformation in a financially responsible manner. The elimination of the nuclear tax cleared the path for strategic investments in Forsmark that will ensure its continued operation into the 2040s. We are conducting preparatory work for corresponding decisions for Ringhals 3 and 4. In the same way it is important to bring down the property tax on hydro power assets to the same level as for other production facilities. We are also working hard both in nuclear and hydro to bring down costs and also to raise our efficiency in order to ensure that we have profitable generation in the fierce competitive climate that currently exists in the electricity market. Our nuclear power plants generated a lot of electricity during the winter season, and availability was high.

Through its operations Vattenfall can have an impact on human rights. To shine light on the situation we have conducted an extensive review, and it is clear that one of the areas in which we have the greatest impact is coupled to our suppliers. We have been working for several years to strengthen their sustainability work. Among other things we have strengthened our own processes and increased our influence through direct engagement. Most recently, we were accompanied by two experts on a three-week visit to Colombia, where we met with coal mining companies, local communities, union representatives, representatives from the government and authorities, and NGOs. We are now compiling our observations and will thereafter hold discussions with the mining companies as well as other stakeholders to propose activities aimed at improving the situation.

### **3. Market trends support the energy transformation**

We talk often and at length about the transformation of our energy system, so allow me to name the most important trends that are driving this development.

- a) The climate issue is central, and a shift to fossil-free fuels is essential. This is a trend that has been strong for several years and will grow stronger in pace with technological development and lower costs. Vattenfall is taking part in this development – especially in offshore wind, where costs have fallen dramatically during the past year. Moving in this direction is also important for attracting key competencies in the industry and maintaining our strong customer growth. Financiers are also raising their demands.
- b) We are convinced that electrification will play a decisive role in solving the climate issue. Electrification is making it possible to replace fossil fuels with fossil-free energy and thereby to lower emissions. At Vattenfall we see it as our responsibility to help our customers in other sectors achieve their climate goals.
  - In the transport sector, most car manufacturers are now developing electric models, and we are also seeing clear ambitions in the markets where we want to be a driver in this development: Sweden, the Netherlands and Germany. In these countries we intend to play a key role through our investments in charging infrastructure.

- In the heat sector we see opportunities in two particular areas. First, we can use periods with low electricity prices – which are becoming more frequent in a renewable energy system – to produce heat that can be stored and delivered through district heating systems. Second, we see that electric air source heat pumps have great potential to replace gas heat in Germany and the Netherlands, and thereby lower CO<sub>2</sub> emissions in a system that is increasingly based on renewable electricity generation.
  - We also want to contribute to lower industrial emissions through electrification. Good opportunities exist for this, and we are collaborating with both the steel industry and refineries to bring about such a development.
- c) We are seeing a steady emergence of decentralised energy solutions, which already today have proved to be very cost effective both for households and businesses that want to generate their own electricity. It is natural for us to be an enabler of this development, too. This notwithstanding, the energy system will consist of both decentralised solutions and more flexible, centralised production in the foreseeable future.
- d) In a future characterised by rapid technological change and increased digitalisation, the competition will be fierce. It is therefore absolutely necessary that we continue our work on increasing efficiency and cutting costs in all areas of operations. Digitalisation is also making a very clear impact on the customer side, where we are both improving proximity to our customers and identifying new business opportunities, which is very positive.

#### **4. A climate-neutral company and attractive partner in the energy transformation**

We have a number of interesting projects and partnerships that we at Vattenfall are very proud to be a part of today and that support our goal to continuously deliver climate-smart solutions to our customers:

- a) I mentioned the steel industry. For some time we have been conducting a research project together with the steel company SSAB and the mining company LKAB that is studying opportunities to replace coal with hydrogen gas in the steel production process. This could potentially reduce Sweden's CO<sub>2</sub> emissions by a full 10% from current levels.
- b) We are studying opportunities for large scale hydrogen gas production together with the oil company Preem in order to be able to significantly increase production of renewable vehicle fuels.
- c) In connection with GE Healthcare's investment in Uppsala, Vattenfall is involved as the supplier of carbon-neutral district cooling. This is a prime example of a smart energy solution for our customers that is both cost effective and environmentally sustainable.
- d) Energy storage is naturally a very important component in the new energy landscape, where the share of intermittent production from renewable sources is on the rise. We are planning and currently executing storage projects at several of our wind farms with BMW as the supplier of batteries.
- e) We are supporting the plans to build Europe's largest lithium battery factory in Sweden through our collaboration with Northvolt.

- f) Finally, I want to mention that last year we launched a marketplace, PowerPeers, where our customers in the Netherlands can choose who they want to buy their electricity from and in the same way sell electricity they have produced themselves to friends, relatives or neighbours, for example. This is a prime example of how we are developing continuously together with our customers and helping each other achieve climate-smart living.

Our work on reducing our CO<sub>2</sub> emissions continues, with the goal of being fossil-free before 2050. During the year we took the decision to convert the Klingenberg combined heat and power plant in Berlin from lignite to gas, which will lower the plant's CO<sub>2</sub> emissions by approximately 600,000 tonnes a year. Another example is in Hamburg, where the Moorburg plant is utilising surplus heat to reduce other production. The plant is thereby now also classified as a combined heat and power plant.

## **5. Results for the year and financial target achievement**

With respect to the business climate, it is still strained with low electricity prices. This is clearly shown in our earnings for 2016, which were weighed down by substantial impairment losses. Profit for the year was SEK -2.2 billion for continuing operations and SEK -26 billion for Total Vattenfall, including the lignite operations. Due to the negative result, the Board of Directors proposes that no dividend be paid for 2016.

However, we saw an improvement in the underlying operating profit, which was SEK 21.7 billion for continuing operations – an increase of SEK 1.2 billion compared with 2015. We concluded our SEK 2.5 billion cost-cutting programme for 2015-16, which has played a key role. As I mentioned earlier, it is necessary that efficiency improvements and continued savings are made across the board in order to maintain our competitiveness.

## **6. Strategic target achievement**

The Board of Directors has decided on our six strategic objectives, which we see in this slide:

That we have increased customer centricity is shown in the Net Promoter Score, where we clearly performed above our target. We are dramatically expanding in renewables and expect to be near our target of 2,300 MW in new production by 2020. Through the sale of the lignite operations we have dramatically reduced our CO<sub>2</sub> emissions to a level of 23 megatonnes, which is close to our target of 21 megatonnes. Lost Time Injury Frequency has decreased, and we are performing better than our target level through concrete preventive measures. However, employee engagement is not at an acceptable level for Vattenfall overall. Improvement is needed here. And finally, return on capital employed was substantially negative due to the substantial impairment losses. The return for our underlying business was close to our target of 9%.

## **7. The path forward**

The core of our business – energy – enables economic growth, a higher standard of living and a more sustainable environmental impact. It is a great responsibility that must be taken with utmost seriousness. Strategically and operationally this means that we must consistently adapt to new conditions in the market by being innovative, creative and efficient in everything we do.

And as I started out, we have a clear idea about the path forward for Vattenfall. The direction is described succinctly in our purpose: Power Climate Smarter Living. We are here to help all our customers and partners live and work to an increasing degree without fossil fuels, with the goal of being entirely fossil-free within a generation.

Thank you!