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PRESENTATION

Karin Lepasoon - *Vattenfall - SVP Communications*

Good morning, and welcome to this presentation of Vattenfall's Full-Year Results 2016. In a moment, we'll hear from our President, CEO, Magnus Hall; and our CFO, Stefan Dohler, and afterwards, we'll open up for questions.

As usual, this is a live meeting here in Solna, combined with a webcast and a telephone conference. So, Magnus, up to you. Thank you.

Magnus Hall - *Vattenfall - President, CEO*

Thank you very much, and also from my side, everyone, welcome to this presentation today. And of course, also not only to the listeners in this room, but also to the listeners on the web and over the telephone.

It's as -- we have been quite used to now for Vattenfall, we are showing a two-sided coin of the result; and if we look to the full-year result for 2016, it's actually a loss of SEK21 billion on EBIT level. And the main reason for that is significant impairments and significant increased provisions. We will go through that, certainly, later; but if you will look to the underlying result, which is the running rate of the operations, we actually show an improvement versus 2015 with SEK21.7 billion versus SEK20.5 billion.

And I think this picture needs to be clarified -- there are two different things. One is, of course, the financial results showing the significant change in value of the Company, but also the underlying operations going forward. We also have a significant change in the fact that we have sold the lignites business so we are also reporting two different figures -- one's the total Vattenfall and one for the continuing operations meaning the remaining part of the business after the lignite sale.

Certainly, 2016 was a good year in many respects also. We had several things that came into motion in favor of us. That was the Swedish Energy Agreement, which is certainly a very important part in developing our company, and we have clarity on the future view of the Swedish Energy System which is, of course, a big part for the Vattenfall operations and where we can also see tax situation changes making it possible for us to invest now as we did earlier announced, the investment in, the prolongation of nuclear in Forsmark.



So this is very important. The lignite divestment, of course, is a strategic change in the Company, reshaping the portfolio where we are going in a renewable direction, much more climate-friendly direction; and that is also very significant for the operations. And Germany nuclear -- the long term and medium term storage solutions that we see now developing in Germany are clearly in the direction what we want. They mean, though, that we have to take an additional provision in quarter four. We will also talk more about that later.

We see renewable growth. We have several projects that we have been able to land during this year, and also customer growth; and we have continued cost reductions which are an important part also of the change of the results being better in 2016 versus 2015.

The strategic targets for Vattenfall is set around the strategic objectives to the left. We're looking at leading, helping our customers leading towards sustainable consumption; and our strategic target for that is actually to measure how people, how our customers perform, how they value us compared to the competitors and we can see an increase in that. Even though the figures, +2 and +7 are difficult to explain in detail, it's clear we can see an improvement which we are very happy for.

We also want to be a leader in the sustainable development of sustainable production, so we have a target for commissioned renewables, as we can see, where we are on our target. And we have significant other projects also coming in for the coming years, so a few more words on that later.

Of course, absolute CO2 emissions was clearly a reason behind divesting the lignite operations. You can see we are actually taking ourselves from 83.8 million tons in 2015, now on a running rate of around 23 million. So, from that perspective, a significant change in the CO2 emissions in the Vattenfall group.

ROCE is, of course, based on the negative results, not at all reaching the target, but if you look to the underlying, it's actually, I think, 8.7%, as I showed in the earlier picture. So we are approaching the target in terms of underlying ROCE, which is, of course, a positive way of seeing the development.

And when we look at empowering our own organization, we have taken two targets there which are important. One is, of course, the safety issue which is always there in Vattenfall, not only in the work life, but also when it comes to, of course, nuclear safety being imperial in our business. But if we look here at the LTIF, the lost time injury frequency, and we can see a clear improvement versus 2015; and we are very happy for that, even though we have a tougher target going forward -- and we will continue to work on that.

And then, the employee engagement, which is not appearing to the target that we have set up. We are not going in the right direction, and, of course, that's something that we have to address within Vattenfall. And I think also, when we see the clear way of Vattenfall going forward, we will see improvements in this respect.

Stable electricity generation, not so much changes. We can see that on the hydro part we had a little bit less water in the Swedish system. On the nuclear side, we managed to get better availability, though; and we got the Ringhals number 2 on operation in the fourth quarter, which means we actually improved versus 2015.

And on the fossil side, there is almost no change. On the wind side, might look a bit odd in the way that we are actually commissioning new capacity, but we also felt that we had a year which was around 20% less wind than normal in 2016; and that could happen individual years -- and you see the results here.

Spot prices have been going up -- went up in the last part of last year. We can see them now turning back. Mainly, they were going up based on a situation in France where the availability of nuclear was below expected; and that put pressure on prices, put also pressure on the Germany market because it was not possible to export as much from France as would be expected in Germany and we could also see that affecting then also the demand of coal and coal prices, and the prices in the Nordic system also being pushed partly by this development.

Now we see that turning back. And if we look forward, we don't really see those price increases hanging on. We are still below the 2015 level for the future contracts, even though we have seen some increase versus the first half of 2016.

And commodity prices, we can, more or less -- the one here that you can see, which I haven't commented on before, that's the emission rights. You can see it's almost stable, around EUR5 per ton which is, of course, still much too low in our view in order to drive the investments in renewables and non-CO2 emitting technologies. So we hope that that would be something that the politicians and the European Parliament and the Commission will take seriously going forward.

We believe electrification is an enabler for solving the climate issue. We can see that around three issues. Absolutely, the electricity for the electrification of the transportation sector is something where we are getting involved. Electrification of heating and we'll get back to these things in just a moment -- and electrification of the industry. And so electrification has the possibility to be an important part of changing the climate issue; and we are working on that. The transportation sector, certainly, we can see that there are clear ambitions in the big markets where we operate in; Sweden, Germany and the Netherlands. The ambitions by 2025 and 2030 differs a little bit, it is quite clearly something that pushes for an increase. And we are investing now in charging infrastructure and we want to be part of this growth possibility that we can see. And we have also taken a decision that Vattenfall's around 3,500 vehicles will, in five years, turn over to either hybrid electrical or fully electrical to reflect the change that we see.

So this is an interesting change going forward, definitely, and offering also business opportunities for Vattenfall.

Electrification or heating is something that we can see is going to change. One thing is, if you look to the district heating systems, you can also use excess heat. In a renewable energy system where you will have much more, at times at least, cheap, renewable electricity, you can take that into an energy storage that is the heat system. And then you can actually use that and you can reduce your CO2 emissions over time, and that poses a very good use, both, sort of, counteracting the cyclicity of the pricing, but also using then the renewable sources much more.

And this is where we are already experimenting with this and we expect that will shape up over time; and we believe this could be one cornerstone in changing the CO2 emissions and, certainly, the district heating systems is then the base -- and Vattenfall has strong positions there, as you know, in Uppsala, in Berlin, in Hamburg and in Amsterdam. We believe this could be a good opportunity for us.

But on the other side also, for smaller and medium sized buildings, heat pumps is going to come in; and the big replacement there is actually when you use gas heating. For a big part of the markets in Germany and Holland today, you will see changes where we can sell heat pumps instead, and renewable electricity will come in as a possibility to power these heat pumps, and then you will be able to replace the CO2 emission from the gas. And in Sweden, you will now, because we have the heat pumps, we will see a recycling and we will see a second line now of more investments coming into the heat pumps and, certainly, we expect to be part of that development also.

Electrification of the industry is a little bit further away, but we believe that there is a lot of political will but also will from the industry to change; and electrification has that possibility. We are participating in several parts of this where we -- one is the steel industry where we have a cooperation in Sweden with SSAB and LKAB. We look there to use hydrogen instead of coal to take away oxygen. In the cement industry, we can use renewable heat rather than using fossil fuels as part of the heating. And then in refineries, we can also use hydrogen in order to create the possibility for producing more renewable liquid fuels that could actually be used in transportation.

So, certainly, here, for Sweden at least, the biggest opportunity to reduce CO2 emissions and we are actively engaging in this, and believe that the totality of all these three things will actually mean that, in the future, electricity consumption has a good possibility of going up.

Digitalization, I will not talk so much about that, but that's also for us a very important part of the development. We see three things which we are concentrating on -- the customer experience, that means improving the current way of doing business with our customers. It could be the digitalization, which is already done by the inCharge system, which is an infrastructure system to handle the payments for charging cars. And then also we have the Alltid system which is one way of making fixed delivery so the customer can buy electricity at more or less fixed costs and then we can digitalize that.

But we also believe operational excellence, we will see this development clearly in operations and maintenance optimization, but we can also then -- if we take the internet of things and you can really have sensors, there's measuring where you see problems, you could come to the next phase of predictive maintenance and then you can really make a big difference.



And on the far out, you will also see new operative business models, like the power peers, which we are operating in Holland at the moment where we are letting people trade with each other on renewables. If you produce renewables, you can send to somebody else who wants to buy it on our platform. And then micro grids, which means that you will actually see local grids developing where they will have their own consumption, own production, some storage, and where they need a digitalized system to make it run in a smooth and controlled way.

We see the transition being very much also pushed by regulation. We have the Swedish energy agreement, which is now clear. We have the German law on nuclear waste, and that law is now passed in the German parliament, and we expect also EU approval within the second quarter of 2017.

And, of course, it means that, for us, we can continue to renew the hydro, the nuclear, in Sweden. We will also increase the flexibility in the hydropower plants because in the renewable system you need to make them go in parallel in order to create the full security, the supply that you want. And then we will also have responsible decommissioning of both Ringhals 1 and Ringhals 2, which we will close in 2020 and 2019, and then also the German nuclear. So that's important.

Significant wind growth, I said that earlier -- where the biggest part of the growth investment in the group is going -- into wind. And the way to do this is to develop a pipeline where you have projects going forward because this is a very much a project development business at the moment. We will as overtime we develop projects, they will come into production, and they will start generating cash flows into the system; but so far, we are now spending more money than we are actually getting out of it; and we will do that for a few years. But we are also being successful in acquiring then, in auctions, project possibilities. Certainly, we have this target of 2.3 gigawatts by 2020, we can be able to fulfill that with the latest projects that we have on the screen.

But you can also see to the right that we have significant projects further away. They are not as far in their development, but they are offering possibilities for us to continue to grow and we believe that wind power, both onshore but also offshore, will gain territory going forward -- at least, offshore will do that even more because offshore has been considered the high cost opportunity for producing renewables. We now see costs coming down, and with that, we will also see governments and others be much more interested in actually being part of developing the offshore wind parts; and we certainly think that will continue to offer a good business opportunity and a growth opportunity for the Vattenfall Group.

So, with that, we are, I think, pretty far in that respect, and we will go on with that development.

CO2 reductions are important for the world and definitely for our group, for Vattenfall. They will remain in focus. You can see the portfolio transformation that we are now taking on on our own. You can see to the left here, if you look to just the specific per produced terawatt hour of electricity, how much CO2 we have been emitting before and after the divestment of the lignite going from 426 g/kWh down to 165 g/kWh. And out of these 165 g/kWh still a big part is in the heating systems where you both produce heat and electricity, which means that you have a high efficiency. So, really, you still emit CO2 but you have a high efficiency using that CO2. And, over time, that will also change.

You can see that the continued CO2 phase out. We have taken a decision to close a lignite operation which we have in Berlin. We will phase out of coal and we will replace it with gas; and in the second part, we will also replace it with combined heat and power system based on gas. And you just saw this morning that we came out with an additional investment in the Berlin area where we are spending money on changing this. And additional on top, we will see new smart energy and heat solutions.

But also to support our customers -- and I said that earlier -- part of our mission is, of course, to help our customers to become more sustainable in the way that they produce their energy -- either they use it more efficiently or they produce it on their own. We are there to help, and we can do that, certainly, much more. We need to cooperate both with those customers who want to do this, but also cooperate with cities where we are operating and to create roadmaps in reducing the CO2 emissions.

So this is a very important target for us, climate neutrality by 2050, in Sweden already 2030. And our ambition is to do it earlier than 2050, but we have to also make sure that we are able to deliver heat and electricity in the meantime, but this is an important ambition.

And, finally, this investment that I just spoke of, the Marzahn operation in Germany is an investment of a little bit more than EUR300 million, reducing the CO2 emissions by a -- the Klingenberg closure, we reduced about 600,000 tons; this is another 400,000 tons -- so close to a million tons of CO2



emissions we will reduce by those two projects. And, of course, this is, for the Berlin inhabitants, very important going forward when it comes to making the city more and more -- emitting less and less CO₂, so to speak.

You can also see to the right here our position in Germany. This is part of our investments going forward in Germany. It's an important market for Vattenfall, even though now we have halved our amount of employees in Germany from roughly 15,000, 16,000 down to 7,500. We have significant business there and significant business opportunities in Germany, one which you have presented on this picture here. We will continue to look for investments in the German market.

So, with that, I think just to conclude, I think Vattenfall is clearly on the way now, changing around. We are showing a negative result on the total that's really a result of electricity prices having gone down significantly during the last four, five years; but going forward, we now see how we have growth possibilities and we believe, clearly, that we can be part of changing the system toward a much more sustainable energy system.

With that, I close, and I would like to leave the floor then to not my new, but today, new colleague, Stefan Dohler, who will present you the financials. So, okay.

Stefan Dohler - Vattenfall - CFO

Thanks, Magnus, and also good morning from my side. Happy to have the first opportunity in my new function as CFO to present the year-end results for Vattenfall. So I'm excited, as you can imagine, but I hope you will let me alive. And, of course, I think Magnus, in fact, drew the picture already. Maybe just a few, kind of, main messages to start with.

Of course, also, with the sale of lignite and with a positive cash flow contribution, we have actually an improved capital structure. Magnus mentioned already the improved FFO/AND that is now within the target range of 22% or above. Of course, the heavy hit from the impairments, that is quite significant again, but I think with the decision around the lignite and also some of the other points we took we should now have a very realistic and a very fair view on our asset value in our balance sheet. We have a very much significantly reduced merchant risk or direct, if you like, exposure towards commodities with the sale of lignite because that was an outright exposure towards a pretty volatile business. And, of course, with the sale of that, there's a much bigger portion of our revenues coming from less volatile, or if you want, more regulated, more firm income.

The cost reduction program, I think we have also delivered year-on-year now for quite a while -- and I have one slide later going a bit into details. And we, of course, need to continue that part. That is not anything we will ever stop on.

Then, of course, the nuclear provisions have made a significant impact specifically related to this German nuclear fund solution which requires us to pay a premium and, of course, that needs to be provided then in the end.

And, of course, we have a new investment plan which I will also show, and then you will see also the shift in our focus around our investments going forward.

So three views on currently the developments underlying EBIT; and this is now for the total of the Vattenfall Group, so including the lignite. When I now talk about the numbers, it's always important to try to maneuver between what we call the total Vattenfall, which is including the lignite impact, and the continuing operations where we try to peel that off so to give a fair view on what is, more or less, the steady state business or the going concern going forward.

So here for the underlying EBIT, of course, you see this very big gap between the underlying and the full EBIT for the year; and this delta is, of course, mainly because of three effects, lignite roughly having a negative effect of SEK22 billion, that's around the level of impact that we had from the impairment around the lignite transaction. Then we have from the remaining SEK20 billion, if you want, from this gap of SEK42 billion, the remaining SEK20 billion is roughly splitting into SEK12 billion from other impairments mainly that we took in the Q2, and roughly SEK8 billion, you could say, coming from additional provisions -- also, they are mainly related to the Germany nuclear. We can explain this quite significant gap of plus SEK21 billion versus minus SEK21 billion.



At the same time, we have a positive development on our debt reduction, our net debt having gone down quite sustainably. And, of course, the net debt is not following that path because we had quite heavy provision additions and that, of course, is eating a bit away. And then also with a quite good and positive development of the FFO, which shows that we are continuing our efforts to fight against the price decrease through also cost measures.

Numbers, I won't go so much into the line items; otherwise, it will be, I guess, too lengthy. But Magnus commented briefly on the net sales mainly being reduced against last year because of the lower prices, so lower spreads, lower margins on the gross margin side.

Underlying EBIT, we have an increase actually against the last year, so a better underlying result than we had the last year. And then you see further below on the net debt, we have a reduction of SEK14 billion on the net debt not equally reducing on the AND, on the adjusted net debt, but, again, that is mainly then related to the provision items, and the rather stable FFO year-on-year.

So if you like, performance wise from the underlying business, quite strong, but of course still in a pretty competitive price environment in the market.

The metrics, I think Magnus also commented on those. We are now, if you like, looking okay on the FFO/adjusted net debt; we are close to where we want to be. Of course, we want to be sustainably above the 22% ideally, and we will because of the investments coming in the next one, two years, see a slight dip in these, that's at least what we currently see, but we are on a quite good path to have a really sustainable path to beat that target. I think, otherwise, not so much here I would like to point out.

Then going on the financial conditions, I think this is quite important because it relates very much to what I said in the beginning, our exposure that we do have in the market. And you see, if you look at the EBITDA split per segment, where have we been in 2015 and where have we been in 2016. If you then take out the lignite business and there you see quite a significant shift to much, much lower part coming from the power generation business which carries, of course then, a market, merchant, exposure.

Unfortunately, part of this, as it is EBITDA, is related to gross margins, so lower prices, so that's explaining it. But the big shift, of course, comes from the shift in our portfolio; so we have now a much lower exposure towards merchant and a much stronger contribution from distribution which is regulated, from wind which has a quite high stable income component, and also the heat business which you could call semi-regulated because there's a very low churn given the nature of the business of district heating where, once you have a customer connected, it is pretty likely that that will stay a long term relationship.

On the right side, you see the development of FFO/adjusted net debt. We have now seen a very good development, and we hope that this will continue based on our prognosis that we currently see for the coming years. As I said, 2017, 2018 will be a bit of difficult because there we have a very heavy investment cycle.

So this is a bit of a difficult slide maybe when you see it the first time. Of course, you see on the left side what was also already introduced by Magnus that we have seen in 2016 -- quite a few very strong, very important developments which you could say is really reshaping not only the shape of Vattenfall in terms of what are we doing, what is our focus of business, but on the other hand, we also think that it has quite a significant impact on our risk exposure.

So what we do, basically, we always test, like, where are we when things go the wrong way. So when there are risks materializing that we could see in terms of price changes, cost overruns, all the typical corporate risk that we can see for a company like Vattenfall, and we test them, we accumulate these risks and say what could happen if. And what we have seen now with this right-hand picture, with the shift of our portfolio, we have a much, much lower risk of slipping significantly down. So, if you like, our downside risk of moving into a territory that we would here show as a red area where we say, then we would be really not anywhere near our financial targets. That is very much diminished, and as a consequence of that -- you have heard that already from Ingrid in the Q3, we have also adjusted our hedge strategy because we don't need so much, if you like, insurance or downside protection from hedges because we are much more resilient than we have been in the past. So I think that's also quite an important message that we want to convey.

Then on the cost side, I mentioned that already that we have now since 2010 delivered around 30% cost reductions. We think that this is not good enough; we think that we will need to continue. We have a number of programs ongoing that will deliver further cost reductions. But I think that this shows that we can deliver, it's now more structural measures, it's not so much, to say, sweating of the organization. It's really now more fundamental changes we need to do. We need to invest in these changes. And you see here a number of items listed through changing systems, doing outsourcing, really taking structural measures rather than, kind of, just trying to get out more from the same organization.

At the same time, digitalization and automation is, of course, two key aspects in which we need to invest; otherwise, we will never be able to deliver. And that goes for the administrative part, but also for the technical part of the business.

Then liabilities for the nuclear waste in Germany, also already introduced by Magnus. So here you see the timeline. So indeed, we do expect the EU approval, but that's, of course, not in our hands, not in the hands of the German government, to clear that from a state aid perspective so that is supported. Hopefully, this will be done then before the summer.

Currently, the law foresees that we should pay in then our contribution in July 2017, so mid of the year. Until then, from 1 January until then, we will have to pay an interest. And you see on the upper right-hand side, what are the financial consequences, so that's the cash out, if you want. In total, it's EUR1.8 billion, roughly EUR1.8 billion that we need to pay which is the base amount which we have always accounted for. That is the part related to the long term and interim storage facilities plus this famous 35% risk premium and the interest from January to July, amounting in total to roughly EUR500 million. So that's the total amount we will have to pay.

And then, of course, you see a result on the earnings and also the adjusted net debt. The difference here comes from the fact that we, in the adjusted net debt, go on a pro rata basis and on the earnings, of course, we consolidate Brunsbüttel.

Discount rates also a very important factor given that we have quite a sizeable amount of provisions that, of course, we need to always test then every year. And you see here an overview. We have taken down significantly the discount rate for the German provisions for the Germany nuclear. The main reason for that is -- besides the market development, of course -- the fact that the remaining provisions for which we need to use this discount rate is now no longer this very long 80-year long view on the whole storage of the spent fuel; but we now only need to keep the provisions for the decommissioning, for the scraping of the plant, if you want. Then we scrap it, we package it and then we hand it over to the German government and then we are out of this.

So this process is like, let's say, 15-, 20-year horizon, so it is a much shorter horizon that we have in mind. So, therefore, of course, we need to have a very different view on the discount rate used. That's why it's such a big gap. And in Sweden, we have also done an adjustment downwards but in a much less severe way because there we keep the very long term view, of course, on the tenure of the whole exercise of eventually finding solutions.

And on the pensions, I think (technical difficulty) approach we take.

Again, here I will not go through this table of items affecting comparability. You see the biggest point, of course, is the impairment losses that's listed here. Most of it came actually in Q2. In Q4, we have two more basically that we took in. This is the SEK3.3 billion that you see in the Q4 here. One is from an impairment on the fossil asset in the Netherlands, which we impaired again; and then another one coming from the shareholdings of the German nuclear power plants where we still had at equity, a certain value; and given that Stade is already decommissioned and Brokdorf will stop production in 2019, we also impaired the remaining value to zero. So that are the two effects that are new for the Q4.

And then on the provisions, that's the other big item. There you see the additions mainly coming from the German nuclear and the Swedish nuclear. For those who very carefully listened to the last two pages, you have seen SEK5.4 billion in Germany comes from the additional nuclear fund; SEK1 billion comes from the changed discount, so that doesn't add up to SEK5.6 billion, but it should be a bit more. The missing SEK0.8 billion is an offset, a positive offset that we had by a solution that we now could agree in Germany to have a faster decommissioning in the Brunsbüttel plant, which means we can actually dissolve provisions of SEK0.8 billion. So that is, then, adding up to the SEK5.6 billion that you see here.



Underlying EBIT, as I said, an increase against the actuals 2015, negative coming from the production margins, so basically price changes. As you know, we are still in a continuously falling price environment while we had a very positive contribution from heat there mainly because of lower fuel prices, and we don't have a fully symmetrical hedging of fuels and electricity, so that why, in this case, heat significantly benefited against the last year from lower fuel prices and the better result from trading and gas sourcing. So that added up to the SEK21.7 billion.

I don't think I need to go too much through the segments. Of course, the positive ones are Customers & Solutions, Heat I just mentioned already, where we had a more positive contribution than in the past year. In the generation segment, because of the lower spreads, lower results. Wind, mainly because of lower wind that we had; and quite a high starting depreciation while the full effect of the asset is not yet coming in. And in distribution that's mainly due to the fact that we have sold the German network operations, and that is then, of course, lowering the contribution from that business, so that's rather a divestment related effect.

Cash flow, you see quite a significant part going into growth investments, a bit more than now in maintenance, which I think is also an important point to take up. In the past, this was very much more maintenance related because lignite was quite a heavy eater, if you like, of maintenance capex, while now we have a much higher focus on growth which, I think, is also good. And then we had also some divestments that eventually end up to this number and, of course, that helps also to reduce our net debt.

Last slide, investment plan. So it's basically the whole slide showing always the same thing, just from different angles. On the left side, we have a total investment budget for two years of SEK50 billion. And you see one-third roughly going into non-production related activities and two-thirds going into production related activities, while you see then only SEK6 billion out of the SEK50 billion, so 12% of the total investment budget going into fossil related investments, while the remaining part is rather going into, I would say, emission-free investments which I think is also kind of a way we want to push forward to make sure we get to this future that Magnus has shown in his presentation.

On the geographical split, you see that, of course, quite a large part still going to Sweden and Germany. Germany is strongly related to the wind investments we do there, also distribution. And in Sweden, it's the nuclear, the hydro and also the distribution where we have quite heavy spend.

Then on the lower right part, you see that 56% is actually going to growth. And then if you look at, zooming into the growth, that the largest part is rather designated to wind because there we still have an ambitious pipeline that was also shown earlier where you can really see we have, more or less, committed investments. Everything that you see here is already fully committed because any new idea that would now come up is well behind that horizon here. So this is, more or less, locked in investments that we will do to really reshape the portfolio. And we also have some relatively small but I think promising investment opportunities in areas on the PV side, the heat side, and also on the smart grid development.

So it's the innovation part that we want to strengthen further; but I think with the shaping of our investment budget that we can really facilitate that. And, always, since I'm the finance guy, with a view on profitability, we are not sponsoring any investments because we think they are nice, but we do that because we think they're profitable.

So I will stop here. Thanks a lot.

QUESTIONS AND ANSWERS

Karin Lepasoon - *Vattenfall - SVP Communications*

Thank you very much, Stefan and Magnus. It's time for the Q&A session. We have questions from the webcast and maybe from the telephone conference. But we will start by taking questions here in the room in Solna. Do we have any questions from the audience here? Yes, please. Wait for the microphone please, and state your name and the company you represent please.



Jesper Starn - *Bloomberg News - Media*

Good day. My name is Jesper Starn from Bloomberg News. I was just wondering regarding your new hedging strategy; and I noticed you don't report European hedging levels anymore. Do you still hedge your contracts in Europe and do not report them, or is that a new strategy and that you have a much shorter hedging horizon?

Stefan Dohler - *Vattenfall - CFO*

If I may I can, I knew that question would come. So I think I have one backup slide. Hold on, while this takes too long. No, sorry, it's not here on this one, so I'll do it verbally.

Indeed, what we have said is given that we have now more or less sold our outright exposure on the continent, if you look at it from a Group perspective and with the lower risk that we have suffering from negative developments, we have said we would rather focus on only hedging our Nordic exposure because that's outright. Hedging the spread exposure on the continent doesn't make much sense, so we will only go for hedging the Nordic exposure going forward. We, of course, currently still have a year ahead, two-year, three-year ahead hedged contracts, we don't sell them off, we don't unwind them, but we just let them mature.

And then the question is how do we do that, would we put everything on the sys, or would we go partially through proxy hedging via instruments on the continental market? That is something we always have to decide based on pricing -- so what is, so to say, the best price for the protection that we buy. So that means we will only, going forward, hedge our Nordic exposure.

Karin Lepasoon - *Vattenfall - SVP Communications*

Thank you. Any further questions here in the room in Solna? Apparently, it seems like we go over to the webcast, Robert.

Robert Pletzin - *Vattenfall - Communications*

Thank you, Karin. We have a first question from Andrew Moulder, CreditSights.

Andrew Moulder - *CreditSights - Analyst*

Germany's already failing in its targets for the introduction of electric vehicles. How long do you think it will take for the system of electrification to significantly add to the electricity demand?

Magnus Hall - *Vattenfall - President, CEO*

I think it will take some time. It's very difficult to give a forecast of that, but we think that within the next five years you will see some sort of a definite catch-up effect on the electrical vehicles. That's our feeling at least today.

When it comes to the electricity usage that you would use more for heat pumps and heating, I think that's over time. You will see that development almost starting now, but it will go into the next 20 years. We might see a continual increase of that.

And then on the side of industry, I think these are early stages now when there is a lot of investment needed in order to change it, but if we will see a significant also price change in the CO2 rights, I certainly believe that we will accelerate this development.

So it's over a longer period of time, but it's the direction we are pointing at and we believe that we'll go in that direction.



Karin Lepasoon - *Vattenfall - SVP Communications*

Let's go for another one, Robert.

Robert Pletzin - *Vattenfall - Communications*

The next one is from Stig Nordlund, Norrbottens Media, related to Sweden concerning jobs about to be outsourced in Solna and Jokkmokk.

Stig Nordlund - *Norrbottens Media - Media*

When will Vattenfall give information about the decision in this matter? And exactly what kind of jobs are offered as an alternative in Jokkmokk, I assume?

Magnus Hall - *Vattenfall - President, CEO*

We haven't -- I mean, of course, we have internal investigations on how we should do that. We haven't communicated anything around what options we will actually choose for. I think we will try to find the best options. We expect to have a decision around the outsourcing issue in quarter two. And then we need, of course, people to continue to work with the organization that works in the services that will be outsourced. We need to keep them. And, of course, change then later in next year.

So we will come back on that issue. We don't have those clearly yet.

Karin Lepasoon - *Vattenfall - SVP Communications*

Let's go over to the telephone conference and see. We have a question, I believe.

Operator

On the telephone, Neil Beddall from Fidelity Investments. Please go ahead.

Neil Beddall - *Fidelity Investments - Analyst*

Thank you. Thanks for the presentation. Just about two, three points of clarification, if I may.

Just on the offshore wind business, you said quite clearly that costs are coming down. Clearly, we've also seen the auction levels coming down. So I just wondered if you could give us a bit of a range for the sort of returns that you're still getting. I know you're not going to give us exact ones and I don't expect that; but I mean are you getting double-digit or high single digit levels of returns and is that your expectation going forward for the pipeline?

And then just looking at that pipeline, given that you've got 7.3 gigawatts on that one particular chart that you are presumably working on, what's your strategy on the ownership going forward? Is it to retain full ownership or to sell down, which we have seen for some of your competitors?

And then, just as a general question, just on impairments and items regarding compatibility, can we assume now that they're going to be significantly reduced going forward so that, effectively, the underlying and reported figures from Vattenfall are going to be much closer? I know there's always going to be some variation, but we've seen some pretty big differences over the last few years. So do you see this being the final year where it's going to be a bit more smooth?



And then just very, very finally and I apologize for this big list, is there a target for the further cost cutting reductions that we can actually track and monitor? Thank you.

Magnus Hall - *Vattenfall - President, CEO*

Okay. On the IRR for the wind business, I mean, we are not commenting on that. As you know, we have the ROCE target over time as our guiding principle. And, of course, that's what we long term are searching for, not to underscore, but then exactly how that will be done, that we can't sort of -- there can be different business models in receiving that. But we keep clear to make sure that this is going to be a profitable business going forward definitely, otherwise, we would not bid into the auctions.

When it comes to the potential sell-down and the big portfolio going forward, yes, we have that as an option. We have done so, so far, and we see that as an option also going forward. Currently, we are not pursuing anything in that respect, but we see that as a possibility when we grow bigger. So we don't rule that out at all; we see that as an important possibility.

When it goes to the difference between underlying and the actual results, I think, certainly, our target would always be to show one result, more or less. I mean the underlying result should be the same as the real results. But we have seen so significant changes in, specifically, the markets for electricity prices; and I think our exposure to that has meant that we have had to take those impairments. You can also see now with the change that we have done with the selling of the lignite; of course, those risks are decreased. And we have also taken down a flight level of pricing so I think that that risk is clearly much smaller now than before, and we would, based on that, of course, expect to deliver more firm results in line with the actual results. But you can't promise anything in that respect, it's impossible. But that would be our expectations definitely.

And when it comes to the last point of the target cost-on-cost programs, no, we are not currently developing. We are running several different cost items on various parts of the Company with clear targets; but we are not putting them together in one big go. We might see if that's something we are going to do later on, but for the moment we are not doing it. But it's absolutely not meaning that we are stopping any actions or ambitions on the cost side, we certainly believe that the competitive landscape will remain. It doesn't really matter whether you are entering a more stable income situation with less price risk, you need still to work on all your costs.

As we also reported here, we have an outsourcing project which we are running which is clearly going to give effects, but not in the coming year and the next year. Then also other things where we have clear targets reducing our costs in the production side. So we do have that and we will see whether we will come back to a target to track. We have not set up a new target in that respect.

Neil Beddall - *Fidelity Investments - Analyst*

Okay. That's great. Thanks very much. That's very clear. Thanks.

Magnus Hall - *Vattenfall - President, CEO*

Thank you.

Karin Lepasoon - *Vattenfall - SVP Communications*

Thank you. Robert, we have more questions on the web I know.

Robert Pletzin - *Vattenfall - Communications*

Indeed we have. The next one is from James Sparrow, BNP Paribas, related to our credit rating outlook.



James Sparrow - *BNP Paribas - Analyst*

Do you think the improved capital structure and changed business risk profile of the Group could lead to a stabilization of Vattenfall's credit rating outlook?

And also a question related to -- or directed to Stefan. As the new CFO, please comment on your view on corporate hybrids, do you think they are a useful financing tool? And do you have any concerns about how restrictive they can be when it comes to replacement?

Stefan Dohler - *Vattenfall - CFO*

Okay. So on the rating outlook, of course, that's more a question to the rating agencies. We'll probably have discussions with them from our perspective. As I said, we have clearly a much more stable Vattenfall, a derisked Vattenfall, which I hope should also reflect in the rating. Of course, we have to deliver then also on the results, but from all the angles that at least we can see, it should be clearly positive. That's how we perceive the changed situation.

When it comes to hybrids, yes, we still think hybrids are interesting. Currently, we are not in a desperate need or, frankly speaking, any need on short term to do any refinancing or issue anything, also taking into account the payment in summer to the German government that will also not trigger any direct need for that. But if and when we will look into financing, hybrids are definitely part of our scope, and we are not really concerned about any restrictions around these because this is part of a longer term view that we have.

Karin Lepasoon - *Vattenfall - SVP Communications*

Good. Thank you. The next one, please.

Robert Pletzin - *Vattenfall - Communications*

A couple of questions from Dutch Media and Energeia, Hans van der Lugt.

Hans van der Lugt - *Dutch Media and Energeia - Media*

The first one is what are the plans with the coal power generation plant in Amsterdam, the Hemweg Power Station? Closure any time soon?

Magnus Hall - *Vattenfall - President, CEO*

Our situation in Holland is such that we are waiting the government's view on what they would like to do with the coal phase out there. There is a discussion. We have clearly offered our intention to play a part in any program that they would develop, and until we see that more clear, we are running the coal plant as we do today. We are not participating in this coal firing program that they are doing. So we will see actually how they will do the phase out of their coal in Holland and reflect our position towards that.

Karin Lepasoon - *Vattenfall - SVP Communications*

Good. I think we had another one from the same?

Robert Pletzin - *Vattenfall - Communications*

Exactly, from Energeia.

Hans van der Lugt - *Dutch Media and Energeia - Media*

Could you please explain what it means with the statement in the report -- impairment of asset values pertains mainly to revaluation of Dutch gas assets in the Netherlands?

Stefan Dohler - *Vattenfall - CFO*

I think I tried to answer at least in the presentation that was part of the Q4 impairment that we took. So that's related actually to the gas fired assets mainly in the Netherlands that are suffering from lower spreads. And since we have still a significant value in our book for these assets and for the flexibility value of these assets, we had to actually test that value and that eventually resulted in the impairment.

Karin Lepasoon - *Vattenfall - SVP Communications*

Yes.

Robert Pletzin - *Vattenfall - Communications*

Final question from Energeia related to the Netherlands.

Hans van der Lugt - *Dutch Media and Energeia - Media*

A clarification on negative price effects in the Netherlands had a negative impact on net sales. How negative was this effect?

Stefan Dohler - *Vattenfall - CFO*

I wouldn't have the single number right now. I would have to look that up so we can feed that in. But, basically, it is, of course, on the gas fleet on the margins if it's coming from the generation part; and on the sales part, it would, of course, be then more toward the customer side. But I think this effect mainly comes from the gas assets, which again, plays with the impairment. So it shows that we cannot realize as much value as we have seen before and that's then eventually reflecting into the impairment as well.

Karin Lepasoon - *Vattenfall - SVP Communications*

Good. Do we have any further questions?

Robert Pletzin - *Vattenfall - Communications*

A couple of final questions. The next one is from energate.

Unidentified Participant

How is the proceeding of the Court in Washington because of the nuclear phase-out in Germany?



Magnus Hall - *Vattenfall - President, CEO*

There are no specifics on that. It's proceeding, and we expect them to come back with their decision sometime this summer. Apart from that, we don't have any updates.

Karin Lepasoon - *Vattenfall - SVP Communications*

The final one.

Robert Pletzin - *Vattenfall - Communications*

The final one is from Recharge News, Anamaria Deduleasa.

Anamaria Deduleasa - *Recharge News - Media*

Going forward, what are your plans in terms of participation in wind tenders, either in Europe or the U.S.?

Magnus Hall - *Vattenfall - President, CEO*

I mean, we are participating in wind tenders in Europe. We expect to continue to do that. Exactly which wind tenders we are going to participate in is not always something we communicate. We are not currently looking at the U.S.

Karin Lepasoon - *Vattenfall - SVP Communications*

One more? Yes. Please. We have a couple more minutes.

Robert Pletzin - *Vattenfall - Communications*

Yes. The next one is from Columbia Threadneedle Investments, Sharon Vieten.

Sharon Vieten - *Columbia Threadneedle Investments - Analyst*

Will the capital structure of Vattenfall be opened up in the future?

Magnus Hall - *Vattenfall - President, CEO*

If that is a question whether we are going to go private or not, I think this is not a question to us, it's a question to the owner. We operate our company as any other company in the way that we have to deal with financial markets. We are also being financed by bond holders, of course. But it's not a question for us.

Robert Pletzin - *Vattenfall - Communications*

Okay. We do have a final question from Andrew Moulder, CreditSights,



Andrew Moulder - *CreditSights - Analyst*

who asks, to remind him what we expect the changes in the Swedish nuclear and hydro taxes to add into the EBIT in 2017 and 2018?

Stefan Dohler - *Vattenfall - CFO*

I think the full effect when it's fully loaded is SEK5 billion. So that's the total effect that we will see at the end. The ramp up, I have to say, I don't also know out of my head. If it's not in the report, I think we can also feed that in. But it's a staggered approach specifically on the nuclear tax. But the full results of that, once it's fully implemented, I think that's 2019, should be then around SEK5 billion.

Karin Lepasoon - *Vattenfall - SVP Communications*

All right. And we have -- if we can make a couple of more questions and then with short answers then -- we've covered them all?

Robert Pletzin - *Vattenfall - Communications*

Yes.

Karin Lepasoon - *Vattenfall - SVP Communications*

All right, very good. Are there any further questions now? I just ask the people, the guests here in the room here in Solna. No further questions.

Thank you very much, everybody, for attending. This ends this presentation of Vattenfall's year-end results 2016. Thank you.

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