

**Address by Mikael Damberg to Vattenfall's Extraordinary General Meeting, 12 December 2017**

Translation provided by the courtesy of Vattenfall AB

Thank you Mr. Chairman!

Vattenfall has very special place in the saga of Sweden: As one of the most important pinions in the industrialisation of our country. As an employer of thousands and more thousands of Swedes. As a supplier of one of the most basic services in our homes. But also, in later years, as a much-debated emitter of greenhouse gases in Europe.

At times admired, at times criticised - always well-known and watched closely.

But the Vattenfall that has gathered today at this Extraordinary General Meeting is a company in the midst of a metamorphosis.

I am happy to note that after some very tough years, Vattenfall's earnings have stabilised. Billion-kronor losses have given way to billion-

kronor profits. The company's financial position is stronger than in a long time. Its level of risk has been lowered.

Thanks to very thorough strategic work, Vattenfall is now on the right path. Its employees are more engaged than in a long time, which makes me very happy. I feel proud of the work that has been done and would like to start off by expressing great thanks to the company and all its people for their efforts during these years.

As a minister of parliament representing the owner I have a positive view of Vattenfall's capex plan, which includes greater investments in renewable energy, but also major investments in the grid operations. Renewables are the future, and in step with this the Swedish grid needs to be adapted to the new energy market.

Fossil-based electricity generation is being phased out and accounts for a steadily smaller share of Vattenfall's generation. From the standpoint of the Riksdag's assignment, last year the owner took a stance to the Board's decision to sell the lignite operations in Germany. I and the government are confident that Vattenfall is a stronger company without lignite. And in fact, the critics were wrong - no new mines have been

opened. The discussion in Germany about whether lignite should be phased out remains in the spotlight. Meanwhile, the Swedish government is fully convinced that lignite is not part of tomorrow's energy landscape. It is in this context I feel that one can talk about the "new" and the "old" Vattenfall - a metamorphosis.

There is no doubt that Vattenfall is important for Sweden. In fact you could say that Vattenfall embodies many of the attributes that make us proud of our country:

- Spectacular and powerful nature
- Knowledge about how to extract value from natural resources
- Innovation and engineering prowess

But I thought I would allow myself to step outside Sweden's borders for a moment. We live in an uncertain and unpredictable world. The leaders of the world's biggest countries are fuelling this unpredictability. Economic and social gaps are growing, and more and more people are growing sceptical about whether globalisation has been beneficial overall. In the face of this, protectionism and nationalism are on the rise, even though it was only 20 years ago we experienced the euphoria of tearing down walls and opening up to each other.

Digitalisation is changing how as people we live, interact, talk and work. No people, sectors or companies are unaffected. Some react with curiosity and enthusiasm - others fear losing their jobs and being replaced by a robot. In this context the social model must be able to deliver both security and tools for this transformation to individuals as well as companies. The countries that transform the fastest will fare the best.

Climate change threatens the continued existence of all of humankind and our planet's basic functions. A large part of business and industry is gearing up to transform itself from the bottom up - but even with respect to this issue, the world's leaders are sending unclear signals. Everyone knows that we must push forward towards the green, but still there are those who are reaching back for the brown.

The need for long-term focus - both for industry and for citizens - has perhaps never been so great, yet in our policies we often show an inability to deliver a long-term vision.

In this new and unpredictable world, Sweden has better prospects than many other countries. Growth in Sweden is higher than its peer countries in Europe. Higher than what is forecast in Finland, Denmark and Norway. Growth is broad-based and is being driven by exports and increases in private investment - mainly in housing construction - and in consumption, both private and public. Despite political turbulence, in recent years we have managed to come together on a large number of agreements that provide long-term vision and direction to our country.

This applies not least for you in the energy sector. Through its historic energy agreement, Sweden's parliament has agreed on the way to a 100% renewable energy system. The climate policy framework for this will build upon the same three pillars as Sweden's energy collaboration in the EU. The policies aim to unite:

- Ecological sustainability
- Competitiveness
- Security of supply

Sweden will have a robust electric system with high delivery reliability, low environmental impact, and electricity at competitive prices. This

creates long-term perspective and clarity for the market's actors and contributes to new jobs and investments in Sweden.

In addition, it is creating conditions for Swedish industry to have a bright view of the future again. When I took office as Minister for Enterprise, industry was one of my top priorities. Our "Smart Industry" strategy has focused on creating conditions for industry to once again grow in Sweden - based on us being best at managing both the sustainability transformation and digitalisation.

Now, industrial investment is at a **record level**. Swedish industrial companies are now hiring more people in Sweden than abroad. During the first half of 2017, Swedish exports grew by a full 12%!

In the midst of this development, Vattenfall (and other energy companies) is delivering exactly what industry needs to dare invest: stable, green energy.

As Minister for Enterprise I am incredibly proud of Sweden's entire business and industrial sector. And one jewel in Swedish business is the state's company portfolio. Not only because it includes several successful

companies. But also because Sweden's state-owned companies play leading roles in many of the critical leaps in development that the country is currently facing.

I'm thinking of the process industry's transformation, which is encouraging us to aim for something that only a few years ago was unconceivable: steel without coal. About electrification of our vehicle fleets and the battery revolution, and most importantly, about our transformation to an entirely renewable energy system.

Vattenfall has a role to play in all of these processes.

Allow me to share my thoughts on Vattenfall's future. I follow - with keen interest - Vattenfall's work on increasing the share of renewables both in Sweden and in Europe. Wind power is leading this development, but solar energy also has a place in the future. In dialogue with Vattenfall's board of directors and management, I have discussed the company's path towards being fossil-free within a generation. This should lead to a lower level of risk and thus a more stable Vattenfall going forward. I think this benefits everyone.

I am careful to ensure that Vattenfall secures a good balance between return and risk in the investment decisions it makes. Historically, Vattenfall has had large exposure to conventional and fossil-based electricity generation, such as coal. Such energy sources often entail high risk, since they are fully exposed to changes in electricity prices. In addition, they are encumbered with environmental and climate risks, but also risks coupled to respect for human rights. As Vattenfall now accelerates its investments in renewable energy, it is naturally important that the company strikes a sound balance between the risks that exist in such energy generation. Again, a Vattenfall with lower risk should lead to more stable earnings. This will increase the prospects for stable and predictable dividends, which benefits the Swedish people as a whole.

The new targets being decided on today are the result of an ambitious process that has involved both the owner and company. It is important that the targets are firmly anchored in the company, so that they can allow the owner, the Board, management and the employees to pull in the same direction. This work has also involved a sustainability analysis, which was completed in parallel with the financial targets project.

I will now present the new financial targets in summary.



Let me start with the profitability target. Return on capital employed should amount to at least 8%. This level is challenging, but achievable for the company:

- it covers the cost of capital,
- and it is in line with the capital market's expectations for comparable companies.

We think it can be hard to invest with the old target of 9% without increasing the level of risk in the portfolio, given today's low electricity prices and changed market conditions. The new target is therefore an indication that investments with lower risk can be made. I want to stress that the new target should not be interpreted as easier to achieve, but rather is a function of which types of assets Vattenfall is expected to invest in.

As known, the energy sector is characterised by long investment cycles. This means that the return over the medium term is largely steered by investments that have already been made. It is therefore reasonable to expect that Vattenfall will deliver on the old target during the current forecast period. I also expect that the new profitability target, like the old

one, will continue to serve as an incentive for continuous improvements in cost effectiveness. Cost-cutting is and will continue to be necessary for maintaining competitiveness in the ongoing transformation of the energy sector. Over time it will make Vattenfall an even stronger company.

The second target pertains to our capital structure. Vattenfall today has two targets for its capital structure or, in other words, for its level of debt. I understand that it been rather complex to have two targets to measure the same thing, so we have therefore eliminated one of them. We believe that the key ratio *FFO/adjusted net debt* is the most relevant metric for the energy sector. It is also the one used by the credit rating agencies.

Let me now say a few words about the dividend policy.

I expect that Vattenfall, as soon as it is financially justified, will once again be a good payer of dividends to the state. I think it looks quite bright going forward.

The dividend policy is now getting a slightly higher and broader interval. The reason for this is that over time, the dividend should not be lower

with the new return target. Or expressed differently - the state expects to get just as much in return in absolute numbers from Vattenfall as previously. The median value in the new interval should be the starting point for the dividend provided that the company delivers on its debt target. And then it is important to stress that the Board's decisions on dividends shall always take into account the company's financial position and strategy.

In conclusion, I would like to say that I am confident that the new financial targets give Vattenfall the opportunity to be a leading and profitable actor in the energy transformation. The new financial targets also give the company conditions to set long-term strategic objectives for sustainable business.

Vattenfall is a central actor in social development and an important part of Sweden's overall development. The company has a vital task to ensure sustainable supply of energy and heat - not only for today, but also for the future. Long-term conditions are of utmost importance for Vattenfall in its ability to continue to invest, strengthen its profitability and further develop.

I would like to end by - on behalf of the Ministry of Enterprise and Innovation - extending a great thanks to everyone who has contributed to the financial target process and for good cooperation. I also want to offer warm thanks to Vattenfall's employees, management and board for your work in 2017.

Thank you!