

## **Fossil-free within one generation**

Ladies and Gentlemen:

Welcome to a Vattenfall with a new look! A company that is fully committed to making it easier to live and work without fossil fuels. What I like about this [video](#) is that it shows in a clear way that what we are doing at Vattenfall has a purpose – not only for ourselves, but also for the next generation. And with this as a starting point we can identify a host of business opportunities.

The change of our logo also reflects the journey we have made from a domestic Swedish company to a European energy group with a clear focus on sustainability and customer centricity.

During 2017 we acted in accordance with our purpose, to Power Climate Smarter Living:

- We are growing in renewable power generation
- We are developing new, climate-smart energy solutions
- We are phasing out coal

And we are also returning to profit for the first time in five years. Let's begin by looking at our earnings.

## **Vattenfall is once again a profitable company**

For several years we have adapted and shrunk our balance sheet following very difficult market conditions in which the price of electricity has fallen sharply. This has led to sharp decreases in our asset values, which have also had a negative impact on earnings. But in 2017 we saw a turnaround. Profit after tax amounted to SEK 9.6 billion, and the underlying operating profit was SEK 23.3 billion. Based on this result, the Board of Directors has proposed a dividend of SEK 2 billion.

## **Power Generation**

We are making important progress in all areas of our operations.

In nuclear and hydro power, we continue to improve efficiency and invest for the future. Following the elimination of the nuclear capacity tax, we are now well on our way toward the goal of a generation cost of 19 öre/kWh for nuclear power. And we have decided to proceed with investments in independent core cooling at both Ringhals and Forsmark. These measures together mean that we will be able to operate nuclear power in Sweden in a cost-effective and responsible manner into the 2040s. What remains is deciding on the final storage of nuclear waste, where we must have a solution in place as soon as possible. SKB, the Swedish Nuclear and Waste Management Company, is currently engaged in extensive work on supplementing its application for the repository with a safety report to the Ministry of the Environment and Energy. Expediting this matter must then be prioritised to prevent the process from becoming drawn-out and costly.

## **Heat**

The heat business, where Vattenfall is one of Europe's largest players, is attracting growing numbers of customers. At the same time, it is here that we have our CO<sub>2</sub> challenges and where we are firmly committed to phasing out coal as a start to our journey towards fully fossil-free operation. This is being done in our Continental heat operations, where we are working in close partnership with the City of Berlin to reduce our carbon emissions. In 2017 we converted a lignite-fired power plant, Klingenberg, to natural gas. We also decided to close Reuter C, a hard coal-fired power plant.

## **Distribution**

Vattenfall has a vast distribution operation of electricity grids in which a stable revenue stream is highly important. With the help of greater investments we can improve our delivery reliability and also adapt the networks to more renewable generation. During the year we made important improvements and reduced the average duration of outages in northern Sweden. This is a clear indication that our investments are yielding results.

## **Customers & Solutions**

Competition in the sales operations is growing increasingly tougher. Despite this, we have succeeded in maintaining profitability by increasing the number of customers and lowering our selling costs. And more and more customers are recommending Vattenfall as a supplier, which is very gratifying.

## **Wind**

Our wind power operations more than doubled their underlying profit. This was achieved mainly as a result of our completion of the Sandbank offshore wind farm in the German North Sea and the Pen y Cymoedd onshore wind farm in Wales. We also began construction of the Horns Rev 3 wind farm off the coast of Jutland, Denmark. This project has twice as large turbines as Sandbank that was completed in the same year. This offers a good indication of how fast the technological development is in renewable energy right now.

Europe achieved a milestone in 2017 – for the first time more electricity was generated from the sun, wind and biomass than from coal.

Today it is clear that the focus on renewable energy is no longer just a matter of sustainability. It is also the most cost-effective way of adding new capacity in the market.

And here Vattenfall is leading the way by building what will be the world's first non-subsidised offshore wind farm. The Hollandse Kust wind farm in the Netherlands, with planned capacity of more than 700 MW, is expected to be ready within five years. It will be able to supply 1 to 1.5 million households with renewable electricity.

## **Change requires cooperation**

We can thus say that a substantial share of Europe's electricity supply today is already based on renewable energy. Even though fossil fuels still make up an important part, the trend clearly shows that the market is steadily moving in the right direction. In other sectors we know that fossil fuels have uncontested dominance. In industry, there are sectors that are

dependent on coal and oil for production. At Vattenfall we are striving to find new solutions. We know that no one can solve the climate problem alone, and we must cooperate to bring about change.

HYBRIT, our joint venture that we formed together with SSAB and LKAB, is a unique partnership of its kind. Together our goal is to develop the world's first fossil-free steel making process. Following a concluded prefeasibility study, today we are happy to say that we believe strongly in the technology. The next phase is now starting with the construction of a pilot plant in Luleå and the Ore fields (Malmfälten) in northern Sweden. Success with the project would represent a technical revolution and at the same time strongly contribute to a fossil-free Sweden in the future.

Another important area in which electrification will contribute to lower carbon emissions is the transport sector, which accounts for no less than a fourth of all emissions in Europe. We continue to drive this development through our participation in InCharge, where we are working together with partners to build an infrastructure of charging points for the home, work and alongside roads. Enabling fossil-free transports goes hand-in-hand with our vision to help our customers be fossil-free within one generation.

I also want to mention Vattenfall InHouse, our decentralised energy solution. It is a holistic concept that feels new and exciting today, but which can be expected to be somewhat of a market standard in the future. Through InHouse we are offering property owners customised and sustainable energy solutions. The starting point is that customers will be provided simple and cost-effective solutions that are customised to their specific needs. It encompasses, among other things, solar panels, geothermal heating, e-vehicle charging systems and energy efficiency improvements. Vattenfall takes care of the installation and maintenance. It is simple and sustainable for the customers. And it is helping us achieve our vision of life free from fossil fuels.

### **Investments in sustainable growth**

This slide shows clearly what is happening in Vattenfall right now. Roughly half of our capex plan for 2018 to 2019, SEK 22 billion, is going to investments in growth. And this growth consists of sustainable solutions: wind power, distribution networks, heat, solar power and new business areas. At the same time, we are investing considerable sums in reliable and stable operation mainly of our networks and our conventional production, such as nuclear power, hydro power and district heating. The energy systems of the future will require both large-scale and decentralised production, and we are active in both areas.

### **Strategic goals for 2020 and achievements in 2017**

Sustainability is also at the centre of our strategy. This applies both in our production operations and on the customer side.

- As I mentioned, we see that more customers are recommending Vattenfall as a supplier, despite fierce competition in the market. This eagerness among our customers to recommend us can be seen in a strong Net Promoter Score (NPS), which is proof that we are developing our customer offering in the right direction.
- We significantly increased our renewable generation capacity, where as I already mentioned, we completed construction of the Pen y Cymoedd and Sandbank wind

farms. We continue to build up our pipeline and are working on finishing other projects.

- We significantly reduced our CO<sub>2</sub> emissions compared with a year ago. In this regard our action plan for reducing emissions is important, as it lays out a clear time line for when we will discontinue our CO<sub>2</sub>-intensive production. We will phase out coal as an energy source in Berlin by 2030.
- We are profitable again, and the profitability we achieved was very close to our return targets.
- We are also seeing better results from our safety work and in our employee survey, even though we still have a way to go before reaching our goals.

### **Vattenfall's strategy**

Looking forward we know that we must succeed at balancing all four parts of our strategy toward our stated purpose: to Power Climate Smarter Living.

Leading towards Sustainable Consumption means that Vattenfall needs a strong brand and continued focus on innovation and sustainable solutions for its customers. Our large-scale production must be combined with small-scale, decentralised solutions. We have now also formed a new business unit that is responsible for driving this development forward.

Leading towards Sustainable Production is a matter of taking a leading position in renewable energy and driving the shift to a fossil-free future. We are convinced that continued growth in sustainable solutions requires well-working regulation. Take the price of CO<sub>2</sub> emission allowances in Europe for example: it has nearly tripled since we stood here a year ago and today is roughly EUR 13/tonne. But we need even higher levels in order for the system to truly make a difference. Our hope is that the price will continue to rise in the coming decade. Because when regulations and the market work in the same direction, we all have the prospects to be fossil-free within one generation.

We know that we must succeed at combining growth with efficiency improvements. We summarise this under the point High Performing Operations. The need to adapt to a more openly competitive market is nothing unique for Vattenfall. The entire industry still has a need to adapt its suit to the ongoing liberalisation in the market. And this needs to continue. We must ourselves also make sure that we have a reasonable level of overhead costs following the sale of the lignite operations. Our SEK 2 billion cost-savings programme by 2020 is therefore an important and at the same time natural part of continuing efficiency improvements for a company like Vattenfall.

Empowered and Engaged People are entirely essential, to be sure. This entails among other things that we must be an attractive employer with the right expertise that also reflects the diversity in society. We should also keep in mind that the change that we are going through requires new ways of working to reach the end result and create attractive business models. We must be humble in the face of the transformation this entails and understand what it requires of our employees. I want to take this opportunity to thank all of them for the outstanding work they have done during the past year, where we together have returned Vattenfall to profitability.

Thank you!