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PRESENTATION

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Good morning and welcome to this presentation of Vattenfall's Q1 report 2018. As usual, this is a live meeting here in Solna combined with a webcast and a telephone conference.

In a moment, we'll hear from our CEO, Magnus Hall; and our CFO, Anna Borg; and this time we also have our Head of Business Area Wind, Gunnar Groebler with us. He will guide us through our recently won Hollandse Kust project in the Netherlands and also share some of the developments that we see in the offshore wind market. After that, you are welcome to ask questions to all three of them.

With that, Magnus, I leave it over to you.

Magnus Hall - *Vattenfall AB - CEO*

Thank you, very much, Karin, and also from my side, a warm welcome to this morning's presentation and specifically happy also to have Gunnar Groebler here who is going to share some more views on the wind side later after me and Anna Borg have given our views on the situation.

We have come off to a positive start for the year. I think that's very engaging for us in Vattenfall. Solid results development, a 10 percent increase in the underlying result from SEK8.4 billion to SEK9.4 billion and we also see good growth in terms of net sales. And of course a big part of this is related to the cold weather. I will come back to that a little bit.

We do have a challenging situation on the continent for coal for gas fire generation. We have had lower production and of course we see now a higher CO2 price and also fuel prices picking up in certain parts are putting pressure on that part. Customer growth in cold weather conditions support the development for retail and also for distribution which is in terms of volume are good.

And of course we have this first quarter also shown that we are a leader in the offshore wind business where we have been able to get the unsubsidized bid for the Hollandse Kust in the Netherlands that Gunnar will later speak of.

Yes, I'm sorry about that. I should have put the first picture down there, that's related to my talk right now.

Just this next picture is showing a little bit about the development in terms of customer sales. You can see it down here. It was not only electricity, it's also gas and heat that we can see a good development. Of course, here, again, driven by the cold weather and that is then followed by good



electricity production to the right here. You can also see that we had a good hydropower situation whereas the fossil power connected to the fact that we do have lower spreads -- was actually lower than last year.

So let's go through the different business areas and have a few comments on what's happening there. We start off with Customers & Solutions and that's our retail business where we can see a growing customer base. It's very happy. We are very happy about that. Result has also increased for the first quarter with about SEK200 million. We can see that because of higher deliveries then of electricity and gas due to the cold weather.

We can also see that we have a good net promoter score for the first quarter. This is relative net promoter score so it means that relative, how others we are performing in terms of our customers' views of us and still we are on a positive side so plus 4 means that the difference was bigger there's still a significant difference, also, for the first quarter, how they view us.

And I would like to highlight, also to the right, the development of charging stations. As you know, we are putting a lot of effort into developing infrastructure for electrical transportation and you can see we also have an increase in the charging stations that we operate through our system in between the quarter one last year and the quarter one this year.

We do several supply contracts, one is with a Swedish food retailer called Axfood. And we have started to make lease agreements for solar panels in the Netherlands and we look at new partnerships, also in e-mobility.

So several things are happening in the customer solution side, but the big issue here is that we are growing with customers. We had a good growth in Germany this year with around 70,000 customers and we continue to grow and that is our clear aim.

Power generation is our base for nuclear and hydropower, mainly based in Sweden, but also the pump storages that we have in Germany and the nuclear decommissioning that we have in Germany. And here we had, of course, a lot of help of strong production in the first quarter. Good production in terms of hydropower.

You can see the increase there from 9.3 TWh to 10.8 TWh which is considerably contributing to the result of the business area going from SEK2.6 billion to SEK3.8 billion for the first quarter.

We also have good stability in the nuclear and that's always important during the colder periods. Nuclear is something that should run during the cold period and then we make revisions in the warmer periods and we have been able to show that that's how we do it. And so we had good availability in all aspects.

What you can see on this middle picture, here to the right, the graph there is actually the development for our system, the available water in terms of the dam situation where we have water and also the snow that will finally melt into the system and you can see that we have used a considerable part of the water during this cold period. So we're now actually below an average situation, you might say.

And that's putting pressure on the prices which you can see in the same graph which have been going up due to the cold weather. So we have fairly strong price situation currently in the Nordic system, but we don't believe, I mean there is still enough water for the remainder of the year so there will be no problems in terms of supply, but prices might stick there on a higher level. You can also see, to the right, that prices are going up slightly in all markets around us which is, of course, generally a positive thing.

We have one issue here which is important to us and that is the final repository, the final storage, of nuclear waste where we've had a process in Sweden to get the final permits. And we have managed to get all the permits apart from one part and that is the capsule and the corrosion questions around those capsules.

And so now we're developing and continuously we have done so, but we will now also finalize some parts of those reports that we have to put into the government to make sure that we get this program finally in place and the permits. We hope that will be done as soon as possible because it is a costly issue for us.



We've also developed a fund system to actually handle the water framework directive which is the European Union decision to make sure that we have environmentally friendly hydropower stations. So we were able to find a good solution for this Swedish situation where we are very reliant on hydropower and that we can actually make sure that we save a big part of the production while we are still doing environmental work to be able to improve that situation.

So I think we have positive things also here in other parts than just the operations, but one issue then on the nuclear repository which we expect to finalize hopefully during this year or as soon as possible.

The decommissioning in Germany is going according to plan.

Heat is our business. We are one of the biggest suppliers of heat in Europe, as you may know. We have a lot of strong positions there. There the result was actually lower than last year, quite considerably lower.

There are two big reasons for that. One is that the spreads in between, it hasn't been possible to run our condensing plants in Germany and the Netherlands to the same extent as normal because of high fuel prices and also high CO2 prices. So that production has gone down and it has effected the result. And then, also, we had last year some extra subsidies that we didn't get during this year. So in that sense that has been effecting the result.

But the heat volumes were up due to the cold weather of course, as you can also see on this graph picture here.

To the right, you see the spreads which is actually the difference between what the price is and the cost you have for the CO2 allowances and the fuel which is sort of what remains there to pay the rest of the cost that you have in the plant. These are averages, not specifically the Vattenfall plants, but what you can see here is, of course, that these are quite thin spreads we're talking about. So it is a challenging situation for the whole fossil fleet in Continental Europe right now.

What is also interesting here, we have started a new business unit called "InHouse" where we are offering decentralized solutions for real estate owners for your need of solar panels, heat systems, charging solutions, energy saving measures. We will be able to supply that to retail customers and we're off to quite a good start in Sweden.

And we are also developing those businesses already in Germany and the Netherlands and we see that as a good growth opportunity.

We have projects going on. We have one new project in Berlin, the Lichterfelde CHP plant which is part of the replacement that we are doing. We have a cooperation with the Berlin government to phase out coal by 2030 to make it coal free. And in the meantime, we replace some parts with gas and then we also have to find other solutions for becoming fossil free within one generation.

So we're working quite hard with that then. This is the area where we do have this challenge to create the reduction of CO2 and replace it by other means and still supply the heat that our customers needs.

So distribution, there we have had due to the cold weather situation, we might normally find problems in terms of the availability of the network. You can see here to the right that we actually had a little bit less availability in the north part of Sweden. But compared to what we would expect during a normal period of this type of weather, we're still on a much more stable situation than previously if we would have had the same conditions.

So we're actually, the investments that we are making are making a difference. We are also increasing our investments quite considerably. They're up 20 percent now and we are ramping them up because that's what we need to do. We really need to invest in the distribution grids in Sweden and we are doing that.

Also, we have taken out higher network tariffs to be able to do that. That shows in the result which is also an increase here, but necessarily there we will put all the money that we take out as an increase into investments and that's partly shown here by the increase that we have now here.

So, yes, I think we're in a good position here. We also have our Berlin network here operating where we also continue to invest.

And then this final point of Gotland, that there was a discussion to build a cable to the Gotland island and that was never materialized because the Swedish transmission company or authority that is responsible for transmission decided not to build that. And then instead we have taken a decision to make Gotland an island in terms of trying to find solutions locally where we still, from Vattenfall's side, operate the connection, but it's not enough.

But I think there can be some challenges and some interesting developments where we will participate from the Vattenfall side.

So finally, wind. I'm not going to spend that much time on this because Gunnar Groebler will later on deep dive into this, but of course we see an increase in the underlying operating profit here due to more installed capacity. We didn't have exactly the best wind conditions during the first quarter. We would expect a little bit more, but we can also now see the effect of us being bigger and we should expect this also to grow for the future.

And again, this winning bid for the Hollandse Kust and also the situation in Aberdeen where we are building the biggest wind generator, wind turbine, in the world right now, is something that Gunnar Groebler will deep dive into a little bit later.

So with that, I thank you for me, my side, and I would leave the word to Anna Borg, please.

Anna Borg - Vattenfall AB - CFO

Thank you. Good morning. Last time we met I had the pleasure to stand here and present the full-year result for 2017 and that was a turning point for us financially because that was the first time in five years that we were able to show a profit again. Coming back today, showing the Q1 result of 2018, it's clear that we can look back at a strong first quarter and that the development is continuing.

Our net sales continue to increase. It has increased with SEK4.2 billion and is now amounting to SEK44.3 billions compared to the same period last year. That's mainly due to increased sales volumes in the Netherlands, in Germany, in France and also in the United Kingdom.

Our underlying EBIT has increased by SEK1 billion compared to the same period last year and that is now amounting to SEK9.4 billion. The main increase is coming from our generation business and I will come back to that in a few moments.

Our FFO is increasing with SEK0.5 billion. That is due to the increased EBITDA. It's also offset, to some extent, by higher preliminary taxes this quarter compared to the same quarter last year.

You do see an increase in our net debt of SEK9.7 billion. That is not actually an increase, it's a reclassification. These are the liabilities we have in relation to German nuclear. Last year the same quarter, they were in our own books and then you can see them in adjusted net debt. Since we made the payment to Germany in July last year and moved the liabilities, we now have them in net debt instead. So it's a reclassification, not an increase.

Moving on to the development of our underlying EBIT for the first quarter. Almost all of our business areas are improving their results. Customers & Solutions increased mainly due to temperature effects in the Netherlands, but also due to an increased contract base in Germany, mainly consumers. Our power generation business is increasing as well. That's mainly explained by the higher Nordic market prices in combination with a higher hydro production for us in the Nordics.

Our wind business is also increasing compared to the first quarter last year. That is mainly the wind power that we managed to bring up and running during 2017 that is now coming into the result. There's a little bit of an effect on the higher market prices in here as well.

In our heat business, we see a decrease compared to the same period last year. That is due to the fact that Magnus mentioned, the deteriorating spreads in Continental Europe. It's mainly higher fuel prices for gas, but also higher CO2 prices that are driving this.

And in our distribution business, we have an increase that is due both to volume and price effects. It's mainly in Sweden.

Looking at our cash flow development, you can see that we have a cash flow from our operating activities of SEK1.3 billion and we also have a change in working capital with negative impact of SEK7.5. It's mainly seasonal effects that you see in here.

So it's net receivables liabilities in both business area heat and business area Customers and Solutions. That is normal for this time of the year and changes that we usually see during the first quarter. We also have some changes in margin calls mainly due to CO2 prices in the market.

Looking at our investments, the maintenance investment levels are in line with the level we had last year in the same quarter. It's mostly going into our generation business, our heat business and our distribution business.

So if we look at the overview of our key figures for this first quarter, maybe you can summarize it by saying one quarter down, three to go. So far these results clearly show that our focus and dedication on prioritizing investments, but also on operational efficiency and a tight cost control is paying off.

We are, however, not reaching the targets that our owner has set on us which is a return on capital employed of 8 percent. We are at 7.8 percent this quarter and the target of FFO over adjusted net debt which is set to 22 percent and we're coming in at 20.7 percent this quarter.

So we still have to continue down this road in order to succeed with that and in combination with some strategically important business development, I would say that this is our way to reach those targets and also to becoming fossil free in one generation.

It's our investment plan here focusing on the growth investments for the next two years where you can see that almost 60 percent is going into our wind business which I think is a good reason for me to introduce my colleague, Gunnar Groebler, who is heading our wind business in Vattenfall and do a bit of deep dive here. So the floor is yours, Gunnar.

Gunnar Groebler - *Vattenfall AB - SVP, Business Area Wind*

Thank you very much, Anna. Pleasure to be here and to guide your bit through what business area wind is right now. Obviously, Hollandse Kust One and Two has been the major accomplishment in the first quarter, but I would like to take the opportunity to remind ourselves on what the strategy of business area Wind within Vattenfall is and has been since 2015.

We laid out the strategy and this is still robust and valid to basically double our portfolio up to 4 gigawatts within offshore, onshore and solar by 2020. Lead the industry when it comes to levelized energy cost and I think, again, Hollandse Kust is a very good example that we accomplished that. We are by now able to deliver first offshore wind projects without subsidies and onshore is clear within reach also within the time frame of 2020.

And we also are by now able to secure merchant price exposure or transfer merchant price exposures through corporate PPAs. And I'd like to remind you of the recent deal we had with Microsoft on the Dutch project Wieringermeer where we are able to close a PPA, a long-term PPA, on that project.

As Anna said, investments are up to SEK13 billion within the next two years. And of course we are also continuing our partnering efforts to also finance the strong growth and the future growth that we have ahead of us.

By 2025, we will deliver on the subsidy free offshore and onshore projects and Hollandse Kust will be the first one here. Obviously, continuing the growth that we have in all three technologies. And that goes well with the purpose that we have to power climate smarter living, help our customers, both on the B2B and on the B2C side, to further electrify and especially with the industry, help them to further electrify and support them with the renewable energy they need for that.

Coming to Hollandse Kust One and Two. As you can see from the map, we're talking about a cluster of four projects, whereof the two yellow ones, One and Two, have been out for tender by the Dutch government. The Two project comprises of roughly 700 megawatts. You see that on the lower right-hand side of the picture. Great connection will be delivered by TenneT. It's modest distance to shore, 30 kilometers. Also, modest water depth with around 20 meters, foundation type will be ground-mounted so we assume monopiles. Turbine model to be seen and its 100 percent Vattenfall project as it is today.

So how was the tender set up for this project? Given that it was set up as a subsidy free tender, price was not the decisive factor here. But the Dutch government basically put up a list of criteria for the participants and we could score points on that, maximum of 100 points. And those eventually with the highest amount of points actually won, then, the tender.

Focus on the selection criteria was on risk assessment and risk mitigation. All the way through from the design and construction, operation, also to market risks and obviously, then, the quality of the mitigating measures that we put in place and others put in place in the bids to handle those risks. You see the selection criteria here in terms of knowledge and experience, in terms of capacity, quality of the wind farm design and also covering social cost.

As you all know, and we are very proud of that, we have been able to score highest in that tender, hence we received the permit on the 19th of March from the Dutch Energy Minister.

Timeline that is now set up for us is that once the permit is irrevocable, and we assume this to be May 1st, the clock starts to tick and we have five years to fully commission that wind farm leading us into the earlier part of 2023.

So for us, as key takeaways, we see within Hollandse Kust a project with excellent site conditions, excellent fundamental conditions. As I said, water, proximity to shore, wind resources, all works very well from a project perspective.

We have been able to put all our efforts of cost reductions and also future cost reduction into that project and also have a full portfolio approach on this specific project. How does the project fit into the Vattenfall portfolio and how can we leverage on the portfolio here to support our bid in December.

We see Hollandse Kust One and Two as a perfect opportunity for us, as Vattenfall, to support the Dutch policy makers, but also the Dutch society in their energy transition. I think the Netherlands is one of the countries with a very strong focus on the energy transition and being part of that and being supportive here is an honor to us.

And what clearly helped us as well in the whole discussion is that we have a strong footprint in the Netherlands already, with a customer base both in B2C and B2B which is roughly 18 terawatt hours strong per year. And then adding another 3 terawatt hours coming from Hollandse Kust One and Two actually sounds reasonable and is for sure something we will be able to manage.

So all in all, Hollandse Kust One and Two is an important project. It's an important milestone for us within business area Wind and we're very proud to be the chosen ones. And we are very, also, confident that we were able to deliver on that in time, in quality and obviously also in budget.

I would like to take the opportunity to also update you on the activities that we do in Scotland. Right now we are building the offshore wind development center off the coast of Aberdeen. As you can see here from the picture, first turbines are already erected and this is Scotland's largest test and demonstration facility for offshore wind.

And as I said, located in the Aberdeen bay. We're installing here the strongest wind turbine available in the market right now. It's the 8.8 megawatt turbine from Vestas MHI and we blend that also with the 8.4 for us to see differences in the operation and also learn from those differences for future projects.

It's the first time that we actually have a full project with a 66 kV export cable to an onshore substation. Also, here we see a good learning opportunity for us for future projects, not only in the U.K., but also on the Continent.



The size of the project with just below 100 megawatts is relatively small compared to other projects we see in the market right now, but I think for a test and demonstration site is a perfect fit to really test different parts of the equipment as, for example, the suction bucket foundation. It's the first project, actually, where this kind of foundation has been applied to all foundations in that project.

So as you see here also from the picture, we have a foundation structure where we have three suction buckets that we suck into the soil. Very solid connection. We just got a recent report that they are actually more stable than monopiles and what I also find very attractive is that you can completely remove them once the power plant goes out of operation. So that's a concept that has not been applied on a full project so far, we're testing it here and so far we are very content with the results.

By Summer 2018, we will be online with that project. I think we expect first power in May. So also here we are well on track. And with that test and demonstration site only we're able to deliver electricity to almost 80,000 homes in the U.K.. I think for a test and demonstration site, also, a good story to tell.

With that, I would leave it for now and I thank you very much.

QUESTIONS AND ANSWERS

Karin Lepasoon - Vattenfall AB - SVP, Group Communications

Thank you very much to Gunnar, Anna and Magnus. Now we go over to the Q&A session and we invite everyone here in the audience in Solna and we invite our listeners or viewers on the webcast and telephone conference to also ask questions. As usual, we start here in Solna and ask if there are any questions from the audience here. That does not appear to be the case.

Then, Robert, we'll take a look on the webcast instead. How are we doing?

Robert Pletzin - Vattenfall AB - Communications

Yes, Karin, thank you. We have a few questions and the first one is from Nils Lannefors.

Nils Lannefors - GE - Analyst

Vattenfall is building two new natural gas fired combined heat and power plants in Berlin as a contribution to the phase out of coal for heat in Berlin until 2030. Are you planning to produce hydrogen for substituting natural gas for the gas turbines for these plants in the mid-term future?

Magnus Hall - Vattenfall AB - CEO

Well, if I can answer it, I'm not sure. We do look at this as an opportunity and when we look at new constructions whether we can actually make them available for running on hydrogen or a mixture. So that is part of the planning process, but I think whether that will be done as early as in 20, I'm not sure. Probably later, I would guess.

But we have a focus on that particular question and then we will see how we can handle it in a good way. But the option will be there and I think for the far future, using hydrogen also to use the turbines that are already existing and use hydrogen will be an opportunity for making the world fossil free, definitely.



Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Good. Thanks. I think we have more.

Robert Pletzin - *Vattenfall AB - Communications*

More questions indeed. The next one is from Andrew Moulder, CreditSights.

Andrew Moulder - *CreditSights - Analyst*

The latest GE offshore turbine is 12 megawatts due for commercial shipping in 2021. Do you expect to use turbines of this size in Hollandse Kust? And do you expect further size increases before you take the FID, the investment decision?

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Gunnar, yes.

Gunnar Groebler - *Vattenfall AB - SVP, Business Area Wind*

Thank you very much. First of all, as I said, we have not made our turbine choice so far and obviously the turbine choice will be made for the overall project on a commercial basis. We are very interested to explore and we're doing this already with GE to explore and better understand the 12 megawatt turbine platform that they have launched.

And for sure that opens up for new possibilities, but it's not a decision yet. So more discussions to be held, not only with GE, but also with the other suppliers to better understand what the road map for their turbines is. And then I think we take a decision once the project is due for that, what kind of turbine we're going to take in.

Magnus Hall - *Vattenfall AB - CEO*

If I may add, I think it's fair to say that when we look at those projects, we try to make a fairly conservative first view on why we would do this project and then you can add on the developments. I think that's true, right?

Gunnar Groebler - *Vattenfall AB - SVP, Business Area Wind*

Absolutely.

Magnus Hall - *Vattenfall AB - CEO*

So when we have won this and when we think we can do it, we're basing it on our knowledge of what can be done. And then if you could add more things to that, of course that's beneficial to the project. If you can add additional turbine sizes or whatever will come out.

Gunnar Groebler - *Vattenfall AB - SVP, Business Area Wind*

Exactly. Exactly. Yes.



Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

All right. Thanks. Then we'll move over to the next.

Robert Pletzin - *Vattenfall AB - Communications*

The next question is also from Andrew Moulder, CreditSights, relating to the Berlin grid.

Andrew Moulder - *CreditSights - Analyst*

What's the situation regarding the concession in Berlin, both electricity and heat? Also, is there any indication yet as to whether the city of Hamburg intends to increase its option in 2019 to acquire Vattenfall's 75 percent share of the Hamburg heat business?

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

So two Berlin and one Hamburg.

Magnus Hall - *Vattenfall AB - CEO*

Yes. Absolutely. The Berlin situation to start with if we talk about the heat grid. That has been whether the heat grid is actually part of concession process or not has been challenged. We don't believe it's an issue. So that is not too much to comment on. But when it comes to the grid concession for the electricity grid, yes, there is a process and it's well known that we have views on how the process has been handled and we have appealed that. And that process is in its making. So we will just have to see. This can go on for quite a long time before there will be a final decision. So as we have said earlier, we are open to different types of cooperation with the Berlin city. So we are sort of flexible, but the process as such has to run in its legal way.

Then the second question was about Hamburg where we are operating the local district heating company together with the Hamburg city. We own 75 percent and the city 25 percent. That is a long-term business for us and we are now in negotiations on how we will have the future together. The direction is a continued cooperation and how can we solve those issues that we have at hand locally to become fossil free. And I think that is something which we are currently negotiating and we'll see where we land.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Good. What do you say, Robert? Do we have more?

Robert Pletzin - *Vattenfall AB - Communications*

We have another question, indeed, from Matthias Lambrecht from Hamburg, Germany, relating to our lignite or the lignite operations which have been divested.

Matthias Lambrecht - *TOE-KOM - Analyst*

Are there any ongoing risks for Vattenfall from the divested German lignite operations? For instance hedging, contract, but also environment and contingency risks.

Magnus Hall - *Vattenfall AB - CEO*

No, there are no risks in terms of the connection. We are still supplying some services to the company because we're still in a transition period for some parts, but there are no risks in relation to that.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

All right.

Robert Pletzin - *Vattenfall AB - Communications*

Another follow-up question from Andrew Moulder, CreditSights, relating to Hollandse Kust.

Andrew Moulder - *CreditSights - Analyst*

When is the FID, the investment decision? And do you intend to carry on owning 100 percent?

Gunnar Groebler - *Vattenfall AB - SVP, Business Area Wind*

The investment decision is due 2019/2020. Depends a bit on when we get the irrevocable permit. So then the project will continue and we're preparing now all the necessary steps. We talked about turbines before, but there are more components to that. So 2019/2020.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Okay.

Robert Pletzin - *Vattenfall AB - Communications*

That appears to be all the questions we have online.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

And we have no questions on the telephone either and no questions here in Solna. So with that, we thank you for your attention. Thank you very much.

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