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EDITED TRANSCRIPT

Q4 2020 Vattenfall AB Earnings Call

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PRESENTATION

Andreas Regnell *Vattenfall - Head of Strategic Development*

Welcome all to Vattenfall and this new way of communicating our financial performance. I'm Andreas Regnell and I'm Head of Strategic Development at Vattenfall.

With me here today, I have Anna Borg, CEO, and Kerstin Ahlfont, CFO. Welcome to you both. And this is actually the first reporting event in your new roles. Are you ready?

Anna Borg *Vattenfall - President and CEO*

Very ready and I'm looking forward.

Andreas Regnell *Vattenfall - Head of Strategic Development*

That's good.

Kerstin Ahlfont *Vattenfall - CFO*

I am as well.

QUESTIONS AND ANSWERS

Andreas Regnell *Vattenfall - Head of Strategic Development*

Good. Let me follow-up on that 'new in your roles'. Three months. What would be your main learning or takeaways from this first period?

Kerstin Ahlfont *Vattenfall - CFO*

Main learning? Oh, maybe to have Anna as my manager instead of a colleague.

Andreas Regnell Vattenfall - Head of Strategic Development

Oh, that's - do you want to follow up or...

Kerstin Ahlfont Vattenfall - CFO

Maybe not right now. (Inaudible).

Andreas Regnell Vattenfall - Head of Strategic Development

(Inaudible). And you, Anna?

Anna Borg Vattenfall - President and CEO

Well, I've learned that it's actually possible to run an entire company with almost only digital interaction. That's interesting.

Andreas Regnell Vattenfall - Head of Strategic Development

That is truly interesting and quite impressive that it's possible to run a company of our size that way. Excellent. Soon you will get all the numbers you've been longing for and see some slides as well.

But, before we get there, I'd like to mention two things. And that is that, in this section and this format, we aim for more discussion and reflection rather than a billion of slides and numbers.

But rest assured that all the customary data that you're used to are available on our website. The second thing is that, as accustomed, we will have a Q&A session at the end. Both a chat channel and a telephone channel. But let's kick this off now with a short film.

When we look at this film with some of the main events in 2020 for Vattenfall, it's very clear that it was a very eventful year in spite of and because of the pandemic. Anna, if you were to characterize 2020 with one word. what would it be?

Anna Borg Vattenfall - President and CEO

One word? Well then, it would be 'progress' because, I think, despite the very challenging year, we've actually been able to deliver to our customers to keep our operations up and running and even keep our projects going. So, we are progressing in relation to our strategy.

Andreas Regnell Vattenfall - Head of Strategic Development

Sounds very upbeat. And, Kerstin, you have a same positive word or...

Kerstin Ahlfont Vattenfall - CFO

Well, I would probably choose 'resilience' because, in spite of a very turbulent market and record low electricity prices in the Nordics, we deliver a stable result in line with 2019. So, I think that shows resilience.

Andreas Regnell Vattenfall - Head of Strategic Development

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So, progress and resilience. Two very positive words. Let's continue with our strategy. We want to enable fossil-free living within one generation. Anna, what would you say would be a few proof points that we live and act our strategy during 2020?

Anna Borg Vattenfall - President and CEO

Well, first of all, I think it's important to say that our aim to enable this fossil-free living in one generation - that is our business strategy.

So, to be fossil-free and profitable goes hand-in-hand for us and I think that we have many proof points of that. The first one is our investments into renewables so we continue to invest, for example, in offshore wind.

We made the final investment decision for the offshore wind park Hollandse Kust Zuid this year, we also inaugurated the Princess Ariane, which is an onshore wind farm in the Netherlands and we continue to develop, for example, the Vesterhav project in Denmark or the Norfolk projects in UK. So, that is an important proof point.

The second one is that we are phasing out fossil fuels, we're rebuilding our businesses, our heat businesses in Berlin and in Amsterdam, and we are also closing down Moorburg, our coal-fired power plant in Hamburg. So, that's a second proof point.

A third one would be the inauguration of the pilot plant in the HYBRIT project, which we are running together with SSAB and LKAB. And maybe one important proof point that is enabling all the others is that we actually increase our employee engagement even further from an already high level.

And I think that is what has actually made it possible to continue to deliver on all of these things despite a quite challenging year.

Andreas Regnell Vattenfall - Head of Strategic Development

So, a very, very clear perspective on how we progress on our strategy. Now, I don't know how objective I can be, but I think we have a very, very good strategy.

Before we get into the numbers, I'd like to show a few facts around 2020 that I think is important to bear with you when we get deeper into discussion.

And the first one is the demand development of electricity. And, if you look at this slide, it's clear that the demand development in 2020 versus 2019 in on our core countries and we see that the demand for electricity declined by 3 to 7 percent. Quite dramatic.

But, if we take the price development, it's even more dramatic and, on this slide, you have the Nordic wholesale prices to the left and gas and coal spreads to the right.

And, of course, the wholesale prices in the Nordics is by far the most important for Vattenfall and then you can see a very dramatic decline in 2020 versus the average for the four years previously.

Gas is actually up a bit and had a strong year in 2020 while the coal spread is down dramatically. So, we have lower fundamental demand in the market combined with very low prices, particularly in the Nordic. And yet, we know that Kerstin and Anna will talk about resilience and progress and a relatively stable result. How's that possible, Anna?

Anna Borg Vattenfall - President and CEO

That's, of course, a relevant question and the low prices that you show actually have an impact on our business to a quite large extent. But what we do is that we hedge our electricity generation beforehand.

So, we actually mitigate a lot of these price movements by the hedges. On top of that, the extremely low price close to the EUR 10 that you showed is for the entire Nordic system and the price has differed quite a lot between different countries and areas.

In Norway, it's been very, very low and, in Sweden, it's been low, but not as low as in Norway. And, since we have our production facilities in Sweden, we get a slightly higher price than the average.

But I would say that another factor that is really contributing to this stability is the fact that we have a number of businesses that are more resilient to these kind of price swings than others.

So, the fact that we have a diversified portfolio helps us. For example, that is the distribution business, the district heating business and also the customer solution business. So, hedges and a diversified portfolio.

Andreas Regnell Vattenfall - Head of Strategic Development

And I'm sure - yes.

Kerstin Ahlfont Vattenfall - CFO

And maybe, to add to that as well, the trading business as well. Because they had just another good year, even better than last year, and contributed significantly to our result.

But I think it is also important to look back at 2020 and look at all the efforts that we took on in all the different parts of the organization. Because, in the Spring, at the onset of this pandemic, we reviewed all our plans.

We turned every stone and then we decided upon measures that would provide short-term buffers against different scenarios. And then, today, we - fortunately, we see that, in our sector, the scenarios never played out as extremely as we feared.

Andreas Regnell Vattenfall - Head of Strategic Development

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So, resilience, I think -- it sounds like a very well-chosen word, Kerstin. Lets more look at the financial numbers in 2020. What would you like to highlight, Anna?

Anna Borg Vattenfall - President and CEO

I think the first thing I would like to highlight is the fact that we actually have a very stable result in 2020 compared to 2019. And that is because, even though we see the impact of the lower prices, we also see the hedges mitigating that.

And, on top of that, we have this diversified portfolio and the trading result that Kerstin referred to as well. So that's the first thing. The second thing is that our net result is substantially lower compared to 2019.

And that is due to the impairments that we make in relation to Moorburg, our coal-fired power plant in Hamburg that we are closing down. We communicated that already during the second quarter, but now we see this in the full year results as well.

When it comes to our financial targets, our return on capital employed is supposed to be at or above 8 percent. It's not. It is at 5.8 and the reason we're not above is these impairments, the one-off effects.

When it comes to the capital structure target, FFO to adjusted net debt, we actually come in above the target range of 22 to 27 percent so we end up at 28.8.

And that has also resulted in our Board of Directors proposing a dividend of SEK 4 billion to be decided at our annual general meeting of course. But if we're going to elaborate a bit on the numbers - Kerstin?

Kerstin Ahlfont Vattenfall - CFO

Yes. Maybe to start with the top-line, the net sales actually decreased compared to last year due to the low electricity prices but also the volumes in our major markets.

And when it comes to the underlying EBIT. You already commented on that. And while these impairments really impacted our net profit and our EBIT, if you look at the ROCE based on underlying EBIT, that ends up at 9.7 percent and I think that is clearly a sign of good performing business.

And then, if you look at cash flow in relation to debt, our target FFO over adjusted net debt that ends up at 28.8 percent clearly above our target.

And, if you look at the drivers for that and start here with the adjusted net debt, you can see that the cash flow from operations are actually increasing and that is due to the underlying good result, but also because we have some temporary positive effects on our working capital that mainly comes from margin calls.

We have also lowered and postponed investments. We have a dividend, which was SEK 3.6 billion to our

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owner and we also have a positive and strong exchange-rate differences.

This is then counteracted by provisions and some other effects, but net net, the adjusted net debt, is significantly lower compared to last year. If you then look at the FFO, you can see that we have a strong cash flow generation.

So, the EBITDA level is higher than last year and that gives then an FFO that is also quite strong. And interesting on this slide is also that you can see the cash flow before the financing activities and that ends up at SEK 21.5 billion. So, you can see that our investments are clearly covered by the cash flow we are generating from our business.

Andreas Regnell Vattenfall - Head of Strategic Development

Yes, I would say it's quite impressive to have SEK 20 billion in free cash flow in such a year. And it's also very clear -- continue with you, Kerstin -- that the hedging strategy you mentioned several times already is clearly very central to our performance and this resilience.

Kerstin Ahlfont Vattenfall - CFO

(Inaudible).

Andreas Regnell Vattenfall - Head of Strategic Development

Why don't you say a bit more on how it works and our strategy there.

Kerstin Ahlfont Vattenfall - CFO

Well, you are right. The hedging strategy is essential for us to manage this wholesale exposure. And we have increased our hedging according to our risk appetite and that has really paid off in 2020.

Because 2020 was, as you know, a very volatile year with decreasing prices, but the good thing is that we started hedging 2020 already a number of years ago.

So, this is now helping us in the result and really mitigating these declining revenues. And, if you look ahead, we made a decision some time ago to increase our hedge ratios mainly in the Nordics.

And, if you look at the hedge ratios that we had for 2021 when we ended 2020, that is 4 percent higher compared to the hedge ratios we had for 2020 at the end of 2019. So, if you look at 2020, I think it's clear that our hedging strategy works even in a year which is very strange like 2020.

Andreas Regnell Vattenfall - Head of Strategic Development

And, again, resilience. It's a code word for it all. And, Anna, 2020 was actually end-year for strategic targets that we set in 2016. How did we do?

Anna Borg Vattenfall - President and CEO

Yes, that's true. We did set five-year targets in 2016 and were then supposed to deliver on this until

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2020. So, let's have a look at each and every one of them.

The first one is net promoter score, where we actually measure this in relation to our competition. So, we're supposed to improve two points more than our competitors. And we do. The entire market has improved, but we are improving more so that target is reached.

The second target is commission new renewable capacity. That target we're not quite reaching and we have already announced that more than a year ago. That is mainly due to the delay in two projects, Kriegers Flak and the Vesterhav project. So, we're still commissioning those, but not before 2020 ends.

And then, in the third one, we are measuring CO2 emissions. They are supposed to be below 21 million tons and we deliver 12.1 million tons. So, we are far exceeding the target.

We're doing better than the target. That is due to two reasons mainly. The first one is that it's been warmer weather. So, in Continental Europe, there has been less need for heat and electricity produced by fossil fuels.

But it's also because we have not been running Moorburg to the extent that we expected to and we're now also closing it down and that's the main impact from our perspective.

The next target is the return on capital employed and both me and Kerstin already talked about that. So, we are below the 8 percent this year due to the one-off effects of the impairments of Moorburg. And then we have the employee - no, sorry...

Andreas Regnell Vattenfall - Head of Strategic Development

But the underlying was very high.

Anna Borg Vattenfall - President and CEO

The underlying was very nice. That's true. Thank you, Andreas. Looking at the next target, it's LTIF. Lost Time Injury Frequency. That is supposed to be below 1.25.

It's at 1.7 and we had a number of very unfortunate accidents and incidents that we've talked about before and we have increased our already high focus on health and safety in order to take care of this in a good way.

And we will actually increase our ambition even further. I will come back to that later on. And then, looking at the employee engagement index, we had set the targets to be above 70 and we actually come in at 72, which I think it is a major achievement first and foremost by our employees in a year like this, when the way of working has been very different compared to normal. So, that's the outcome of the 2020 targets and I will come back later on with the new strategic targets/

Andreas Regnell Vattenfall - Head of Strategic Development

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Yes. So, not full score, but significant progress.

Anna Borg Vattenfall - President and CEO

Yes.

Andreas Regnell Vattenfall - Head of Strategic Development

Good. Let's now turn to our investments during 2020. We invested SEK 23.6 billion. Quite an amount. What were our main investments?

Anna Borg Vattenfall - President and CEO

Well, you are right. It's a lot of investments, but we are a capital-intensive business so that makes a lot of sense as well. First and foremost, we invest in our existing business, our core operations, our nuclear power plants, our hydropower plants and also our distribution business, to make sure that they are in good shape.

That we can run them in a safe and efficient way. So, that the first focus. The second focus is that we are investing into phasing out fossil fuels. So, we are investing into rebuilding our operations in, for example, the city of Berlin, and we're also rebuilding our heat business in Amsterdam.

The third area is that we are investing for growth and that is mainly going into renewable energy generation. So, offshore wind, but also onshore wind and solar.

But we also put quite a lot of growth investments into our distribution business in order to take care of all be new, for example, wind farms that would like to be connected or the customers that would like to start a business or increase their existing business. So, that's a couple of examples of where we are investing.

Andreas Regnell Vattenfall - Head of Strategic Development

So, that was quite generic, but why don't you give five or a few, at least, specific examples.

Anna Borg Vattenfall - President and CEO

Happy to. If we start with...

Andreas Regnell Vattenfall - Head of Strategic Development

Funny you should ask, yes?.

Anna Borg Vattenfall - President and CEO

If we start with Kriegers Flak. That's an offshore wind farm outside Denmark and it's actually going to be Denmark's largest offshore wind farm once it's built.

The first turbine is up and spinning since last week so we're very proud of that. That's one examples. A second one is Princess Ariane, which is an onshore wind park inaugurated in September in the

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Netherlands and it is providing electricity for 370,000 households in the Netherlands.

We have invested into independent core cooling in our five nuclear reactors and they were also approved by the radiation authority in December. And that's good because they need to be in place from this year onwards in order to run those plants.

We have inaugurated Marzahn. That's a combined heat and power plant in the city of Berlin. That will significantly lower our CO2 footprint, but it will also support the city of Berlin to reach their climate ambitions.

And maybe finally the Carpe Futurum, which is a biomass heat plant in Uppsala that will be commissioned this year. And here, we actually have a milestone as well because we have now 500,000 working hours without any a severe accidents. So, that is a good sign that this increased focus on health and safety is working.

Andreas Regnell Vattenfall - Head of Strategic Development

Yes, and I think that each and every one of these investments are exciting and I would like to hear much more about them. But we have to do that some other time.

Anna Borg Vattenfall - President and CEO

Yes.

Andreas Regnell Vattenfall - Head of Strategic Development

Let's go to the balance sheet and the guardian of the balance sheet, Kerstin. Are you happy with how it looks and the future?

Kerstin Ahlfont Vattenfall - CFO

Well, I think the strong performance that we saw on the FFO over adjusted net debt really shows that we have healthy cash flow flows in relation to the leverage we are carrying and also these investment plans that we see.

And this means that we have a reduction in net debt and also reduction in adjusted net debt. We have a strong liquidity position just above SEK 50 billion, which is sufficient to cover our near-term debt maturities.

We have also SEK 45 billion, plus SEK 20 billion in committed credit facilities. So, in short, I think we have a strong position and also the flexibility to manage these growth opportunities for the future.

Andreas Regnell Vattenfall - Head of Strategic Development

Sounds very reassuring. Let's now take a look at the operating segments and why don't you take turn commenting on them. And, as we know, the total underlying went from SEK 25.1 billion to SEK 25.8 billion. But, if we look at the components and start with generation, I'm sure there's lots to be said there,

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Anna.

Anna Borg Vattenfall - President and CEO

Yes, because generation is our largest business segment and they are actually showing a relatively stable underlying result. They are delivering SEK 14.7 billion in 2020.

That's 800 million kr lower than the year before and that is, of course, due to the impact of the lower prices, but mitigated to a large extent by the hedges.

And here is also the trading results that Kerstin mentioned earlier. We have lower volumes in the generation business. That's mainly because we closed down Ringhals 2 by the end of 2019.

And now we also closed down Ringhals 1 by the end of 2020. But we have, to some extent compensated with higher volumes in our hydro business and we have also invested a lot in the generation segment.

We've invested in our nuclear reactors to make sure that we can continue to run them in a safe and efficient way far into the 2040s. And we've also invested in our hydropower plants. The existing ones. That way we have been able to add 600 MW of additional hydro capacity in the Swedish markets.

Andreas Regnell Vattenfall - Head of Strategic Development

Yes, and hydro capacity's as flexible as it is, is going to be very good in the future.

Anna Borg Vattenfall - President and CEO

It will.

Andreas Regnell Vattenfall - Head of Strategic Development

Kerstin, now your turn. Customers & Solutions. An even stronger result in spite of the pandemic. How is that possible?

Kerstin Ahlfont Vattenfall - CFO

Oh, well, actually, the net sales decrease compared to last year due to electricity prices and volumes in the Nordics and in Netherlands.

But this was then counteracted by lowered depreciations in the Netherlands because 2019 was the last year we depreciated the surplus value there. And then we have also lowered our costs.

So, we have more cost-efficient and digital processes in our customer service operation in the Netherlands. We closed down the phone lines at 3 PM and then conducted all the customer interactions digital.

We have also improved the NPS. As Anna mentioned before, we have kept a stable contract base even increased in France and in Germany. And we're also continuing to grow when it comes to number of

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charging points that we have installed. More than 50 percent. So, we had 22,400 charging points installed. So, all in all, we increased our results with SEK 0.8 billion compared to last year.

Andreas Regnell Vattenfall - Head of Strategic Development

So, progress and resilience, I think, fits well there. Anna again. Operating segment Wind. Given the growth and the capacity and you mentioned a lot of inaugurations here, you might have expected an even stronger result.

Anna Borg Vattenfall - President and CEO

Well, maybe we do see increased capacity in our wind business. For example, from Horns Rev 3 and also from Princess Ariane that I mentioned earlier.

But the prices do have an impact here as well of course. We've also been doing more maintenance in our wind business than we have earlier years. It's for example, connected to cable protection systems in the Dan Tysk wind-farm.

So, the availability has been lower and this is something that we will see more of in the sense that, with the growing fleet of wind assets, we will also do more maintenance.

But we have also kept the pace up in our investment projects so we may define an investment decision for Hollandse Kust Zuid, outside the coast of Netherlands, that will be the world's largest offshore wind farm once it's up and spinning and it's also as subsidy free which is the case for the Dutch market and offshore wind.

We've also started to or will start to construct because now we have the permissions for the Vesterhav project. So, even though it's been difficult to get components and people to the right place in the right time during this year, we see progress according to plan in our offshore wind projects.

Andreas Regnell Vattenfall - Head of Strategic Development

That's good to hear. Next, distribution. I guess the regulation in Sweden is something you will mentioned and also the potential sale of our operations in Berlin, but I'm sure there is more to be said.

Kerstin Ahlfont Vattenfall - CFO

Yes. When it comes to the financial performance, that is actually increasing compared to last year, mainly due to lower operating expenses.

And, if you remember 2019, we had the Storm Alfrida with quite high costs. And we also see a high inflow of new connections in the Swedish distribution system, both in the local grids and in the regional grids.

We actually increased our investments with 6 percent. And, all in all, we invested SEK 5.4 billion in our Swedish distribution business. So, you sometimes talk about electrification, Andreas. I think this is a sign

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it is happening.

Andreas Regnell Vattenfall - Head of Strategic Development

[Yes].

Anna Borg Vattenfall - President and CEO

And maybe to also say a few words on Germany. As you know, in October, we offered the city of Berlin to acquire all shares of our distribution business there, Stromnetz Berlin.

And now we are waiting for their response, but we think this is the best way forward to create clarity for all involved parties and also to end years of legal disputes.

Andreas Regnell Vattenfall - Head of Strategic Development

I agree. Next then, Heat, finally. Compared to last year, an improvement. Why is that?

Anna Borg Vattenfall - President and CEO

Yes. Yes, we do see an improvement in the underlying result from our heat business and that's good. It's nice to see. We also see lower volumes and fewer customers, but that is due to the fact that we sold our district heating business in Hamburg and also that the closed down Hemweg 8, which was the last coal-fired power plant we had in the Netherlands.

So, if look at the remaining business, we actually see an increasing number of customers. We continue to invest in the heat business to decarbonize the operations we have in Berlin and thereby also supporting the city of Berlin to fulfil their climate ambitions.

This is the business segment where we see the impairments from Moorburg. So, that, of course, has a large impact on the net result. And the closing down of Moorburg is going according to plan.

We are not producing in that asset anymore and we're now awaiting the approval from the German Bundesnetzagentur to also go off grid and then we will start to dismantle the plant.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you. So, if we sum this up, very stable underlying result in spite of the circumstances. And I think if we look out in the world, we see the green deal and we will see significant tailwind for the type of business that we're in. So, a very positive development.

But I'm sure there's something you lose sleep over or are worried about. Anyone that wants to start?

Anna Borg Vattenfall - President and CEO

I actually sleep very well. I always do. But, of course, there are challenges to think about and I think about our customers that are in industries that have been hit much harder by the pandemic situation than ours.

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I think about how to secure that we can actually build out our fossil-free generation fleet and our distribution business fast enough to meet the needs of decarbonization and electrification throughout Europe.

And I do think about our employees and hope that they soon can come back to the offices again and meet each other live. I know that they are really longing to and I'm longing for that as well.

Andreas Regnell Vattenfall - Head of Strategic Development

Yes, it's good to be able to run the firm by a screen, but it's not necessarily the (inaudible).

Anna Borg Vattenfall - President and CEO

It would be nice.

Andreas Regnell Vattenfall - Head of Strategic Development

Would be nice. Kerstin, you also sleep well or...

Kerstin Ahlfont Vattenfall - CFO

Yes, I think I sleep well enough, but if something would be on my mind, I think it is a bit sort of the pace in the energy market. The pace of change.

Because 2020 was a very special year via the COVID pandemic. But, I think, for our sector, it is really the pace of change of the energy transition that really has a big impact.

And for us to continue to be a leader in this competitive environment, I have it very high on my agenda to keep the focus on cost control, but also this readiness to be able to reprioritize to have that flexibility.

Andreas Regnell Vattenfall - Head of Strategic Development

Good. So, that's what you're thinking about just before going to sleep. Let's then push 2020 to history and let's start talking about the future. And let's start with investments. What can we say about the investments going forward, Kerstin?

Kerstin Ahlfont Vattenfall - CFO

Well, we are -- for the next two years, we will invest SEK 57 billion. So, it's quite a lot of money and that is net. Gross, it will be SEK 78 billion.

And the difference between these two are mainly our plans to partner up in our large offshore wind farms on Hollandse Kust Zuid and the Norfolk projects.

Out of these SEK 57 billion, 57% is dedicated to growth. The majority of that will still go into offshore wind, but a large share also to our distribution business and our heating systems.

And, if you look at the country distribution, the largest investments will end up in Denmark, UK and the Netherlands and that is following the offshore investments. That's also significant share in Sweden again connected to our distribution grids.

Andreas Regnell Vattenfall - Head of Strategic Development

So, a big number in 2020 but continuing on a high level.

Kerstin Ahlfont Vattenfall - CFO

Yes.

Andreas Regnell Vattenfall - Head of Strategic Development

We talked about the 2020 targets and we promised that we'd come back with the 2025 targets. So, now (inaudible).

Anna Borg Vattenfall - President and CEO

And now is a good time to do that.

Andreas Regnell Vattenfall - Head of Strategic Development

The floor is yours on the targets.

Anna Borg Vattenfall - President and CEO

Thank you. Thank you. Well, we are setting new five-year targets on our strategic ambitions and the first one is the net promoter score. So, we are keeping that one.

But, from now on we will measure that in absolute terms rather than relative. Makes it slightly easier to explain and follow. And, for 2020, we came out at a level of 7. And, until 2025, we should be at the level of 18. So, it's a fairly high increase of the ambition, but that's the way it should be.

The second target has to do with CO2 emissions and here we will continue to monitor this, but we will measure the CO2 emission intensity. So, the grams of CO2 per kilowatt hour.

And the reason we have chosen that is that that is in accordance with what is called the science-based target. That is an initiative to by UN, the World Wildlife Foundation and a couple of other stakeholders where they are making an audit on whether the actions the company is taking will be enough in order to meet the Paris Climate Agreement and to limit the global warming to 2 degrees.

So, we have a level today of 97 g and we'll go to 86. And that will also put us on the 1.5-degree trajectory. So, to limit global warming to 1.5 degrees.

The third target that we are looking at is LTIF. We keep that one, but we increase the ambition. And, as I said, earlier, the outcome for 2020 is 1.7. And, by 2025, we should be at or below 1.0. So, an increased ambition in that regard.

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Then we have the engagement index, which I bragged a little bit about earlier. It's now at 72, but we will increase the ambition even further and say that we need to be at the level of 75 in order to really be at the high-performing norm and stay there.

So, there's also an increased ambition there. And then we have the financial targets and they are pretty much set from our owner. So, the return on capital employed should be 8 percent or higher.

And the FFO to adjusted net debt should be somewhere between 22 and 27 percent. And my clear ambition is that we should deliver on both our climate targets and our financial targets continuously throughout this period.

Andreas Regnell Vattenfall - Head of Strategic Development

So, thank you for setting those ambitious targets for us all. And thank you, Kerstin, because this actually concludes this part of the session.

Welcome back to the Q&A session. As mentioned, we will get questions, both from a chat channel and from the phone channel. And please remember to state your name and where you work.

I have some questions already here. From Andrew Moulder:

Andrew Moulder CreditSights - Analyst

Yesterday, Oersted spoke of competition from the oil majors as well on the major threats to its offshore business. What is your view of competition in offshore wind and how do you expect this to impact your return on offshore wind projects? Oersted also spoke of potential 25 GW of auctions for 2021? How many of these auctions is Vattenfall taking part in. Thank you.

Anna Borg Vattenfall - President and CEO

Well, it's a very relevant question and the oil majors are for sure showing an increasing interest into the renewables business, which makes sense.

If you're in a business where you emit a lot of CO₂, you naturally start to look for other investment opportunities, I think. So, we already see them in this market and I think that they will be there to an increasingly degree as well.

And competition is, in a sense, good because that forces all of us to become better, but I also feel very confident that Vattenfall is one of the top three offshore wind players in Europe so we carry with us quite a lot of experience and knowledge in order to be competitive in this environment.

We also see partnerships between oil majors and the offshore wind companies and I think we will continue to see that going forward to an even larger extent.

It's also true that there will be a lot more opportunities moving forward. Lots more of auctions and competitive processes because the European Union and therefore also the national targets have increased quite a lot and also been concretized into targets when it comes to offshore wind.

And Vattenfall have a strong pipeline of projects, but we continue to monitor all of the European market and we'll go for the opportunities where we think that we can have an advantage and be competitive. So, this will be one of our main growth area also going forward.

Andreas Regnell *Vattenfall - Head of Strategic Development*

Thank you. Next question. Two questions from Philip Chaffee, I assume, Energy Intelligence.

Philip Chaffee *Energy Intelligence*

For its nuclear generation, Vattenfall failed to reach its target cost level of 19 öre per kilowatt hour last year. What was the exact 2020 level and what are you doing to make sure you reach this target cost level in 2021?

And then I'll read the second question. "Vattenfall has been very active in examining the possibility of small modular reactors in the broader region, particularly in Estonia. Where you see SMRs going in 2021 and the coming years and what role might Vattenfall play in SMR development." So, first the 19 öre and then SMRs.

Kerstin Ahlfont *Vattenfall - CFO*

Yes, it is correct that we are not fully reaching the 19 öre target so we have a slight increase compared to that. And the reasons are manifold.

But we are continuing to look into the production cost and we are focusing on all the different parts that the production cost consists of. And we will probably not reach the '19 level, but we will have a competitive level going forward. When it comes to the SMRs, maybe you want to comment on that, Anna.

Anna Borg *Vattenfall - President and CEO*

Absolutely. The SMRs, the small modular reactors, is, of course, a very interesting technique that we see a lot of work going on around globally and I'm quite sure we will see some of them in commercial use by the end of the 2020s.

From a Vattenfall perspective, we are not investing into new nuclear. We are in cooperation with a company in Estonia about the development or a possible development of SMR because that is, in Estonia, supposed to do replace oil shale.

The Vattenfall contribution is that we contribute with our knowledge and experience around nuclear, both when it comes to building it, to operating it and to also look into it from a technical perspective.

In turn, we get to know this technique more in depth and we get to learn, which is very useful for the future. Because, as I said, I think these small modular reactors will be on the global market not too far away from now.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you. Let's now turn to a question on the phone and please remember to state your name and where you work. Phone question, please?

Operator

First question from the phone comes from Petra Sorge with Dow Jones. Please go ahead.

Petra Sorge Dow Jones - Analyst

Yes. Hello. Thank you for the opportunity. I would like to ask about your hydrogen plans in Moorburg. So, can you already give some financial outlook on this? How much exactly do you plan to invest and ask from the EU funding in the framework of the IPCEI consortium and when exactly in the first quarter would that be?

The second question would be regarding the offshore market in Germany. Do you see that as a growing opportunity because I can only see 10 percent of your investments related to Germany right now?

And the third one would be on the trial that has been pursued by Vattenfall against the German state concerning the nuclear phaseout where you have succeeded at the Supreme Court in November. That means you could expect higher compensation by 2023. And could you give a figure to what the compensation would be - you asked for? Thank you.

Anna Borg Vattenfall - President and CEO

So, three questions, if I count this correctly. And, if we start with hydrogen in Moorburg, that is a letter of intent and a cooperation between the heat operations in Hamburg owned by the city, Shell, Mitsubishi and also Vattenfall is in there.

And the project is to explore whether it would be possible to produce hydrogen on the site where Moorburg is located today. We have not made any decisions to invest and as you also said this will be a project more of a sort of R&D character to start with, where funding will be looked for by IPCC or elsewhere.

So, it's way too early to say what that will actually mean. But hydrogen in general is a very interesting development and the site where Moorburg is located today is very well positioned in Hamburg for this.

The second question was about offshore wind in Germany. We would like to continue to develop offshore wind in Germany, but the market prerequisites have not been as attractive as in other markets and that's one of the reasons why we have not done that.

I think that that it would benefit the German market and the development of more offshore wind in Germany a lot, by for example, applying CFDs, like the ones in other European countries, that would increase the pace of development and we would be very interested in participating in that.

And then the last question was about the legal procedure in relation to the German state. That is still very much ongoing in several instances, but the one referred to here was the Supreme Court where it was clearly said that the current legislation had been discriminating against Vattenfall. So, we're now awaiting a new law from Germany we'll see where that ends up. So, to be continued.

Andreas Regnell Vattenfall - Head of Strategic Development

To be continued. Thank you. Next, here on the chat, a question from Jakob Magnussen.

Jakob Magnussen Danske Bank - Analyst

Hi, can you elaborate on the current state of playing in the DSO business in terms of regulation? Are you optimistic that the WACC will be improved? And, if not, will that cause you to reduce your Swedish network capex - your Swedish network capex?

Kerstin Ahlfont Vattenfall - CFO

Maybe I can start on that one. We are quite positive. We have court proceedings in the administrative court in Linköping regarding the WACC. And it is not only Vattenfall but several DSOs in Sweden. The current WACC is 2.35 percent, but we think we have a good chance that that will increase.

Of course, we have huge investment plans, as we just showed, when it comes to the Swedish distribution grid. And that is, I think, also needed in order to support electrification, to support the transition of the energy system and so forth.

And, of course, we need also the right regulation in order to be able to do that. So, if the WACC is not increasing, then, of course, we also need to review our investment plans.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you for that. Question from Karin Vik.

Karin Vik

Are you happy, as a whole, with the results for 2020?

Anna Borg Vattenfall - President and CEO

I am. I actually think it is a very strong result given this extreme year of 2020 for all of us. So, to show a relatively stable underlying result and to be able to propose a dividend of SEK 4 billion to our owner, I feel that is a good achievement this year.

Andreas Regnell Vattenfall - Head of Strategic Development

I tend to agree. Next question. Question from Sharon Vieten Columbia Threadneedle Investments.

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Sharon Vieten Columbia Threadneedle Investments - Analyst

Does being state-owned give you any specific advantages or disadvantages, in the auctions?

Anna Borg Vattenfall - President and CEO

Well, I think that, in general, state-owned companies are perceived as fairly stable and that's also often reflected to some extent in the ratings that are given to state-owned companies.

So, in that sense, it's, of course, an advantage. It is also a very long-term view on the company and that also helps. But we are expected to deliver a financial result and an efficient operation to the same extent as all other companies in our industry. So, I basically don't think that it makes a lot of difference.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you. So, now it's time for the next question from the phone.

Operator

Next question from the phone comes from Philip Akoto from Energate. Please go ahead.

Philip Akoto Energate - Analyst

Hello. I was wondering -- you talked about Stromnetz Berlin and I was wondering if the heating network you also run - if this is part of - if this will be sold as well or if you will keep it.

I don't know if I'm up to date with that. Thank you.

Anna Borg Vattenfall - President and CEO

We have only discussed to sell and have also offered to sell the distribution business to the city of Berlin. We are not in discussion regarding the heat business.

We own the heat business in the city of Berlin and are committed to make sure that we can develop that business in a good way from a climate and financial perspective going forward.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you. Next question, again, from Andrew Moulder.

Andrew Moulder CreditSights - Analyst

Which were the offshore wind farms you stated you will [fund] down to get to a net investment of SEK 57 billion over the '21 and 22 period? When do you expect to do this and how much would you target to sell? 50 percent?

Anna Borg Vattenfall - President and CEO

Yes. The two wind farms that I mentioned was the Hollandse Kust Zuid and the Norfolk projects. And - exactly timelines are difficult to predict because we are not forced to do anything here.

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So, we will do that when the time is right for us, but I would not be surprised if we would partner up in Hollandse Kust Zuid during 2021. The Norfolk projects they are further out in times so that is more uncertain exactly when that will happen.

Andreas Regnell Vattenfall - Head of Strategic Development

Thank you. Ok, I see that there are no more questions so that means that I thank again Anna and Kerstin and all of you for your participation and see you in a quarter. Thank you.

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