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# EDITED TRANSCRIPT

Q1 2024 Vattenfall AB Earnings Call

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## CORPORATE PARTICIPANTS

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**Anna Borg** *Vattenfall AB - CEO & President*

**Kerstin Ahlfont** *Vattenfall AB - Senior VP & CFO*

## PRESENTATION

### Operator

Good morning, and welcome to Vattenfall. I'm Andreas Regnell, and today, we will go through the main events and the financial performance of the first quarter of 2024. For all of you that appreciate our financial reporting material, the slides are available on the web. Now as always, with me in the studio, I have Anna Borg and Kerstin Ahlfont. And should they not answer all the questions you might have, you have ample opportunity to ask additional questions after the initial review of the material. Now let's begin, Anna, a pretty calm start of 2024, wasn't it?

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### Anna Borg *Vattenfall AB - CEO & President*

Well, at least compared to 2023, but I also think that the calm start of '24 is in the light of the fact that it's been a lot of turmoil in the market for several years. And I think to some extent, we've also gotten used to that. And it will not change short-term either because the fundamental uncertainties are still there. So I think that to some extent, we are simply getting used to this uncertainty, and we still need to drive the business through. And on top of that, it's been slightly calmer from a price and volatility perspective in the beginning of '24. So yes.

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### Andreas Regnell *Vattenfall AB - Senior VP & Head of Strategic Development*

Elaborate a bit more on that, please?

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### Anna Borg *Vattenfall AB - CEO & President*

Yes. I think from a geopolitical perspective, there's still a lot of uncertainty. A lot of things can happen that has an impact on energy in many parts of the world and also on transportation, especially if you look at the gas market, both natural gas and LNG worldwide. So that is still impacting us. Also, the demand pace picking up or not in other parts of the world has an impact on this. We see that there's a lot of elections going on this year, which will most likely also have an impact on geopolitics. So that uncertainty is definitely there.

Then we have the financial situation. So where will the interest rates go? Will they go down and in what pace? And how will inflation actually look like in different parts of the world? So even though we see some positive trends there, it's still a lot of uncertainty also on the macroeconomic level. And then we have the supply chains where especially in offshore wind, but also in other parts of the business, we see the supply chains being quite squeezed, not the amount of suppliers that used to be in the market. Some of the suppliers are ramping up their capacity to meet increased demand, but that's going to take a bit of time. And of course, the prices have increased a bit with increased interest rates and inflation. So that uncertainty is also there.

I think what we need to do in this environment is to make sure that we are flexible to capture the opportunities when they are there. But also that we prioritize carefully and really choose the sort of projects where we can make good profitability and really contribute with our abilities. So -- also going forward, it's going to be important to manage the business here and now from a short-term perspective, but still have the sort of long-term objectives in focus going forward.

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### Andreas Regnell *Vattenfall AB - Senior VP & Head of Strategic Development*

Yes. So balancing short- and long-term.

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### Anna Borg *Vattenfall AB - CEO & President*

Absolutely.

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### Andreas Regnell *Vattenfall AB - Senior VP & Head of Strategic Development*

Always important, yet quite difficult.

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**Anna Borg Vattenfall AB - CEO & President**

Yes.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

But if we start in the short-term, Kerstin, the energy market has been quite volatile over the last couple of years and has impacted us a lot. What do you say about the start of 2024 in that respect?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Yes, the electricity prices have continued to decline, if you compare this quarter with the same quarter last year. If you look at the Nordic prices, they are down with 31% and that is mainly driven by lower prices in Southern Sweden since they are connected to the continental prices. And they are down with 40% compared to the first quarter in 2023. And that is mainly due to the warm winter. We have had higher availability in French nuclear but also well filled gas storages. However, as Anna mentioned, it is important to remember that even though we now have sort of a bit lower prices and less volatile markets, the short-term underlying fundamentals remain unchanged. So we could possibly see high volatility again.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you for that. So going for the long-term part, what would you say we have done to deliver on the long-term perspective of our strategy?

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**Anna Borg Vattenfall AB - CEO & President**

Well, we continue to work with the developing fossil-free electricity generation. That is the only thing that sort of really will change the fundamentals in the market to have more generation capacity in Europe and make sure that, that capacity is fossil free. So we continue to develop that. Long-term strategic partnerships are going to be important in order to continue to decrease the CO2 emissions, not only from the electricity and energy production but also from an industrial perspective. And here, I think we at Vattenfall have a good competitive position and also have proven ourselves in many of these partnerships. So we see that as a business opportunity for everybody involved.

Then we need to continue to invest in the grids both to ensure the resilience needed in the grid, both with the build-out coming both on the customer side and the production side but also managing the more weather-dependent electricity production in the grids, but also to increase the capacity just because there is more demand for customers to connect. Electrification is often the answer of phasing out the fossil fuels in industry production.

Something that also happened for us is that we have actually merged 2 of our business segments. So segment Customers & Solutions and segment Heat are now merged into 1 following the divestment of Heat Berlin. So the new Customers & Solutions will now fully focus on all kind of offers we have to our customers, regardless if it's heat, electricity, different kind of energy efficiency services, e-mobility, heat pumps or whatever. So a strong focus on our customers in that business area.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. And how has all this then translated into our financial performance?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Well, I'm happy to say that we have performed well, Andreas, and this despite the lower electricity prices that I mentioned earlier. So if you look at the underlying EBIT, which is really what sort of measures the development of the business, that increased with SEK 4.3 billion to SEK 13.9 billion if you compare to the same period last year. And here, the main contributing factor are the increased achieved prices due to good result from our price hedges in the Nordics but we also have higher production volumes across both wind, nuclear and hydro, and this is sort of offsetting then the lower electricity prices.

And if you look then at the profit for the period, that is up with SEK 5.1 billion to SEK 16.9 billion, so higher than the same quarter last

year. And this is then due to this increased operating profit, of course, but we also have the record a capital gain due to the sale of the Norfolk Offshore Wind Zone, which compensates then for less positive changes in fair values of energy derivatives as well as an impairment in Heat Berlin due to an adjustment of the purchase price.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Yes. So clearly encouraging to see the development of our performance, but how has that translated into our financial targets?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Well, this increased underlying EBIT is improving the financial targets overall. So if you look at the capital structure, that has improved, if you compare it to one quarter ago, end of 2023, and it's an FFO over adjusted net debt at 26.8%. So really in the upper range of our target interval, which is where we aim to be. And also profitability has improved, which we measure with the rolling 12 months return on capital employed, and that is up from 5.3% last quarter to 6.6%.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. So good improvement. But we also shared some exciting news, Anna, didn't we?

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**Anna Borg Vattenfall AB - CEO & President**

Yes. And Kerstin touched upon one of them, which is the finalization of the sale of the Norfolk Offshore Wind Zone in the UK, 3 projects altogether, which we have divested to RWE. So we're happy to see that the project as such is progressing because it's important in the UK energy market context. But it was a prioritization for Vattenfall to step out of that project, and we made a capital gain in the end of SEK 4.6 billion on that transaction, so also a sort of profitable exit from our perspective.

We also presented the final results of the feasibility for new nuclear at the Ringhals site this quarter. And we know for sure that the Värö Peninsula is well suited for building new nuclear at or around our current Ringhals site there. So what we're doing now is we look into what kind of claims do we possibly have to do in relation to the nature reserve in the area and how to compensate for that, if that's the case. We are acquiring properties in the area. We are in the midst of working out the environmental analysis that will be needed as one part of the permitting process, and we're also preparing for the dialogue with the stakeholders in the area around Ringhals. So that is working -- progressing according to plan. What we're also waiting for is the risk-sharing model that there is an inquiry going on around that in the government, and that is a prerequisite for building new nuclear, and we look forward to the results of that as well, of course.

Then we have signed a couple of new power purchase agreements with clients, 1 with Borealis with a 10-year contract. It's based on hydropower production, but also 2 PPAs that are connected to solar power, 1 with Evonik and 1 with Wieland Group, so also sort of cooperating with our customers in order to enable them to decrease their sustainability footprint going forward. So we continue to support our customers in different ways and form and shape the partnerships that we need.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

So a number of important milestones, but we also worked on expanding and upgrading our fossil-free generation fleet. Why don't you update a bit on that?

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**Anna Borg Vattenfall AB - CEO & President**

For sure. And one thing that we do that you might not hear so much about, but that's actually very important is that we invest and enhance our -- invest in and enhance our hydropower plants. So we do actually quite a lot of investments in order to make sure we can utilize the sort of capacity fully in those and also renew some of them in, for example Ajaure and Hölleforsen in Sweden, we made quite large investments so that we now can extend the technical lifespan for more than 40 years going forward. And this is important for many reasons, but I mean hydropower has the advantages of being both good as a baseload power in the energy system, but also very valuable as large-scale flexibility in order to balance the sort of entire energy system in Sweden and the Nordics. So it's good investments both from a financial perspective but also from an energy system perspective.

Then in February, we also finalized the Vesterhav Nord project, offshore wind in Denmark, which means that the entire Vesterhav cluster is now finalized and up and running, so bringing more fossil-free electricity to the market. We are also expanding and improving the grid.

We're happy to see that we received a bit more capacity from the Swedish transmission operator in the northern part of Sweden to another 500 megawatts. That means that we now have 2,000 megawatts in this critical area in the northern part of Sweden to share with our customers. However, the demand is 8,000 megawatts in that area, so still a need for a lot more transmission and distribution capacity to meet the demand.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

So a lot of things going in the right direction. But we also announced a few things after the end of the quarter, didn't we?

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**Anna Borg Vattenfall AB - CEO & President**

Yes, that's right. And one of them that I would like to mention is the cooperation and partnership with BASF where they actually buy 49% of our Nordlicht wind farms that we are developing, offshore wind in Germany. It's 1.6 gigawatts altogether. So we continue to build on the partnership we have with BASF from the Hollandse Kust Zuid project. And they will use the offtake from their share of that project, among other things, for their Ludwigshafen operations. So also there being part of decarbonizing industry in Germany in this case. Then we also had a notice from the TSO in Sweden, regarding increased capacity in Forsmark 1, so one of our nuclear power plants. All the technical work is already done, but we're waiting to be able to get it out onto the grid. So another 50 megawatts is happening now and then yet another 50 megawatts after the summer. But again, the plant is ready to deliver. We just need to get it out on the grid as well.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

So lots of things happening. And Kerstin, you mentioned improvement in the performance, but what does it look like if you look at the operating segments?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Well, if you look at the financial performance of this newly merged then segment Customers & Solutions that Anna talked about earlier, there we see a slight decrease of the underlying EBIT of SEK 500 million if we compare to the same quarter last year. We have a continued growth in the customer base, both in the Nordics and in Germany, but this is offset then by lower gas prices in the Netherlands, which has a negative impact on the heat revenues, but also an unfavorable spread development that impacts the Dutch condensing fleet.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

And if you, again, mentioned that lower energy prices, how has that impacted our power generating segments?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

If you look at the Power Generation segment and the Wind segment, both of these segments are actually very much sort of connected to the development of the electricity price, which we have talked about earlier. And this quarter is, of course, no exception. However, despite this, actually, both segments report an increased underlying EBIT. And if you look at the Power Generation segment, they have an increase of SEK 2.7 billion compared to the same quarter last year. And here, the main driver is the higher achieved prices due to sort of positive price effect from the Nordic hedges, but also more production, mainly from nuclear but also from the hydropower plants.

And if you then look at wind, also there, it's a fairly stable result, but SEK 200 million above when it comes to underlying EBIT, if we compare the different quarters. And here, the main driver is actually the increased production from our new offshore wind sites. It's both Hollandse Kust Zuid and Vesterhav Syd projects, and that is actually then offsetting the impact from lower electricity prices this quarter.

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**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. Very clear. And now last but not least, distribution. How are we doing there?

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**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Yes, there the development is a lot the same as previous quarters. It's a fairly stable development. Underlying EBIT has a slight decrease of SEK 200 million. And the main development there is increased personnel cost as this segment is growing. You heard Anna talk about all of what we are doing there earlier. But there's also a higher cost from the transmission network.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

So thank you. Both for going through the main points of our first quarter 2024. But before we go to the Q&A, or a couple of things before we go into the Q&A. Yesterday, we had the Annual General Meeting. What were the key takeaways you think?

**Anna Borg Vattenfall AB - CEO & President**

Well, we had the opportunity to present the full year 2023. And we also received appreciation both from the Chairman of the Board and from the owner, which we're very happy about. And thanks for that goes to all the employees of Vattenfall who's doing a really good job in order to deliver in this quite volatile environment. But we also -- there was also a decision on the dividend to the owner of SEK 4 billion for the full year 2023. So it was a good day.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Yes. And final question before we go into the Q&A. Anna, you mentioned that we had another important year ahead. What would you say would be the main focus areas?

**Anna Borg Vattenfall AB - CEO & President**

Well, I think the main focus will be to -- despite this uncertainty that we've talked quite a lot about in the sort of fundamentals in the market, make sure that we keep the direction going forward and continue to deliver. And in order to do that, it's important to -- for Vattenfall to have this strong financial position that we have. And that's why I'm happy to see that we are able to keep on building that up in this market environment because that is serving us well and will do so also going forward.

We need to make sure that we stay flexible so that we have the flexibility to act upon what's happening in the market, that we deliver on our targets, as Kerstin just described, and also that we can act on the opportunities in the market when they are there and really capitalize on our competitive advantages and our skills. We will continue to deliver on our strategy to become net zero in 2040, and that goes for all scopes, 1, 2 and 3. We are well underway. We have already decreased our emissions with more than 50% compared to 2017. And until 2030, we're supposed to do it with 77%, and we will manage that and then be net zero by 2040. So we are well underway and we'll continue down that road.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you for that. And in a second, we will be back for the Q&A session.

**QUESTIONS AND ANSWERS**

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Welcome back to the Q&A session, and let's see what we have here. First questions come from Steve Larson, [SL Capital]. Given the good quarter, can we say that the energy crisis is now behind us?

**Anna Borg Vattenfall AB - CEO & President**

No.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

That's quick.

**Anna Borg Vattenfall AB - CEO & President**

No, that is clearly not the case. It is a bit calmer, but again, the fundamentals have not changed. So we need to continue to make sure there is more fossil-free electricity production in grid in Europe in order to increase the resilience.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. Next question from Sharon Vieten at Columbia Threadneedle Investments. Good morning and thank you for the presentation. Could you please explain again how Vattenfall derives its realized power prices from the 4 different price regions across Sweden, while the Nordics spot price has fallen. Is this due to mainly to the location of different generation capacity?

**Anna Borg Vattenfall AB - CEO & President**

Yes. We have a lot of capacity in the northern part of Sweden, which is the price area 1 and 2. And those have been disconnected to the spot price to a larger extent the last few years than what has been the case, which is also why we described earlier, have decreased our hedge ratio because a lot of our nuclear power, but also some of our hydro power is located in the southern part of Sweden. So there you can see that we can still utilize the hedging tools in a good way. And we have hedged over the last few years, which is now serving us well in a downward market. So that is basically the rationale.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. Now Andrew Moulder from CreditSights wonders some utilities are talking about fossil free generation using hydrogen in gas plants. Is this something you're doing in either Sweden or Germany? And do you believe this will be an economic method of generating fossil-free electricity?

**Anna Borg Vattenfall AB - CEO & President**

We are not using green hydrogen as a fuel for electricity production. What we are doing is that we're using green hydrogen as a fuel in industry production. For example, in the pilot plant we have regarding fossil-free steel together with LKAB and SSAB. And I think that's also where we first will see the utilization of green hydrogen, maybe in combination with some large-scale transportation. There is a lot of sort of loss of efficiency when you go from electricity to green hydrogen and back to electricity. So in order for that to be possible, the prices have to be lower, both for electricity and for actually producing the green hydrogen.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

And that, of course, makes it difficult because the price for electricity is low it's -- So I think the answer is it will be very difficult. Now two questions regarding offshore wind. Okay. I have to do it this way. What are your thoughts on the Danish offshore wind tender that were launched last week? You're, of course, more than welcome to say whether you intend to participate but also just whether the requirements have become sufficiently manageable with, i.e., the reduction of the penalties for being delayed or walking away from the contracts. That's question number 1, and then we'll get to the second.

**Anna Borg Vattenfall AB - CEO & President**

We haven't decided whether to participate in those tenders or not yet. And since this came only last week, we are still doing the analysis to see what we think that the impact is. But in general, we are very competitive when it comes to building and actually delivering projects in offshore wind. But I think it's important, not only in Denmark, but in all European countries to really acknowledge the importance of the speed of bringing more capacity to the market. And I think that, that, together with industry integration in order to enhance the competitiveness of European industry should be more in focus in all offshore wind tenders.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Couldn't agree more. Recently, the Netherlands announced that they won't meet their target 21 gigawatts in 2030. And with the severely reduced penalties for delays in Denmark, one could argue that they have also de facto acknowledged that possibly some of their capacity will slide into the 2030s. Is this a trend you see will become more prominent in Europe? And is this a necessity taking the pressure in the supply chain into consideration?

**Anna Borg Vattenfall AB - CEO & President**

I think that we do see lagging of reaching some of the targets when it comes to fossil-free electricity generation, but also the transition in general in many countries in Europe, which is, of course, to some extent, connected to the supply chain squeezes, but it's also connected to the overall sort of geopolitical and financial situation because there are a lot of dynamics to manage at the same time. But that's also why there are a lot of discussions in Europe but also in the different countries on how to speed up the transition going forward. And I think that one of the most important key factors in that is to make sure that land and sea is available for actually building. So even if there is a squeeze in the supply chain, I think it's possible to increase the pace by increasing the efficiency in the permitting processes.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. Philip Akoto, Energate. Will Vattenfall reinvest the proceeds from the sale of Heat Berlin, possibly in Germany or in the offshore segment?



**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

I think when it comes to those proceeds, we will use them sort of for the total Vattenfall group, and we reported in Q4 the sort of the investment plan that we have for the next 2 years. So it will be a mix. Of course, that plan is a bit dependent on exactly what projects we have but it will be a mix between the countries where we are operating. More than half of it will be growth investments, where wind will be probably more than half of the growth investments as such, but also investments in our Swedish hydro, nuclear and the distribution networks, but also investments in Germany, of course, we have the Nordlicht wind farm, which, of course, will carry a lot of the investments for the next coming years.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. And now Samu Wilhelmsson from Nordea. How you are currently seeing the breakeven cost for solar and wind for the price are SE2 and SE3? And could you describe your investment appetite for these areas in the current market environment. SE2 and SE3, okay.

**Anna Borg Vattenfall AB - CEO & President**

Yes. We are not commenting specifically on the sort of offers we get from our suppliers in terms of exact cost for exact technologies, but we all know that solar is the sort of cheapest investment per megawatt hour, then it's onshore wind, offshore wind, then nuclear. But then I think it's important to say that they also bring different kind of capabilities to the energy system and there needs to be a well thought through idea on how to capitalize and get paid for that kind of ability that, for example, nuclear is bringing. So when it comes to solar and wind, specifically in SE1 and 2, we have a couple of onshore wind projects that are running according to plan and where we will continue to invest. We don't do a lot of solar in the northern part of Sweden, maybe for natural reasons. There are other areas in Europe where the sun is sort of more suitable for producing electricity. We also don't do a lot of small scale solar. The solar we do is large scale. And for the moment, we do quite a lot of that in Germany because there we see the profitability.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. Alexander Norris, Canada Life. How comfortable are you that you will be able to maintain FFO over net debt above the Moody's A3 rating level 25%? What conversations have you had with Moody's around this?

**Kerstin Ahlfont Vattenfall AB - Senior VP & CFO**

Yes, we will -- I will not comment on the exact conversations that we have had with our rating institutes. But we have a target range between 22% and 27%. And that is what we commit to as a company. And what we have said as well is that our aim is to sort of target the upper range of that interval.

**Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development**

Thank you. I think that concludes the questions. No more questions. Then thank you, and thank you all for listening in. And welcome back for our Q2 report in the summer. Thank you, and bye-bye.

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