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# EDITED TRANSCRIPT

Q4 2023 Vattenfall AB Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2024 / 8:30AM GMT

## CORPORATE PARTICIPANTS

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

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

## PRESENTATION

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

Good morning, and welcome to Vattenfall and this full year 2023 reporting event. I'm Andreas Regnell, and with me in the studio, I have, as always, Anna Borg, our CEO; and Kerstin Ahlfont, our CFO. Today, we will go through the main events and the financial performance for 2023 and the fourth quarter. After the initial discussion, we will open up for questions online and over the phone. And as always, the reporting material is available on our website.

Anna, another year has passed, what would you like to pick out as the main things to mention initially?

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

Well, I would say that 2023 has also been a turbulent year in many ways. You can probably say that about quite a few years in a row now, but it's also the case '23. Geopolitics is difficult also going forward. That has an impact on global trade and some of the things that we buy, it has an impact on our supply chains and also on the markets in general.

We see increased inflation during '23 and also increased interest rates, that also hits us and everybody else, of course. But I think from a long-term perspective, it's really clear that the ambitions when it comes to climate targets in business is really increasing. And we also now see the outcome of COP28, which will probably enforce that even further.

The industry transformation started a long time ago. So it's more about keeping pace to make sure that everything can be delivered that is needed in order to really continue down that route. And the demand for fossil-free energy is probably higher than ever, I would say. However, we don't really see the large-scale build-out in Europe happening at a pace that it would need to. So from that perspective, not a lot has changed fundamentally in the sort of energy perspective in Europe.

During '23, however, we saw much lower prices than during '22, and we also saw lower volatility. In a historic perspective, it's still high prices and a lot of volatility, but at least lower than 2022. And that, of course, has a huge impact also on our numbers. But I think that we have managed to take Vattenfall through the turmoil of last year and the years before that in a good and stable way, which means that we have a strong capital structure, and we are able to do the investments that we want to.

In addition, we also concluded some large deals during last year. If I'm going to say something about the highlights from last year in the business operations, I would like to mention Hollandse Kust Zuid, the largest offshore park to date outside the Netherlands that we built and also the inauguration of South Kyle onshore wind in the UK.

We've also seen improved prerequisites for nuclear in Sweden, which I'm very happy about. We see that in terms of taking away regulatory hurdles, looking into a risk-sharing model and also appointing a national nuclear coordinator, all very sort of good and necessary measures in order to facilitate for new nuclear to be built.

We see that more customers choose Vattenfall, very happy about that. In Germany, for example, we now have more than 5 million customers with Vattenfall. We have a prudent investment strategy, and we keep our financial discipline, and Kerstin will come back to this.

It also means that we dare to reprioritize when needed, we will only invest if the profitability is good enough. And during the year, we have also divested both our heat business in Berlin and the Norfolk offshore projects. This is increasing our preparedness for the future and also enable us to make other new investments, and we will come back to that later on as well.

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

Yes, we will. We'll get back to the divestments. Anna mentioned the lower price, Kerstin. What's your perspective why we have seen a decline in electricity prices?

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

Yes, we have seen significantly lower electricity prices, both in the Nordics and on the continent. And in the Nordics, the prices are mainly affected by the warm and wet weather. And in the southern part of Sweden, it's also connected to the continental prices, which in turn are affected by the gas price development, and we have seen a significant decline of gas prices during 2023. There is also well-filled gas storages in Europe and the availability of the French nuclear fleet has also been better than previous year, and that also has a downward pressure on the continental prices specifically.

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

Yes. And lower prices, of course, very, very important driver for us. How would you summarize the financial development for 2023?

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

Well, we report lower underlying EBIT for 2023 and the main reasons are the lower electricity prices, but also lower generation volumes, both in our hydro power plants as well as in the nuclear power plants. However, if we look at the profit for the period, then we see an increase.

And then it's important to remember that in 2022, we had large temporary changes in the valuation and realization of electricity and fuel contracts. And we have those effects also this year, but to a much lesser extent. And if you look at the single quarter, it's basically the same development with a lower underlying EBIT. And in the quarter, it's mainly related to lower electricity prices, but an improved net profit.

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

Thank you. And we will dig deeper into the financial performance, but let's look at the film.

(presentation)

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

Another very eventful year has passed. And it's clear that the sale of Heat Berlin is one of the main -- key main events. What does it mean for our operations in Germany, what remains?

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

Well, we have made a strategic review since 1.5 years back, we started to look at that when it comes to Heat Berlin. And we are very happy that we've been able to conclude.

And once we had decided to divest the business, it was important to us to sell it to someone who could, of course, pay the value that the business reflects but who could also continue the transformation of the assets and the business that we have started and also be a good employer for our 1,600 -- 1,700 colleagues in Berlin.

So I'm very happy that we've been able to conclude this transaction with the state of Berlin. The purchase price is, as we've heard, EUR 1.6 billion based on an agreed enterprise value of EUR 1.9 billion. You have more information about that in the slide deck, if you would like to.

This means that Vattenfall no longer owns any coal or gas-fired plants in Germany. However, we are very committed to the German energy transition, and we also have a broad variety of business in Germany still. We have quite a lot of fossil-free electricity production, both from onshore wind, offshore wind and solar, but also from our pumped hydro operations. We have, as I said before, 5 million customers and growing. So that's a substantial business.

And we see quite a lot of investment opportunities in Germany because there is a very high demand for new fossil-free electricity in Germany. So 40%, I think, increase until 2030 and maybe even doubling until 2045. Examples of investments that we do are the Nordlicht projects, I and II, so 2 offshore wind projects. Altogether, they are 1.6 gigawatts, which means approximately 1.6 million households in Germany.

And we have actually signed a memorandum of understanding, as you also saw in the film, with BASF regarding also split ownership of this wind farm. So BASF will use approximately half of the electricity produced for their operations in Germany, fueling their transition, and we will use the offtake from our part of the wind farm to sell to customers. So I would say that we still have a lot of business in Germany.

Solar, we invest in quite a lot. It's a good market for solar in Germany. It's also unsubsidized and almost always immediately sold on power purchase agreements to customers. And then we have our pumped hydro, where we're actually looking into new projects as well. No investment decisions, but we are looking into that.

And then, of course, we have our European trading hub, which is also located in Germany. So Germany is definitely a core market for Vattenfall also going forward.

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

Yes. Very, very clear that Germany remains a key market for us. I think in this context, I think it's worth remembering on the transaction that we expected to close Q2 this year. But it is subject to approval by the Berlin Parliament as well as the merger control. So Kerstin, what are the implications of this transaction already in Q4 2023?

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

Yes. As Anna mentioned, the purchase price is EUR 1.6 billion, so approximately SEK 18 billion, but those proceeds will come into our funds from operations this year, so in 2024. In the fourth quarter, we separately recorded impairments in the operating segment Heat of SEK 2.7 billion. Part of that will be offset by positive effects once the deal is closed.

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

Thank you. We had another big transaction, the sale of Norfolk Offshore Wind Zone. Anna, could you elaborate a bit on that as well?

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

Sure. We have sold the Norfolk Offshore Wind Zone to RWE. The purchase price is GBP 1 billion. And it's 3 projects. It's the Boreas, the Vanguard East and the Vanguard West projects. It's a large zone, 4.2 gigawatts altogether. That's approximately 4 million households in U.K. And the zone is also important for the energy transition in U.K. and for the energy security in U.K.

So we've been careful to sort of take care of that as well. But we are very happy to have closed the transaction with RWE. They buy 100% of these projects from us, and that also increases our ability to invest in other projects that better fit our portfolio, but also our risk appetite. And we in Vattenfall will continue to be a sort of strong developer in offshore wind. We have a nice pipeline, and we're also looking into additional projects.

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

What about the detailed financial implications of the transaction?

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

Yes. The purchase price is the GBP 1 billion. Maybe you remember that we had an impairment in relation to these projects last year of SEK 5.5 billion. We can now reverse that impairment, and in addition, make a capital gain of GBP 300 million or north of SEK 3 billion, which will be recorded again in Q1 2024. So in the end, the transaction is a solid profit for Vattenfall.

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

Thank you. Let's now go back to group financial performance and dig a bit deeper into that. What does the reported numbers look like, Kerstin?

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

Well, I talked earlier about the decrease in electricity prices, and that has had a negative impact on our results. However, we have a positive impact from our Nordic hedges and that together with lower price area differences in the Nordics led to a higher achieved price for the full year of 2023.

But as we have mentioned earlier, the lower prices on the contrary led to negative results from our continental hedges as they have not been as efficient as in the Nordics. So underlying EBIT at the end of the year stood at SEK 20 billion, a decrease of SEK 15.1 billion. And if we then move over to the profit for the period, that increased significantly to SEK 10.4 billion.

And here, as I mentioned earlier, it's important to remember that we had this temporary distortion of the result in 2022 with the realization and valuation of electricity and fuel contracts, what we call changes in fair values that are recorded in the profit and loss statement. We have those as well this year, but they are much lower.

And then you mentioned the divestment of the Norfolk projects. And there, we have a reversal of the impairment and the provision that we made in the second quarter last year, and that reversal amounts to SEK 5.1 billion. And in addition to that, we also had a positive development in the Swedish Nuclear Waste Fund, which impacts the net -- the financial net, so will also have a good contribution to the profit for the period.

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

Thank you. We also had a tax effect in Germany. Maybe you can explain a bit about that.

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

Yes, we are reporting an impairment of deferred tax assets that amounts to SEK 6.8 billion, given that with the divestment of Heat Berlin, our future cash flows in Germany will decrease. And the majority of this is reported directly in equity, but the remaining share will be reported or is reported in the P&L as a tax cost, but it has no cash flow effect.

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

Thank you. We talk a lot about the decline in prices and you would potentially expect that the net sales would go down, though. But on the opposite, we have seen a significant increase. Maybe you can explain that a bit.

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

Sure. There are sort of multiple factors contributing to this. And one is our contract structure. Many of our customers, they choose to have a fixed price contract, which means that the price they have today is actually mirroring what the market looked like when they entered into that contract, you get a time delay.

And then secondly, we are -- as you mentioned, we are selling more electricity to our end customers. And thirdly, we have a currency effect. You know that the SEK has weakened against the euro. So that means that our continental sales actually get a higher value in SEK.

And if you look at the fourth quarter there, you will actually see a decline in net sales. So there you can see this time delay. But it is important, Andreas, to remember that net sales is mainly coming from our customer business, which is a margin business. So any increase or decrease in net sales does not automatically transfer into the result and the profit.

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

Thank you for that explanation. So what does the outcome of our financial targets look like?

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

Well, we can start with the return on capital employed. That improved to 5.3% compared to 4.2% last year. And this is then a ratio that is calculated on the reported EBIT, which means that we have an impact of these fair values that we talked about earlier. It is an improvement, but it's still below the target that we have of 8%.

And if we then move to the capital structure target, the FFO over adjusted net debt, their the target range is 22% to 27%. And here, we report an FFO over adjusted net debt at 25.6% if we exclude the impact from net paid margin calls, which we do because we think that has a better sort of reflection of the underlying capital structure.

If you would include those margin calls, then it stood at 21.5%. We see a decrease in the FFO due to a lower underlying EBITDA and the increase in the adjusted net debt due to increased investments. And then I can also mention that the Board of Directors in Vattenfall have decided to propose a dividend of SEK 4 billion for the year 2023.

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

So you clearly mentioned it but we are below both the return on capital employed target and the FFO over adjusted net debt. How do you see that?

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

Well, of course, I would lie if I said I would not be happy to present numbers that are actually above the target ratios but we remain fully committed to our financial targets and also to remain having a strong financial position.

But given the risks that we see in the market, and you talked about that earlier, Anna, and then the market price risk being the most prominent one for Vattenfall, we will see more volatility in our reported financial ratios going forward.

And as I have mentioned before, when we plan, we plan to be in the higher range of the FFO over adjusted net target range to manage this, and that is what we still aim to do. So we -- I think we have a strong balance sheet, and we have a good liquidity position, and we remain committed to be prudent when it comes to managing our cost base.

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

Thank you. And let's now move over to the operating segment. How has the development been there?

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

Well, if we start with Customers & Solutions, they actually, for the second year in a row, show an exceptionally good result. An increased underlying profit, but also more customers. In Vattenfall in total, we now have 14 million customers, 11.4 million of those are in Customers & Solutions. And we also especially see an increase in customers when it comes to Germany, the Netherlands and France. So very happy about that.

In our Heat business, we also see an increased result. It's mainly due to increased prices in Germany and the Netherlands, and that's because we are now getting compensated for the increased cost of fuels last year or the year before '23. We've also changed the pricing structure a bit in Germany. In Sweden, we see slightly lower results for the Heat business, which is due to both increased prices on biofuels, but also lower electricity prices.

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

Good. And let's move to Wind and the Power Generation segment. I guess that's where we see the biggest impact of the lower prices, Kerstin.

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

Yes. In both these segments, we have a negative impact from lower power prices. We also have, as I mentioned earlier, lower generation volumes, both from our hydro power stations and our nuclear power plants. When it comes to our hydro power operations, it's related to asset optimization in relation to the market development.

And in nuclear, it is related to the outage we had in our Ringhals unit 4 in the first quarter last year, but also lower availability in our Forsmark unit 2. We have higher electricity generation in the Wind segment, which has an offsetting effect, and that is mainly related to the newly inaugurated offshore wind farm Hollandse Kust Zuid in the Netherlands.

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

Power Generation is also the segment where we report the group-wide hedges. And we have already mentioned the different effects of the Nordic hedge versus the Continental hedge. Maybe you can elaborate a little bit on that.

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

Yes. I mean if you look at Power Generation, as Kerstin said, we had lower volumes and lower availability. We also have lower price area differences than before in the Nordics. We see a sort of increase in the accumulated price because we see that the hedges in the Nordic are contributing in a positive way, sort of counteracting this price decrease.

Then we have the hedges on the continent, which are mainly spread hedges. They have not been as effective as the Nordic ones, so they have a negative impact instead. So again, it's really good to have a sort of broad variety of business in the entire value chain. That's also one of the main reasons why we can keep this stable development.

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

Yes. And talking about stable, let's look at distribution. What's the development there?

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

Yes, we see a decreased underlying profit. That is due to a temporary lowering of the electricity grid tariff but that will actually be increased again in this year. This was only valid for the second half of 2023. And now it's back to normal levels again. So we will see this coming back.

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

Distribution is regulated, but -- and we did receive some better clarity on the new regulatory period, didn't we?

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

We did. And this is a bit complicated, but I'll try to straighten that out. The Swedish Energy Market Inspectorate decided on the model for the regulatory period of 2024 to 2027, so the one that we have entered now. Here, they have a WACC of 4.53% and also take more of a long-term perspective into account when they look at the WACC, which we think is really good.

Regarding the next regulatory period, 2028 to '31, they are now looking into how the model will change. So we don't know that yet. But we do look forward to collaborating with them because we think that one of the key characteristics that needs to be safeguarded is stabilization. There's going to be a lot of investments needed in the grid, both in the transmission and distribution grid.

And the regulatory framework needs to enable that in a sort of steady pace over the years. And just to round it off then, the regulatory period that we just left, 2020 to 2023, we actually don't have the final outcome yet. So there, we will hopefully have more clarity in Q2. I hope that made it a bit easier.

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

To be continued. We already spoke about the financial performance, but we also have strategic targets for 2025. Where did we end up there?

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

Well, Kerstin already described the financial targets, which are, of course, strategic to us. But in addition to that, we have the CO2 emission intensity where we see an improvement in our performance relation to target. That is because we are producing less fossil-based production.

We also see a continued high engagement among our employees, which I'm very happy about. We are above the target. And now we need to make sure we can stay on a high level. The fact that we have these key high engagement is also key for us when it comes to executing all the projects and businesses that we've talked about.

When it comes to customer engagement, which we measure in terms of Net Promoter Score, we see somewhat of a decline. It's still at a good level, but we do see an impact from the fact that prices were very high in 2022. And then there was also a lot of regulatory changes with quite short notice. This was when governments intervened in the sort of market and pricing in different ways.

And that also rendered a lot of questions, of course, from customers that we were happy to answer, but it will also mean that there was an overflow sometimes in our customer service operations. We see an increase, though, in the Net Promoter Score, if you look at it the last part of 2023. So now we need to continue down that route.

And then we have safety, which we measure in terms of lost time injury frequency. Here, we see a slight decline. And I'm quite disappointed about that because we put a lot of effort into this in the executive group management but also in the company as a whole, and we need to improve here. So we will continue to put even more effort on this. I mean everybody should feel safe when they come to work in the morning and when they leave in the afternoon or the evening.

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

Certainly. Kerstin, we have now published our 2-year investment plan. What does that look like?

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

Yes, we published a 2-year investment plan. So for the years 2024 and 2025, and it amounts to SEK 65 billion. More than half of that is dedicated to growth investments. So we continue our efforts to grow when it comes to fossil-free electricity generation capacity and large projects are the finalization of the Vesterhav projects in Denmark, also the Nordlicht projects, offshore wind projects in Germany that you talked about, Anna, but also onshore wind projects. We have, for example, Bruzaholm in Sweden.

But then we also see significant and substantial investments in order to connect new customers to our electrical grids. And here, we actually see that in the midterm, we will almost double our investment levels to a level of SEK 8 billion to SEK 10 billion per annum in 2030 in order to be able to connect new fossil-free electricity generation capacity but also to enable the sort of electrification of industry and transport.

So of course, the regulation is very important in order to maintain these investment levels. We have also in this plan significant investments in maintenance in our hydro power stations as well as maintenance in our nuclear power stations.

So all in all, I think it's fair to say that we see (corrected by company after the call) quite good investment opportunities throughout our whole business. For example, looking at expansion in e-mobility as well as more solar projects. We are also working further with new nuclear and also adding more capacity in our hydro power plants, but these are investments where the decisions will actually come a bit further out in time.

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

Thank you. Now we're almost through. But before we open up for Q&A, Anna, what would you say are the key things that we should look out for in 2024?

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

Well, I will keep focus on continuing to maneuver the business in this quite uncertain environment, and we don't know really what will come. I'm sure we'll stand here a year from now and say that 2024 was also a very turbulent year in many ways. So that will be the key focus and to also manage the volatility that's going on in the market.

I'm not so sure that we will see any major improvements in the geopolitical situation. So the uncertainties coming from there will also still be there. And then we have 2024 as the super election year. And you might think what does that have to do with Vattenfall. But I

think that the outcome of some of these elections will actually have an impact on businesses, customers and supply chains and many of those are global. So there will be domino effects here.

We will continue to explore the opportunities in the energy transition, and there's plenty of them. We can see that industry is clearly moving, and we are moving together with them, which also creates a lot of investment opportunities. So we need to be here and now to manage what's going on, but we also need to have this long-term perspective of where we are heading. And first and foremost, we need to deliver.

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

Thank you. And that actually concludes this part of the session, and we will move over to the Q&A.

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## QUESTIONS AND ANSWERS

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

So time for Q&A session. And I see that we already have a question from Andrew Moulder, CreditSights. Why was it better to sell Norfolk Offshore to RWE rather than rebid it into the next CfD auctions. Did you not expect the next CfD auctions to be reflective of the increased cost?

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

Well, it does look like the next auction will be on a different level than the auctions in the past, which is also very reasonable, I think. But we simply decided that to carry all these projects with all the sort of risks and opportunities that they entail all the way to commissioning date was something where we could sort of use the money more wisely in terms of our portfolio and risk appetite.

It's also a huge project. So it would have a sort of made us have to step down from some other possibilities and opportunities, but there were multiple factors here that we took into consideration, which in the end made us make this decision, not lightly, but we decided it was the right thing to do for Vattenfall here and now. And we're also very happy with how the transaction turned out.

I don't know if you would like to add something, Kerstin?

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

Well, I think that is sort of concludes it well. I think in the end, we are very happy that we managed to continue to develop the Vanguard projects so that they can now continue and that we managed to finalize the transaction for Vattenfall in a good financial way.

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

Thank you. Next question from Jakob Magnussen. For adjusted FFO to net debt, S&P sees 25% as the lower boundary for your BBB+ rating, your financial policy lower boundary is 22%. Does this mean that you're okay with the BBB rating?

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

I mean the target ratio that we have, 22% to 27%, is set by the owner. What we have said is that we are aiming to be in the higher range of that level. However, I think we are not steering so specifically on the credit rating. So we are trying to be between 22% and 27%, is what we aim, as we have seen the risks increase a bit in our business to the upper part.

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

I think it's also important to see that over a few years. It's not something that you can look at only year-by-year individually with the kind of volatility we see in the market, I think a slightly longer period is sort of reflecting the financial stability in a better way.

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

Thank you. Maz Plechinger. Growth investments in wind power declines from SEK 35 billion in the '23-'24 to SEK 18 billion in '24 to '25 plan. Short-term investment plans hinge, of course, to a large extent on a few large investments in e.g. offshore wind projects. But how should this be perceived in regards to, to paraphrase your wording in the Norfolk divestment, your overall portfolio and risk appetite going forward?

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

It should be interpreted as this is a 2-year investment plan that we are presenting, and we, of course, have much longer-term investment plans than that. So the 2-year plan is very much affected from exactly what projects are requiring most CapEx during that 2-year period.

It actually doesn't show our investment focus more long term. So I confirm that offshore wind is still a key and core capability of Vattenfall and we will continue to invest there. But that is the reason why the 2-year plan can look a bit different.

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

Thank you. Matas Kadusauskas, Covalis Capital. Can you explain why did nuclear provisions decline to SEK 48 billion versus SEK 56 billion at 9 months -- at third quarter '23. Can you confirm this is mainly linked to German provisions? Also, can you remind what is the formula, what period average for calculation of nuclear provisions discount rate, 5-year average?

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

Yes. When it comes to the...

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

This is where you would need the screen, yes.

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

Yes, this is where I need a screen. No, when it comes to the nuclear provisions, the decrease that you see is actually not mainly due to the German provisions, it is due to that we have changed the accounting principles in Sweden. So we have adjusted the discount rate, so it better reflects what we think is sort of a reasonable description of what provisions you actually need. And that is the reason.

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

Thank you. And then we get to Samu Wilhelmsson. Two questions from hedging. Firstly, any particular reason for the relative stronger hedging price for 2025? And secondly, can you provide us some details and split on to what degree the weaker underlying power generation EBIT was affected by the continental hedges in relation to lower prices and volumes on Q4 and on full year 2023?

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

Can you repeat the first part of the question?

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

I definitely need to repeat it. Two questions from hedging. Firstly, any particular reason for the relatively stronger hedging price for 2025? You go ahead. We start there.

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

Yes. I mean I think the achieved price is a combination of different things. It's both - sort of what you assume with the spot price and when it comes to the hedge price that you have. If you look at going forward, then it's only sort of the hedge price that you have. And if I understood this correctly, the question was why the hedge price in the Nordics is increasing. And then it is a reflection on what hedge strategy do you have.

So when do you start hedging? And in what products do you hedge and what hedge ratio do you have? So and if you look at this, we have said that we have changed our hedge strategy somewhat 1 year back due to the large price area differences that we saw. So with that new hedge ratio, then you can see that the impact is mainly related to the price increases that you have seen in the past that reflects into the hedge price going forward.

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

Yes. And let's now go to the second question. Can you provide us some details and the split on to what degree the weaker underlying power generation EBIT was affected by the continental hedges in relation to lower prices and volumes on Q4 and on full year 2023?

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

We never show our sort of detailed hedging results by portfolio or country in that way. So the short answer is no.

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

Clear. Andrew Moulder. On distribution, you mentioned a WACC of 4.53% for 2024 to '27. Is that real pretax? With the new model, do you expect distribution to be more profitable in '24 to '27 than it has been over the last few years?

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

Well, I will start and maybe Kerstin can continue. We do see a sort of increased profitability or at least increased prerequisites for profitability in distribution with this new regulatory model that I described. So the answer on that is, yes, better profitability, but we also make more investments. So from an overall perspective, the sort of profitability will increase, but so will the investments. So it doesn't necessarily mean that the result in the end will be a lot higher.

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

And the WACC is real before tax.

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

Thank you. Maz Plechinger. Can you share your views on the upcoming Danish offshore wind tender. Do you plan to participate? And will you do so on your own or with a partner?

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

The Danish one?

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

Yes. The upcoming Danish wind tender.

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

Yes. I mean, Denmark is one of the core markets when it comes to offshore wind for Vattenfall and also one of the most interesting markets. We never announce before sort of entering a tender if we're going to enter or not but we look into all the offshore opportunities in Europe.

And Europe is still our core market when it comes to wind. We don't have anything outside Europe. So all the projects that are sort of large enough and interesting enough, we are looking into. Whether we actually will participate or not, we will have to communicate later.

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

Andrew Moulder. How much do you expect to invest in pumped hydro in Germany? Is there really a big potential here? Or is it just small upgrades to existing assets?

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

Well, when it comes to the existing assets, that is, of course, about maintaining them and upgrading them, which can be quite a lot of investments as well. But when I talked about possible new pumped hydro, we are actually looking into a new build project in Germany. No investment decisions made, but if we would make an investment decision in that project, that will, of course, be substantial money.

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

Thank you. No more questions in the chat. Any questions on the phone? No questions on the phone. That means that we can thank you all for listening in, and welcome back for the Q1 report.

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