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EDITED TRANSCRIPT

Q1 2022 Vattenfall AB Earnings Call

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CORPORATE PARTICIPANTS

Andreas Regnell *Vattenfall - Senior Vice President, Head of Strategic Development*

Anna Borg *Vattenfall - President and Chief Executive Officer*

Kerstin Ahlfont *Vattenfall - Senior Vice President, Chief Financial Officer*

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CONFERENCE CALL PARTICIPANTS

Carlos Razuri – *Schroders*

Andrew Moulder – *CreditSights*

Maz Plechinger – *EnergyWatch*

PRESENTATION

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Welcome to Vattenfall and this Q1 reporting event. I'm Andreas Regnell, and with me in the studio, I have as usual, our CEO, Anna Borg, and our CFO, Kerstin Ahlfont.

We will today describe the main events during the quarter and our financial performance. But we will also put quite some effort on discussing the implications of the war in Ukraine over the last quarter, but also going forward, on the market, and on Vattenfall.

As usual, we will, after the initial discussion, open up for questions on the phone and on the web. And the standard financial slide material is available on the web.

So let's begin. Anna, what would you say are the main implications of the war in Ukraine?

Anna Borg Vattenfall - President and Chief Executive Officer

Well, first of all, the war is of course a human tragedy, that my thoughts go to all those who are affected by it. I also think that indirectly we are all affected. And the energy situation and the fuels, when it comes to the energy market in Europe, have never been higher on everybody's agenda, I think. So that's a very direct effect as well.

The European dependence on fossil fuels and on imported fossil fuels has become very, very evident. And it has also impacted us directly. We have stopped the planned deliveries of nuclear fuel and uranium from Russia. We have also stopped the coal deliveries that would have come to us from Russia. So that's a very direct effect.

I think it has also started a much broader discussion in Europe on how to reduce the dependency on Russian gas as quickly as possible. And this increased uncertainty that we see now also makes it evident and everybody says, but now we want to speed up the transition towards a fossil-free energy system even further.

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Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. And Kerstin, what are the more direct financial implications on Vattenfall?

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Well, where we're now entering to 2022, it is important to bear in mind that 2021 was a year with an exceptionally good financial result. But if you look at the first quarter, the short term effects from the war have been mixed. High prices have impacted the wind business positively, whereas heat was negatively hit by the high gas prices. And the effects on our large scale operations is a bit less visible because there we have the negative impacts from our Nordic hedges, and also negative impact from the price area differences.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. We will come back to this. But let's start and kick off with some business highlights.

(Video Starts)

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Here are some highlights from Vattenfall's first quarter.

In March, Vattenfall inaugurated Haringvliet Energy Park, a combination of solar, wind, and battery solutions. By combining these technologies, Vattenfall will be able to produce energy at a lower cost, and making more efficient use of available grid capacity with less environmental impact.

In the first quarter, Vattenfall secured more land space for solar parks in Germany and in the Netherlands.

Vattenfall's new biofuel heat plant, Carpe Futurum, was inaugurated and taken into operation. The new plant will reduce carbon dioxide emissions substantially, and is a milestone in Vattenfall's work to phase out fossil fuels.

Through a new joint venture with Seagust, Vattenfall enters the Norwegian wind market, and intends to bid on licenses in two areas in the North Sea. The Norwegian government has announced plans to build up to 4.5 gigawatts from both floating and bottom-fixed wind turbines. The licensing round is expected to take place within 2022.

With the British government, giving consent for Norfolk Vanguard, Vattenfall has now been awarded planning consent for the entire Norfolk offshore wind zone. The Norfolk Vanguard, the Norfolk Boreas projects are part of the next generation of wind farms. More than twice the size of Hollandse Kust Zuid, Vattenfall's biggest ongoing wind project to date.

The 50-50 partnership between Fred. Olsen Seawind and Vattenfall has successfully been awarded the

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rights to develop a floating offshore wind farm site located 67 kilometers off the east coast of Scotland, called Scotwind.

Together with Siemens Energy in Berlin, Vattenfall will pilot a high temperature heat pump in a cooling center at Potsdamer Platz. This heat pump will use the waste heat produced in the cooling center, saving 6,500 tons of carbon dioxide, and around 120,000 cubic meters of cooling water per year. Test runs are planned to start towards the end of 2022.

Vattenfall and Ameresco, a leading American energy services company have been selected as partners in their Bristol City Leap project, a 20-year concession to decarbonize the city and attract 1 billion British pounds of investment.

Together with partners, Vattenfall have won a large public tender to install a minimum of 4,000 charging points in 67 municipalities in the Dutch provinces of Gelderland and Overijssel until 2025.

In a new international collaboration, Vattenfall will provide charging infrastructure for the delivery company, Instabox's electric vehicle fleet. By the end of 2022, Vattenfall will operate 400 on Instabox's terminals in Sweden, Denmark, and the Netherlands.

And last but not least, HYBRIT, our fossil-free steel partnership projects with LKAB and SSAB will receive 143 million euro from the EU Innovation Fund to demonstrate a complete value chain on an industrial and commercial scale for hydrogen-based iron and steel production.

(Video Ends)

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Another quarter with a big number of exciting events.

Anna, when we discussed in the Q4, we talked a lot about the volatile markets and the high prices in the Q4. And there still volatile. They're still high, and even higher than actually before new year's. Any comments on that?

Anna Borg Vattenfall - President and Chief Executive Officer

Yes, it's right, they are higher, but for very different reasons because if you look at it last year, it was mainly driven by the fundamentals in the market. But if you look at the first quarter this year, the weather has actually, in all of Europe, and also in the Nordic, has been quite warm. It's been quite wet, and it's been quite windy. And normally, that would mean lower electricity prices.

But the increase we see now is purely driven by the situation with the war in Ukraine. So the fuel prices are going up; gas and coal. And the electricity prices are being pushed up mainly by the fuel prices, and mainly by gas. So that's a different dynamic than what we saw then.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

So I guess it's fair to say that given - unfortunately, we don't really see any signs of the end of the war. And on the contrary, we see a lot of discussions on reducing the Russian fuels going to Europe and vice-versa quite a lot. So I guess we have to get used to high volatility at a relatively high level.

Anna Borg Vattenfall - President and Chief Executive Officer

Well, most likely. It's of course difficult to speculate in what will happen. But right now, that's the way it looks.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

And next, coming back to our commercial relationship with Russia, you mentioned at the beginning that we have stopped buying coal, and we immediately stopped buying nuclear fuel. But when it comes to gas, it's a bit more complex, isn't it? And maybe you can explain a bit.

Anna Borg Vattenfall - President and Chief Executive Officer

Well, Vattenfall does not import any Russian gas. Actually, we don't import any gas at all. But we do buy gas in Europe. And the way it works is that there are a number of companies importing gas to Europe into the pipelines. We are not one of them. Then there are a number of companies buying at these marketplaces in Europe, and we are buying there. And then you, per definition, get the mix of what is in the pipelines because you can't sort of pick out one gas from another. It's, per definition, a blend.

And we know that the mix consists of 40% Russian gas. So no direct commercial relationships but just like everyone buying gas in Europe, you get the mix where there is a bit of Russian gas as well. And that's also why it's now a political decision on how to reduce the dependency on the Russian gas, but to do that in a way that it doesn't require, for example, industries to shut down in Europe.

But I think it's important to remember that there is another side of this coin, and that is Russia stopping exports of gas to Europe, which we have seen some examples of during the last few days. So this will continue to be a very uncertain situation, I would say.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

So, the political management of the dependence of gas would be crucial. And we'll get back a bit to that. But let's now get to the financials, Kerstin. Enlighten us.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Well, financially, Vattenfall remains in a strong position. We have an FFO of over adjusted net debt at 120.5% and 38.1% if you exclude the impact from margin calls on the adjusted net debt. And ROCE ends up at 21.8%. And it's important to note that all of this is 12-month rolling figures.

If you look at the result in the first quarter, the underlying operating profit is down to 9.5 billion SEK, which is 20% lower than the same quarter last year. And the main driver for that are the achieved prices in the Nordics. They average at 20 euro per megawatt/hour this quarter. And as a reference, they have

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average 33 euro per megawatt/hour the first quarter last year.

And of course, we have seen since then that the system, the spot prices have increased between the years.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

I think we need to stay here a bit because that's not very intuitive that our achieved prices are lower in spite of the significantly higher SYS price. Maybe you can expand a bit, explain to us.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Absolutely. And I think I need to start a bit in how these price areas works, because the Nordic electricity market is divided into 12 different price areas. And the sort of central reference price, the Nordic system price, which we also often refer to as SYS, is a price that is then calculated by Nord Pool based on the bids and offers placed in the different bidding zones.

And historically, the system prices has been a good sort of proxy for the different price area spot prices, and there has not been a lot of differences between the prices in the different areas.

But what we have seen now lately, which is also visible on the graph here, is that we have large differences between the prices in the various price areas. And the driver for that are bottlenecks in the transmission system. And it means that we get a sort of a difference between the system prices and the price that we deliver against when we produce.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Okay. So our hedging becomes very complex or imprecise if you want in this new development. So what do we do and how does it impact us?

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Well, I mean, we hedge our Nordic production in SYS because there is no liquidity in the market for contracts in the different price areas. And as you can see on the graph here, we have large parts of our production, mainly the hydro power production located in SE1 and SE2, where the prices have been significantly lower than the SYS price.

And this impacts Vattenfall in two steps. Firstly, when it comes to the hedge volumes, we have to pay them sort of the spread between the SYS spot price and our hedge price since the prices have increased since we went into these hedging contracts. But then when we deliver, we get the prices in the low price areas. And that means that we're not able to capture the high system price, instead we get low SE1 and SE2 prices for large parts of our production.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Okay. And what are the consequences of all this?

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Well, because of this, we have made the decision to revise our hedging strategy and lower our hedge ratio in the Nordics - yes, exactly, in the Nordics. Because when we have these large discrepancies, then the SYS price is not a relevant proxy anymore for our production up north. Of course, this means that we will increase our merchant exposure. But this is the prudent way to act from a financial risk perspective.

And again, I would like to mention that this is caused by these transmission bottlenecks. So these increased risks is not only sort of something that we are exposed to, this goes for all actors that have assets up in the north of Sweden.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. So the major price area difference was a major contribution to the drop in contribution for the Power Generation segment. But there was also a quite significant drop in the realized trading results from the same segment. Maybe you can comment a bit on that as well.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Yes, indeed. And again, I would like to mention that when we compare to 2021, that was an exceptionally good year. And that goes specifically for the realized trading result. And if you look at this quarter, then it is lower, as you say, and that is because it has been more difficult to optimize our gas storages in this market with very high and volatile prices.

But if you look at the generation operation, that has been performed very well with high availability and also stable production, specifically Swedish nuclear.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. What else would you like to mention when we get to the operating segments?

Anna Borg Vattenfall - President and Chief Executive Officer

Well, maybe it's worth saying a few words about our Wind segment. They have shown a very strong operational performance, both in the existing assets where we actually produce more than we did the same period last year. But also when it comes to new capacity coming online, last year we inaugurated Kriegers Flak, which is the large offshore wind farm outside Denmark. And that's now fully up and running. So that of course gives an additional contribution as well.

And these two things in combination with the high prices on the continent and in the southern part of Sweden, and in Denmark where we have a lot of assets as well, as Kerstin described, has of course increased the profitability.

So if you just compare quarter to quarter, we actually went from 1.8 billion to 4.9 billion SEK in underlying EBIT, in our business area Wind segment alone. And that's quite a good improvement, I would say.

When it comes to our Customers and Solutions business and our sales, we also performed well. We can see that more customers are choosing Vattenfall as a supplier. So we have a growing customer base. But we also see that we have a lower churn, both in the Netherlands and in Germany than what's used to be the case.

And again, I think that in these quite uncertain markets and times, hopefully we can be perceived as a sort of reliable and stable supplier, which is what we would like to, of course.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

And if we continue with Heat, there we report a negative result this quarter. And that is due to the high fuel prices, and specifically gas prices, which lowers our production margin in our gas-fired generation assets. And this is particularly hitting our heating business in Berlin. We are hedging a part of that exposure, but that is then done on group level.

And then the last operating segment is Distribution. And there, we also reported a slightly lower result. And that is due to the electricity prices again. There is an electricity price component in the fee to the TSO. And it also increases our cost for net losses.

And then when you compare between the years for Distribution, then you need to remember that we divested Stromnetz Berlin last year. But all in all, I think we delivered sort of a good financial result given the circumstances. We see this negative impact that we get from the higher fuel prices. We see the negative impact we get from the differences in the price area prices. And also, this very good realized trading result last year also of course impacts the comparison between the years.

But the operating performance is good and stable, and we are still resilient with a very good balance sheet.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. With all these ups and downs that you reported, and all the uncertainty we have in the markets, I'm sure many of our listeners would like to hear something on what you believe about the rest of 2022.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Yeah, I can imagine. But when it comes to that, we don't give any projections. But of course, in this market environment, it is more difficult to navigate, and it is hard to predict, but managing these market risks, I think that is something that is really at the core of what we do in Vattenfall. And I think also if you look at our strategic direction, that is sort of more in line with the overall development than ever, I think. And I think that will also be visible in our financial results going forward.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. So, no financial predictions. But maybe you can - in a similar direction, what would you say are the main risks that we need to be aware of?

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Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

We look at a few main risks. And one is higher prices and supply chain disruptions. I mean, stopping purchasing from Russia is one thing. But we need to look at the whole sort of system of production, the logistics of our procured goods. And we do that. And so far, we have not seen any large impact on Vattenfall, but it needs to be monitored and worked with closely going forward as well.

And the other part I would mention is the risk to have sort of some kind of disruption in the energy markets. I mean that is also discussed quite a lot these days. And that could take different risks. One is that we would get sort of no gas, or limited, or tight gas supply in Europe next winter. But the other part is also these high and volatile prices that we might see sort of counterparties or customers go into default. And that credit risk is something that we are monitoring very closely. And up until now also there, no major impacts on us.

Anna Borg Vattenfall - President and Chief Executive Officer

And I think that's a good summary. In addition, I think that this inflow of customers that we see is also sign of this uncertainty in the market. And maybe especially pick up on what Kerstin said, that we have actually seen some competitors going insolvent due to the uncertainty in the market and especially the liquidity needs, and the volatility in the market.

At Vattenfall, that is not an issue because we have a strong financial position, and we also have a strong liquidity position. So we are well-equipped to manage these challenges. But I think we will see some of this also going forward.

Many of our customers are struggling both when it comes to household customers, but also industrial customers. And many of the household customers have received an increased energy bill. And we're trying to support in different ways by giving advice on energy efficiency, on what kind of contract that could be best suited for each and everyone, but also with payment plans if that is needed in order to manage this.

I think that also worth mentioning here is that in these difficult times, we actually see EU countries in Europe, but also our industry and different kind of industry actors increasing the pace of the transition. And that's really good, because that is what is needed in order to counteract some of these topics that we have discussed.

I think it's extra important to be careful now with market interventions because to create additional uncertainty in this market situation is definitely not what is needed. Now, we need relatively much certainty in order for the investments to pick up pace and really meet this increased need of fossil-free electricity produced in Europe.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Dwelling a bit on that, I think many politicians today, they think about next winter and how to ensure

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that there's enough gas, enough heat, electricity in the system. And I think many leading politicians have already voiced the potential solution to introduce price caps as a way to mitigate those issues.

And when you hear price caps, what's your view?

Anna Borg Vattenfall - President and Chief Executive Officer

I think that would be very unfortunate because it would, among other things, mean that LNG would be steered away from Europe while we need more gas into Europe from other countries in order to be able to manage this reduced dependency on Russian gas, that is what Europe has said that they want to achieve.

But I do understand the need to support vulnerable customers, because that's also very evident. And I think that one example is that it's better to do that via direct support to those customers rather than by intervening in the market mechanisms and the price setting. Because again, we need stability in order to make sure that all the investments now actually become a reality as well.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Yes. And I think the real long term solution to this is of course to avoid the fossil fuels. And we've seen quite some more upping of the targets for renewable production, notably in the U.K. and Germany, which means that the pace needs to be very, very high because we don't have much time to 2030 or whatever date you refer to.

But what would you say are the main obstacles then to actually achieving those targets?

Anna Borg Vattenfall - President and Chief Executive Officer

I would say that the main hurdle is actually the pace of the transition. I mean, the technology is there, the market actors are there, the financial market is there. So it's basically about being able to do this fast enough. And then the pace of the transition and especially when it comes to permitting is absolutely critical. And it is a bottleneck today, I would say in basically all European countries.

Now we see some examples that I think are really positive. First of all, Germany has said that there is an increased ambition when it comes to renewable energy. And in order to achieve that, they've also said that that's an overriding matter of public interest and security, which gives the possibility to speed up the permitting processes in Germany.

In Sweden, we can see that the government has taken a number of initiatives in order to accelerate the pace in the permitting processes here. That's also really good. And I would really be interested in seeing the impact of these actions in reality as well, because that's what is needed.

Another topic that I think is important is to balance conflicting interests with each other, because we're talking about a major transformation in Europe; building and rebuilding energy infrastructure to a large extent. And there will naturally be different kinds of interest and conflicting interest that are all

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important from time to time. And to figure out how to balance these with each other on the European level, but also on national levels will be critical.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Yes. And I think a reflection is that the debate here within our company, but also in the world in general is that even before the war in Ukraine, we had to achieve the targets and the ambitions. And the last two months, we have upped those targets and we have to achieve them as well, because there is no other solution than we do meet those renewables targets. And we just need to be able to do what's required.

Anna Borg Vattenfall - President and Chief Executive Officer

That's very true, I would say. And I think that although it's very strange and also a bit terrible times in Europe, I also think that when I see the European Union and the European countries come together and act jointly in terms of action in relation to the war, but also when it comes to pushing for the energy transition, that actually gives me hope that there is a way to move forward here. And we will do what we can in order to accelerate our efforts.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. I think that was ending this discussion on a positive note. Thank you all.

And now, we open up for questions on the phone and on the web.

QUESTIONS AND ANSWERS

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. I'll start with two questions on the web from Carlos Razuri.

Carlos Razuri - Schroders

Can you explain the profit drivers of the heat business? How did negative clean spark spreads in Netherlands during Q1 '22 affect financial performance? That's the first question.

The second question is on renewables, can you remind us what are your medium term capacity targets? And aside from offshore wind, which technologies are you focusing on?

So number one, can you explain the profit drivers of the heat business? How did negative clean spark spreads in Netherlands during Q1 '22 affect the financial performance?

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Yes, I can start maybe with the heat drivers. In the heat businesses that we have, you have revenues from your heat production of course, and there, the tariffs are a bit mixed in the different countries. It's a fixed part. It's often a moving part. And then sometimes, there is also a component which is connected to the fuel price. So that is one of the sort of revenue drivers. And then you have also mainly in the

Netherlands and in Germany, partly also in Sweden, electricity generation, which also gives you revenue. And there of course you have impact from the electricity prices.

And then the main cost is your fuel cost. And there, you have in the continent quite a lot of gas, in Germany also some coal still. We have two coal-fired power plants in the grids. And then in Sweden, it's mostly biomass.

So these are the drivers. So it's a lot, of course the revenues, the heat revenue is fairly stable, but then electricity and fuel costs or prices are then what is driving. And then you need to look at the spreads.

The second question was the clean spark spreads in the Netherlands. And the clean spark spreads in general have been lower, due to the high gas prices which has not been fully compensated by increased electricity prices. And then specifically in the Netherlands, we have some plants, for example our Eemshaven plant which is then not connected to a heating system, so there we are fairly flexible and have been able to capture quite well the peak prices. So there, we are not so hit by the clean spark spreads.

Anna Borg Vattenfall - President and Chief Executive Officer

And maybe I can answer the question on wind.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Yes.

Anna Borg Vattenfall - President and Chief Executive Officer

We don't have specific volume targets for our wind growth, but we have identified wind as our main area for growing the business in Vattenfall. And that's also where we put the majority of our growth investments.

One example is of course the fact that we're now building the Hollandse Kust South project outside the Netherlands, which will go live next year. And we also announced that we are part of the process of bidding for Hollandse Kust West also.

And then we have the Norfolk projects coming up in the U.K. So this is our sort of main target area for growth, but not a volume target. We rather have a sort of value creation target.

Apart from offshore wind, we also do quite a lot of onshore wind, and we do more solar than we used to. And that is actually something that might be a slight change from before, where we see that the demand for solar and maybe especially in the market like Germany is increasing. So we are increasing our efforts there as well when it comes to large scale solar parks.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. Now comes three questions from Andrew Moulder.

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Andrew Moulder – CreditSights

Number one, are the transmission bottlenecks being actively addressed by the system operator? Is the situation likely to change any time soon? Number one.

Number two, how tight is the market for nuclear fuel with many nuclear generators not taking Russian fuel? Is this affecting your costs?

Number three, what do you think LNG would be steered away from - why do you think LNG would be steered away from Europe with a price cap on gas? Would you not expect governments to provide some kind of top-up to the caps so that international energy producers were paid the market price?

Anna Borg Vattenfall - President and Chief Executive Officer

So I'll start with the transmission bottlenecks, and then maybe Kerstin can comment on the nuclear fuel.

It's true that the transmission bottlenecks are there and they will not go away near term. There's a lot of projects going on that the transmission operator is running. But the time plan is not until later. And I would very much like to see a speeding up of this of course.

What we are proposing and also discussion is different kind of market actions where you can sort of do different kinds of trades between the two areas in order to even out the prices, but also make sure that there is more of a possibility to do intra-trading, intraday trading, et cetera.

But unfortunately, I think that these bottlenecks from a physical point of view will be there for quite some time.

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

And when it comes to the nuclear fuel and if there will be a sort of more tight supply then when less operators buy from Russia, I think the supply will be tighter, and that we have also seen in the market. And that will also most probably increase the prices slightly.

But what is important to remember in that respect is that if you look at sort of the nuclear business, the production cost is sort of fairly low compared to revenues. And then when you look at your production cost, the fuel cost, there is an even smaller portion. So even if you will have increases, it will not impact the profitability that much.

Anna Borg Vattenfall - President and Chief Executive Officer

Maybe finally about LNG. I mean, everything else equal, if you put the price cap on gas, then the gas that is movable so to say, which LNG is, because it's not in pipelines, it's on ships, will go to where they get most paid for the LNG. So in that way, it will steer or at least risk steering LNG away.

Then there was a comment if there is a top-up somewhere. And then we're talking about another

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market intervention, and that's another thing of course. So I think that that's also the risk you run, if you start doing market interventions. You get effects, and then you have to make another intervention in order to counteract that.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

You keep on, yes. I think those were the three questions from Andrew.

And then we have a question from Maz Plechinger.

Maz Plechinger – EnergyWatch

Many apologies for asking a question you possibly have already explained. I came in a bit late. But you mentioned that you have changed your hedging strategy. Can you elaborate a bit on that?

Kerstin Ahlfont Vattenfall - Senior Vice President, Chief Financial Officer

Maybe I can take that. Yes, we have decided to change our hedging strategy and reduce the hedging ratio in the Nordics. And the background for that is that we see huge, or large discrepancies between the prices, spot prices in the different price areas, which means that the SYS price is no longer a relevant hedge for our Nordic production. And that means that we will reduce in order to sort of not have these effects that we saw this quarter.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. Another question from Maz Plechinger.

Maz Plechinger – EnergyWatch

And another very different question. You decided to enter the latest tender in Holland with BASF on one of the sites rather than going on your own and potentially farming down at a later stage. What is the reasoning behind this, and why only on one of the sites?

Anna Borg Vattenfall - President and Chief Executive Officer

Well, the reason we're partnering up with BASF is that we have a partnership with them which we consider to be long term and quite broad. Both companies have strategies that matches well together. And we also see that the kind of innovation that's going on in both these companies will sort of enrich the business in both companies, and also the projects we do jointly.

So for us, it's a way of being able to scale up or win the investments, of course, because we can share the cost, but also the risk. But it's also a way to sort of get the fruits out of this partnership together. So that felt quite natural for us.

When it comes to the other site in Hollandse Kust West, that is slightly different, and there are also different criterias for winning that one where the synergies might not be exactly the same.

Andreas Regnell Vattenfall - Senior Vice President, Head of Strategic Development

Thank you. I think that is all the questions we have on the web at least for the time being.

Any questions from the phone?

No questions from the phone. No more questions.

So, thanks a lot, and let's conclude this Q1 reporting event. And I wish you all very welcome to the coming Q2 reporting event. Thank you.

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