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EDITED TRANSCRIPT

Q4 2021 Vattenfall AB Earnings Call

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Andrew Moulder – *CreditSights*

Sharon Vieten – *Columbia Threadneedle Investments*

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PRESENTATION

Andreas Regnell *SVP, Strategic Development - Vattenfall AB*

Welcome to Vattenfall and this Q4 reporting event. I'm Andreas Regnell, and with me in the studio, I have, as customary, Anna Borg as CEO and Kerstin Ahlfont, our CFO. During the coming 30 minutes, we will discuss the main events during 2021 and our financial performance, where one-off effects had a particularly important impact.

We will also discuss our strengthened climate commitment. Talk a little bit about the very volatile European electricity markets and also give you a perspective on the ongoing electrification revolution.

As usual, we will open up for questions on the web and on the phone after the discussion. And our standard financial slide pack is available on the web. But now, to 2021. That's a very unusual year. Anna, what's your perspectives?

Anna Borg *CEO - Vattenfall AB*

Well, you are right. It's been a very unusual year in many ways. We have seen and still see a very turbulent market with high prices throughout Europe. And this has, of course, been a challenge for the market, in general, but particularly for our customers and our partners, I would say.

From a Vattenfall perspective, we have been able to be up and running and produced more electricity than last year. All our assets have been up and running. So that's good. We've also been able to double our efforts when it comes to emission reduction targets. So we continue to deliver on the strategy as well.

And I think 2021 was also the year when you can really see an increased focus on the climate topic, all over maybe peaking at COP26 this autumn in Glasgow. So the potential is becoming more clear, but also the consequences of what needs to be done. So, I think many management boards now clearly have a to-do list in relation to this, and they are getting longer and longer.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Interesting. And we'll get back to that. Kerstin, what were the financial impacts?

Kerstin Ahlfont CFO - Vattenfall AB

Well, for us, it was also a very special year we put several legal processes and transactions behind us. And the one-off effects and temporary effects that we saw distorting the comparison in Q3 had an even larger impact on the full year result.

So net profit for the year was SEK48 billion. And the underlying operating profit also developed well, it increased with SEK5.4 billion and ended up at SEK31.2 billion. So this puts us in a very strong position financially.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Staggering numbers, and we will, for sure, get back to that discussion. But before that, let's get into something that I think is in many people's mind right now, the very volatile European energy and electricity market.

And if we look back at -- which is particularly the second half of 2021, but it's still ongoing. But if we look at 2021, the average spot price in the Nordics, if you compare it to 2020 and the continents, were five times higher in the Nordics, compared to two years, and three times higher on the continent, quite dramatic. And what is there to say about that?

Anna Borg CEO - Vattenfall AB

Well, I think that you are right, first of all, the prices have been very high, and also very volatile, and one main driver are the high gas prices. And they are there because the gas storages are not filled to the extent they normally should be in Europe. And also, the inflow of gas into Europe is lower than normal.

We do see, especially LNG coming in from the U.S. but not enough yet in order to have an impact. On top of that, we've seen high coal prices, high CO2 prices. But we've also seen very low winds in all of Europe and the Nordics during the autumn and the winter. So, all of this actually has an impact.

We see record high prices 2021. We saw record low in 2020. So, this volatility is also increasing. On top of that, we have the geopolitical uncertainty, which also add the risk dimension in the market, which is reflected in the prices.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So a bit the definition of a perfect storm is what we have seen?

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Anna Borg CEO - Vattenfall AB

That's maybe what you can say, yes.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So, Kerstin, what financial impact did all this volatility have on Vattenfall?

Kerstin Ahlfont CFO - Vattenfall AB

Well, on group level, we do see a positive impact of the prices. But if you look at the Nordics, there the achieved prices is actually flat compared to last year, even though it's higher for the fourth quarter.

And the hedges that we do in order to even out the results, they continue to serve their purpose and they bring a negative impact on the result this year because the spot prices have been higher this year, compared to previous years, meaning, we have locked in prices at lower levels.

And we also see a negative impact from price area differentials, which are there because of the transmission bottlenecks we see in the Swedish or Nordic grid systems.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

And then we have some other as well.

Kerstin Ahlfont CFO - Vattenfall AB

Yes. Of course, that is reflected in the segment power generation mostly.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes.

Kerstin Ahlfont CFO - Vattenfall AB

And if you're interested in the other segments, I think there.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

I am.

Kerstin Ahlfont CFO - Vattenfall AB

You are. There, the impact actually varies between the segments. And if you take wind, there you have a positive impact because the prices have been higher mainly for our U.K. assets and the assets on the continent, whereas in segments like Distribution and Heat, there you have a negative impact because of the recent market developments.

And if you would look specifically as the last quarter there, you'll see also that Customers & Solutions are negatively impacted mainly due to increased costs for sourcing.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Okay. Thank you. Interesting. Anna, last time we were here in the Q3 reporting, you are on your way to COP26. You mentioned a bit earlier, but what were your reflections from that meeting?

Anna Borg CEO - Vattenfall AB

Well, I think although you could have hoped for more specific outcome from the negotiations, I actually left Glasgow quite hopeful. Because I think it was very clear that there are increased commitments and actions, both on national levels and among corporates. And the big difference now in the discussion is that it's not about if we're going to do this, it's about how to do it.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

The to-do list, that you mentioned.

Anna Borg CEO - Vattenfall AB

Exactly. And I think that's a big difference compared to before, that makes me hopeful. I think it's important though that these national targets are being further clarified and strengthened up until COP27 as was agreed as well. And then I think that it's also important that the speed is increasing in order to make the implementation of this come real as well, to keep the one and a half degree target alive for real. It's going to be critical.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So net net it sounds very much like to have a clear half full perspective, but what can we do to completely fill the glass?

Anna Borg CEO - Vattenfall AB

Well, that depends on who you are. But if you look at Vattenfall, I think that for us, it meant that we took another step this year and increased our efforts and targets even further. We committed to be in line with the one and a half degree trajectory in the Paris Agreement. And we have also validated that by the Science Based Target initiative. So, it's not something we're just saying, it's something that we're doing for real and someone outside our business have also validated that.

So for us, that means, for example, that we're going to reduce our CO2 emission intensity with 77% up until 2030 based on 2017, so that's a lot. But it also means that we need to be net zero in all parts of our business by 2040, so 10 years earlier than we committed to before.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

I think these commitments is something we're really proud of.

Anna Borg CEO - Vattenfall AB

It is.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

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And it's now time to have a closer look at the events during 2021. So, let's watch this.

(Video Playing)

Andreas Regnell SVP, Strategic Development - Vattenfall AB

An eventful year indeed. Are there things you would like to add on top of all the things we just saw?

Anna Borg CEO - Vattenfall AB

Yes, there are, a lot of things are going on. But I think worth mentioning is our Power Generation segment that performed very well. If you look at our hydro and nuclear operations, they have actually had high availability, stable production, that's really important in a market situation like this.

We have a production record at the nuclear power plant of Forsmark, I think that is worth mentioning. And we also have quite a lot of inflow when it comes to PPAs and balancing services, which is also naturally sought for in a market like this.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

And does this organic growth also apply to our distribution customers or distribution business? Yes.

Anna Borg CEO - Vattenfall AB

Very much. Very much. We see a strong increase of requests to connect both new production, electricity production, but first and foremost new demand. So business is expanding, transforming, or starting up businesses.

And in 2020, compared to 2019, we actually saw a doubling of these requests. But if you look at '21, compared to '20, we see a quadrupling of the requests. So, this is clearly ramping up. And so are we. We are increasing our investments into distribution and will continue to do so.

They will vary a bit year by year because these are large, several year-long investment projects. And they are not all happening equally. So it will vary a bit, but the investments are increasing and will continue to do so in distribution.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes. And distribution is truly important for Vattenfall and the electrification revolution in general, because it's the true enabler of -- without the power lines, there isn't much electrification going on.

Anna Borg CEO - Vattenfall AB

No, no. And when it comes to the customers, I think it's important to say we don't only see new customers on the corporate side, we also see an inflow of new customers in our B2C business. So more customers are also attracted by the offers we have. And we continue to grow there. We continue to grow our e-mobility business. So, it's a bit of momentum going on.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes, a very positive future. But on the positive note of these, I believe you also had some late nice Christmas presents at the beginning of the year.

Anna Borg CEO - Vattenfall AB

Oh, yeah.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

What were those?

Anna Borg CEO - Vattenfall AB

Well, that's one way of putting it. What actually happened, is that we had two decisions on spent nuclear fuel and final repository of spent nuclear fuel in December and January, respectively. That is very welcome. We think that this has been ready for a decision for a while.

And now we can finally take the next steps. There's still a long way to go before the repositories are there and anything can be put in it. And a lot of procedure also and consent being given on the way for different parts of this, but at least we can move on to the next step in this process. And that's really important, I think, so we're happy about that.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

And you mentioned ScotWind, did you?

Anna Borg CEO - Vattenfall AB

No, I did not, because that -- you can call another Christmas gift them maybe. We actually were awarded a project of floating wind in ScotWind. So outside Scotland together with Fred Olsen Seawind which is our partner.

And that's interesting for several reasons. First of all, because Scotland is an interesting market when it comes to offshore wind, but also particularly because it is floating. This is a technology we will see now in the next phase of offshore wind being developed.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Interesting, and a new era then in the offshore wind saga. Thank you. Let's now leave the segments and talk about the strategic targets.

Anna Borg CEO - Vattenfall AB

Yes. You can see them on the screen, I think. And we have actually delivered on most of our strategic targets we set out. They are valid until 2025. We launched them in 2021. And we're well on our way.

When it comes to customer engagement, CO2 emission intensity, employee engagement, return on capital employed and FFO/adjusted net debt. We are well on track and deliver on all of them.

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When it comes to safety lost time injury frequency, which is what we are measuring. We are not where we should be yet, so we need to improve, its unacceptable, and also a tragedy if someone has a fatal accident at work. We need to make sure that is not happening. So, we put a lot of focus on this in the executive growth management, but also out in the business operations. So we will continue to improve here.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes. That's very important. Sounds good. We also have a dividend target. Can you tell us anything about our proposed dividend this year?

Anna Borg CEO - Vattenfall AB

I certainly can because there was a meeting with the Board of Directors yesterday, and they decided to propose a dividend to the annual general meeting of SEK23.4 billion.

That takes into consideration the good results for this year with these large one-off effects that Kerstin mentioned. But it also gives room for us to maintain a strong balance sheet and continue to invest in the transformation going forward. So, we're very happy to be able to do that.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Sounds reassuring and some good news. Now, it's your turn, Kerstin, again. Tell us a bit about the financials and let's dig deeper into that.

Kerstin Ahlfont CFO - Vattenfall AB

Yes, thank you. As I mentioned in the beginning, we have these one-off and temporary effects that we saw in Q3, and they are even more pronounced in the full year result. So consequently, the financial target ratios are exceptionally high. We have a rolling 12 months, FFO over adjusted net debt at 171.2% and ROCE is on 22.2%.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

I think we need to dissect those numbers a bit. Can't you start by walking us through the ROCE?

Kerstin Ahlfont CFO - Vattenfall AB

For sure. So, if you look at that from a percentage point's perspective, we have the sale of Stromnetz Berlin and the settlement regarding German nuclear. And these two events impact ROCE with 7 percentage points.

And then we have the unrealized market values of energy derivatives, and they impact ROCE positively with 4 percentage points. So, if you would look at ROCE based on underlying EBIT, it ends up at 11.5%.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

But that's clearly still above our financial target of 8.

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Kerstin Ahlfont CFO - Vattenfall AB

Yes, indeed, it is a good result. And we can see that the underlying business has developed very well. We have an operating profit, which is 21% almost, higher than last year.

And we see almost a double contribution from wind, both due to the increased capacity, mainly in Denmark and the Netherlands, but also the prices that I talked about earlier. But we also see an increased contribution from a business like the German pumped hydro power stations.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Okay. So that was ROCE. Let's now go to FFO to adjusted net debt, that's even more a staggering number, I would say.

Kerstin Ahlfont CFO - Vattenfall AB

Yes, indeed. And when it comes to FFO over adjusted net debt, we have the main impact there being the large inflow of margin calls. And they reduce adjusted net debt quite significantly. And if you would take away the impact on that development, you would have a FFO over adjusted net assets at 47%.

And then you have the other one-off items, the sell of Stromnetz Berlin and the German nuclear settlement, they together impact FFO over adjusted net debt with almost 20%. So, if you would look at this clean FFO over adjusted net debt, that would end up at the higher range of our target, which is 22% to 27%.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. I mean, the margin calls are so dramatic. Why don't you explain a bit to us why they're there and why they have had some dramatic effect during the year?

Kerstin Ahlfont CFO - Vattenfall AB

Yes. The margin calls, that is margin payments from our counterparties to cover for our credit risk in the commodity market, and it is linked to our hedging business. And when we see these sort of dramatic increase of both fuel prices, and power prices, we get large inflows from these margin calls.

And, of course, we see the opposite effect in the Nordics. But the price differentials on the continent, they are so much steeper, so this effect is sort of swamped by these continental inflows, but it is important to remember here that these effects are to such an extent temporary because when the underlying deals go into delivery, then the margin payment is reversed.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. I think a really good explanation. Okay. So, let's now say we close 2021 and let's talk about the future. And let's talk about investments, Anna.

Anna Borg CEO - Vattenfall AB

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Yes, indeed. We have planned net investments for the next two years of SEK55 billion here. And the reason I say net investment is that we also have in our strategy that we will do things together with partners to a larger extent, like we did with BASF and Hollandse Kust South when it comes to offshore wind. So, the SEK55 billion is our net investments over 2022 and 2023.

Out of that, SEK34 billion goes into growth, so quite substantial part. Two-thirds of the growth go into wind. Then it's both offshore and onshore but mainly offshore, where we see the large investments.

But we also see increased investments into distribution, the distribution business, as I mentioned earlier. Then we will, of course, also maintain our heat business, our existing grids. And we will also, on top of this, have maintenance investments in our hydro and nuclear operations.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So, it's clear that we see quite significant opportunities to invest. And if we look broader, I would say that we can see an acceleration of the electrification revolution and that will have a very strong impact on the need then for fossil free electricity generation, electrical infrastructure, and also services in general.

And, of course, we try to take a view on the consolidated perspective on the demand development in Europe. And we do expect a doubling of demand, if you look across markets. There are different starting points and different levels of electrification to start with, but approximately doubling which, of course, is a very different perspective from what I think everyone in the market had just five, six, seven years ago, where I think most of us would have expected a flat development. So a doubling.

If we then look at -- if we turn that into what does it mean in terms of additional fossil-free electricity generation. And it depends a bit on your starting point. And if we looked here at three countries, which represent two extremes, it's the Netherlands, it's Germany, and it's Sweden, all three core countries for Vattenfall.

In all three countries, we expect a significant demand increase to this doubling or tripling level. But the starting point in terms of fossil-free electricity generation is quite different.

So for a country like Netherlands, we see that there is a need for 10 to 20 times as much fossil-free electricity generation as today to reach the target by 2050. Germany, somewhere four to six, and Sweden, more in a doubling or tripling. All dependent on the starting point, of course.

And I think this is interesting in itself. But I think in a broader perspective, just means that the task at hand is staggering. And I think one of the consequences of that is that the demand side, we believe will be very involved in this growth, a bit different from maybe history. And the BASF deal is an example of that.

Another thing that we would like to bring is that we believe that the discussion on we can only go for this technology or that technology is less relevant, because we believe that we need to go for all fossil-free

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technology options to be able to be fit for the future when we need to be. So we have a target and we need to reach it.

Anna Borg CEO - Vattenfall AB

That is indeed true. And I think that's important to actually underline. It's not about building only new energy production or only one source of energy production, or only grids or only flexibility or storage.

We need a combination. We need all the puzzle pieces of a fossil-free energy system in order to take this challenge on, but also capture the opportunities in this transition, which are also plentiful. And I think that's important to point out.

However, I think there is a need for a dialogue on a more societal level as well. Where are we heading as a society in this transformation? What will it mean? What will the consequences be, the opportunities but also the challenges and how to handle that.

One topic that we have highlighted a lot is the permitting processes. And they need to become much more simplistic and much faster without being uncertain in a way. It still needs to take into consideration all the aspects important and necessary.

One thing that we maybe have not talked as much about, which is equally important is the access to competence and people. This is a major transformation going on in many industries at the same time. So, to have the amount of people needed in order to work in these projects, but also the right competencies, is going to be a challenge and it is an opportunity.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

I must admit when listening to what you just said and then view our markets and the numbers that Kerstin just referred to, I must say, you seem to have had a remarkable timing when taking on the CEO role. Any reflections on that? The most exciting job on Earth more or less.

Anna Borg CEO - Vattenfall AB

Well, I think it's a privilege to be able to be part of this kind of transformation that we are in the middle of, because all of us alive now, is part of something that is not happening very often in history, but it also means a huge responsibility in order to do that in a responsible way.

Of course, there's been a lot of challenges. Things are happening at a high pace, but I'm very optimistic. And I know that this is possible, because it's happening. We are delivering as we speak.

I also feel that clearly when I meet with other business leaders and partners, that there's a lot of optimism here, and everybody's working on this within their own fields. So the topics can be a bit different. And as you said, the solutions in different countries will also vary a bit, but everybody is sort of on to the task.

For us in Vattenfall, it means that we will continue to work even more cross sectors, and look into how we can decarbonize not only our own business, but also reduce emissions in other industries. So the industry cooperations will become even more important for us going forward.

As we saw in the example in the film as well and heard about today, innovation is taking place. You start to do joint innovation when you have the same target long-term and the same ambition, but your businesses look different. And you bring different aspects to the table. And that actually means that there are now more solutions that are good for the climate, but also good business.

QUESTIONS AND ANSWERS

Andreas Regnell SVP, Strategic Development - Vattenfall AB

With those very encouraging inspiring words, it's now time for Q&A. And let's go straight to the Q&A. On the web, I have two questions from Jesper Stårn, Bloomberg.

Jesper Stårn - Bloomberg

What is your experience from new offshore wind farms this year? -- what is your experience from new offshore wind farms this year?

Okay, now, I see. Is the onshore infrastructure in place to handle the full capacity or will the power system need to be developed to better utilize the output? Question number one.

Question number two, is the lower liquidity and big price area differences make it harder to hedge your Nordic power sales? So, let's start with it. Is there enough infrastructure to take care of the new offshore wind farm?

Anna Borg CEO - Vattenfall AB

Yes, I get it I'll take that one. And maybe Kerstin can comment on the hedging and the price area.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes.

Anna Borg CEO - Vattenfall AB

The very short answer is no. So, we need more grid infrastructure in order to take care of more of the energy production. And that actually does not only go for offshore wind, it also goes for onshore wind, for solar for industries needing this energy in their operations.

So there needs to be a holistic perspective on this when it comes to developing both energy production, transmission grids, distribution grids, and usage. So that's also one of the reasons why we see a lot of investments in here. But it's a very valid question, because this needs to be seen as a total package.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

There needs to be synced. Yes.

Anna Borg CEO - Vattenfall AB

Yes.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So Kerstin?

Kerstin Ahlfont CFO - Vattenfall AB

Yes. I mean this development, when it comes to the electricity price area differentials, have really developed -- started in 2020 and then in reverse way, you can say in 2021. And indeed there is low liquidity, so it is not really possible to hedge in the different price areas. So what we are doing is that we are hedging against the system price.

And we are continuously looking into how good are our hedges, how good is the system price as a proxy for the actually priced areas, and we see a slight de-correlation, but we still think that it is a good proxy hedge, but we're continuously evaluating and adapting as we go.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. And Alex Blackburne, S&P Global Market Intelligence.

Alex Blackburne - S&P Global Market Intelligence

To what extent have you seen the very high power and gas prices feed into the price of renewable energy power purchase agreements? Do you expect pending deals to be renegotiated as a result of the volatility?

Anna Borg CEO - Vattenfall AB

Well, I think it's important to say that the prices we're seeing now are record high. Again, in 2020, they were record low when the PPAs are usually over a decade or two or even longer sometimes. So the single year does not have a huge impact, but the price development in a longer duration will, of course.

So the short answer is, no, we haven't seen a specific impact from that yet. But the uncertainty in the market is there and will continue to be there. And that will, of course, be priced in all contracts on the market, also in PPAs.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. Maz Plechinger EnergyWatch.

Maz Plechinger - EnergyWatch

Hi, and congrats with the results. I just had a few questions regarding the Norfolk Offshore Wind Project. The permit for Norfolk Vanguard seemingly didn't make it until January the 14's bid deadline.

What difference does it make for the cost that you will have to build just one of the projects, both in regards to supply chain, which of course already flags higher prices and the HVDC grid connection infrastructure?

Also, you state in investment plan 22/23, the gross investments include assumptions for partnership for the Norfolk projects, i.e., in plural, do you see the projects being farmed down as a combined Boreas plus Vanguard package, and in such case how?

Anna Borg CEO - Vattenfall AB

Well, let's start from the beginning. It's true that we have the consent for Norfolk Boreas, but not for Norfolk Vanguard in time to enter into this round of auctions. And when it comes to Vanguard, we are actually expecting that anytime.

But we are also dwelling on what we should do with these projects, and in what time period because, of course, there's a lot of synergies, with developing them in parallel. So, we are looking into that just now. And the answer is not there yet. We will come back once we have decided.

When it comes to partnerships, whether it's going to be partnerships or a partnership, we have also not decided, but we've said early on that we are looking for partners in this project. And we are doing this market sounding for that right now. And we can see that the appetite for being a partner in these projects is very high.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. Let's see if there is another question Jakob Magnussen, Danske Bank.

Jakob Magnussen - Danske Bank

To what extent will Vattenfall be involved in constructing the final spent nuclear repository? And when do you roughly expect it to be finalized?

Anna Borg CEO - Vattenfall AB

Well, the responsibility of the repository for the spent nuclear fuel is with SKB, which is a company owned by all the nuclear operators in Sweden. So in that sense, we are one part of the company being responsible for this.

And the project -- or the process is quite long. So, it will probably take somewhere around 70 to 90 years before the repository is closed. And there are many steps on the way in order to get permits for testing, for starting to put the fuel into the repository and eventually also closing. It's a very long process. And, yes, we are responsible via our ownership of SKB.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. Now to Carlos Remeika.

Carlos Remeika - Covalis Capital

Good morning, thank you for taking my question. Can you please give us more color on the Q4 retail business trends? 4Q EBIT seems to be materially lower year to year. What is your view for Q1 2022? What are the reasons for lower contribution? Was it weather driven? Do we observe any balancing cost effects for retail business?

Kerstin Ahlfont CFO - Vattenfall AB

Yes. When it comes to the retail business in Customers & Solutions, it is correct that we see a lower contribution in the fourth quarter. And as I mentioned, that is due to higher costs for sourcing, and it comes mainly from the Nordic business where we had colder weather than usual. So, it is a volume-driven and sourcing combination there.

And, of course, I mean, this volatile market that we see puts extra risks when it comes to sourcing of the retail business. But we do not have any new assumptions for the future. And we also do not give any forecast, but we need to work very diligently with sourcing and volume risks in our retail business, which we also have done previously.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. And Andrew Moulder, welcome.

Andrew Moulder - CreditSights

You have investments in SMRs. When do you realistically expect any SMR to be commercially operational? And would you see these possibly being adopted in Germany? Or is that out of the question?

Anna Borg CEO - Vattenfall AB

If we start with SMRs technology, I think it's very interesting to see the development around the small modular reactors. It's happening quite fast. And we are also involved in a project in Estonia in order to gain experience, but also contribute with our history and experience in nuclear. So, I'm looking forward to see how this can be applied.

When it comes to the technological and financial maturity, I think we will see the projects on the market by the end of the 2020s, beginning 2030s. And then, hopefully, we have also seen the cost come down a little bit further than today. And then they will be quite competitive as a mix in an energy system providing stability and predictability.

When it comes to nuclear in Germany, I don't foresee any opening for that, but that's really not the question for me, it's more a question for the German politicians, but then at least looking at the market today, it doesn't seem reasonable.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. I'll add one comment on the nuclear. I think a prerequisite for it to become cost efficient, which it could be, is that there is some global or at least European licensing system. And I think because as long as we keep on licensing these technologies by country, it will remain very inefficient, and you can't really get the scale effects. So, I think that's important.

Anna Borg CEO - Vattenfall AB

Important point.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Second question from Andrew Moulder.

Andrew Moulder - CreditSights

I'm a bit surprised by your capex plan which seems relatively constrained at SEK55 billion over 2022-23 period, marginally lower than the SEK57 billion over the 2021-22 period. Everyone else Enel, Iberdrola, Orsted is ramping up capex, but you're not, why not? Are you in danger of being left behind?

Anna Borg CEO - Vattenfall AB

No. I think that we have a sound investment portfolio going forward. I think it's important also to say that this is the investments over a two-year period. These projects are usually much longer, the larger ones. And you need to see this over a longer period of time.

We are ramping up because we are shifting the focus in the investment portfolio and have done so over the years from more maintenance into more of growth and more growth in offshore wind specifically.

On top of that, we are also increasing our partnership strategy, which means that we will build more projects than we did before, but we will also partner up more often than we did, and therefore, the net capex again in here is not increasing to the same extent as the project portfolio is.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. Three questions from Sharon Vieten.

Sharon Vieten - Columbia Threadneedle Investments

Good morning. One, what proportion of your generation capacity is merchant and unhedged?.

Question number two. What sort of offtake arrangement do you typically have for each fuel type? Three,

is Vattenfall looking into nuclear fusion technology? Also interested if you might have any particular views on that technology. Thanks again. So number one, what proportion of your generation capacity is merchant an unhedged?

Kerstin Ahlfont CFO - Vattenfall AB

Well, as we also present in the report, you can see that the financial hedge ratio is -- I don't have the exact number, but in the range of 78% for 2022. But you can check that up in the report.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

So that was number one. Number two, what sort of offtake arrangement do you typically have for each fuel type?

Anna Borg CEO - Vattenfall AB

Depends on what you mean. But I mean -- we mainly use fuels for our heat business in Germany and in the Netherlands. And then we also have a bit of gas condensing still in the Netherlands.

And we hedge, we source on the market, but we also have contracts for sourcing these fuels. And we hedge most of them also in advance to make sure we're not exposed to the price swings. So, I hope that's an answer to the question. Fusion, maybe I'll take that one as well.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes.

Anna Borg CEO - Vattenfall AB

We are not specifically doing anything in the area of fusion. Interesting technology, it seems to be some 15 years out in time.

And that seems to be the case every time you talk about it, regardless if it was 10 years ago or five years ago or today. So maybe that's the case also five years from now. I don't know. So, no, we don't have anything specifically going on there, we're following the development with interest.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you. Samu Wilhelmsson, Nordea Markets.

Samu Wilhelmsson - Nordea Markets

How would you assess the current competition landscape in renewable assets in your core markets and going into 2022?

Anna Borg CEO - Vattenfall AB

I would say the competition is fierce. We see more and more actors coming in, but we also feel comfortable that we are one of the leading players in renewables, in general, and offshore wind,

specifically in Europe.

And we can see that that's clearly attracts both strategic supplier corporations, but also corporations and partnerships when it comes to building the farms, off-taking of the power from it, etc. So fierce competition, increasing. We are well positioned to be competitive.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Yes.

Kerstin Ahlfont CFO - Vattenfall AB

And Andreas, I can correct myself, it was not 78%, it was 72%.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Thank you for that correction.

Kerstin Ahlfont CFO - Vattenfall AB

Yes.

Andreas Regnell SVP, Strategic Development - Vattenfall AB

Seems like we have no more questions. And we don't have anything on the phone either, I think, so that actually concludes the Q&A. So for us, it's just to thank you all for joining us in this Q4 reporting event and see you soon on the Q1 reporting event. Thank you and goodbye.

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