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EDITED TRANSCRIPT

Q3 2022 Vattenfall AB Earnings Call

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CORPORATE PARTICIPANTS

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

Anna Borg *Vattenfall AB - President and CEO*

Kerstin Ahlfont *Vattenfall AB - Senior Vice President, CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Moulder - *CreditSights*

Matas Kadusauskas - *Covalis Capital*

Samu Wilhelmsson - *Nordea*

Camilla Naschert - *S&P Global*

Anne Filbert

Frank Siu - *Cardano*

Philip Akoto - *Energate*

Jakob Magnussen - *Danske Bank*

PRESENTATION

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

Welcome to Vattenfall in this Q3 reporting webcast. I am Andreas Regnell. And with me in the studio, I have, as always, our CEO, Anna Borg, and our CFO, Kerstin Ahlfont.

During this session, we will discuss the main events and the financial performance during the first nine months of 2022. After the initial session, we will open up for questions on the Web and on the phone. And, as usual, our standard slides are available online. But before we do anything else, let's have a look at some of the things ongoing at Vattenfall lately.

(Video Begins)

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Guided by our strategy and in response to the dynamic market, our portfolio is evolving. We invest in growth. We have built some of Europe's largest on- and offshore wind parks, and we are currently building the Hollandse Kust Zuid offshore wind farm together with BASF. This will be the largest of its kind worldwide with an installed capacity of 1,500 megawatts when fully operational in 2023.

In line with the expansion in renewables, we are heavily investing in the grid to connect more customers with these new power sources. We also continue optimizing and maintaining the backbone of the Swedish electricity system, our hydro and nuclear business.

We phase out fossil fuels in our own production. We have closed the coal-fired Hemweg 8 power plant in Amsterdam and the Moorburg power plant in Hamburg. In line with our ambitious CO2 roadmap, we are working on decarbonizing our district heating business in Berlin and replacing natural gas in our

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Dutch district heating business.

We help our customers decarbonize their daily lives. We offer heat pumps and green gas to customers as an alternative to natural gas. Since the start of our EV charging network InCharge in 2016, we have installed almost 40,000 charge points and delivered 220 million kilometers of fossil-free transport in the first half of this year alone.

We create strategic partnerships to decarbonize the industry sector. We have partnered with LKAB and SSAB to deliver fossil-free steel in our HYBRIT project. Together with SAS, LanzaTech and Shell, we are pioneering the production of sustainable aviation fuel. And we are collaborating with offtakers on the Swedish west coast to create an end-to-end fossil-free electricity and hydrogen value chain.

(Video Ends)

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

That was an example of some of all the exciting things ongoing in Vattenfall. But these times are highly uncertain for us, our peers, our customers and partners. And we are in the middle of all that.

Prices are extremely volatile. Customers across Europe are struggling to pay their electricity and heating bills. On top of that, we see a risk for shortages of gas and electricity in the coming winter, and the E.U. and governments across Europe are taking historical measures to mitigate these risks. But how are we navigating all this, Anna?

Anna Borg Vattenfall AB - President and CEO

Well, it is challenging times, indeed. And I think it's important to be both short term and long term at the same time now. Here and now, we need to support our customers to make sure that we can give them advice on how to reduce their consumption but, also, how to choose the best kind of agreement for electricity for them and also with payment plans, if needed.

But, I think it's important to remember that the fundamental issue is a gap between supply and demand. So, at the same time, we need to focus on getting more fossil-free electricity generation into Europe. And to manage both these perspectives at the same time will be extremely important.

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

Completely agree. It's super important. And we will talk more about this at the end of the discussion. But another thing that has happened is that we have a new government in Sweden. And they presented their Government Agreement, and that includes a lot of topics on energy. But it also includes some explicit assumptions and expectations on Vattenfall. What would you say about that?

Anna Borg Vattenfall AB - President and CEO

Absolutely. And I think that one of the really good things with this new agreement and ambition is that there is a clear target for 300 terawatt hours of electricity consumption in Sweden 2045 in order to meet

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the demand from society but also for industry. And that makes it sort of clear to have something to plan against. And that is, of course, not a Vattenfall target. It's a target for the entire Swedish energy system.

In addition, there is a shift. So the target is no longer 100% renewable energy. It's 100% fossil-free energy. And this, of course, opens up also for nuclear long term. And I think that's also one of the main components in this -- in this new setup, that nuclear is a welcome part of the Swedish energy system now but also in the future. So this, of course, has an impact on us when it comes to planning our investments and what we do with the assets that we have and the assets that we would like to build in the future.

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

Thank you. Now, to you, Kerstin. Some energy companies have been struggling quite severely over the last months. So what about Vattenfall's financial position?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, we have received many questions on that. And the short answer is that Vattenfall's financial position is strong and we are on the other side of the sort of trade compared to many of our competitors, meaning that we have actually in net received a lot of margin calls.

So, at the moment, we actually experience excess liquidity. And that is also not without challenges. But it means -- and we know, of course, that the flows will be reversed at some point in time. But it gives us time to manage this and create buffers for future outflows.

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

And how about the results?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, I would say that the results are stable. If you look at the underlying operating profit, that is slightly higher than last year. And if you look at the profit for the period, that is lower. But that is mainly due to some exceptional one-offs that we had in the result in 2021.

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

Thank you. And we will get back to that, of course. But, Anna, shall we start with some of the business highlights?

Anna Borg Vattenfall AB - President and CEO

Absolutely. In our wind business, for example, we have now installed all the fundamentals and also some of the turbines in the Hollandse Kust Zuid project outside the Netherlands.

We have actually also delivered the first electricity, but the wind farm will not be commissioned fully until next year. And it's Europe's largest offshore wind farm. Basically, every wind farm being built now is the largest one, but this is the one right now. We also decided to use our step-in rights for the German

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offshore wind project, N-7.2, which is a ...

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

Very interesting name.

Anna Borg Vattenfall AB - President and CEO

... very interesting name, which is offshore in Germany. And provided that we make a final investment decision, that can be up and running and deliver electricity already in 2027 corresponding to approximately 1 million households. So these are really big projects that come online now.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

And in Heat, we have from the joint venture with the Midlothian Council in Scotland and we have an ambitious business plan there. And together, we will invest in low-carbon energy projects.

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

And now -- maybe not the highlight but a very important event -- is the delayed restart of Ringhals-4 after the regular maintenance.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Yes. That is, of course, especially unfortunate given the current market situation. And the reactor is planned to be back in operation on the 31st of January.

But, on a more positive note, we actually got a go ahead from the Swedish TSO to increase the capacity in Forsmark with 50 megawatts already this year and an additional 50 megawatts in 2023.

Anna Borg Vattenfall AB - President and CEO

Right. Our Distribution business is also progressing well. We are continuing to invest. There is a sort of huge demand for connecting especially when it comes to new production but also new customers.

And two things that we especially have seen increase a lot is the request to connect for solar panels but also for hourly meter readings. So we actually have been struggling to keep up with all the requests coming in. They have increased with more than 100% since last year. So we know that we are not always as fast as we would like to be in this aspect. But we are working hard in order to connect all customers that want to connect and also have more resources coming in in order to work with this.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

And in our sales business, that is also progressing well. Many customers choose us especially in Germany in these uncertain times. And that is something that we, of course, appreciate. But we also recognize that it is a very challenging situation for many of our customers. So we try to help and advise the best we can.

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

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Yes. And we also make progress in our industry partnerships, and we saw that in the film. But if we deep dive a bit in HYBRIT, our cooperation with SSAB and LKAB, two things have happened. One is that the gas storage is now operational where we have compressed fossil-free hydrogen. And it's actually a global unique location and technology.

But we've also seen that the iron that we reduce through direct reduction, if you do that with hydrogen instead of natural gas, you actually get much better properties of the outcoming product and it's also easier to transport. So a big step forward on two fronts in the HYBRIT initiative.

Anna Borg Vattenfall AB - President and CEO

Right. And we also see a great interest from our customers and partners looking into collaborating with us in different ways. And something that is happening more often now than before is that companies are also asking to co-own and co-build electricity production with us. And I think that's a really good example of cooperations both in terms of small and big things coming alive. So innovation and cooperation will be absolutely key going forward.

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

Okay. So enough with highlights. Let us now move over to the results. And I think they need some explanation. As you mentioned initially, the underlying results is slightly up but the profit for the period is more than halved. And, on top of that, the adjusted net debt has decreased so much so there is now negative. Please, Kerstin, explain what's going on here.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well. Yes. I think we need to start off with the market development to set the scene. After the summer, the uncertainty in the market really spiked and we saw very high prices and also extreme volatility.

And if you compare Q3 last year with this year, prices have increased on average three to four times in Germany and the Netherlands and more than two and a half times in the Nordics. And even though prices have settled lately since the real peaks we saw in August, we are still on historically high level and uncertainty is still high.

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

Okay. So yet again, high levels of prices and uncertainty and volatility. Is that good of Vattenfall?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, that is not so easy to say. And in the short term, the reason for that is these electricity price area differences that we have and hedges.

Anna Borg Vattenfall AB - President and CEO

I think the hedging effect here is fairly straightforward because what we normally do is that we sell a part of our production in advance. And we do that in order to lower the swings in the results and be able to make investments, for example, in a more stable way. But that also means that when we do hedging

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and the prices are increasing, we get the prices that we already have sort of sold our production to, which is a lower price than the price in the market.

And the other way around that when prices go down, we already sold part of our production to the prices that were higher. And so, with them, we have a higher result than the sort of average in the market. So, so far, it's fairly easy and has been straightforward up until now.

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

So I pick you up on straightforward. So let's say that hedging that straightforward because it evens out results over time. So that part is fully expected and it will, as you say, be the reverse when prices go down again. What complicates things a bit in the Nordics is the electricity price areas, isn't it?

Anna Borg Vattenfall AB - President and CEO

Yes. So there are actually very limited hedging opportunities in the individual price areas because there is not a liquidity in the traded market there. So, normally, what we and everybody else do is that we hedge in the entire Nordic price, the system price, which is called the SYS. And, then, the hedge is a financial contract with a physical delivery in the end. And, normally, when there are no price area differences, then the SYS price and the delivery price is the same.

But, right now, the price area differences are quite big, which means that we go into delivery in the area where you actually have the production, of course, because the production is fixed where it is. And, then, you get a different price than this system price. So that's the impact we now see.

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

So continuing a bit on the same, you see on the graph that, historically, the price areas were relatively well synced with the SYS price. But lately we have seen, particularly the northern Sweden -- SE1 and SE2 has decoupled from the SYS price. But we are delivering in the price areas, so that's complicating things a bit. And why is this negative?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, if we start off with how it was before when the prices in the price areas were linked to the SYS price, let's say, then, that we hedge one megawatt hour of our production and we do that at the SYS price of 30 euros per megawatt hour and, then, the SYS price increases to 100 euros per megawatt hour. Then we have to pay 70 euros to our counterparty in the trade. However, when we then come to the physical delivery, then we receive 100 euros per megawatt hour. So in net, we are positive 30 euros.

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

So that would be how it once upon a time worked. But now, with the current scenario where price in the north are much lower than the SYS price, what is then happening?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, again, then, SYS price has increased to 100 euros. So we will have to pay 70 euros to our

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counterparty in the trade. And, then, if we have our production facility in the north and the price there is 50 euros per megawatt hour, then we receive 50 euros when we deliver the physical electricity. So we have to pay 70 euros to our counterparty in the trade and we receive 50. So, then, in net, you have minus 20 euros. So you have actually delivered your electricity at a loss.

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

So not necessarily super intuitive but very true. And it must impact our generation result quite a lot. What can you say about that?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, the achieved price in the Nordics was 17 euros per megawatt hour. And that is compared to last year when it was 31 euros per megawatt hour. And that is exactly because of what we just talked about, these price area differences that really started to decouple from SYS in the last quarter last year. And that is why we have in the Power Generation segment a lower result despite that market prices have increased.

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

So this is all due to hedging?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, not really. We also have a lower trading result. But that is mainly due to temporary effects. So that will be reversed. So if you if you take that out, it is really the hedging that has this impact.

And we did change our hedging policy. We reported on that already I think two quarters ago. But we do the hedges on a medium-term horizon, which means that it takes time before you see the impact of that change strategy in the results.

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

Thank you. Complicated but very important. But let's look at the other BAs.

Anna Borg Vattenfall AB - President and CEO

Yes. And the story hasn't really changed that much since last quarter. Wind is doing a very good result. It's actually more than tripled its contribution. It's partly due to the higher prices. But it's also because we have more assets up and spinning, especially the Danish Kriegers Flak that is now up and running. And that, of course, increases the result as well.

Also, our sales business is performing well. And customers choose Vattenfall to a large extent because we are perceived as a stable and reliable partner especially in a situation with a lot of turmoil like this one. And that's also true to a large extent because we are an integrated energy company. So we have several different kind of businesses. And that also creates a bit of stability in the market situation like this. Then we have some temporary sourcing effects as well.

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

Okay. So high results from Wind and Customers & Solutions. How about our Distribution business?

Anna Borg Vattenfall AB - President and CEO

Well, the Distribution business, as you saw in the slide, actually show a lower result. And there are two reasons for that. One is that there are higher costs for the transmission network in Sweden that is impacting us negatively. But the main effect is actually because of the one-offs that Kerstin mentioned earlier, that we sold the distribution business in Berlin.

And last year, that was in the numbers and now it's out. And I think we have been repeating ever since the end of last year and also every quarter that this and also the effect from compensation of nuclear in Germany has a huge impact on our business. And that is now visible in the distribution result here.

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

And, then, we have our financial metrics. Our net debt is now negative because of all the inflow of margin calls. And we have a lot of liquidity, haven't we, Kerstin?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Yes. And this means that our regular capital structure metric, FFO/adjusted net debt, is actually not relevant now. But if you look at that and exclude the margin calls, the FFO/adjusted net debt on a rolling 12-month basis is 41.4%. So still on a very high level. And one of the reasons for that is the compensation that we got for the early closure of German nuclear in the fourth quarter last year.

And if you look at the other KPI that we are following closely, ROCE, that is positively impacted by changes in market values for energy derivatives and inventories. But if you look at that from an underlying basis, it ends up at 12.8%, which is slightly higher than last year when it was 11.7%.

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

Okay. Let's go back a bit to the topic of capital structure and debt. Vattenfall issued a 1.65-billion-euro bond a few days ago. Why do we do that if we have so much cash?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, even if we are receiving now a lot of margin calls, we also know that, eventually, these margin calls will be reversed. And we have also seen that this can happen fairly quickly. So we decided to issue these bonds in order to stay prudent and safeguard our liquidity, and we did it in the shorter part of the curve.

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

Finally, profit for the period. We said that it's down. And it's actually down by 60%. How come?

Anna Borg Vattenfall AB - President and CEO

Well, the main reason for this, again, is this extraordinary items that we had in 2021. We sold our distribution business in Germany and we also received this compensation for early closure of nuclear in

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Germany. And I think it's important to look at that when you compare the years because that is, of course, not there this year.

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

And what about the effects from the market environment?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, we have that as well, and you find that in the items affecting comparability. And it's connected to fair values of energy derivatives. But if you really look at this on sort of a year-over-year comparison, the comparison is really dwarfed by these two one-offs that Anna mentioned earlier.

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

Yes. Let's now broaden the focus a little bit. As we mentioned, the current situation is very, very challenging for households and companies and the society as a whole. And there is a lot of financial pressure out there. In light of this, there is a lot of discussions about market interventions and similar measures. Anna, what would you say about that?

Anna Borg Vattenfall AB - President and CEO

Well, first of all, I would say that, unfortunately, there is no quick fix to this problem because it is a fundamental gap between demand and supply. So the fastest way to mitigate the effects of this is to reduce demand, to reduce consumption. That will lower the bills for customers. But it will also lower the price in the market in general especially if we can lower the consumption during the peak hours, which are usually early in the morning and in late afternoon, early evening.

There is actually several research institutes that have looked into this. And one of them say that if Europe is managing to reach the targets set of reducing consumption by 10%, that could actually lead to half the price in the southern part of Sweden. So that's the kind of impact that we are talking about.

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

Dramatic effect. What about the political measures?

Anna Borg Vattenfall AB - President and CEO

Yes. On the E.U., there has been three regulatory packages proposed so far. And one of them actually include a revenue cap on some of the electricity generation.

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

Okay. So that means in practice that you are just allowed to have a certain maximum price on your assets and whatever comes above you have to redistribute to consumers to reduce their energy bills.

Anna Borg Vattenfall AB - President and CEO

Yes. And I think that in extraordinary times like this, it's also reasonable with extraordinary measures. And that is what we see here. But I think it's important to safeguard two things. And one is that it's not

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counteracting this demand reduction that we need. And the other one is that it's not hampering investments into new fossil-free electricity production because that's the only way to fix the problem for real in the long term.

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

Completely important comment. Can you say something about the financial impact on Vattenfall?

Anna Borg Vattenfall AB - President and CEO

Well, the implementation of this is not quite clear yet. It is an agreement on an overall level. But the implementation will then happen country by country. And the timing for this can also differ. So it's actually too early to say what the financial impact will be. But there will, of course, be one.

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

In line with this, there is also discussion to decouple electricity from gas price and essentially have a cap on gas that is used for electricity. What would be the effect of this?

Anna Borg Vattenfall AB - President and CEO

Well, it would lower the overall prices, of course. But it could also increase the gas consumption, which is not what is needed right now. And that's also what all of Europe has been struggling with up until now -- to make sure that the gas storages are filled and that not more gas than necessary is used. So it's important to be careful about that.

And what is a bit tricky with wholesale market interventions in general is that the market gives price signals in order to sort of distribute the resources in an efficient way. And if you start to make changes in that, you could actually have effects that you couldn't foresee and then you need to make another intervention. So it's important to really sort of keep the price signals and think about the consequences of this.

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

Yes. And in line with what you just said, there are also discussions about change the overall electricity market design. What is your view on that?

Anna Borg Vattenfall AB - President and CEO

Well, again, it's not the market design that is the main cause of the problems we see now. It's the gap between demand and supply. The fact that the price goes up when there is a much lower supply is fairly natural. But what is important is to make sure that we can close this gap in a good way by building more electricity generation.

And I think it's important to really analyze the consequences of any changes that will be implemented in the market model. There are things that would be welcome -- for example, putting a price on flexibility and availability of resources and generation in the market. So we will have to wait and see.

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

So what you are saying is that we need the market signals because the market signal is saying that there is a scarcity of energy. And if you take that market signal out of operation, you risk to get the opposite, that the consumption goes up. And, essentially, that energy isn't there. But, yet, the high prices does put a lot of pressures on consumers. And what does Vattenfall do to help our customers?

Anna Borg Vattenfall AB - President and CEO

Well, as I said, the only way for a customer to influence their cost short term is by reducing demand. And, then, it's mainly about heating in your home, but it's also about consuming warm water, which is actually 25% of the energy need of a household.

So those are the two things that I would immediately look at. But, also, to reduce the consumption during these peak hours will lower the overall price. So, then, you will get a double effect. You will get a lower bill because you consume less but also because the price is lower. So behavioral changes are also important.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

And, in addition to that, we are also supporting a number of initiatives. For example, we are partnering up with FIXbrigade in The Netherlands, who are providing energy-saving solutions to households in Amsterdam. So they are providing, for example, draught excluders, ceiling gaps or installing LED lights or water-saving showerheads. And these energy savings can actually be quite substantial.

Anna Borg Vattenfall AB - President and CEO

Yes. I agree. And I think they are very important for the customers short term. We are also supporting with advice and payment plans, if needed, et cetera. But we will put a lot of focus on solving the sort of long-term fundamental issue, which is the investments that are needed to bridge this gap between demand and supply. So we need more electricity production -- all kinds of it. We need more nuclear, more wind, more hydro. But we also need more grids in order to get the electricity to where it is needed and when it is needed.

And I think in order for all of these things to happen, it's going to be important to have faster permitting processes. And we see several examples around Europe on that happening or efforts being taken in order to make that happen. And we also need reasonably stable and predictable legislation in order to get all these investments in there now.

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

Very much agree and important comments. And with that, I leave the floor open to questions.

QUESTIONS AND ANSWERS

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

First questions come from Andrew Moulder, CreditSights. And there are two questions.

Andrew Moulder – CreditSights

Please, could you give your expectations for the energy situation over the winter in the Nordics? Do you expect rationing and shortages of power or gas? What about the following winter? That was the first question.

The second -- how easy is it to increase the capacity of Forsmark (50 megawatts in '22 and 50 megawatts in '23)? Are there supply chain bottlenecks for any components? How much will these upgrades cost?

Anna Borg Vattenfall AB - President and CEO

Okay.

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

So we'll start with the situation in Nordics this winter and the coming.

Anna Borg Vattenfall AB - President and CEO

Yes. I actually think that the situation for the winter is very uncertain both in the Nordics and in Europe. And, normally, the Nordics is a net exporter of energy. So I think that the pricing of the energy will probably be more of a risk than the actual shortage of energy in the Nordics.

However, as we are connected to the European energy system and there we see fairly well-filled gas storages right now in order to meet the winter season -- but it depends a lot on how cold it will be both in the Nordics and in Europe and if there are any other events in the market that can impact this. So a lot of uncertainty still, I would say, and the need for this demand reduction in order to avoid a shortage during the winter period both in the Nordics and in Europe. And I think there was a question about the next coming winter as well in there.

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

Yes.

Anna Borg Vattenfall AB - President and CEO

And I think we still will have a difficult situation next winter because building this additional electricity generation that is needed will take some time. And there will be more projects up and running next winter provided that they have permissions for the wind farms especially that are quite far in the planning will be there. But it will not be enough to bridge all of the 40% of gas that used to come from Russia into Europe. So it will be a tricky winter next winter as well.

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

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So let's get to the second. How easy is it to increase the capacity of Forsmark by 50 megawatts in '22 and 50 megawatts in '23?

Anna Borg Vattenfall AB - President and CEO

Well, actually, we increase 50 megawatts now in Forsmark 1. We got the approval from the transmission operator only this week or maybe last. So that's really good. And the second step is another 50 megawatts increase in 2023.

And there is not a sort of risk from a supplier perspective, which was also part of the question, because we have planned this for quite some time and it's only the sort of final things that we need to fix during revision next year in order to get the additional 50 megawatts up there.

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

Thank you. Let's go to the next question from Matas Kadusauskas from Covalis Capital.

Matas Kadusauskas - Covalis Capital

Third quarter Customers & Solutions reported almost 1 billion higher operating profit. Is it fair to assume the improvement is mainly linked to electricity and gas sellbacks to the market driven by lower demand?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

It is a combination, as we also mentioned in the presentation, of increased customer base mainly in Germany. We have 400,000 more customers this year than last. But, then, it is also, as the analyst is asking or claiming, that we have a certain sort of sellback of hedges due to the temperatures we saw last winter.

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

Thank you. Then we get to Samu Wilhelmsson.

Samu Wilhelmsson - Nordea

Considering Ringhals 4 delay, is it fair to assume that the output from the plant is already hedged? It would mean that you are left with short positions in the power market where power prices are extremely volatile. Are you expecting significant losses for the rest of the year? And is there any special needs to adapt your operations to offset this?

Anna Borg Vattenfall AB - President and CEO

Maybe I can answer the first part of the question and Kerstin can answer the second. First of all, we are not hedging asset by asset. We are hedging on an overall Vattenfall level. So there are no sort of specific hedges allocated to any specific kinds of generation or assets.

And, secondly, we don't hedge all of our generation. We didn't do that before and we are going to

hedge to an even lower extent going forward. So it's not that we were fully hedged when we went into this period.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

And I mean in order to understand the magnitude of the standstill, you can only sort of take the power that Ringhals 4 should have produced and then multiply it with the spot price that you would have had if it was in operation. So that is the loss that we and the other owner, Uniper, are making on this.

And when it comes to how we can adjust that, I mean we are continuously looking into how to adjust the hedges. So that goes without saying but, besides that, it's really to put all hands on deck in order to now manage the situation and get the unit up and running as soon as we can in a safe manner.

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

Thank you. And next question from Camilla Naschert, S&P Global.

Camilla Naschert - S&P Global

Given the delays and budget overruns with current new nuclear plants in Europe, is Vattenfall confident that the reactors in Sweden can be different? What are the lessons the nuclear industry is learning?

Anna Borg Vattenfall AB - President and CEO

Well, we are analyzing right now what we think is possible or not. And what we specifically have started is a feasibility study for small modular reactors and the projects that are referred to are the more traditional large-scale reactors. And we know there has been a lot of delays and increased cost for those.

The technology around small modular reactors is very interesting and developing quite fast as well. But, of course, we need to see that that expectations on that technology deliver both from a technical and practical and financial perspective.

However, I think it's also valid to say that there are some projects regarding large-scale nuclear going on in the world right now -- for example, in the United Arab Emirates and in South Korea -- which indicates that the sort of both timing and price could be better for also large-scale reactors. But that remains to be seen. And it's a part of the work that we are doing.

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

Thank you. I think you answer the next question now from Anne Filbert.

Anne Filbert

It's Vattenfall working on any future developments of new nuclear power in Sweden?

Anna Borg Vattenfall AB - President and CEO

That's the feasibility study of SMR. But I would like to add something. And that is that now that we see that nuclear will be a part of the energy puzzle also more long term in Sweden, we also look into further lifetime prolongation of the existing reactors beyond 2040. And we are also looking to possibilities to do further increases of effects or capacity in the existing reactors where we haven't done that yet. Specifically, that would be Forsmark 3.

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

Thank you. Andrew Moulder is back.

Andrew Moulder – CreditSights

Fortum has spoken about lack of liquidity in the forward hedging market. Are you seeing a lack of liquidity? How easy is it for you to hedge?

Anna Borg Vattenfall AB - President and CEO

There is a lower liquidity in the market, in basically all of the markets in the Nordics and in Europe. And that, of course, limits our possibilities a bit compared to what it looked like before. So that's a market situation, and we share that with Fortum and everybody else.

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

Andrew Moulder again.

Andrew Moulder – CreditSights

You said you issued the bond to safeguard liquidity, but the Swedish government has said it would provide guarantees for companies to meet margin payments. So why not avail of that if you need to? Or do you not want to rely on Swedish government guarantees?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, we have seen, of course, these Swedish government guarantees, and we think they are good in order to sort of put more security in the market as such. But our ambition is, of course, to manage our own liquidity. And we have time to do that given that we are sort of on the right side of the trade at this point in time.

And we have a liquidity stress mandate that we are working against. And that is quite conservative. So these are measures we are taking in order to make sure that we can ourselves actually manage the future outflows of margin calls.

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

Thank you. Next question from Frank Siu from Cardano.

Frank Siu - Cardano

What is your financial policy when it comes to commitment to the credit ratings?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

In terms of the commitment of the credit ratings, I assume that they are referring to our commitment to the ratings that we have.

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

I assume so. Yes.

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Yes. I mean what we can say is that we delivered a stable result and we are financially strong. And we are fully committed to continue to deliver according to the owner's targets both when it comes to the capital structure target where we should be between 22% and 27% of FFO over adjusted net debt and also above 8% percent when it comes to ROCE.

Anna Borg Vattenfall AB - President and CEO

And right now, we are overdelivering on both these parameters even if you take away the margin calls and the one-offs etc. So I would say that we are well in line with the expectations from that perspective.

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

Thank you. Matas Kadusauskas from Covalis Capital again.

Matas Kadusauskas - Covalis Capital

Could you split how much of margining inflow is linked to German and how much to Nordic retail portfolio and why that was not offset with your generation portfolio hedges?

Kerstin Ahlfont Vattenfall AB - Senior Vice President, CFO

Well, we have large portfolios both in the Nordics and on the continent. And in the Nordics, we are both a large generator but we also have our customer portfolio. But our generating portfolio is larger than the customer portfolio, which means that in net, when prices are increasing, we are paying out margin calls in the Nordic market whereas in the continental market we are a net buyer on the exchanges and on the OTC markets. So there, when prices increase, we are receiving margin calls. And if you look at the sizes of these portfolios, then the continental portfolio is actually outweighing the impact of the Nordic portfolio, which means that in an increasing market environment, we receive net our whole portfolio margin calls.

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

Thank you. Clear. Philip Akoto from Energate.

Philip Akoto - Energate

Could you give an update on the possible sale of Vattenfall share of GASAG and the district heating business in Berlin? Would it be conceivable for Vattenfall to sell the district heating business in Berlin to someone other than the state of Berlin?

Anna Borg Vattenfall AB - President and CEO

Well, first of all, we are in a sort of strategic process where we are evaluating whether we should continue to own or divest the heat Berlin business. And that process is not finalized yet.

So, when it is and if we decide that we want to divest, we will do a normal process around this, which will be open, fair and transparent to anyone who would be willing to participate. And we actually see a quite large interest. It is a good business that will be needed in Germany and in Berlin going forward with a lot of opportunities. But that's where we are at the moment.

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

Thank you. And Jakob Magnussen

Jakob Magnussen - Danske Bank

Is it completely impossible to invest in Ringhals 1 and 2 in order to make them operational again rather than building completely new?

Anna Borg Vattenfall AB - President and CEO

Ringhals 1 and 2 is a choice that was made by Vattenfall and the other owner, Uniper, quite a long time ago. And that's also when you choose the investment path. We have already started the decommissioning of these plants. So Ringhals 1 and 2 are not complete facilities anymore. That means that, apart from the fact that it's not legal to restart closed reactors and that they are also not fulfilling the security -- the modern safety requirements when it comes to independent core cooling.

We also have started to take away components from these power plants and reuse them in other nuclear power plants elsewhere. We have taken out the material from them in order to do different tests and research on how materials are aging in this kind of environment that we can utilize in our other operations.

And we have also used some acids in part of the piping system and the components in these facilities. You do that in order to reduce the radioactivity in there. And that also has an impact on the materials in these plants. So it is simply too late to do that.

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

Thank you. And now comes the last question from Andrew Moulder.

Andrew Moulder – CreditSights

How would you reconcile a gas price cap with the need to attract market-priced LNG into Europe. Wouldn't a gas price cap cause suppliers to shift deliveries to higher-priced areas? Or would governments or the EU need to provide a top up so that the international suppliers could still receive the market price?

Anna Borg Vattenfall AB - President and CEO

This is, of course, something that is heavily discussed in the European community, and let's see what they will come up with in the end. But, of course, there is such a risk.

On the other hand, the price is still so high in Europe that also with the price cap, most likely LNG would come towards Europe. But, again, that depends on the market price in Europe, but it also depends on the demand in other parts of the world -- in Asia, for example. So it's always tricky when you start to intervene with market mechanisms because, as we said before, you can have effects that you didn't foresee and then you need to take additional measures. So the answer is not obvious.

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

Thank you. And I have no other questions here. Is there a question on the phone? No question on the phone. So that means that we have answered the last question.

And with that, I thank you, all, for listening in and participating. And until next time in the new year, I will say welcome back, then.

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