

TRANSCRIPT

Vattenfall Q4 Report 2024

February 6, 2025 09.30 CET

Corporate Participants

- Andreas Regnell; Vattenfall AB; Senior Vice President, Head of Strategic Development
- Anna Borg; Vattenfall AB; President, Chief Executive Officer
- Kerstin Ahlfont; Vattenfall AB; Senior Vice President, Chief Financial Officer

Presentation

(Video Start)

Let's look back at some of the most important highlights for 2024.

Early May, Vattenfall transferred all shares in its German heat business Vattenfall Wärme Berlin AG, including the heat and combined heat and power plants, grids, subsidiaries, employees and shareholdings to the state of Berlin.

Vattenfall divested the Norfolk Offshore Wind Zone to RWE, ensuring the continued development of the projects and fossil-free electricity for millions of British homes.

Vattenfall won the bid for IJmuiden Ver Beta, Zeevonk, in the Netherlands. This futuristic wind farm features a floating solar farm between the wind turbines and an electrolyser, which is there to convert much of the wind farm's electricity into green hydrogen.

The partnership with BASF was deepened through the sale of 49% of the offshore wind farms Nordlicht I and II in Germany. The construction of the wind farms is expected to begin in 2026 and Nordlicht I and II can be fully operational in 2028.

In September, the two wind farms Vesterhav Nord and Vesterhav Syd were inaugurated in the presence of the Danish Minister of Environment, Magnus Heunicke, and making a positive difference in the local community by creating jobs and supporting the regional economy.

During the year, Vattenfall took steps to enable new nuclear power at Ringhals by shortlisting and evaluating suppliers for building reactors on the site.

(Video End)

Andreas Regnell: Good morning and welcome to Vattenfall's presentation of our 2024 year-end report. I'm Andreas Regnell and with me in the studio, I have as always, our CEO, Anna Borg and our CFO, Kerstin Ahlfont.

And today, we will go through the financial development and the main events and you've already seen some for the year. At the end, we will open up for questions and as usual, the reporting material is available on the web.

Here we are and another year in the books.

Anna Borg: Yes, that's true and today we are in our London office actually. UK is an important market to Vattenfall and we had a meeting with our Board of Directors here

yesterday but we also spent Monday and Tuesday deep diving into artificial intelligence. Meeting with and discussing with some of the companies that are in the forefront which you find here in London to understand what this will look like and also how it can enhance our business. So, it's been a full schedule and very interesting.

Kerstin Ahlfont: It's been a couple of very interesting days I must say.

Andreas Regnell: Yes, inspiring and confusing. To start with, I would like to ask both of you how would you summarise 2024? And Anna let's start with you.

Anna Borg: Yes, I mean what we see in the world around us is increased uncertainty. We see increased polarisation both when it comes to geopolitics and when it comes to world trade, and that of course has an impact on us. The energy transition is both a technological one and a financial one and I think that what we see right now is that in Europe the price of energy is too high in order for industry in general to be competitive on the global market and at the same time the price signals in many markets are not high enough in order to motivate new investments because costs for building have increased according to bottlenecks in supply chains, increased costs etcetera.

So we see a bit of a dilemma there, but I think it's really important that we find that way forward because to provide enough fossil free energy at the competitive price is absolutely critical for European industry to be competitive long-term and a lot of projects are going on in that regard. So, I think the direction is very clear but the pace is not at the moment.

In Vattenfall however, I think we've been able to maneuver in this environment in a fairly good way. We show good results, we show good progress in our projects and also on our sustainability targets and I think that is to a large extent also due to the fact that we have a diversified portfolio of businesses.

We're active in several parts of the value chain and in several geographies and that makes us resilient I would say. So, I feel very comfortable that we have been able to manage the business in a good way with good results in 2024 and will continue to do so going forward.

Andreas Regnell: Yes, and as you say in this environment being financially stable is a prerequisite for us to deliver on our both financial and sustainability targets going forward. And you mentioned that we made some significant progress on some of our projects but if you were to pick a couple that you're particularly proud of which one would that be?

Anna Borg: Well, as we saw in the film the Vesterhav North and South project are important. They are an important addition to our portfolio but also to the Danish energy system. The fact that we have been able to successfully divest the Norfolk Zone and Heat Berlin securing that, that project and that business will also be able to flourish in the but also creating good value for Vattenfall that was important for us.

The continued partnership with BASF, where we now sold 49% of our Nordlicht projects to them and will develop those together, that's really important for us. And of course new nuclear, where we actually have done a lot of work on the site at Ringhals, the Värö peninsula to make sure that we can hand in the applications needed to build. We've

asked to utilise the nature reserve in the area to get access to the land and we have intense discussions with the last few suppliers that we are discussing with so we're moving ahead in quite high pace there as well.

Andreas Regnell: Indeed a lot of important milestones. Kerstin what will you bring with you from 2024 into 2025?

Kerstin Ahlfont: Well, following up on all the things that Anna just mentioned, I would probably mention our efforts in enhancing our profitability and increasing operational excellence which is something that we will continue to focus on also in the coming years and I think it is especially important in these times with uncertain circumstances and unknown future. We simply need to be in the best shape we can be as Vattenfall to enable the fossil freedom that drives society forward as a profitable company.

Andreas Regnell: Talking profits, looking back into the energy markets during 2024, we have observed some lower electricity prices, haven't we, Kerstin?

Kerstin Ahlfont: Indeed. If you look at the Nordic market, we see a decline in prices with 36%. And the reason in the Nordic market is the very good hydrological situation that we have but also more wind production. And it's also an impact from the continental prices because the decline there also have an impact on the Nordic prices.

So on the continent, the prices have declined with 19% and there the main reasons are lower gas prices but also increased wind and solar capacity. And even though we see a decline in the continental prices, it's still roughly twice as high as the Nordic prices.

Andreas Regnell: And talking price declined, in the other direction, in December we saw some price spikes in southern Sweden and there was a lot of discussion whether that was related to new flow-based market coupling. Was that the case, Anna?

Anna Borg: Well, the flow-based market coupling went live late October. So I think that first and foremost, it's too early to sort of conclude what the effect of that is. But the purpose from the transmission operator was to utilise the grid in a more efficient way and increase the flows between bidding areas and that has been successful because we have seen increased flows from the north to the south and also from the east to west.

What we have not seen is a decrease in price area differences and I think that everybody more or less expected that. So, that's a bit unexpected and not fully sort of explainable yet. That has also led to less intraday trading which is also not optimal. So I would say that from a flow perspective, it's working. From a pricing perspective, we don't quite know.

But the origin of your question, the increased prices in the southern part of Sweden in the end of the year that is actually more driven by fundamentals. So what we could see then was that we had lower wind for those days and also colder weather and that is what fundamentally drove the price spike.

Andreas Regnell: Thank you. Moving on, Kerstin, how has the overall performance for Vattenfall been during 2024?

Kerstin Ahlfont: Well, in the light of the uncertainty and the challenges that we have talked about earlier, we deliver a very stable financial result for 2024. If we look at the reported underlying EBIT, it's roughly on the same level as in 2023. It ends up at SEK 19.8 billion compared to SEK 20 billion last year and we benefited from higher achieved prices and also more wind production but that is then however somewhat offset then by increased nuclear provisions.

If we look at the profit for the period, there we however see a significant improvement with SEK 23 billion ending up at SEK 33.4 billion, and there then the main drivers are the positive changes in market value of energy derivatives as well as the divestments we did, the Norfolk projects in the UK in the first quarter as well as 49% of the Nordlicht I and II projects in Germany in the second quarter.

Andreas Regnell: So it means a strong bottom line for the year but if we zoom in on the fourth quarter of 2024 that was weaker than the one in '23, wasn't it?

Anna Borg: Yeah, that is true. So if you compare the fourth quarter '24 to '23, it is substantially lower and I would say that also here we see the impact of the lower prices although the hedges somehow, somewhat compensate for that. But then that's the period during the year when these nuclear provisions that Kerstin mentioned actually kick in and that's provisions related to dismantling of plants but also spent fuel. And it's both in Sweden and in Germany where we also are in decommissioning in our reactors. And I would like to highlight although we don't leave any forecasts we do know that in the second quarter next year there will be some updates from the regulator which will most likely also have an impact on the nuclear provisions. That is nothing strange. That happens regularly but we know it's going to happen in Q2.

Andreas Regnell: Thank you. And if we dig a bit deeper into the operating segment, I guess the negative prices have affected us, haven't they?

Kerstin Ahlfont: Yes, if you look at the operating segments, the development actually follows the same picture as previous quarter. But as you said, the negative prices or the decline in prices has an impact mainly on the power generation segment and the wind segment. And if you start then with the Power generation segment, there we actually see an increase in underlying EBIT of SEK 1 billion to SEK 4.0 billion.

And there we have a positive price effect from the Nordic hedges which more than sort of offsets this recalculation of the provisions in nuclear as well as the lower electricity prices. If we move on then to the Wind segment, there we see a slight decline in underlying EBIT. It ends up at SEK 5.9 billion compared to 2023 when we ended up at SEK 6.5 billion.

And here we are, sort of have a negative development due to the declining electricity prices but also due to higher costs and higher depreciations related to having new assets in sort of operation and that is more than offsetting the benefit from the electricity those new assets are actually producing. And the assets we are talking about is then mainly the Hollandse Kust Zuid wind farm in the Netherlands as well as the Vesterhav wind farms in Denmark.

Andreas Regnell: So to summarise if I understand it correctly, on the one hand, yes, the prices have affected us negatively but on the other hand, we have hedges and a

good portfolio development that takes us in the other direction, but if we then look at the other two segments customer solutions and distribution.

Kerstin Ahlfont: Yes. If you start with Customers & Solutions, there we actually see a decline in the underlying EBIT of SEK 2.6 billion to SEK 6.6 billion and this is due to higher regulatory costs in the German customer segment as well as the lower gas prices having a negative impact on the heat and condensing business in the Netherlands. The Distribution segment, however, there we see an improvement in the underlying EBIT with SEK 1.1 billion ending up at SEK 2.6 billion, more than, which is more than the 2023. And this is mainly due to higher revenues, and you might remember that in the second half of 2023, we did a temporary reduction of our electricity grid tariffs.

Andreas Regnell: Thank you. Shall we have a look at our financial targets?

Kerstin Ahlfont: Sure. If you start with the return on capital employed, we see an improvement there. We end up at 12.4% compared to 5.3% in 2023. And even though we are, of course, very satisfied of that improvement and being above our target of 8%, this ratio is based on the reported EBIT so it benefits from these changes in market value of energy derivatives and the capital gains of the divestments we spoke about earlier. So, if you take out this effect and look at the underlying return on capital employed, that amounts to 6.3%, so below our target. But it's still an improvement compared to the previous year.¹ But it still shows that having this focus on operational excellence is of utmost importance.

If we move on to the capital structure target, which we measure by funds from operations in relation to the adjusted net debt, there we have a target range, we should be between 22% and 27%. And we are above that target range ending up at 49.2%, and this is a result of the divestments we have done in 2024 which lowers the adjusted net debt.

But I think that with the uncertainties we see in the market and also having a slightly higher risk exposure in our portfolio, it is essential that we continue to keep a very solid capital structure going forward.

Andreas Regnell: Yes, certainly. At the year-end report we also report the outcome of all our strategic targets that includes then CO2 emission intensity, employee engagement, customer engagement and LTIF. Where did we appear, Anna?

Anna Borg: It's a bit of a mixed bag. So, if we start looking at our sustainability targets, we lowered our emission intensity. The outcome of 2024 is 50, and that's actually better than the target we had of 86 and it's also better than last year's outcome which was 69, so we are delivering on the sustainability targets.

When it comes to the employee engagement, we also see a strong development and that is really crucial, I would say, for executing on all the things that we have to deliver on in these market environment. We're very happy about that and we'll continue to focus on that.

¹ Clarification: Return on capital employed based on underlying operating profit was at a similar level in 2024 and 2023, with only a slight improvement, rounding to 6.3% in both years.

When it comes to customer engagement, and as you said, we measure that in NPS, Net Promoter Score, we see an increase with four steps, so we're now at +15. However, we had an even more ambitious target. So, here, we are moving in the right direction, but we need to continue to have a strong focus in order to become even better.

And when it comes to loss time injury frequency, we can also see that we are improving compared to last year. We're now at 1.3. Last year, it was 1.5. And here, of course, we want to have as low a number as possible. But also here, we had an even more ambitious target. So, again, moving in the right direction, but not quite letting go of that focus yet because we need to continue to improve.

Andreas Regnell: Thank you. And what about health and safety engagement levels?

Anna Borg: That I already mentioned so.

Andreas Regnell: Yes, I think you did.

Anna Borg: Yes.

Andreas Regnell: But it was still good to hear, yes.

Anna Borg: Yes.

Andreas Regnell: We published our updated investment plan which we have extended from two to five years. Kerstin, could you walk us through?

Kerstin Ahlfont: Sure, the investment plan is a net investment plan and it amounts to SEK 170 billion and it's for the years 2025 up until 2029. And the majority, 61% of the investments is growth investments and the large share is dedicated to sort of fossil-free, new fossil-free electricity generation capacity where key projects are the development and construction of the Nordlicht I and II projects in Germany as well as the Zeevonk project in the Netherlands.

But more production also demands that we need to improve the networks, so we are investing SEK 41 billion during this five-year period we plan to invest in order to both upgrade the electricity grids, but also to connect new customers. And then in the investment plan, we also have significant investments in hydro. We can mention the Harspranget hydropower plant being very important, but also investments in nuclear including then the prolongation of the lifetime of our existing reactors.

Andreas Regnell: Before we open up for questions, looking into 2025, Anna, what do you want the viewers to take with them?

Anna Borg: Well, I think, we're going to continue to see a challenging world around us for all the reasons that we talked about earlier, both geopolitical from a world trade perspective, but also specifically in the energy market. So, it's going to be challenging.

So, I think, it's important to short-term make sure that you make the right decisions. You pick the right projects at the right time, so a bit of flexibility is going to be important in your business. But you also need to ensure that you are successful long term, so you

need to know where you're heading and make sure that these short-term decisions are getting you there although that, you know, you might have to adjust the course on the way a little bit.

From a project perspective, it's going to be a lot of focus on Nordlicht I and II for us to make sure that we can get everything in place needed there in order to start building. And then it's going to be a lot of focus on new nuclear.

And we're very happy that the Swedish government have launched a suggestion for a risk sharing model because that's a prerequisite for us or anyone else to be able to build and that's now in the making and it's going to become even more specific during the year and that's really good, which also means we will have a lot of focus on moving ahead with our project at the Varö peninsula to make sure we get the prerequisites right there as well.

And then I'm actually very happy that we're moving in to 2024 with a strong financial result in our backs and also with a strong balance sheet because that means that we are ready to maneuver the uncertainty that's out there.

Andreas Regnell: Yes, standing on a stable ground. Great.

And Kerstin how about you?

Kerstin Ahlfont: Maybe to follow up a bit on what Anna said when it comes to being prudent in picking the right investments, I think we have a lot of interesting investments in our pipeline that can sort of really benefit our business but also support when it comes to the energy transition in our markets.

But maybe to add to that as well, many of the projects, especially the growth projects they are still sort of depending on an upcoming final investment decisions so some of those projects might change if the prerequisites change.

So having that flexibility that Anna talked about is going to be crucial in these sort of uncertain terms but besides that I think the largest focus for me will be to continue to focus on increasing the profitability and enhancing our efforts when it comes to operational excellence. I mean that continues to be a cornerstone. I think we have laid a good foundation in 2024.

Anna Borg: I completely agree and to be prudent I really want to underline that that's what we have shown that we are so far in our investment path going forward. And we're going to continue to do that to make sure we have this maneuvering space and optionality. And I'm looking forward to do that next year.

Andreas Regnell: Yes. On that note thank you both Anna and Kerstin for wrapping up 2024 with me.

And now we go over to the Q&A session and please don't forget to mention your name and the organisation that you represent. Thank you.

Questions & Answers

Andreas Regnell: So Q&A session. I start with Philip Akoto from Energate Germany. What conditions would have to be met for Vattenfall to invest in nuclear power again in Germany and to what extent are gas-fired power plant a business case for you in Germany?

Question number one. Let's take them one by one.

Anna Borg: Okay. We don't see any prerequisites in place in order to invest in nuclear in Germany, so that would have to be a quite dramatic shift I think when it comes to how Germany wants their energy system to look going forward.

But we do see a revived interest for nuclear in a lot of other European countries, including Sweden, but our focus is first and foremost on nuclear in Sweden if we can make new nuclear fly there then we might be open to look at investment opportunities elsewhere as well, but that would be further ahead.

Andreas Regnell: And what about the gas turbines in Germany?

Anna Borg: Well, first and foremost we make investments in fossil-free energy sources. So, it's a matter of prioritisation both from a strategic and a financial perspective. I think that gas will continue to play an important role in Europe for quite some time. But we also have divested quite a bit of the businesses where we had a lot of gas-fired power plants.

We do still have quite a bit of gas, not for power production, but for our customers to heat their homes both in Germany and the Netherlands and there we are committed to our net zero target 2040 also when it comes to scope 3.

Andreas Regnell: Thank you.

Then we go to the second question. How is Vattenfall looking at the offshore market in Europe especially in Denmark and Germany? It seems as if oil majors tend to withdraw. To what extent does this bring new opportunities for Vattenfall?

Anna Borg: Well, I think that the offshore market just as all other markets when it comes to building a new energy production right now is a bit challenging and that's also when you see when some projects are not moving forward or some actors not focusing at it to the same extent.

But I think that goes for all energy sources not only offshore wind because the pattern is the same across the industry. But we still see that offshore wind is one of the main technologies to add more fossil-free energy production at the reasonable cost in Europe.

And we have projects in our pipeline, which we're working on short and mid-term and we also have someone in the longer range where we have a bit of optionality depending on where we would like to go and where the opportunities are.

So, offshore wind is still important. It's going to be a good market also going forward both in Denmark and Germany. In Germany, it's where we see the project that we have first in our pipeline.

But it is challenging to get the sort of profitability to where it needs to be and as we said earlier we need to find a way forward in order to add what's needed also for European competitiveness.

Andreas Regnell: Yes certainly.

Any more questions? If there are no more questions coming up, I'll give you another five seconds. No. Then I thank you all for listening to this presentation of our 2024 year-end report and thank you and welcome back.