

## Vattenfall Strategy Update

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### Corporate Speakers:

- [Andreas Regnell](#); Vattenfall; Senior vice President, Strategic Development
- [Magnus Hall](#); Vattenfall; President and CEO
- [Anna Borg](#); Vattenfall; Senior Vice President and CFO
- [Annika Viklund](#); Vattenfall; Senior Vice President, Head of Business Area Distribution
- [Torbjörn Wahlborg](#); Vattenfall; Senior Executive Vice President, Business Area Generation
- [Gunnar Groebler](#); Vattenfall; Senior Vice President, Business Area Wind
- [Martijn Hagens](#); Vattenfall; Senior Vice President, Business Area Customers & Solutions
- [Anna-Karin Stenberg](#); Senior Vice President, Business Area Markets
- [Eva Vitell](#); General Manager, HYBRIT

### Participants:

- [Andrew Moulder](#); CreditSights; Analyst
- [Jakob Magnussen](#); Danske Bank; Analyst
- [Elchin Mammadov](#); Bloomberg Intelligence; Analyst
- [Jesper Stjern](#); Bloomberg News; Reporter

## QUESTIONS AND ANSWERS

Andreas Regnell: Welcome now to the live Q&A session, I know that we have people already logged in on the phone. So we will soon let you start asking questions. But just to repeat that, with me I have not only Anna and Magnus, but also all the heads of the business units that you just saw on the film for a few minutes ago.

With that, I think that we can start the questions. And I will start with one question that I will pose and I will actually ask Annika. Are we seeing a new normal with lower regulated returns and a tougher environment for the distribution business? What does it mean for your role and contribution to the group?

Annika Viklund: Well, Andreas, it is true that the Swedish revenue regulation has been subject for frequent model changes and legal proceedings. And we are right now actually awaiting the decision from the Administrative Court about our appeal because we appeal whether the ordinance is lawful and in line with the national and European laws. And we believe we have a strong case.

And considering the discussion regarding the return, the level of the regulated WACC this period in Sweden, it's indeed one of the lowest in the EU-28. But we believe that the likelihood that this will stay over time is quite low though and reports right now

circulating in the market are indicating that we actually need to be more in line with EU mid-range.

So no, it is not sustainable, but we believe we will see a change over time. But I think regarding your question, our contribution to the group, we saw from the film that the need for new investments in new networks are quite intensive and investing in our networks also, of course, mean it contributes positively to the RAB but also to the coming revenue frames.

So yes, we still believe that we will be able to contribute to the group over time.

Andreas Regnell: Thank you. I'll ask another question and it was also mentioned by Anna earlier and Torbjörn the significant price fluctuation. So I ask you Anna-Karin how fit is Vattenfall to manage these more extreme price fluctuations, such as what we seen only during 2020?

Anna-Karin Stenberg: I think there are a couple of things to mention there. I think we are fit to do it. We have a very well-balanced hedging strategy, that is really important for us to safeguard the results. And we are also working in our trading unit taking positions of course based on analysis, deep analysis that we do.

And the third thing is that we have a lot of algos working for us in the day ahead and intraday market. And that helps us to do a lot of deals so we can optimize as we move along in the prices.

Andreas Regnell: Thank you and now a question from the audience. Okay, then we'll wait. We will take that later. I mean, it's been, as we all know, an extreme first half year 2020. How is the relationship and the dialogue with the owner going during these times, Magnus?

Magnus Hall: Well, I think it's going on a very good level. It's important to realize that during the last six years when we have put ourselves in a, I would say, a stronger position with a clear strategy, also the trust from the owner grows at the same time. So I think it's very much for the owner to see what we're doing.

But it's the management and the board who's really taking care of the issues that we see. But we have a good relation and a good discussion ongoing with the owner, of course, and very important, so.

Andreas Regnell: Thank you. Yet another question. We mentioned growth opportunities. We mentioned that at the same time, there's a lot of capital coming into this market. So only tail wind is not enough, you have to do it right as well. What do you think our competitive advantages are going into 2020 and beyond, Anna?

Anna Borg: Well, I think that our clear purpose and strategy is actually the basis for our competitive advantage. We have shown that we are able to make prioritizations based on

that. We have divested parts of our business, our lignite business, for example. We have decided to bid in our coal-fired asset Moorburg into the coal phase-out auction in Germany. And we have reshuffled our investments over the last five to six years dramatically, I would say, moving into renewables at a scale that we haven't seen before.

So I think to continue down this route and really make the right choices is going to be important. Because even if there's a lot of capital in the market right now, you need to know where you're able to make money long term. So we need to make sure that we prioritize according to that.

And I actually think that our integrated business model, our integrated value chain, is a competitive advantage as well, because that makes it possible for us to balance our portfolio and to actually make investments and take risks that we otherwise would not be able to do. So I think that on an overall level, those two things are strongly working for us.

Andreas Regnell: Thank you. Now we have a question from the audience. A question please.

Operator: The next question is from Andrew Moulder from CreditSights, please go ahead.

Andrew Moulder: Yes, hi. Andrew Moulder from CreditSights.

Magnus, I just wanted to say I probably won't get to speak to you again, before you leave the company, but I certainly enjoyed our conversations. And I wish you well in whatever you decide to do next.

My question, yes, I just wanted to ask on the distribution side, I should know the answer to this, but can you just tell me what exactly are you appealing against? And what happens if you win that appeal? I mean is it against the cost of capital? Is it against the way the cost of capital was decided? If you could just tell me what the consequences will be if you win or lose that appeal? That's my first question.

My second question, just perhaps a bit of a nerdy one for Anna, but just while she's still the CFO, in your fact book on the debt maturity profile, it shows that you've got 40% of your outstanding debt maturing over the next two years, 2020 to 2022. But that seems quite a lot to me. And can you just tell me if you've got any plans to refinance and certainly try to extend your maturities so that you've got perhaps a slightly longer average maturity on your debt?

And finally Anna, also you mentioned about delays in investments. What does that mean for your investment plan? I mean, I know you have the two-year plan of SEK58 billion 2020-2021, is it still 58 billion? And I guess, does that mean there's a big catch up coming in 2021 or at the end of this year? If you could just clarify that, thank you.

Annika Viklund: Yes.

Andreas Regnell: Annika, yes.

Annika Viklund: Thank you for the question, Mr. Moulder. I will start answering the first questions around distribution. And Vattenfall, we have appealed together with other DSO companies in Sweden about the ordinance. We have received a quite detailed ordinance when it comes to stating also the level of WACC and how it should be composed. And we believe that this is not in line with what is an acceptable detailing level of such regulation. And because what is a must within the EU is that the DSOs should be able to appeal a decision from the regulator and this will be very difficult. So we have submitted our response to the situation and we expect more from the court during this fall.

And whether we and the industry will get right in our appeal or the regulator, that is still to be seen, but we will get clarity around that. And I will say it's a legal question, what happens? I mean, I would not be surprised if either one of the losing party will appeal, that I think will be for sure.

But in the end of these court proceedings, should this ordinance be declared as non-compliant, then the guess could be because that is still not confirmed if the old regulation will be in place. That's the situation as you may remember, the previous period was of today levels counted on 5.7 in WACC.

So I think that -- we are waiting eagerly for the decision from court.

Andreas Regnell: Thank you. Anna, question two and three.

Anna Borg: Absolutely. Hello, Andrew. It's true that we are looking at renewal of our debt portfolio to quite some extent. But there are a couple of things that are important to know I think.

First of all, we have very good liquidity in general, so we feel comfortable from that perspective. We will gradually refinance our debt portfolio and we have already started that work, so we are in several sort of discussions and negotiations.

But I also think it's important to point out that we would rather try and sort of levelize our debt portfolio over time rather than having big chunks going out of time, at single points in time. So it's also a bit of a restructuring in there.

When it comes to the investments, we are mainly delaying some maintenance investments. But we're also waiting a bit on some of the investment decisions in new growth. It's not to the extent that it will cause a backlog so that we have a big catch up later. We are constantly optimizing our investments. So yes, we're pushing some in time, but we are also constantly re-evaluating this depending on what the market situation looks like.

We see a slight bounce back in prices already. And we can see that we are delivering quite well in relation to the actions we have taken. So I'm not worried that that will cause a big catch up later.

Andreas Regnell: Thank you. Then we're going to have the next question on the phone, please.

Operator: The next question is from Jakob Magnussen from Danske Bank. Please go ahead.

Jakob Magnussen: Yes, thank you. I got three questions, please, if I may.

First of all, on nuclear in Sweden, it seems like the atmosphere and the whole buzz around nuclear in Sweden is becoming more positive. And as the head of BA eneration also said that the value of base load production is probably going to increase with all the variable renewable production coming on stream in the Nordic system in the coming years.

What is the scope for expanding the nuclear fleet on this sort of a longer horizon? What do you sense on politicians' attitudes towards actually building a new nuclear station somewhere in Sweden, possibly in Ringhals or somewhere else? So that's sort of a long-term question.

And then also, in the medium term, your growth ambitions within offshore wind? If I remember correctly, you've previously said that you want to focus on Europe. But given that the amount of projects or at least profitable projects in Europe are becoming very competitive and very, very hard to find, if I may say, would you be looking to go outside of Europe potentially, like your colleagues in Denmark Orsted, for example, looking at US and Taiwan?

And then the final question, just to follow up on this grid question we had earlier, if you will win your arbitrage or your appeal and we say that the old regulation would come back into place, then all of a sudden, you would have a huge tariff deficit, I suppose given that you're probably charging low tariffs right now.

How do you think that would work? Would you then increase sharply the prices for your customers in the network division or would you receive a one-time compensation from I don't know, the government maybe? Yes sorry, so three relatively quick questions. Thanks.

Andreas Regnell: Thanks for those questions and then we'll take them in order, so Torbjörn, Gunnar and then Annika. Torbjörn, you start, long-term prospects for nuclear.

Torbjörn Wahlborg: Yes, I'm very happy to answer that question. I think it's important to remember that probably the most financially viable option is a lifetime extension of

existing nuclear power plants. And, I mean, we believe that we will be able to operate the plants that we have today until 2040 to 2045, at least.

It's quite likely that it could be extended with another 10, maybe even 20 years. So that's, I would say, what we're going to go for since it is simply more cost efficient.

When it comes to new nuclear power, legally, it is possible in Sweden to build new nuclear power, there is not a nuclear ban. Political parties are quite divided, but one could absolutely imagine the next government being much more positive to nuclear power.

And then of course, the big question then is, is it cost competitive, and there I think if you only look at the production cost, then I would say it doesn't look very competitive. But you have to add other values like system services supporting grid stability, voltage control, inertia, reactive power and these kind of things.

So, yes, -- public opinion is quite positive and it's quite pro nuclear in Sweden. But we need clear political support and as I said also, just based on production cost per kilowatt hour, it will be difficult. Someone will have to be prepared to pay for these additional services, which is not ruled out. Yes, I think that's all I can say on new nuclear.

Andreas Regnell: Thank you, Torbjörn. Let's then jump to Gunnar.

Gunnar Groebler: Thank you. Hi, Jakob. Thanks for the question, offshore wind. If I understood you correctly, you wanted to know whether we consider going outside Europe with our offshore growth as there are many prospects also in other markets like the US and Asia.

Well, let me start with the EU ambition on the Green Deal, which actually translates and this is the number that EU has proposed, translates to 450 gigawatts of installed capacity offshore in 2050. You should then compare that with what we have today, which is roughly 22-24 gigawatts of installed capacity in Europe, you see there's a huge growth potential in Europe, in offshore wind. So ample opportunities for us to further grow along our ambition.

And yes, you're right, it is a very competitive market in Europe as it is by the way also is in the US and in Asia. But if you look at track records over the last years, I think we've been able to be successful in that competitive landscape and grow our pipeline according to our needs and to our plans. So there's no reason to believe that we cannot find the projects that we want to operate and then we want to win in the European context. So no need actually to go outside Europe.

Andreas Regnell: Thank you, Gunnar. Let's now move to Annika and the last question.

Annika Viklund: Yes, thank you very much also for the question. As you also know, we have these regulatory periods of four years and also the possibility to use revenue frames

over several revenue periods. So I think we definitely need to, of course, when we have a more stable situation, if I may say so about the court outcome that we will also look into how we can also provide long-term and stable prices for our customers, but at the same time also finance the needed investments to do.

But we will keep monitoring it and I think it's definitely interesting to see how volatile this kind of changes are hitting into the regulation and we find it quite cumbersome and looking forward to a more forward-looking stable regulation.

I think that's good for the customers. I think that's good also for the business.

Andreas Regnell: Thank you, Annika. Now let's take the next question on the phone, please.

Operator: The next question is from Elchin Mammadov from Bloomberg. Please go ahead.

Elchin Mammadov: Hi, there, Elchin Mammadov from Bloomberg Intelligence. I have three questions, please. The first one is on EU Green Deal. You talked a little bit about it already talking about offshore wind, but are you expecting to generate a lot of opportunities from it given that it's mostly focused on energy efficiency which reduces energy demand not increase it, as well as on electrification of transport and hydrogen where you're competing with oil majors then other players and [profit and unregulated business]. So what opportunities are there from Green Deal besides offshore?

The second is my customer question to ask during the previous CMD is on your IPO plan. Has anything changed or not? Do you plan to list anytime soon or not? And the final one is on your heating assets. Your (inaudible) has sold (inaudible) multiples.

Andreas Regnell: Could you repeat the second question please?

Elchin Mammadov: Are you looking at divesting some of them once you build them and convert them away from coal to biomass or gas? Thank you.

Andreas Regnell: Okay, thank you. Let me answer the first question, what we see as opportunities in the Green Deal. The Green Deal definitely has a significant component of energy efficiency in it. But even with a very far reaching and if success in that energy efficiency effort, you will still have a very significant increase of electricity demand because you still need to exchange a high number of terawatt hours that are today fossils to something else.

And just as one example, space heating in Germany is today 750 terawatt hours of fossil fuels. So even if you do a lot in terms of renovation of those buildings, so you need less, it's still hundreds of terawatt-hours that need to be going to electrification.

So, we don't at all see energy efficiency as a competitor, it's rather a must to even get close to the targets we have as a society. So, we see very significant opportunity. And you see volumes in whether it's transport or -- so, the math is still very, very positive.

I must admit that I didn't really get your second question.

Elchin Mammadov: IPO plans..

Andreas Regnell : I leave that to Anna.

Anna Borg: There are no IPO plans. There are no plans of listing Vattenfall.

Elchin Mammadov: Thank you. And the one on heat assets.

Andreas Regnell : And then, sorry, it's difficult to hear you. Could you just repeat the third question, please?

Elchin Mammadov: Yes. Basically, Fortum has divested its heat assets for quite high multiples. Is it something that you are considering once you complete the conversion of your remaining heat plants away from coal?

Magnus Hall: Magnus Hall here. I don't think -- no, we don't see it -- we see that as integral part of making fossil-free living possible within one generation and a lot of business opportunities. So, we see that as a key business for the group so, no plans on that.

Andreas Regnell: Thank you. And currently no questions on the phone. And I will just have one question for Martijn here. We talked about the role of the customer in the sales business. Are the priorities for customer solutions shifting as we are moving towards more merchants exposure for the group?

Martijn Hagens: Hi, Andreas. Thank you. Martijn here. Well, I think it's first of all maybe good to mention that, of course, the customer portfolio and the work that we do within Customers & Solutions has a different risk profile from quite some other activities in the group in terms of not being merchant-exposed.

We work on a margin on the price for electricity and gas and, of course, can move up and down a little bit but we then have, of course, a buffer in there. So, the exposure to the price movements is very different. And, of course, we have other risk concern like churn so on but there we are very well in control.

I think what is then important is that one of the elements that was also discussed today in terms of managing the merchant exposure is, of course, the PPA business and securing long term offtake at the right price point. And that's, of course, where our customer connections are coming in very handy to find customers who are willing to partner with



us in these kinds of PPA constructions but also, by maintaining a growing and healthy B2C portfolio, we also, of course, help laying that foundation for the offtake.

And last but not least, it's also about being in constant dialogue with our customers to help them drive the energy transition which to a large extent will be based on electrification both in the heating sector but also when it comes to mobility and so on. So, I think we can also support the drive of society as a whole to go for electrification.

Andreas Regnell: Thank you, Martijn.

Then we can take the next question from the phone, please.

Operator: The next question is from Jesper Störn from Bloomberg News. Please go ahead.

Jesper Störn: Thanks. Well, you've (inaudible) a lot of the demand electricity rising very much part of the Green deal to become carbon neutral. I was wondering what role your power trading will have on demand, when demand is rising so much.

Andreas Regnell: Power trading?

Jesper Störn: Yes. What role you will have? Will you have it to increase to support, I mean, you had to cut it when you left the lignite business who had a very large volumes but now you see again it's rising so you need to..., what kind of strategy do you have for your power trading going forward?

Andreas Regnell: Anna-Karin, it's yours. Yes.

Anna-Karin Stenberg: Yes. Thank you. I mean, we have a really strong trading unit and, of course, we deal with that part there. We also have the market access where I am working. So, I think that this is part of our strategy going forward. I don't see a need to increase or decrease or anything. We have a good strategy and we just stick to that according to the risk appetite of the group.

Andreas Regnell: Thank you.

Next question from the phone, please.

Operator: Your next question is a follow-up question from Andrew Moulder, CreditSights. Please go ahead.

Andrew Moulder: Yes. Hi, back again. Just wanted to ask about your corporate PPA in offshore wind and I know you said you want a mix of time and so on but I just wonder what sort of targets do you have when you look for corporate PPA, do you look to sell 80% of the output of the wind farms, 90% or is it 20% or 30% if you can give me some idea of that. And how do those customers actually feel about if the wind doesn't blow.

Are they happy to get power from an alternative source, from a coal plant, a gas plant, nuclear plant and so on?

And you've also mentioned investment partners within some of the projects. Do those investment partners usually take power as well from the project? So, that's my first question.

Second question, I just wanted to ask about again on the distribution and electrification side, I mean, are there actually any discussions ongoing about how the regulation in Sweden might need to change in order to facilitate the electrification that you see going forward and the volatility that might possibly bring on to the system.

And just my final question also to do so with the energy transition and the move to renewables, I just wonder if we've got a lot generation coming from power sources which don't actually have a fuel component such as wind, solar and even what we see now from hydro, how do you see power prices evolving in that environment when you know for 30% of the time you might not need a conventional power plant to generate. Thank you.

Andreas Regnell: Thank you. And let's start with the PPA and wind question and I'll leave it to Anna first and let's see if we need you to complement with Gunnar.

Anna Borg: Yes, of course. When it comes to our ambition to sign PPAs in relation to our offshore wind, we don't have a firm target in terms of volume or percentage to offset. That also depends on the prices and conditions that we can find on the market because what we're basically doing is that we are exchanging merchant risk for counterpart risk. So, that depends very much on what kind of opportunities that will be there.

It is to some extent connected to your question regarding investment partners because in some cases, the investment partners also want the offtake from the wind power plant and in other cases not. So, in some of the divestment cases or partnering cases, we will actually need PPAs in order to conclude a good transaction.

And with other counterparts, they are willing or even wanting to take merchant risk. We have seen both in the transactions that we already have executed or are in the middle of. So, there is not one given answer to that. However, we would like to decrease our total merchant exposure on, for example, Hollandse Kust South which is why we are out there looking for PPAs.

Your question in relation to customers offtaking the volume from the wind parks and would they be satisfied with having volumes from gas or nuclear is there is no wind blowing at that time, in most cases, I would say no. Our experience is that in most of the contracts that we are signing or discussing, they actually want the production from that generation assets per se or at least they want guarantees of origin corresponding to the volume that they are buying.

There is not one given answer to all customers, of course, but that would be the general ask I would say.

Andreas Regnell: And, Gunnar, just before, do you have anything to add or are you happy with that answer from Anna?

Gunnar Groebler: Yes. I'm more than happy with that answer. Yes.

Andreas Regnell: And then we leave it over to Annika.

Annika Viklund: Yes. Regarding the electrification and the impact on distribution, I think during the past two years, it has been more intense discussions about the need for grids from national grid level all the way down to the local grids, of course. And the discussion is, of course, how that could be financed, this kind of build out of all kinds of grids.

But I think definitely when we see that all DSOs and by that I mean the network companies see the need of doing new investments, we have in a natural way more discussions about how to finance it. And I think right now, it's all our customers definitely believe that we shall be able to satisfy their needs in terms of electrification. So, I believe that the distribution discussion has really been brought forward in a positive way the past years.

Andreas Regnell: And maybe I can have a try on your question on the market in a lower marginal cost production environment and that is the big question. And I think it's urgent to think about it and over time solve it. I mean, we do still believe that fossil fuels will be price setting for quite significant share of hours for some years to come.

But you're highlighting a big question. And the easy answer is well then, we need to turn into something that is more geared to capacity. But how that will be done and when it must happen, it's still too early to say. But I think we see more and more and the scarcities that we expected maybe to come from the overall market situation, I think in all parts of Europe is more coming from network constraints rather than fundamental system constraints.

So, I think that's where we will learn more about how to solve it in the market, local capacity markets that are being developed and tested in many different variants, in Sweden and elsewhere. And I would guess that the learnings from those markets is something that we then can apply on a higher level on a later stage. Thank you.

Next question from the phone.

Andrew Moulder: Can I just follow-up with Anna just quickly. You said with the PPA, you swapped merchant risk for counterparty risk. What kind of criteria do you have for those counterparties? Do you look for sort of high triple B-rated counterparties or do you need to pose collateral or something like that? How does that work?

Anna Borg: Well, we do an evaluation of the counterparties one by one. And, of course, the credit worthiness needs to be good enough in order for us to want to sign a long-term contract. That could be a bit of a floating limit depending on if we then get the guarantees or not.

But in most cases, when we are talking about these really long-term deals, there are usually guarantees wanted on both sides.

Andrew Moulder: Right. Okay. Sorry, and just finally to follow-up on, you just said long-term deals, how long is a typical PPA for an offtake agreement with wind farm?

Anna-Karin Stenberg: It can vary a lot but 10 to 15 years I would say.

Andrew Moulder: Okay. Great. Thank you.

Andreas Regnell: Okay. Next question from the phone, please.

Operator: We have another follow-up question from Jakob Magnussen from Danske Bank. Please go ahead.

Jakob Magnussen: Yes. Thank you. I'm sorry if you already covered this. I had a line drop out. But just coming back to your networks, again, if you have an unsatisfactory outcome to this appeal that you've made together with the industry, I mean, we heard your colleagues in Ellevio hinting that they will be reducing their investments into the distribution grid quite significantly if the current regime is not altered in a more positive way.

You previously told me that you would not change your capex budget regardless of the outcome of the arbitration, is that still the policy? Will you hang on to your capex budget regardless?

Annika Viklund: Thank you for the question. Of course, we will always evaluate and prioritize our capex budget as much as we possibly can. And right now, what we see is more new growth opportunities which also as Andreas explained on the movie will be funded by connection fees.

But needless to say, we will be in quite a lot of prioritization matters in the years to come going forward. But have in mind that we also actually build our regulatory asset base when we invest more and that in itself also leads to higher revenue frames. But let's first see what the outcome will be from the court before we look into that much further.

Jakob Magnussen: Okay. Thanks.

Andreas Regnell: And I think we had one -- no, no more questions.

We also have Eva Vitell on the line, the general manager of HYBRIT, and I think it's one of our favorite projects and truly exciting, do you have anything maybe you can add in terms of what you believe the potential and the attractiveness is of this initiative.

Eva Vitell: Thank you, Andreas.

Well, from an energy system perspective, I think that the research that we are doing in terms of hydrogen storage is really interesting. We are planning to start construction of a pilot storage facility in close proximity to the direct reduction facility that we just inaugurated and we will construct that during next year.

And the idea is for this huge load to be a flexible load so that we would only then produce hydrogen when the electricity prices are low and we could potentially also provide a system service that is being [unconnectible so to say] because we think we could potentially have a quite large storage facility with days or even up to a week of storage of hydrogen in an industrial scale facility. And that would suit quite nicely into an energy system with a large proportion of especially wind power.

Andreas Regnell: Thank you, Eva. And I'm sure we will come back to HYBRIT in later conversations.

Before we start to round up, are there any questions that should have been asked, I will ask now the people around me here. Anything you would like to add or explain that you don't think have really come through? I will particularly look at the incoming CEO here, if you have something to add.

Anna Borg: I actually think that at least we've tried to give a holistic view on our strategy and prioritization going forward. And I think it's important to say that our purpose and strategic direction remains. We will make sure that we execute on that in a way that makes us profitable and makes us deliver on that purpose as soon as possible.

Andreas Regnell: Thank you.

And thank you to all of you listening and those of you asking questions. And we hope that we have fulfilled the purpose i.e. give you an update on where Vattenfall stands strategically and also financially. And we are looking forward to your feedback. And thanks again for participating.