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Half Year 2023 Vattenfall AB Earnings Call

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PRESENTATION

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Good morning, and welcome to Vattenfall and this reporting event where we will cover our results for the second quarter and first half year of 2023. My name is Andreas Regnell. And with me in the studio, I have our CEO, Anna Borg; and our CFO, Kerstin Ahlfont. We will, for the coming hour or so, go through the main events and our financial performance. After that, we will have a Q&A session in which you can participate online and on the phone.

With us today, we have a special guest, Helene Biström, Head of our Wind business. And together, we'll do a deep dive in primarily offshore segment, the opportunities, challenges and some recent events. And if you're interested in our slide material and report, it is, as always, available on our website.

Now let's begin. Anna, now half of 2023 has passed. What are your initial reflections?

Anna Borg Vattenfall AB - CEO & President

Well, I think it's safe to say that it is and will continue to be an eventful year 2023. The turmoil that we've seen in the financial market and the energy markets are still there. It is somewhat calmer compared to the first half year last year. But the sort of basic uncertainties are still there. So I think that we still have to expect quite a lot of volatility and uncertainty also going forward. That also characterizes the markets that we operate in. So we see many actors sort of safeguarding the business and the current projects, making sure that the balance sheets are in good shape and that the sort of business is under control. Cost control is going to be very important going forward, so focused.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Yes. And I think all our customers and other stakeholders can agree to that description. But how has that changing and challenging environment impacted Vattenfall?

Anna Borg Vattenfall AB - CEO & President

Well, it impacts us, of course, just as it does with everyone else. And in times like this, I think it's important to be proactive to have a really good cost discipline and also to try and mitigate the steep cost increases we see in several parts of the value chain at the moment. It's mainly due to inflation and geopolitical drivers. So it goes for all of the industry, but it really needs to be managed in a good way.

In our case, I would say that we actually benefit from having a diverse portfolio of businesses and geographies, and that is also the way that we are able to keep focusing on enabling a fossil-free living and sort of make our strategy a reality. One example of that is that early June, we actually got our net zero 2040 targets certified by the science-based target initiative. We're 1 out of only 9 companies globally who have achieved that. So that's a really good sort of sign of strength. But in this changing landscape, we also need to make some tough decisions and prioritization such as the decision we've made to stop the development of the Norfolk Boreas offshore wind project.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

And we will discuss Norfolk project more in depth at a later stage with Helene. But why don't you just give a brief background on the project?

Anna Borg Vattenfall AB - CEO & President

Of course. It's a project located in U.K. It is part of the Norfolk zone, which is the largest offshore wind zone in the world actually. It's 3 projects. So it's this one, Norfolk Boreas, but it's also Vanguard East and Vanguard West. In this new uncertain market that we mentioned, we've actually seen cost increases in the supply of offshore wind with up to 40%. That goes for the entire market, not only for

Vattenfall, but it, of course, hits projects that are in development, especially much, I would say. So for us, it's important to be prudent and only invest when our return requirements are met. And in the case of the Norfolk Boreas project, that is not the case anymore due to this development that I just described. And that's why we have decided to stop it.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you for that background. And now to another topic where is of great interest, the energy prices. What do you have to say there?

Anna Borg Vattenfall AB - CEO & President

Well, we actually see a somewhat opposite trend compared to the first 6 months last year because we see much lower prices in Continental Europe and the southern part of the Nordics, while we see increased prices in the northern part of Nordics. And the latter is because we have had dryer reservoir levels. It's been a drier weather, warmer weather. So that's why.

In Continental Europe, we see that the warm weather in combination with the increased flow of LNG into Europe means that the gas storages are well filled. The demand is slightly lower, and that has altogether meant that the prices have declined quite a lot. So all together, you can say that the European energy prices are pretty much cut in half compared to last year the same period, which is also shown in our results.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

So markets stay interesting to watch.

Anna Borg Vattenfall AB - CEO & President

Absolutely.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

But as you say, a bit of the opposite dynamics to what we're used to. And how have these developments in the energy and financial markets impacted our results. Kerstin?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Well, it has had a large impact, of course. And as Anna mentioned, the electricity prices have been much lower so far this year. And this falling market prices, it puts a downward pressure on our underlying EBIT, which goes down to SEK 14.6 billion, so down with SEK 1.7 billion compared to the same period last year. Our hedges are compensating that to a certain extent. We see a positive effect now from our Nordic hedges, but that is counteracted by a negative result from our Continental hedges. And this also explains the development in the Power Generation segment because that is the segment where we report all the price hedges we do in the group. And there, we have a negative development there.

If you look at the overall profit, that is, of course, heavily impacted on what you mentioned. The provision and the impairment, in the Norfolk zone, and that totals SEK 5.5 billion. But to end maybe on a positive note, we see an increased contribution from the operating segment, Customers & Solutions, but also Distribution and our Heat business.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

So some disappointments, but also some clear positives, and I think it highlights the value of being integrated and diversified across the value chain and across geographies. But if you take all this together, how are the financial targets developing?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Well, I agree to that to say that first. But in addition to Norfolk's impact on EBIT, we also have an increased provision from German nuclear and also positive fair values that impacts EBIT. And taking all these factors into account, ROCE is decreasing to 0.5% on a rolling 12-month basis, down then from 19.3% in the same period last year.

And the main effects that we see here is the negative fair values we recorded in the last quarter in 2022 as well as the impact from Norfolk in this quarter. But then when we compare also with 2022, you need to remember that we had in that number still the capital gain from the divestment of Stromnetz Berlin, but also some positive fair values. And therefore, I think it is more relevant actually to look

at the underlying return on capital employed because that really shows how the business is performing, and that ends up at 10.7%, so up from 10.4%. And also above the strategic target for ROCE us at 8%.

So in short, the underlying business is doing well and it meets our profitability requirements. And also the capital structure is good. It is above our target ratios. It's coming down from the very temporary high levels we had last year due to the low adjusted net debt that came from the inflow of margin calls and is now at the level of 30.6%. So above our target level, 22% to 27%.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. And on that note, I think it's time to discuss the Norfolk project. And welcome, Helene Biström, Head of our Wind business to the stage. Why don't you just give us an overview on what's happening in the industry and help us understand what's going on.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes. Thank you, Andreas. I will say that the offshore wind industry is in the middle of a perfect storm today, we do see, of course, an increased demand of more offshore wind. But at the same time, we also see steep price increases, as Anna said, up to 40% according to industry estimates. And that is coming from, of course, inflation, but mainly from the geopolitical situation causing severe problems in the global supply chain for offshore wind. So what we see here now is key suppliers withdrawing from binding agreements. We see delayed deliveries, and that is, of course, very troublesome for projects in development.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

So it sounds like a very, very challenging environment. And has this overall difficult market affected Vattenfall's perspective on offshore as an industry, Anna?

Anna Borg Vattenfall AB - CEO & President

Well, we continue to believe that offshore wind is essential for energy security and also in order to achieve net zero in Europe. So it will continue to be one of the main technologies being developed together with onshore wind, solar and also with nuclear in order to manage this challenge.

The current problem is to ensure sufficient profitability for new offshore wind projects, and it's a problem of structural nature. It's not isolated to Vattenfall. It's a sort of general market challenge, as Helene just described. But it does impact the projects that are in development here and now, and we have to deal with that. And that is what we're doing when we're stopping this project.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. And back to you, Helene. The U.K. market is in a particular difficult situation. How come?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Well, simply put, the market framework in U.K. is supposed to incentivize investments in renewables. It's not reflecting the current market environment. So if we take, for instance, our Norfolk Boreas project, we actually locked in the prices, the revenue side, in a contract for difference with the U.K. estate over a year ago when the market conditions were completely different. And what we see today with the new market conditions, it simply doesn't make sense to continue this project.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Yes. And both of you have made a clear distinction between new projects and existing projects, and these issues are primarily limited to new, right?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Exactly. And that is important. This is connected to new projects ready to build because our existing fleet is actually running quite well and with healthy profits. So Vattenfall is one of the leading companies in offshore wind in Europe today, and we intend to stay there. And actually, the offshore wind business, we have built up from scratch in the last 15 years is very valuable and very profitable, and it's the majority part of the EBIT in our wind business which was, last year, SEK 16 billion.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

It's important to remember that. And Kerstin, how come the question of stopping the development of Boreas become relevant now? And how is the Boreas project different from the other projects in the Norfolk zone?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Well, Boreas was the project that was intended to be commissioned first. So it has progressed the furthest of the 3 projects. And in the case of Norfolk Boreas, that is a pre-FID project. And these projects, we assess for impairment on a qualitative basis given the relative immaturity of the business case. And in doing so, we first look at if there is any reason to believe that the project cannot be executed. And secondly, we look at the profitability of the project.

And given the market backdrop that both Anna and Helene have accounted for here, we see, when it comes to Norfolk Boreas, project-specific CapEx increases both related to general inflation, but also to struggling supply chains. And that, in combination with the increased cost of capital as well as a revenue scheme that is not reflecting those market developments, then the prerequisites to meet your profitability requirements are simply not there anymore. And in these times, when costs are increasing, it is important that we stay focused, take mitigating actions and stay prudent when it comes to capital allocation.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

For sure. Earlier, you mentioned the impairment of SEK 5.5 billion on the Norfolk zone. What does that include?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Well, that is basically preparations as well as termination fees. And what you need to know is that when you have these large offshore wind projects like the Norfolk Boreas project, those projects require significant pre-FID investments and commitments like site investigations, preparatory work for permits and grid connections, but also reservation fees for sort of construction slot or production slots for your major components. So with the development we see now in the offshore wind business, that is, of course, hitting a project like Norfolk Boreas especially hard.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. And back to you, Helene. So given where we stand, what's our view on the other two Norfolk projects?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Well, first of all, the Norfolk zone is fundamentally attractive for offshore wind build-out. So all these 3 projects, Boreas, Vanguard West and Vanguard East, will contribute with a lot of energy to U.K. to secure affordable, clean and secure energy going forward. We really stay committed to offshore wind, and we will now review the best way forward. But just the pure size of this zone, it's over 4 gigawatts that corresponds to an annual production equal to Ringhals nuclear power plant. This is, of course, important for the U.K., but still Vattenfall need to invest responsibly.

So going to the Vanguard projects, in particular, we are closely now monitoring the situation and influencing where we can because we simply need to have a market framework reflecting the situation today because that's the only way to keep running the build-out of offshore wind in the U.K.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

So no clear and set timetable, we are following the situation very closely and we'll reevaluate as it develops. Is that correct?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes, that is correct. We're, of course, not the only actor experiencing this situation. And together now with the government and others, we need to secure that the incentives to actually continue investments in offshore wind are there, because there are a lot of projects ready to build there now.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

And on that note, I think as a context, in 2022, the investments in new wind projects actually went down by 40% compared to 2021, and you have to go back all the way to 2009 to get to such a low level. And that, of course, shows that something needs to happen. And another perspective is that the 10 gigawatts that was decided to invest in, in 2022 needs to be 30 gigawatts, if we are to meet our green deal targets for 2045. So something clearly needs to happen. Is the situation very similar across offshore, onshore and solar? Or is it primarily offshore? What would you say?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

I would say primarily offshore. We saw similar development in onshore wind and solar earlier. But we also see that, for instance, in solar, it's actually settled already in the supply chain, and we have a very healthy market situation there today. We actually bought a German solar developer not long time ago, where we added 4 gigawatts of new capacity into our development pipeline. And there, we will actually start construction next year. Onshore wind, is somewhere I would say in between solar and offshore. It is some challenges, but not as significant as offshore. But we do see very attractive investment opportunities in both onshore wind and solar at the moment.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Anna, before leaving the Wind segment, what are your final thoughts on the future of the Wind business?

Anna Borg Vattenfall AB - CEO & President

Well, as Helene described, our existing wind business is both valuable and profitable. So we will definitely continue to be in offshore wind, but each project has to live on its own merits. We have just finalized the Hollandse Kust South project outside the Netherlands, made the last installation and we'll have the inauguration later this year. We have also this year inaugurated South Kyle, which is U.K.'s largest onshore wind farm. We will also finalize the Vesterhav project offshore in Denmark this year. We're continuing to develop our ScotWind project, which is floating offshore. And we will continue to work with both onshore and offshore wind. It's a key part of our strategy. But again, each project will have to be profitable on its own merits.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. And on that note, I thank you, Helene, for the deep time and looking forward to hearing you again in the Q&A session later on.

Let's now go to some of the other businesses. Anna, you mentioned nuclear as one of the main technologies for us to be able to reach our net zero target. Can you give us an update on what's happening there?

Anna Borg Vattenfall AB - CEO & President

Yes. Sure. U.K. -- sorry, nuclear continues to be a key enabler when it comes to the energy transition, both globally and in Europe. Nuclear will continue to play a vital role to meet the increased demand for electricity. We've talked about that before, an ongoing feasibility study when it comes to small modular reactors. That feasibility study will be concluded by the end of this year. We already today operate and are very familiar with large-scale reactors. That is part of our core business. We have not made any technology choices so far. We have also not ruled out any options. The result of the analysis will show if we can enable a viable business case when it comes to new nuclear and how that can come into play. And as I said before, best case, it can be up and running in the first half of the 2030s if everything turns out in a positive way.

We're also looking into lifetime extension of our existing reactors. That's also large investments and will sort of bridge the need for fossil-free electricity into the 2040s, 50s and even longer. We continue to have a very good dialogue with our potential suppliers, but also with our owners. And in order for new nuclear build-out to be a reality, both regulatory frameworks as well as the commercial prerequisites needs to be in place.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you for that update. Shifting perspective into Vattenfall's other segments. Kerstin previously mentioned that Customers & Solutions, Heat and Distribution are performing well. Anna, what are some developments in these areas?

Anna Borg Vattenfall AB - CEO & President

Yes. We actually have more than 5 million customers in Germany now, which is quite exciting because it makes us one of the top energy suppliers to retail customers in Germany. So that's really a good development. When it comes to the distribution business in Sweden, we actually have received what's called an advanced notice from the Swedish TSO, Svenska kraftnät, regarding power allocation, which is really important in order to enable the expansion and meet the increased demand of more electricity. In practice, this actually means tripling of the existing power in the regional network in Boden and Luleå and still that is not enough because the demand is even higher. So that displays the sort of strong development and growth here.

In addition, we will also temporarily lower our grid tariffs between the 1st of July and the last of December this year for our private and business customers in the local networks, and we continue to see an expansion of our charging infrastructure within our InCharge business for electric cars.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

And looking at Vattenfall's overall strategy, Anna. How are we delivering on this?

Anna Borg Vattenfall AB - CEO & President

Well, in general -- well, I would say, we continue to see the importance of a well-functioning energy market to ensure and enable the energy transition that we want to be part of. We are also doing what we can in several aspects in order to drive the discussion forward to make sure that the pace is the required one, as you indicated earlier. I already mentioned that we had our net zero targets 2040 approved by the science-based targets initiative as one of the few companies globally. We have also submitted the decarbonization plan to become net zero in our district heating business in Berlin. So we see a lot of progress in this regard.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. I think we were coming to close an end to this discussion. But I just want to remind you all that there is a Q&A session coming up. That way, you can participate on the phone and online. But before we get to that Q&A session, any concluding remarks, Anna?

Anna Borg Vattenfall AB - CEO & President

Yes, maybe two. First of all, I would like to say that the challenges that we are facing in our Norfolk Boreas project that we have now described, they actually reflect the macro environment and the turmoil has been building up for quite some time. So the prerequisites to make investments that are equaling the target set by U.K. in this case is not there right now. The same thing goes for the European Union, and it needs to be there in order for this to happen in reality.

My second reflection is that we clearly see the value of an integrated and diverse business portfolio and a diverse geography mix in Vattenfall's business. We will continue to build on our strong market position, but we will also continue to make sure that capital discipline is absolutely key. This new business environment comes with challenges, but it also comes with attractive investment opportunities. And I think that's important to remember. Every decision that we take is targeted towards, enabling a fossil-free business through profitable business operations. So I would like to emphasize that stable policies, that incentivize investments in this way is something that is good both for general industry in Europe and for the energy industry.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

So the future stays exciting.

Anna Borg Vattenfall AB - CEO & President

Absolutely.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you, Helene, Kerstin and Anna. And let's now go over to the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Welcome back to the Q&A session. Let's see if we have any questions. And welcome to Andrew Moulder. What is different about the Norfolk Vanguard project that you still believe that they will be profitable about the other, I guess, Norfolk Vanguard project that you still believe that they will be profitable?

Anna Borg Vattenfall AB - CEO & President

Maybe I can give an overall answer, and then I'll hand over to Helene. In the U.K., there is an auction for CfD contracts. And the Norfolk Boreas one had an already fixed CfD. It was awarded in one of the earlier auctions. And then we see the steep increase of 40% in the supply chain, which is why the profitability simply doesn't add up anymore. When it comes to the other projects, they have not advanced as far and also don't have a CfD yet. So we have the opportunity to enter into future CfD auctions with them at a hopefully different CfD level. But I will let Helene sort of deep dive a bit.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes. I think that was an excellent description, Anna. So just to go further there. Of course, we need a decent CfD that is actually reflecting the current market situation, and the discussion is now really ongoing in the industry. Suppliers, U.K. government, developers are discussing how to really make sure that we have a CfD reflecting the market situation so we can continue the build-out of U.K. offshore wind.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Let's see more Bartłomiej Kubicki. What is the level of termination fee for Norfolk project? And could you look for an alternative route to commission the project like PPA? What are the key components of the offshore CapEx increasing that much?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

There were several questions in the same there.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Level of termination fee, one. Alternative route, two.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Okay. The technicality around a CfD, like the one we have in Norfolk, is that if we don't reach the agreed milestones, we will actually default on that contract. There are no financial termination fees connected to that. We will simply default and not do the projects. But the project will actually be disqualified for the next auction round from this situation. But alternative routes, of course, we can look into that. But if we have a CfD, that is, of course, the main revenue stream, the first 15 years.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

And then what are the key components of the offshore CapEx increasing that much?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

I think we were discussing that a bit earlier, but it is definitely the situation in the supply chain from the geopolitical situation. This supply chain crunch is very troublesome for our suppliers, and therefore, also for us. So that's why we see this really steep CapEx increases.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Camilla Naschert. Who are the key suppliers backing out of binding agreements? And did you have conversations with the U.K. government before making the Norfolk Boreas decision? And what was their position?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes, we have discussions with everyone. I would say, publicly, we have been also talking about this for a long time now that the market framework is simply not reflecting the market situation, and something needs to happen. And of course, when it comes to binding agreements, we don't disclose this kind of discussion with anyone. But it's important to understand that our suppliers are in squeeze. They have problems in their supply chain. So it's not so easy to mitigate these situations.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Next question from Jakob Magnussen, Danske Bank. Can you elaborate on your lower earnings in generation due to more imperfect hedges on the continent? So due to more imperfect hedges on the continent question.

Anna Borg Vattenfall AB - CEO & President

I will let Kerstin answer that. But just to give a bit of context, it's, of course, both the decreasing market prices, which are then almost half of what they were last year. We are not fully hedging our portfolio, and then it's the hedging impact on top of that. But I'll let Kerstin deep dive into that.

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Yes, exactly. And when it comes to our hedging, I mean, we do that with the purpose to secure our financial targets long term, and we do it on a group level. So we really look at what are our exposures on a group level. And our major exposure is actually our Nordic outright power exposure, mainly hydro and nuclear.

But we also have some exposure on the continent, and that is, to a certain extent, a spread exposure. And therefore, we also have some spread hedges on the continent. And the effectiveness of those depend on your hedge ratio. It depends on the timing of when you are sort of entering into these hedges for the different commodities. And it also depends on what instruments you use, and then all of that is then reflected to the market environment. And that is where we have seen some ineffectiveness that ends up in the Power Generation segment.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Andrew Lee. Is the cancellation of the Boreas project absolutely final? Or could a renegotiation of the CfD upwards revive it?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

With this decision, we will actually default on the contract for difference we have for Boreas. So to continue Boreas at a later stage means restarting the project. But we will now look into the situation and find the best way forward for all these 3 projects because the energy coming from these projects are desperately needed, I would say. So let's try to find the best way forward now.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Emily Gosden. Boreas has a contract of £37.35 megawatt hour in 2012 year's prices. What price would you need to make Boreas / Vanguard projects viable.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes. I think that is really commercial information, of course, but it's so obvious, I think, for everyone that the situation has changed dramatically since last year. So of course, it needs to be significantly higher. Still, offshore wind remains one of the most cost competitive ways of adding new electricity to the market, and it's definitely much cheaper than any fossil alternatives.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Andrew again. Is the U.K. government engaging with you about changing anything within the U.K. offshore regime to increase profitability of offshore wind?

Anna Borg Vattenfall AB - CEO & President

Maybe a more general answer first because I know we are now having discussions with all parties, including the sort of stakeholders in U.K. around this and how to approach this in order to make sure that this energy, which is very much needed in the U.K. market is built going forward. So I would say it's very constructive discussions. We're very happy about that. But there are no conclusions from those. Yes, that's important as well. I don't know if you would like to add something else.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

No, no, I can just add that everybody is very aware of the situation and the need to do something. But the solution is actually we need all of us to be there, developers, suppliers, the U.K. government and all stakeholders to find the solution and the way forward. It's not so easy, but it will be done.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Finzi, Orlando. Can you give an insight into your adjusted net debt trajectory, which is heavily influenced with -- which is heavily influenced by hedging margin call movements?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Yes. When it comes to the adjusted net debt development, that has increased these last 6 months. And the main reason for that is the working capital development, which is mainly influenced then by sort of an outflow of margin calls. And I mean, we are not giving any forecast on the adjusted net debt development, but we have given sort of a plan when it comes to investments. And that plan, we are still keeping to. So the strategy is straightforward when it comes to that. When it comes to how margin calls flow, that is, of course, completely dependent on how the market develops. So that is very difficult to have any sort of projections. But we are working with a lot of different scenarios.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you, Kerstin. Charlotte Chiew. Can you give more color on your Nordic power price hedging, which is still running below historical levels at this stage in the year for '24, '25? Has the market liquidity improved?

Anna Borg Vattenfall AB - CEO & President

Maybe a short comment around that, and there is also more information to find in some of our earlier Q calls if anyone would like to deep dive into that. But we have communicated earlier that we have reduced our hedge ratio in the Nordics somewhat, and the reason for that is that there are more price area differences now than what it used to be historically. And therefore, the SYS price, which is where the liquidity is and can be used for hedges is not effective to the same extent. And that's also why we have lowered our hedge ratio. We've especially seen price area differences between the northern part of Sweden where we have a lot of our hydro production and the southern part of Sweden. So we have sort of taken down the hedge ratio to a level where we think it corresponds to where you can find liquid hedging horizons.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Any additional comments?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

And I think, I mean, the hedge ratios and also the hedge price is also available in the report where you can see how it develops going forward as well.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Emily Gosden. Scottish Power is going ahead with East Anglia 3 at the same CfD price and Ørsted is now saying it expects FID on Hornsea 3 this year. Why is Vattenfall different?

Anna Borg Vattenfall AB - CEO & President

We are not commenting on other projects because we don't have insight into those, but we can clearly see that the profitability level is not where it needs to be for the Norfolk Boreas. And then the prudent decision is to stop the project and not make the final investment decision, and that is what we have done.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Jens Kärrman, Dagens Industri. How does the current market situation for offshore wind affect your projects in Scandinavia, like Kriegers Flak?

Anna Borg Vattenfall AB - CEO & President

Well, it's a very different market compared to the U.K. one, and it's also a very different phase. So they are not directly interlinked. However, all of offshore wind projects are, of course, exposed to this general macro development that we described and the supply chain. So we will have to look into that going forward and how to mitigate that. But it's a very different setup in Sweden compared to U.K. And I don't know if you would like to add something there, Helene.

Helene Biström Vattenfall AB - Senior VP Business Area Wind

No. But I think it's really important to understand that all projects in development are, of course, monitoring the situation closely. But just as Anna say, the conclusion comes out a bit different in different markets today. So we will monitor the situation, but we see offshore wind as a very attractive market in the medium term and long term. So it's just -- right now, we need to handle the situation.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. A question a bit similar to previous, but I'll still read it out. You have criticized the U.K. financial framework for failing to adopt the rising cost. What have you asked the U.K. government to do to address this? Have other government put forward proposals which you would welcome?

Anna Borg Vattenfall AB - CEO & President

Well, first of all, this is not a situation that Vattenfall has discovered. It's a well-known situation in the market that the cost increases are there and that the CfD levels need to reflect that somehow. So I think that the U.K. government and all other stakeholders in this market is very well aware of the market situation and are also sort of considering what to do going forward. Any more insights that you would like to share?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

No, I think that's really -- is the answer.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Then we go to the next. Bartłomiej Kubicki. What is the current status of regulatory discussions concerning electricity distribution new regulatory period commencing next year?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Yes. Exactly. There have been some recent developments. We got some indications from the energy inspector that they would actually change the methodology for the next revenue period. However, they came with new information a couple of weeks ago. And that is, of course, depending on how the sort of legal processes has been around the reporting of data that they asked for where they were not actually allowed to ask for the data that they wanted and that data they needed to change the regulation. So what we know is that it will be the same type of regulation as we have had for this regulatory period. So what we are now looking forward to is sort of to know more details about the framework, what is then sort of the fact when it comes to WACC and so forth. And there, we expect information later this fall.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Pamela Stenger-Tiedtke. Can you elaborate on your recent German solar acquisition pipeline? Will you have -- will you be developing solar only or hybrid projects, et cetera?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

Yes. This German solar developer, Solizer, is a small company with a very nice pipeline of large-scale solar. So our ambition is to actually continue developing these projects and build them. And then according to our business model for large-scale solar, we will then sell the project on to an investor after that.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Priscila. Can you comment about your own funding cost? You have a fair share of bonds and an upcoming RCF to refinance in the next few years. What's the plan with higher cost of capital and increasing net debt?

Kerstin Ahlfont Vattenfall AB - Senior VP & CFO

Well, when it comes to our funding cost, that is also available in the report. When it comes to sort of new funding, we will sort of utilize our green bond framework when it comes to funding our future investments. But at the moment, there is sort of no imminent need for that, but we will sort of utilize opportunities when they come. So we will follow the market. But so far, when we have had bonds out, we have had really good responses on that and we are very satisfied with what we have achieved.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Andrew is back. Are you -- any other -- sorry. Are any other of your offshore wind projects also in doubt? Or is it only Boreas? What are your next FIDs for offshore wind?

Anna Borg Vattenfall AB - CEO & President

This is a special situation for the Norfolk Boreas project due to the already existing CFD that we described. The increased costs and challenges in the supply chain is, of course, valid for all offshore wind projects that are in development, but it's the one that we had to make an investment decision on now in the U.K., specifically that was hit by these two things that we discussed. The other ones we keep developing. And then we will make final investment decisions if and when we see that the profitability requirements are met.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Brignolo Alberto. In the U.K., we see very low wind speed this year. Do you consider this decline linked to the high temperature and it must be considered -- and thus, it must be considered in the future project development?

Helene Biström Vattenfall AB - Senior VP Business Area Wind

We are continuously looking over the long-term trends, of course, of wind locations for our projects. We have not yet seen the connection long term. But of course, we are closely monitoring this to make sure that we have the right assumptions in our calculations.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. Another question from Andrew. Any news on the review of the Berlin Heat business?

Anna Borg Vattenfall AB - CEO & President

Well, it continues. According to what we said before, we have received a number of bids from interesting parties that we are evaluating, and we still hope to be able to make a decision during this year on whether we will keep it or divest it. So it's progressing according to plan.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you. That, I think, was the last question from our audience. And then I'll just ask you a question, Anna, to conclude. First, summer and then fall coming up. What are you looking forward to most when you think about Vattenfall and the fall coming?

Anna Borg Vattenfall AB - CEO & President

Well, I think, as I said initially that we will see quite a bit of uncertainty in the market still. I think that our sort of diverse business portfolio and diverse geographic profile has served us well. So I feel comfortable that we will be able to maneuver also in the future. I'm also looking forward to the inauguration of the projects that we have finalized or are about to finalize. They will be important contributions to produce more fossil-free electricity in the European energy system. And I also think it's important to say that we clearly see that most parts of Vattenfall's business is developing very well. We have a strong balance sheet and a strong financial situation, so we are prepared in order to make the investments that we need to.

Andreas Regnell Vattenfall AB - Senior VP & Head of Strategic Development

Thank you, Anna. And thank you, Kerstin and Helene again. And thank you for listening in. And we will meet again for the Q3 report. But I also want to remind you about the Capital Markets Day on November 28, where we will have the opportunity to do some very interesting deep dive in this incredibly interesting industry. Thanks a lot, and have a nice summer.

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