

# TRANSCRIPT

Vattenfall Q1 Report 2025

April 29, 2025 09.30 CET



**VATTENFALL**

## Corporate Participants

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

## Presentation

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(Video Start)

This quarter's highlights include building offshore wind in Germany, taking steps toward new nuclear, and the assessment of the heat business. Let's take a closer look.

Vattenfall has made the final investment decision on the Nordlicht 1 and 2 offshore wind farms, which included repurchasing the shares in the Nordlicht cluster that BASF acquired in 2024. At the same time, BASF secured access to long-term supply of renewable electricity, continuing the collaboration. Vattenfall has also signed a PPA with LyondellBasell, consisting of 450 gigawatt hours annually for 15 years from Nordlicht 1, starting 2028. Construction is planned to begin in 2026, and the wind farms are expected to be operational in 2028. Once fully operational, electricity production is expected to total around 6 terawatt hours annually.

Vattenfall has taken important steps towards the realisation of new nuclear power in Sweden by starting a new nuclear power company, Videberg Kraft AB. Vattenfall has a positive view on the risk-sharing model presented by the Swedish government, and we plan to apply for risk-sharing from the government. In order to do so, Vattenfall has started Viderberg Kraft AB as a natural next step in the development of the project.

The ownership of the district heating operations in the UK, Sweden and the Netherlands will be assessed, including potential divestment. A decision will be made after the assessments. District heating is an important part of the energy transition. It has potential for efficient, cost-effective and flexible large-scale use of low carbon energy for heating and cooling. However, given the large capital investments required, Vattenfall must prioritise its activities carefully. Also taking into account the need for fossil-free electricity generation, like wind and nuclear power, as well as distribution and storage solutions to meet future energy demands.

(Video End)

**Andreas Regnell:** Good morning, and welcome to Vattenfall and the first reporting event for the year. I'm Andreas Regnell, and with me in the studio I have as always Anna Borg, our CEO, and Kerstin Ahlfont, our CFO. Today, we will discuss the main events that you just saw a bit more, but also of course go through the financial performance.

As always, the presentation material is available on the web, and after the initial discussion, we will open up for questions. I guess we say it more or less every quarter, but I'll say it again. Anna, a turbulent start of the year.

**Anna Borg:** Yes. No, that's true. And that has been the case for basically every quarter for the last few years, it feels like. But I think the last few weeks and the last few months have been exceptional in that sense. We for sure live in the turbulent world, but that is just a fact. And we need to continue to act, perform and deliver in that reality. And that is what we are focusing on. I also dare to say that we're relatively well prepared since we have been living in a lot of uncertainty for a long time. So from that perspective, I feel rather comfortable.

I think it's important, however, in a situation like this to be both short-term and long-term at the same time. And short-term, we need to ensure that we have order in the business, that we're profitable, that we focus on cost efficiency, on effectiveness in general, et cetera. And at the same time, make sure that we long-term make the right decisions and the right investments in order to secure our long-term competitiveness.

And for us, that means to choose the right projects that are fundamentally good and have the potential of being profitable for a very long time period going forward. But it also means lowering our CO2 emissions because emitting large quantities of CO2 will not increase your competitiveness long-term. So we're focusing on that at the same time.

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And that also feels important for many reasons, not least for the fact that access to enough amounts of fossil-free electricity at a competitive price is the foundation for entire European industry to be competitive. So it feels like an important time in that sense.

**Andreas Regnell:** Yes, it certainly does. And this uncertainty has a very notable effect on the financial markets, and we'll talk a little bit more about that later. But if we look at the energy market, how have they developed the last three months?

**Anna Borg:** That is actually quite different depending on if you look at the Nordic market or continental Europe. So looking at the Nordic energy market, we have seen a decline in prices, approximately 20% lower than the same quarter last year. That is mainly due to very strong hydrological situation.

But we've also seen more wind and warmer weather in the energy system. In continental Europe, on the other hand, we see a price increase of almost 60% compared to the same quarter last year. And that has a lot to do with the gas prices, but also the fact that it's been less windy than normal. So I think it really is a bit up and down depending on what region you look at, volatile.

**Andreas Regnell:** Kerstin, how will this impact our financial development?

**Kerstin Ahlfont:** Well, we report a decrease of SEK 2.2 billion in underlying EBIT, bringing it to SEK 8.5 billion, and this is mainly attributable to the divestment of the district heating business in Heat Berlin that we did last year, because we consolidated that result until the beginning of May 2024 and if we exclude for that impact, then we actually show a stable underlying EBIT.

We have an improved result from the continental hedges and also higher prices on the continent, as Anna mentioned, which is offsetting the impact from the lower electricity prices in the Nordics and the lower electricity prices in the Nordics has also led to lower achieved prices for us, coming down from EUR 49 per megawatt hour in the first quarter last year to EUR 40 per megawatt hour the first quarter this year.

And if you look at the profit for the period, we report a decline of SEK 10.9 billion, bringing it to SEK 6 billion and this is also mainly due to comparison effects. And you might recall that we, in the first quarter last year, recorded a capital gain of SEK 4.6 billion from the divestment of the Norfolk offshore wind project. And also we had changes in market valuations of energy derivatives and inventory, contributing to the result last year with SEK 5.3 billion.

**Andreas Regnell:** So if that's the overall picture, if we look at the operating segment, what do we see there?

**Kerstin Ahlfont:** Well, if you start with the segment that is mostly impacted by the lower Nordic electricity prices, that is the Power Generation segment. And here we also see lower volumes, both when it comes to producing electricity from hydro power as well as from nuclear power. But despite this, we actually report an increased underlying EBIT of SEK 1 billion, bringing it to SEK 4.4 billion. And this is mostly then due to the improved result from the continental hedges.

And if you move on to the Wind segment, here we report a decline in the underlying EBIT of SEK 600 million, bringing it to SEK 2 billion. And this is mainly attributable to one-off effects in the first quarter last year, when we got compensated for unavailability warranties in offshore wind.

We also have slightly higher expenses and higher depreciations due to the fact that we have more assets in operations. And this is then somewhat offset by the increased prices on the continent and in the lower, or the southern part of Sweden.

**Andreas Regnell:** Thank you. Anna, what was the development in Customers & Solutions?

**Anna Borg:** In our Customers & Solutions business, we see a decline in the result compared to the same quarter last year, a decline with SEK 400 million approximately. It's now amounting to SEK 1.5 billion for the first quarter. And that is mainly due to the fact that we have a bit fewer customers in Germany than we did last year, especially on the electricity side.

But we also have an increased gas grid cost in Germany that hits us as well. So that is visible in that result. On the other hand, that is partly mitigated then by a higher result in our district heating business, both in Sweden and the Netherlands. So a bit up and a bit down.

**Andreas Regnell:** Thank you. And last but not least, Kerstin, what happened in the Distribution segment?

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**Kerstin Ahlfont:** Well, here we report a slight decline in the underlying EBIT of SEK 200 million, bringing it to SEK 900 million. And this is mostly due to increased purchasing costs, which is offset then by increased revenues due to higher tariffs as well as lower grid losses.

**Andreas Regnell:** Thank you. So, that was the operating segments. And let us shift focus a bit. Yesterday, we had the annual general meeting. And what was said about Vattenfall's future focus by the owner?

**Anna Borg:** Well, the focus areas, they are basically the same as before. But we did some updates of our financial targets. And those focus areas remaining the same is, of course, reflected in that update. So, it's nothing dramatic, but it's a couple of things. So, let's go through them.

First of all, it reaffirms the focus on profitability and the strong capital structure. So, that makes a lot of sense. We have an updated dividend policy that is maybe slightly more forward-looking than before, because it's now also taking into consideration future investments to some extent. The range is still 40% to 70% of the profit, but it's now based on adjusted net profit instead of profit after tax.

What that means in practice is that we exclude fair values, but also the return from the nuclear waste fund. And since they are both mainly valuations that swing back and forth during the year, that makes a lot of sense. It will give a bit more stability, but also ensure the clear connection between distributable equity and dividends.

And then we have the capital structure target. That is also still measured as FFO over adjusted net debt. But the target we had so far has been to be in the range of 22% to 27%. Now, the target is to be at 25% or higher.

And that is mainly reflecting two things, a slightly higher risk profile in the sector in general, but also slightly different portfolio composition in the Vattenfall portfolio compared to when last time we looked at these targets five years ago. But maybe I'll let Kerstin elaborate a bit on the details.

**Kerstin Ahlfont:** Yes, thank you. And in addition to changing from sort of a target interval to a lowest sort of threshold when it comes to FFO over adjusted net debt, we are also changing the definition of the target somewhat. And the adjusted net debt will, going forward, also exclude the impact from margin calls.

And when it comes to the FFO, there we will exclude the impact from minority shares. And if we look at the outcome then when it comes to capital structure, we are above the minimum target level FFO over adjusted net debt of 25%. We reached 35% in Q1 this year, which is a decline from Q4 2024 when we had 41.4%. And this is due to lower FFO, but also an increased adjusted net debt coming from an increase in working capital.

And then the dividend policy, you already explained sort of the change in the definition. And maybe to add to that, yesterday we had the annual general meeting where they made a decision then of the dividend to the owner amounting to SEK 7 billion.

And last but not least, we have the profitability target. And that is largely unchanged. It's still return on capital employed and the lowest level is 8%, so we should be at that level or above.

But there is a change in definition. We will now measure it based on underlying EBIT instead of reported EBIT. And here we see a decline from 5.4% in Q4 last year to 4.7% this year and this is due to the lower underlying EBIT. And this is, of course, lower than the sort of minimum threshold. So this, I would say, is a concern for us and is really highlighting the need for us to work hard and further sort of increasing our efforts when it comes to operational excellence.

**Andreas Regnell:** Thank you, Kerstin.

And Anna, building on what Kerstin just said, how do you see our operational and investment priorities develop, given our strong ambition to move the transition forward and to reach our profitability targets?

**Anna Borg:** Well, to emphasise what Kerstin said, we will need to continue to work with several levers in order to make sure that we both improve and can grow at the rate that we would like to.

And the first thing we need to do is to continue the work we have started with operational excellence to ensure that we continuously work with performance, but also looking at the cost efficiency and efficiency in general. So, we have quite a few initiatives going on there. And to really execute on those, that's going to be key for us.

Secondly, to be agile enough when we are assessing and reassessing our investments. That's also going to be important. And I think that goes for new investments, but it also goes for our existing business portfolio. And one example of that is that we have communicated that we are now evaluating our district heating business to see if we are the best suitable owner for that business going forward.

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District heating is a really important piece of the puzzle in the energy transition. It's also a really efficient way of providing large scale, low carbon heating and cooling for that matter. But it's also a business that will require a lot of investments. And we need to look into, are we really the best ones to own this, also given all the other investment opportunities that we have.

So, that's also something that we do. We have not made any decisions yet. That's also important to say.

**Andreas Regnell:** And talking about decisions and investments, we recently took a final investment decision on Nordlicht 1 and 2. And in that connection, we also bought back the shares from BASF --

**Anna Borg:** Yes.

**Andreas Regnell:** -- in the project. Can you take us through that process a little bit?

**Anna Borg:** Yes, sure. I mean, offshore wind is and remains one component in the energy market and the energy transition in Europe. So, that is for sure.

Nordlicht is a very good project, or it's actually two projects adjacent to each other. But it's a very good project located in a market, Germany, where we know there is a need for more fossil-free electricity. So, the fundamentals are good for this project.

And that's also why we decided to go ahead with the final investment decision. At the same time, we repurchased the shares from BASF. With BASF, Vattenfall have a longstanding and broad partnership. And we still do. We still co-own the large scale offshore wind farm outside the Netherlands, Hollandse Kust Zuid, jointly. And we have a number of other contracts and collaborations.

But in this case, specifically, timeline shifted a bit in relation to when this electricity is going to be needed. And that's why it made sense for us to buy the shares from BASF. What we have done, though, in order to continue the partnership also around Nordlicht, is that BASF now has the possibility to purchase the output or part of the output from this project at the point in time when they need it.

So, the partnership continues, but in a slightly different shape and form. And in relation to that, I would also like to say that we've signed a PPA with LyondellBasell, as we heard in the introductory film, also related to the output from the Nordlicht projects. So, it's a very interesting project where the demand for the electricity is clearly there.

**Andreas Regnell:** Yes. And I think partnership is something we believe in strongly, both because it's helped both parties --

**Anna Borg:** Sure.

**Andreas Regnell:** -- moving the transition forward and reducing risk, which is so necessary. Let's talk nuclear. What has happened there?

**Anna Borg:** When it comes to new nuclear, we have started a company called Videberg Kraft AB. And the intention with that project is that that's where we will have the responsibility for development of new nuclear at the Ringhals site down at the Varo peninsula. That's also the vehicle we will use when applying for support from the risk sharing model that the Swedish state is developing.

And that is fundamental for this project. We have a lot of work going on down at the site. And we're also still doing the evaluation of the four suppliers that are remaining in this dialogue regarding new nuclear.

And then we have a very close and good dialogue with the consortium Industrikraft, consisting of Swedish industrial companies that could possibly co-invest into this project. So, a lot of things going on around new nuclear right now.

**Andreas Regnell:** Thank you. And coming back to what we started with, the turbulent environment, both geopolitically and financially. And you often talk about we need to be short-term and long-term at the same time. What does that mean in practice for you?

**Anna Borg:** Well, I think maybe you can put it in three different categories. And the first one is to make sure that the business is in order. And that, of course, needs to be the case in the business all the time and all the way down.

To be really prudent with cost, with efficiency, to make sure that we're really improving continuously how we perform in the business. And that is first and foremost what's important. Secondly, to me, it means that we need to stay prudent from a financial perspective.

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We need to prioritise our investments and make sure that we invest where we can create value. Not only here and now, but also long-term. So really pick the right projects.

And in order to be able to do that and capture those opportunities when they are there, it's crucial for us to have a strong balance sheet and a financial discipline. And I think we have proven that we have both. That's also why we are able to make investments like the one in Nordlicht when we see a good opportunity or the one in new nuclear when we see that emerging.

So, I think that even in times of increased uncertainty, you are able to make these investments if you are prudent and you have a strong balance sheet. And maybe finally, the third component in this is something that you mentioned earlier, and that's partnerships.

And I think it's partnerships with our customers, with other industry partners or with suppliers to really sort of look at the value chains across different industries and across end-to-end value chain to see where the opportunities are and try to capture them jointly.

**Andreas Regnell:** Thank you. And staying a bit with how to manage this turbulent environment, Kerstin, we saw this quarter that the prices have come down quite dramatically, how do you see that we want to manage this to meet our financial targets, but also to stay resilient?

**Kerstin Ahlfont:** Well, I think the short answer is to continue the work with operational excellence and staying prudent. And as Anna said, we have managed to maintain a strong liquidity and a good sort of capital discipline, which puts us in a position where we can now sort of weather out short-term volatility without derailing on the long-term strategy. But this a -- it is a difficult balancing act, but I think we are well positioned to manage that going forward.

**Anna Borg:** I agree. And I also think it's important to see the sort of larger context, because we do what we do in order to make sure that we can ensure that European industry is competitive, because they will need large amounts of fossil-free electricity at the competitive cost. And we are a key enabler of that.

And I think that need, in combination with the fact that climate change is very much real and not negotiating with anyone, regardless who is tearing apart or signing what contracts, that means that our direction is very clear. And that's what we try to explain with this sort of holistic picture, I think. And what we do actually feels more important than ever. We intend to take that role in the industry today, but also tomorrow.

**Andreas Regnell:** Thank you. And for walking through the first quarter of 2025. But before we jump into questions, I want to call out the Capital Markets Day that will happen on the 20th of May. With that, let's go to questions.

## Questions & Answers

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**Andreas Regnell:** Christian Lundgren, wind generation dropped significantly in the quarter to four terawatt hours from five terawatt hours. How do you hedge for the volatility of wind speeds? Are you expecting larger swings in the future due to climate change?

**Anna Borg:** Well, we are not hedging for wind speeds specifically. We are rather looking at our total gross margin exposure. And then we try to hedge for that, where there are instruments to be used. But maybe Kerstin want to comment a bit on the volumes as such, if that's part of the question.

**Kerstin Ahlfont:** No, but it is clear we have a lower volume from our wind generation. And that is despite actually having more assets in operations. And you can see that the availability is fairly on the same level as the comparison period.

So it is really the lower wind volumes that is the reason for the drop. And that is something that is hard to hedge against, but something that we are, of course, analysing thoroughly in order to include it in our planning going forward.

**Andreas Regnell:** Thank you. Now, Jakob Magnussen, can you elaborate why you no longer include margin calls in your adjusted FFO to net debt calculation?

**Kerstin Ahlfont:** Yes, we made that decision. And as you might have seen in the quarter since the energy crisis, we have actually communicated both the FFO over adjusted net debt, including and excluding margin calls. Because the margin calls is liquidity that is flowing in and out of Vattenfall, depending on how the prices are moving.

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And it's not really connected to our sort of long-term adjusted net debt. And it makes the sort of the ratio very volatile. And you can see -- you could see at times, we could not even calculate our FFO over adjusted net debt because we had the negative adjusted net debt.

Or this, we could not calculate the ratio because we had a negative adjusted net debt. This is to give a more fair and sort of stable and structured target.

**Andreas Regnell:** Thank you. Next question, Samu Wilhelmsson. Have you seen any changes in customer willingness on signing PPAs regarding the uncertain macro environment? Has there been any shift in terms of how lengths of the PPA contracts are now being signed?

**Anna Borg:** Well, we do see that the interest in signing PPAs is fluctuating a bit up and down, depending on the macroeconomic climate and the economic development in general. And we did see a decline in interest for a while when sort of everything was a bit turbulent on the world markets. It still is, of course, but we've also seen it sort of calming down somewhat.

So over the last few weeks, I would actually say that we've seen an increased interest in signing PPAs. But I think fundamentally, you sign a PPA because you need the electricity to your operating business or to a certain investment. And often you want that to be connected to a specific project. So that project also needs to be fundamentally good. And that's rather what drives the interest than the short-term macroeconomic environment. But we've seen a bit of fluctuation in the interest.

**Andreas Regnell:** Thank you. Let's see, Anton Tigerstedt. In Q1, the write-down looks to be higher compared to Q1 2024. Can you elaborate a bit on if this is related to an outlook on lower prices?

**Kerstin Ahlfont:** No, no, we have not made any write-downs or significant write-downs in the period due to lower electricity prices in the outlook. Actually, I think this might be a sort of a comparison effect since we had also the impact from Norfolk, potentially, in the first quarter last year, where we had made a write-down in 2023 that we reversed.

**Andreas Regnell:** Okay.

**Kerstin Ahlfont:** That might potentially be the reason for the difference.

**Andreas Regnell:** Let's see if there are any additional questions. No more questions. So, thank you all for listening in, and see you back in the Q2 report. Bye-bye.