

**Vattenfall (conversation between Lars G. Nordström, Chairman of the Board,
and Magnus Hall, President and CEO)**

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Corporate speakers:

- Magnus Hall: Vattenfall, President and CEO
- Lars G. Nordström: Vattenfall, Chairman of the Board
- Karin Lepasoon: Vattenfall, SVP Group Communications

PRESENTATION

Axel Calissendorff: We then thank the Minister for Enterprise and Energy for his address, and I now yield the floor to Chairman of the Board Lars G. Nordström, who is thus participating by phone, and President Magnus Hall, who has informed that you will jointly report on the work during the past year.

Karin Lepasoon, Vattenfall's Head of Group Communications, will also participate as moderator, please.

Karin Lepasoon: Thank you very much, Mr Chairman.

Yes, we now have Lars with us on the phone, and we will hold a brief talk together, and of course it feels natural to talk quite a bit about how Vattenfall is being affected by the current situation.

But let us still begin with 2019, starting with you, Lars. How would you summarise the year 2019 for Vattenfall?

Lars G. Nordström: 2019 was a good year in many ways. The best thing about 2019 is that if you look back in time, 2017 was better than 2016, 2018 was better than 2017, and 2019 was better than 2018. And in that series then I think that one gets a good summary of what actually happened in 2019.

All of the key areas that we have defined and that, among other things, have bearing on the income statement and balance sheet, and on the structure of customer and employee satisfaction, sustainability issues, the Board's and management's ways of working, and so on – in all of these areas, in 2019 we were better than we were previously, and I think that is the true high point of the year.

Karin Lepasoon: Do you have any other comments, Magnus, perhaps more concrete high points that you would like to add to Lars' comments here?

Magnus Hall: Yes, of course, I would be happy to do so. Financially we achieved both our targets, so in this respect the year was very successful, but above all we are following our strategy to enable fossil-free living within one generation. And for us this entails

major changes. During the year we closed coal-fired power plants in both Germany and the Netherlands.

We increased sales to our customers, which naturally we will continue to do. We participated in and won an auction – or a competition, you could almost call it – for Hollandse Kust 3 and 4. These are offshore wind farms, where we already won parts 1 and 2, so we can combine them into something that is very efficient and invest in expanding in renewables for the future.

We bought a sales company in the Netherlands called Delta, which is doing very well, so we have many things we are doing that I think is precisely in line with what we want, namely, to enable fossil-free living within one generation, and 2019 was a good year in this way, too.

Karin Lepasoon: And as you heard, the Minister for Enterprise and Energy mentioned here about electrification of society. This is of course something that is important for Vattenfall. How was development in this area in 2019?

Magnus Hall: Yes, electrification is of course taking place in three areas as the Minister said. It involves enabling cars to run on electricity, enabling industry to change over to electrification, and it is also a matter of, on the Continent above all, being able to use electricity to replace gas, coal and oil.

In this area we have developed. We are building out the charging infrastructure in Europe. And of course we are involved in a collaboration in Sweden called HYBRIT, as everyone knows, where we are looking into enabling fossil-free steel, which naturally is for us.

Karin Lepasoon: The partnership with SSAB.

Magnus Hall: The partnership with SSAB and LKAB, and where the Swedish Energy Agency is also involved and providing funding, we shouldn't forget. It's a partnership with the State that is working very well.

And we also built a power-to-heat plant, that is, we are using electricity to produce heat in Berlin, when we have surplus electricity in the system, then we will be able to produce heat. So we are doing two things: we are shutting down operations that emit carbon dioxide, and we are expanding operations that will replace these.

Karin Lepasoon: Looking at electricity prices and their development. How would you describe it?

Magnus Hall: We have nearly what you could call a perfect storm in a way right now. We are highly dependent on the Nordic electricity system, which is a bit on its own, you could say – a little separated from the European system, and what has happened is that we have had a very large amount of water that has come in through rain.

We have a surplus of water in our system, we have had very much wind, and at the same time we have had a warm climate, which means that consumption has gone down. It will surely be affected also by the coronavirus, but it is also affected by warmer temperatures. All in all, this has left us with extremely low electricity prices in the Nordic countries right now, and naturally this affects a company like Vattenfall, which produces so much electricity. It is a situation that we find ourselves in and that we must deal with.

Karin Lepasoon: Lars, from the Board's perspective, what is our view of Vattenfall's ability to manage price risk?

Lars G. Nordström: Yes, there is a lot of talk about how there is such horrible uncertainty right now, and in a way I can agree. On the other hand, it is quite certain that we have a trend of falling revenue. And when you have that, regardless of what kind of business you are running, naturally you have to adapt costs.

You also have to take a look at the investments you have decided to carry out, adjust their timeline, or possibly refrain from them. So, what is important here is to master the change that is taking place, not necessarily lead it and run first and yell the loudest, but still be quick to see what changes are taking place and then take actions quickly to parry them in the way that I have tried to describe.

We will have a situation and it is not uncertain – there is no uncertainty associated with it – with low demand and overcapacity, and in such a situation you have to act in precisely that way.

Karin Lepasoon: Those who follow Swedish media have also read that sometimes questions are asked about Vattenfall's role in this situation. How would you comment on it, Lars?

Lars G. Nordström: That is a dangerous question to ask me, because I can spend a long time talking about it. But I will try to be brief, and of course the fact is that Vattenfall has an owner directive – it has been decided by Swedish Parliament – and therefore I am surprised when Members of Parliament make demands and raise questions that are nearly in contradiction to the owner directive.

We are charged with conducting a commercial business, we are to deliver a market rate of return, and in addition to this you can add the obvious observation that we are in fact a limited liability company that is required to adhere to the Swedish Companies Act and the governance rules that apply in the stock market.

And against that background, it is up to the Board and management to work according to what we think and believe and feel is in the company's best interest. We are not an energy-policy instrument, and we are not a foundation that is responsible for helping selected categories of suppliers or customers; we are to act based on the key principles of the owner directive.

Karin Lepasoon: Can we talk a bit about how the situation is today, Magnus? How is Vattenfall being affected by the current situation?

Magnus Hall: We are being affected by two – in two ways: in part, what I described about the Nordic market situation that is affecting the price, but also if you look at the pandemic and its impacts, we are being affected, and we have said that actually we have three ways of dealing with this.

The first, naturally, is to make sure that our employees, that everyone can work safely and that we in various ways are adhering to the rules and stipulations that exist in every country to slow the spread of the coronavirus.

Then we also have a societally important function in that we must supply electricity, heat and gas to our customers, and I would think now when many people are at home, if this doesn't work it could be regarded as extremely serious, in fact, so our role is to ensure that we can do this in parallel with an ability to manage if people perhaps become ill. This is incredibly important for us not only in Sweden, but also on the Continent, where we are a large actor both in Germany and the Netherlands. So we have taken care of our employees and we have made sure that we can deliver what is needed.

And the third part is naturally what Lars was now just touching upon that we are working with. How should we handle the economic consequence, where actually everyone knows that something will happen and it has already happened, but for how long? What will be the final outcome?

In all of this, there is very much uncertainty, and naturally we are working, like everyone else, through programmes to ensure that we have done everything we can to be prepared to handle this rather – I would believe – negative economic development that we have ahead of us.

Karin Lepasoon: Can you give a few examples of what this may entail?

Magnus Hall: Yes, for us it may require reducing, postponing investments, cancelling investments. It entails that we scale back on maintenance investments. It entails that we try to find costs that we have today that we can push back or entirely remove.

If there is an opportunity to go down in working time, we will try to do that. Naturally, we are considering all different instruments – renegotiating agreements with our suppliers – to the extent we can do this is an important part of trying to keep our costs under control.

You had an earlier question about this concerning price risk. Vattenfall has a principle to hedge its revenue further ahead in time, so as a result the immediate effect now will be a little less, but over time all of these price declines will come straight into our system also.

So we have a little preparation time to really deal with this, which is important, and we are doing this with the utmost intensity, I would say.

Karin Lepasoon: Lars, what is the Board's view of Vattenfall's strategic objective now, given this uncertain situation?

Lars G. Nordström: I think we have a superbly formulated vision that remains fully intact, namely fossil-free living within one generation. Under this watchword it is necessary, like I said, to be quick-footed and fast at seeing what is happening and above all to act quickly based on the observations we make.

It's a fact that – and this isn't something I have come up with, but bigger thinkers than me – they have said that there will be a clearer split in this situation of winners and losers in all industries.

Less room for mediocre players and, if you choose to not be either mediocre or a loser, then you must, as I just said, master the change and be quick. It doesn't prevent you from having a strong overarching vision for what you want to achieve, but then there will be a number of measures that will have the greatest significance for how we actually succeed, and there it is speed that matters rather than these long-term strategic planning processes.

Karin Lepasoon: Is there anything you perhaps want to conclude with, Magnus, before we wind up this dialogue?

Magnus Hall: No, but I believe like we said now, namely, that our strategy remains firm and our mission now is to navigate within the framework, because we want to secure the long-term strategy and enable fossil-free living within one generation.

Striking this balance is something that is incredibly important for us right now, but I am certain that we will succeed.

Karin Lepasoon: Yes, thank you very much, both Lars on the phone and Magnus here, and thank you for your attention surrounding this dialogue.